The Influence of Demographic Factors and Culture on the Risk Management Practices of SMEs in Zimbabwe

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Masters in Arts

DECLARATION

This work has not been previously accepted in substance for any Doctoral Degree and is not being concurrently submitted in candidature for any other Doctoral Degree.

Signed Date 11/07/2022

This submission is the result of my own independent work/investigation, except where otherwise stated. Other sources are acknowledged giving explicit references. A bibliography is appended.

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ABSTRACT

Organisations are confronted with risks that negatively affect their performance. Risk management practices focus on detecting, calculating and evaluating threats to reduce material, reputation, opportunity and other costs. While business frameworks play a significant role in accomplishing impactful and profitable innovations, various studies point to the lack of a comprehensive SME risk management framework. This study sought to identify the level of SME risk management practices; determine their perception of the relevance of risk management in their businesses; and ascertain the influence of demographic factors and culture on Small and Medium Enterprises' (SMEs) risk management practices in Zimbabwe. Furthermore, the study aimed to develop a risk management framework that ensures SME survival. The adoption of a risk management framework is hoped to guide effective SME risk management. A mixed-method research design was used, with a target population of 35 700 SMEs from Harare and Mashonaland Central provinces. Cluster and simple random sampling methods were used to select a sample of 276 SMEs. Data was collected using a structured questionnaire and semi-structured interviews. Quantitative Data was analysed using the Spearman rho test, descriptive statistical analysis, frequency analysis as well as correlations, inferential statistical analysis, T-tests and regression analysis whilst qualitative data was analysed using thematic analysis. Findings showed that risk management practices in SMEs were low, reflecting a negative perception of its relevance in business success. Age, gender, race and marital status, as well as educational and income levels, influenced the adoption of risk management practices by SMEs in Zimbabwe, whilst family size did not. Social complexity, fate control and religiosity were found to also influence SME risk management practices, whilst social cynicism and reward for application had no impact. The study recommended the adoption of a risk management framework for SMEs, SME capacity building through education and access to information, networking, the transformation of SME business principles and SME policy reform.

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DEDICATION

To my father Isheunesu Emmanuel Furusa

“These are the fruits of your labour Mubaiwa”

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LIST OF ABBREVIATIONS AND ACRONYMS

AAG	Affirmative Action Group
ADBZ	Agricultural Development Bank of Zimbabwe
AEC	Asian Economic Community
AEM	Asian Economic Ministers
AfDB	African Development Bank
AIPS	Agricultural Input Procurement Scheme
ALARP	As Low as Reasonably Practicable
BADEA	Banque Arabe pour le Développement Economique en Afrique or the Arab Bank for Economic Development in Africa
BOI	Bank of Industry (Nigeria)
CAPM	Capital Asset Pricing Model
CAS	Casualty Actuarial Society
CBN	Central Bank of Nigeria
CGCZ	Credit Guarantee Company of Zimbabwe
COSO	Committee of Sponsoring Organisations
CZI	Confederation of Zimbabwe Industries
DFID	Department for International Development (United Kingdom)
DUT	Durban University of Technology
EEA	European Economic Area
EIB	European Investment Bank
ERM	Enterprise Risk management
ESAP	Economic Structural Adjustment Programme
EU	European Union
GDP	Gross Domestic Product
GEDC	Ghana Enterprise Development Commission
GEM	Global Entrepreneurship Monitor
GoZ	Government of Zimbabwe
HEIs	Higher Education Institutions
IBDC	Indigenous Business Development Centre

IBWO	Indigenous Business Women's Organisation
IDBZ	Infrastructure Development Bank of Zimbabwe
IFC	International Finance Corporation
ISO	International Organisation for Standardization
IT	Information Technology
LSEs	Large-scale enterprises
MBO	Management by Objectives
MDF	Microfinance Development Fund (Nigeria)
MERP	Millennium Economic Recovery Plan
MFI	Micro Finance Institutions
MIC	Ministry of Industry and Commerce
MIS	Management Information System
MNCs	Multinational Corporations
MPT	Modern Portfolio Theory
MoSMECD	Ministry of Small and Medium Enterprises and Cooperative Development
MoSMED	Ministry of Small and Medium Enterprises Development
MSEs	Micro and Small Enterprises
MSME	Micro, Small and Medium Enterprises
NACRAB	Nigerian Agricultural Cooperative and Rural Development Bank
NAPEP	National Poverty Eradication Programme (Nigeria)
NBCI	Nigerian Bank for Commerce and Industry
NEEDS	National Economic Empowerment and Development Strategies (Nigeria)
NDE	National Directorate of Employment (Nigeria)
NEIB	National Export and Import Bank (Nigeria)
NERF	National Economic Reconstruction Fund (Nigeria)
NGO	Non-Governmental Organisations
NIDB	Nigerian Industrial Development Bank
OECD	Organisation for Economic Cooperation and Development
PESTEL	Political, Economic, Social, Technological, Environmental

	and Legal
RBZ	Reserve Bank of Zimbabwe
RM	Risk Management
RMPS	Risk management perception scale
ROI	Return on Investment
RTA	Rural Traders Association
SA	South Africa
SADC	Southern African Development Community
SAS	Social Axioms Survey
SEDCO	Small Enterprise Development Corporation
SME	Small to Medium Enterprise
SMECGS	Small and Medium Enterprises Credit Guarantee Scheme (Nigeria)
SMEDAN	Small and Medium Scale Enterprises Development Agency of Nigeria
SMME	Small, Micro and Medium Enterprises
SMIEIS	Small and Medium Industries Equity Investment Scheme (Nigeria)
SPSS	Statistical Package for the Social Sciences
SSA	Sub-Saharan Africa
SSICS	Small Scale Industry Credit Scheme (Nigeria)
SWOT	Strengths, Weaknesses, Opportunities and Threats
TEA	Total Entrepreneurial Activity
TIMB	Tobacco Industry Marketing Board
TNDP	Transitional National Development Plan
UIPG	United Indigenous Pressure Group
UK	United Kingdom
UNDP	United Nation Development Programme
UNIDO	United Nations Industrial Development Organisation
USA	United States of America
USD	United States Dollars
VCCZ	Venture Capital Company of Zimbabwe
WIBZ	Women in Business, Zimbabwe

ZEPARU	Zimbabwe Economic Policy Analysis and Research Unit
ZCBTA	Zimbabwe Cross Border Traders Association
ZIMASSET	Zimbabwe Agenda for Sustainable Socio-economic Transformation
ZIMCORD	Zimbabwe Conference for Reconstruction and Development
ZIMPREST	Zimbabwe Programme for Economic and Social Transformation
ZITF	Zimbabwe International Trade Fair
ZNCC	Zimbabwe National Chamber of Commerce
ZWFT	Zimbabwe Women's Finance Trust

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CHAPTER ONE
INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 INTRODUCTION

In order to manage risks in an enterprise, it is important to identify any potential problems before they occur. In this way, risk management actions may be planned and implemented where and when needed. To be effective, these activities must be applied throughout the enterprise, whether large or small, across any product or project in order to lessen or nullify undesirable effects in realising risk management (RM) objectives (Zoghi 2017). While having a process in place to identify business risks is a central procedure of an enterprise's control system, RM no longer only applies to risks that are financial and insurable. Instead, it has expanded to encompass all influences at the operational and strategic levels (GRI 2020). Furthermore, business frameworks are significant in achieving impactful and profitable innovations. Nonetheless, research has revealed the lack of a comprehensive SME risk management framework (Sira, Vozarova and Radvanska 2016; Hudáková 2017).

An overview of this study is provided through a description of the study background, the problem definition, the objectives, aims and significance of the research, as well as the study questions and rationale. The chapter also offers a research methodology outline, indicating how the data were collected. Finally, a summary of the thesis structure is presented.

1.2 BACKGROUND

The 21st century world has become more aware of how small enterprises may be used to effectively promote employment in countries that are either developed or developing (Bouazza 2015; Hobohm 2001; Senturk, Keskin, Kiris, Turkoz and Kiris 2013. This interest has been revealed due to Small and Medium Enterprises (SMEs) being established in an attempt to reduce poverty and increase economic growth. Abeyrathna and Kalainathan (2016) state that SMEs are vital to the growth of any nation and both developed and developing countries are realising SMEs as the instrument for fostering

economic expansion. Therefore, because of their significance to economic development, many countries have established SME Development Agencies to harmonise Government initiatives in respect of this sector‘s development (Abe and Dutta 2014).

There is a wide range of definitions of SMEs, but in this study, SMEs refer to a business organisation employing between six and one hundred full-time employees. This definition is centred on the classification by the Zimbabwean SMEs Act, Chapter 24:12 (Magaisa and Matipira 2017) and the definition by SEDCO (2010), which will be elaborated on in section 2.5.2.

Mugozhi and Hlabiso (2017) confirm that there is generally a strong relationship between economic growth and SMEs, with Peprah, Mensah and Akosah (2016) noting that SMEs constitute more than 90 percent of the enterprises in the world, forming the backbone of the private sector. Similarly, it is suggested that SMEs in developing countries play a significant role in the economy because they enhance entrepreneurship and competition (Goriwondo 2012; Mamman, Kanu, Alharbi and Baydoun 2015; OECD 2004). Consequently, SMEs are globally acknowledged as the engine of growth as they not only play a key role in improving living standards and poverty reduction but also contribute to Gross Domestic Product (GDP) and employment creation (Cudjoe, Omusu-Ansah and Poku 2017).

As shown in recent studies, the contribution of SMEs to GDP is more than 55 percent and in countries with a high income, the contribution to entire employment is exceeded by 65 percent (Goriwondo 2012; Sentürk *et al.* 2013). Further to this, in low-income countries, SMEs account for over 70 percent of total employment and more than 60 percent of GDP. According to Bouazza (2015), SMEs in middle-income countries comprise approximately 70 percent of GDP and over 95 percent of total employment. In countries within the European Union (EU), there are for instance approximately 25 million small businesses, which make up 99 percent of all businesses. Moreover, almost 95 million people are employed through SMEs and in the private sector and 55 percent of total jobs constitute employment by SMEs (Pashkova 2016). According to Keskin, Senturk, Sungur and Kiris

(2010), small enterprises also make an important contribution to productivity growth and exports.

Furthermore, the capacity of SMEs to advance industrial growth and fortify economic standing is inarguable (Goriwondo 2012; Mamman, Kanu, Alharbi and Baydoun 2015; Nyamwanza 2014). SME activities have also been shown to significantly generate economic growth in developed countries. These include Korea, Japan and Taiwan (Abeyrathna and Kalainathan 2016). The percentage contribution of SMEs to GDP has been found to range from 45 percent in India to 47.3 percent in Malaysia and 50 percent in Korea to 55.3 percent in Japan, and 57 percent in Germany, with 60 percent in China (Adu, Andrews, Polytechnic, Akosah and Polytechnic 2016; Katua 2014; Nyanzu and Adarkwah 2016).

Similarly, the World Bank (2017) has shown that in developing economies, SMEs contribute to more than 60 percent of GDP and more than 70 percent of total employment. In Africa, the SMEs of economic powerhouses such as South Africa (SA), Ghana and Nigeria are estimated to contribute over 70 percent to employment and 50-70 percent to GDP (Mamman *et al.* 2015). By way of example, in Ghana, the estimate is that SMEs account for 70 percent of its GDP and 92 percent of the country's businesses. In the manufacturing sector of Nigeria, 70 percent are SMEs; while SMEs also provide 57 percent of SA's GDP (Sunjka and Emwanu 2015). The importance of SMEs is further recognised in several countries in Africa, such as Burkina Faso, Cote d'Ivoire, Kenya and Malawi, along with Togo and Uganda (Adu *et al.* 2016).

Likewise, the MSMEs sector in Zimbabwe has created 5.7 million jobs and contributed US$7, 4 billion to the economy, as reported in the FinScope MSME survey (2012) outlined by FinMark Trust (2013). The 2012 FinScope MSME survey estimated the MSME sector to employ 2.9 million people in the country (RBZ, 2014), having around 2,8 million owners. This gives a total of 5.7 million people employed in the MSMEs sector (Chiwara 2016). However, SMEs are limited in their numbers as they comprise at least 5% of the total business enterprises in Zimbabwe (Finscope MSME survey 2012). Therefore, from the

above analysis, this translates to approximately 285 000 jobs created by SMEs (i.e. 5 percent of 5.7 million).

It has been observed that SMEs contribute about 50 percent towards GDP and employ approximately 60 percent of Zimbabwe's workforce (Chiwara 2016). The sector is seen to not only absorb retrenched people from the private sector but is firmly acknowledged as a creator of employment (Gwangwava, Manuere, Kudakwashe, Tough and Rangarirai 2014). Due to the changing pattern of employment in Zimbabwe, SMEs have become significant contributors to employment opportunities. The employment level decline since the year 2000 within the formal sector of the country, which has contributed to retrenchments and closures, is laid at the door of low capacity utilisation, leading to a greater role being assumed by the SME sector in offering many a way of earning an income (Gwangwava *et al.* 2014; Mugozhi and Hlabiso 2017; Nyamwanza 2014).

Most Zimbabweans rely on the SME sector as a source of livelihood, considering that only 25 percent of the workforce is formally employed. As a result, a solution is offered by SMEs for the country's employment problems, and the Reserve Bank of Zimbabwe (RBZ) highlights that this sector employs the majority of people (RBZ 2007). It was indicated by the Finscope MSME Survey of 2012 that in the adult population of Zimbabwe, 46 percent operate in the SME sector, with nearly 2, 8 million micro, small and medium business owners in Zimbabwe who employ close to 2, 9 million people (FinMark Trust 2013). This highlights the sector's importance in contributing to employment creation and poverty alleviation.

Regardless of SMEs' significant benefits to economic development in many countries, several studies (Henschel 2008a; Islam and Tedford 2012; Smit and Watkins 2012; Verbano and Venturini 2013) have confirmed that small enterprises in developing countries find it problematic to graduate from conception and development to stability. According to Gorzeń-Mitka (2015), the rate of failure for SMEs stands at 80 percent due to the high-risk business environment. SMEs are operating in a dynamic and complex environment and they face risks daily, which affects their performance. Studies have

shown that SMEs are more vulnerable than large enterprise organisations (Jadi, Manab and Ahmad 2014; Yusuf and Dansu 2013; Pashkova 2016; Sunjka and Emwanu 2015) due to their limited business expertise and management, limited financing and having to deal with cumbersome bureaucratic and regulatory conditions (Fjose, Grünfeld and SQW 2010; Sunjka and Emwanu 2015). Thus, due to structural characteristics and inadequate resources, most SMEs are exposed to the destructive effects of these risks.

SMEs are faced with different types of risks while running their businesses and RM could play a vital role in dealing with these risks (Abeyrathna and Kalainathan 2016). Over the years, RM has been acknowledged as a fundamental practice in SMEs (Duong 2013; Falkner and Hiebl 2015; Panigrahi 2012) that can be adopted in a business to improve the chances of continued and prospering operations. To deal with uncertainties and survive in a fraudulent environment, SMEs need to be knowledgeable about RM practice. Otherwise, they may suffer catastrophic consequences should they not be ready to overcome possible risks (Verbano and Venturini 2013). Thus, SMEs need to manage risks to minimise and reduce loss exposure.

By incorporating RM into their operations, SME owner-managers are well equipped to exploit their environment and yield a positive return. Nevertheless, the literature shows that RM development is still in an early phase (Gwangwava *et al.* 2014) and that no established standard for SMEs exists that would describe how a comprehensive RM practice should be performed (Gorzeń-Mitka 2015; Mir 2014). It can be argued that adopting a positive approach towards RM is not yet a priority for SMEs. This is attributed to various limitations, including insufficient infrastructure; limited expertise on managerial and technical levels; inadequate intellectual and financial resources to produce change; substantial technological developments; and fragile information networks to recognise and locate applicable knowledge and information, as well as low investment in research and development (Ekwere 2016; Islam and Tedford 2012; Sunjka and Emwanu 2015; Smit and Watkins 2012).

RM is also perceived as costly. Hence, SMEs are financially unable to fully implement RM in their businesses. As a result of limited financial resources, the implementation of ERM has not become a priority in SMEs (Yakob, Hafizuddin-Syah, Yakob and Raziff 2019). This is due to a lack of experience and knowledge in the business that may result from a lack of awareness and lead to inadequate responsiveness concerning the importance of ERM in their businesses (Yakob *et al.* 2019). Findings by Knox (2012) emphasised that SMEs believed that RM is only relevant for implementation in large organisations. This echoes the opinion of SMEs that perceived that only larger corporations could practically apply RM (Rautenstrauch and Wurm 2008). Furthermore, Patsis (2007) argued that because of the size of their businesses, many SME owners do not believe they are at risk. These SMEs do not anticipate being exposed to challenges and higher risk in the same way that large firms do (Yakob *et al.* 2019). According to Baker (2011), ERM is under-utilized by SMEs as it is perceived to be complex and reserved for specialised experts, and has a connection to large organisations.

According to Smit and Watkins (2012), where the risks faced by their enterprises are concerned, owner-managers of SMEs remain ignorant despite evidence that in adopting RM strategies businesses are more likely to survive and grow. Furthermore, studies of RM have been focused on larger firms (Aon Risk Solutions 2017; Otieno 2016; Wijekoon, Amaratunge and Sisira Kumara 2016), thereby giving low priority to RM in SMEs. Hence, it is questionable whether RM for larger organisations can be practiced in SMEs because of the two sectors' different characteristics.

Moreover, these enterprises do not have a clear strategy or guidelines for dealing with risk (Pashkova 2016) as previous studies have focused their attention on assessing the risks associated with SMEs. Examples include an assessment performed by Gwangwava *et al.* (2014) of RM practices in SMEs in Zimbabwe, while another study by Jayathilake (2012) investigated RM practices in SMEs in Sri Lanka. While the appraisal of RM practices is of importance to determine how SMEs deal with adverse situations in their operations, this does not guarantee that they will fully utilise RM practice. Therefore, it is

crucial to go beyond the evaluation by examining factors that might influence SME owners-managers to adopt or ignore RM practice.

While Jadi, Manab and Ahmad (2014) emphasised incorporating insurance as part of RM practice in SMEs, Mugozhi and Hlabiso (2017) investigated the contribution of SMEs to the economy of Zimbabwe. Other studies have been confined to construction, banking, agriculture, and aviation, as well as chemical processing sectors (Islam and Tedford 2012). Hence, it is necessary to also dissect other sectors that might have diverse ownership and management features.

Nonetheless, not much has been written on RM practices where demographic and cultural factors in SMEs are concerned (Chakreeyarat 2015; Dorresteijn 2017; Loke 2017; Wijekoon, Amaratunge and Sisira Kumara 2016). The focus in previous studies has mainly been on economic and political factors, government policies and tax and business characteristics (Gorzeń-Mitka 2015; Yusuf and Dansu 2013; Pashkova 2016). Whilst these factors shape the environment in which SMEs operate, they do not offer assurance on operational excellence in SMEs. It is, therefore, necessary to consider the influence of SME owner-managers' demographic factors and culture towards the utilisation of RM in their businesses because there is little separation between SMEs and the owner/manager in strategic thinking and decision-making.

1.3 PROBLEM STATEMENT

Where culture and strong individual factors affect risk being managed in a structured and professional way, RM within SMEs is less developed (Angeline and Teng 2016). There has to date been no comprehensive investigation examining the impact on RM of SMEs in Zimbabwe by cultural and demographic factors. Consequently, a need exists to understand how individual attributes, such as demographic factors and culture, affect risk management practice in these businesses. If this study was not allowed to proceed there will still be a knowledge gap on SMEs risk management in relation to demographic factors and culture. Policy-makers would not effectively monitor and follow-up on SMEs in terms of RM due to lack of information relevant to Zimbabwe.

1.4 STUDY AIM

The study aim is the examination of the influence of demographic factors and culture on the RM practices of SMEs so that a RM framework can be proposed that may be considered by SMEs in Zimbabwe to manage risks effectively and efficiently.

1.5 RESEARCH OBJECTIVES

The aim of this study will be achieved through the following objectives:

- To identify the level of RM practices of SMEs;
- To establish the perception on SMEs on the relevance of RM in the success of their businesses;
- To examine the influence of demographic factors on RM practices by SMEs;
- To examine the influence of culture on SME RM practices; and
- To propose a RM framework for SMEs in Zimbabwe for effective RM.

1.6 RESEARCH QUESTIONS

An attempt is made by this study to provide answers to the questions:

- What is the level of RM practices of SMEs?
- What is the perception of SMEs of the relevance of RM in the success of their businesses?
- What is the influence of demographic factors on the RM practices of SMEs?
- What is the influence of culture on the RM practices of SMEs?
- What are the features of the proposed framework for use by SMEs in Zimbabwe for effective RM?

1.6.1 Description of the proposed Risk Management framework

A significant role is played by popular business frameworks in achieving and sustaining innovations that are impactful and profitable. According to Sira, Vozarova and Radvanska (2016) and Hudáková, Dvorský, Lusková and Schönfeld (2017), there is a need for a RM framework that is suitably inter-connected and all-embracing. Therefore, it is the intention of this study to propose that the RM framework adopted will be used to

guide SMEs' RM. The proposed framework (Figure 6.1) to be adopted explains the tasks and tools for effective RM by SMEs.

1.6.2 Hypotheses

The significance of this study will be determined through hypothesis testing. To establish associations between the relevant constructs of the study and RM practices of SMEs, the following variables were tested:

This section presents the hypotheses:

H1: SME owners have a negative perception of the relevance of risk management to the success of their businesses;

H2: There is a relationship between the age of SME owners and their risk management practices;

H3: There is a relationship between the gender of SME owners and their risk management practices;

H4: There is a relationship between the race of SME owners and their risk management practices;

H5: There is a relationship between the marital status of SME owners and their risk management practices;

H6: There is a relationship between the family size of SME owners and their risk management practices;

H7: There is a relationship between the educational level of SME owners and their risk management practices;

H8: There is a relationship between the level of income of SME owners and their risk management practices; and

H9: There is a relationship between the culture of SME owners and their risk management practices.

1.7 SIGNIFICANCE OF THE STUDY

Recently, SME RM has received much attention following the realisation that numerous SMEs are failing to graduate from their conception and development to stability and

growth. Consequently, an increased call has developed for effective RM framework adoption to ensure this sector's success and continuity, which depends on effective RM. Furthermore, the need for an effective RM framework is widely recognised by academics and industry to manage all types of risks encountered by an organisation (Cagliano, Grimaldi and Rafele 2015; Cienfuegos 2013; Shoki, Zakuan, Tajudin, Ahmad, Ishak and Ismail 2014). A framework of RM practices in Zimbabwe's SME sector has not yet been established, which means that this study's main contribution is a RM framework that can be used to effectively manage risk in Zimbabwe's SME sector.

Furthermore, a paradigm change has occurred, shifting towards a more holistic view of RM by organisations, instead of examining RM from a silo-based perspective. On this basis, the researcher pursued the study of culture and demographic factors that either prevent or stimulate SME owners in Zimbabwe to make decisions concerning RM. Therefore, this study provides new insights into RM practices through the submission of a wide-ranging assessment of the level of understanding concerning risk by concentrating on Zimbabwean SME owner-managers.

Together with other research on factors influencing RM practice, this study also anticipates stimulating further research in RM and the SME sector. Additionally, the study adds to the continuing debate about developing countries' RM effectiveness, particularly in Zimbabwe. This study is also of particular relevance as it enlightens owner-managers of SMEs with critical information pertaining to demographic factors and culture that influence their decisions to undertake RM practices.

1.8 SCOPE OF THE STUDY

The research was limited to SMEs located in Harare and Mashonaland Central provinces in Zimbabwe, with a target population of approximately 35 700 SMEs, as reported in the FinScope MSME survey (2012) cited by FinMark Trust (2013). Any SMEs outside these two provinces did not form part of this study. The data was collected over one year, from 2017 to 2018, using a survey questionnaire and interviews. Research instruments such as direct observations and document analysis were not considered in this study. The

study focused on firms employing between six to seventy-five employees in the selected research areas (Figures 1.1 and 1.2)

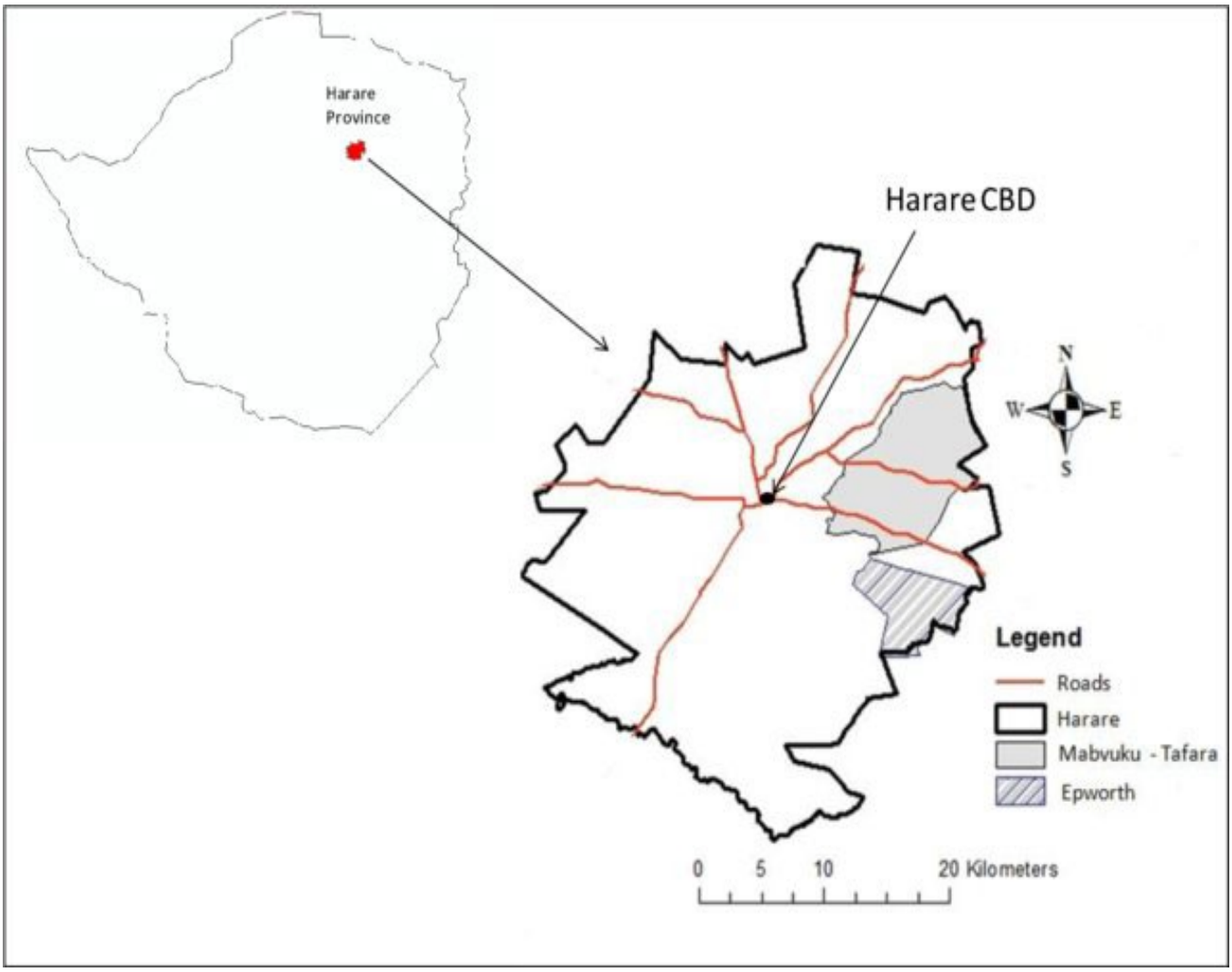

Figure 1.1: Location of Harare Province, Zimbabwe

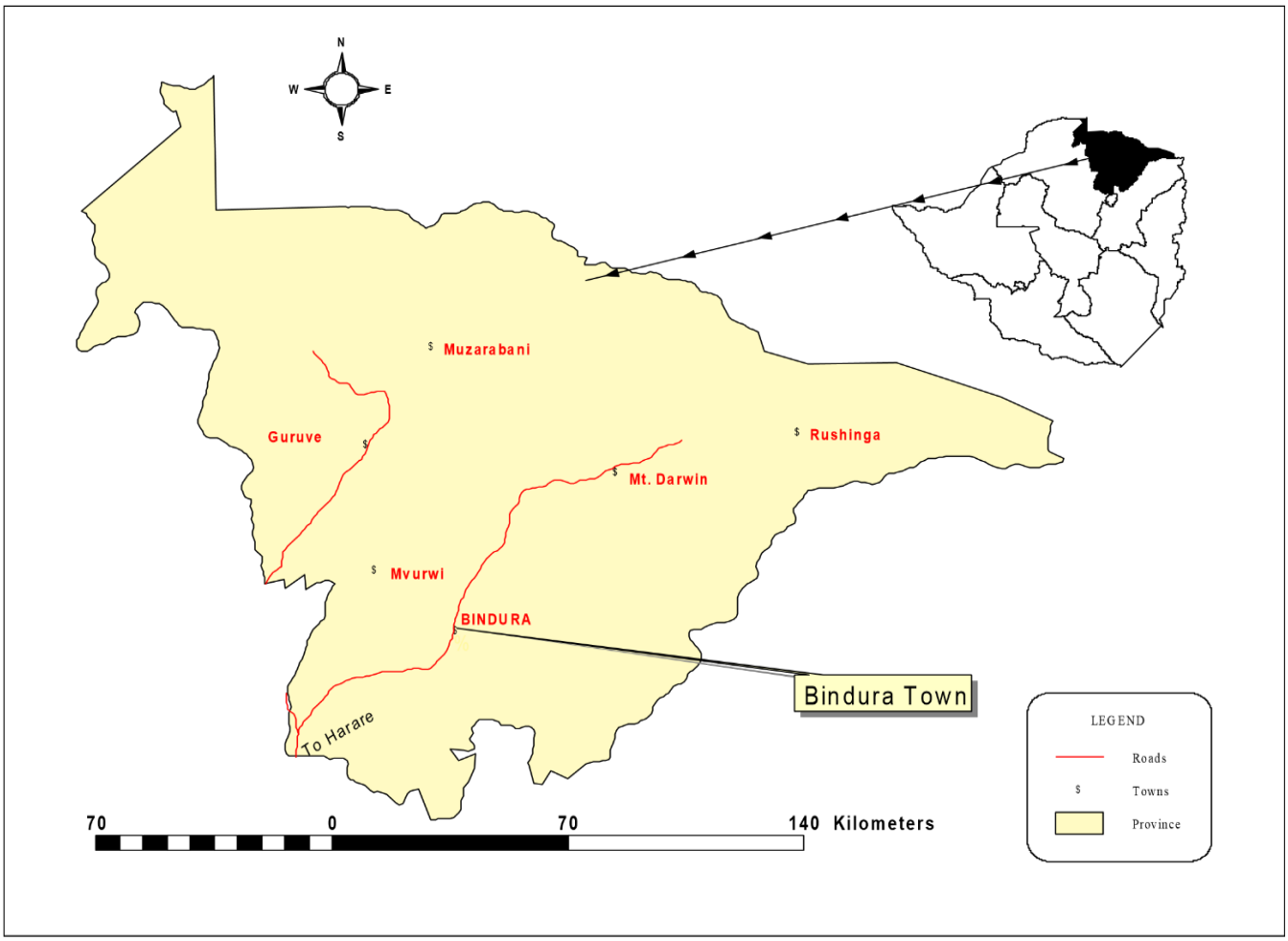

Figure 1.2: Location of Mashonaland Central Province, Zimbabwe

1.9 STUDY LIMITATIONS

Data from two provinces was relied on in this study, which limited the generalisability of the findings to other provinces. The researcher was further limited by the unwillingness of some respondents to complete the questionnaire promptly and those who did not complete them at all. This resulted in a limited number of respondents being involved in the study, despite the researcher's efforts in explaining the potential benefits of the study to them.

1.10 GENERAL OUTLINE OF RESEARCH METHODOLOGY

Research methodology is the process used to collect data in order to make business decisions (Saunders, Lewis and Thornhill 2011). According to Kothari (2011), research methodology not only considers methods of research but also why the methods were used. In this study, a mixed-methods research design was utilised, which is very useful to capture the best of both quantitative and qualitative approaches (Creswell 2013). A mixed-method research design was suitable for generalising the findings and developing a detailed view of the meaning of a phenomenon. On the one hand, while often considered as more objective, a quantitative methodology is usually accompanied by a positivist perspective; while on the other hand, a qualitative methodology is correlated to an interpretative perspective derived from an understanding of uniqueness.

The population of this study comprises business owners of SMEs employing 6-100 people in Harare and Mashonaland Central Provinces. The population of SMEs in these two provinces is estimated to be 35 700. The choice of Harare and Mashonaland Central provinces was based on Harare being the capital city of Zimbabwe, with a population of 1 896 000 out of the national population of 11 631 557 (ZIMDAT 2012), in which approximately 13 percent of SMEs are located, as indicated by the Finscope MSME Survey of 2012 (FinMark Trust 2013). It also stands out as the country's administrative and commercial hub, hence increasing the likelihood of choosing a representative sample. Mashonaland Central Province, on the other hand, has a

population of 1 152 520 (Zimbabwe National Statistics Agency 2013). The Finscope MSME Survey of 2012 showed that approximately eight percent of SMEs are located in this province (FinMark Trust 2013).

Sampling methods employed to identify subjects used a combination of simple random and cluster sampling (Moriarty 2011). Firstly, the researcher used cluster sampling as it allowed the use of a larger sample for similar fixed costs. Zimbabwe is divided into ten provinces, which represented the SME clusters in this research. From the ten clusters, this research focused on two clusters, namely Harare Province and Mashonaland Central Province, because of their diverse demographic and cultural characteristics.

Respondents were selected at random in each of the two clusters to achieve a sample size of 276 respondents, using Israel's (1992) formula:

$n = N/1 + N(e^2)$

Where n=sample size; N=Population sample; e= margin of error.

A semi-structured interview was used to collect qualitative data, while a structured questionnaire was used to collect quantitative data. The questionnaire was divided according to the research objectives, while the interview guide used themes derived from the research questions (Driscoll 2011). The interview enabled the researcher to probe for more information on partially answered questions. The data collection procedure involved making appointments to meet with respondents and visiting them personally in their areas of operation. The questionnaire was self-administered, however, respondents were requested to return the questionnaire immediately after completion, where possible.

Data collected from the questionnaire were summarised using figures, tables and graphs, while data collected from interviews were presented through themes. The Statistical Package for the Social Sciences (SPSS) version 26.0 was employed in the analysis of quantitative data, providing both descriptive and inferential statistics. Validity and reliability of the questionnaire were achieved through pre-testing, using a pilot study with two randomly selected firms that did not form part of the sample. This was done in order to remove ambiguous and irrelevant questions in response to the pre-test subjects' comments and findings from the pre-test, thus ensuring that the questionnaire was suitable for obtaining relevant and accurate data (Zohrabi 2013). The study also abided by the ethics governing the conduct of scientific and educational research, to preserve anonymity and confidentiality.

1.11 THESIS STRUCTURE

Chapter One: The study was introduced in this chapter, setting out the research problem and its background information, as well as key issues for further inquiry.

Chapter Two: The second chapter's purpose was to provide detailed information about the establishment of SMEs and their contribution to Zimbabwe's economy. The second chapter intended to carry out a detailed literature review on entrepreneurship development and the importance of entrepreneurship to the economy from a global scale down to the Zimbabwean context. The chapter also discussed the theories of entrepreneurship development. Furthermore, this chapter examined SME development and the importance of SMEs to the economy. Additionally, a detailed review of the challenges facing SMEs and risks associated with these challenges was done.

Chapter Three: The third chapter presents a summarised view of the detailed literature review performed on the level of SME RM practice from the global scale down to the Zimbabwean context. The chapter also discusses the SMEs' perception of the relevance of RM to their business success. A detailed review of the impact of

demographic factors and culture on RM practices of SMEs is also reported in this chapter, as are different theories underpinning the study of RM. This chapter furthermore, offers a means of exploring any likely existing literature gaps that make up the basis for this study.

Chapter Four: The fourth chapter details the research methodologies that were employed in achieving the objectives of the study, in addition to a description of the research philosophy, approach, strategies and design. Further to this, the study population is briefly described, along with the selected sampling techniques that were used to obtain the sample. The chapter also presents and justifies the research instruments used to collect data, along with procedures employed for data collection and analysis.

Chapter Five: This chapter sets out the analysis of data obtained from the SMEs using a questionnaire and interviews, with a detailed discussion of both the quantitative and qualitative data findings. The findings from previous studies are taken into consideration during the discussion.

Chapter Six: The last chapter in the thesis summarises the findings and presents the overall conclusion from the preceding chapter discussions. The discussions as well as the main results in Chapter Five are drawn upon for the recommendations and conclusions that were brought together in the final chapter. Several study limitations and various future research recommendations are also presented.

1.12 CHAPTER SUMMARY

An overview of the research has been presented in this chapter, while the study's background information has also been described. The problem statement of the study has been clearly defined, as well as the research questions, objectives and aim of the study. The study's significance, limitations and delimitations have also been

presented. Furthermore, the general methodology employed in this research has been highlighted, as well as the thesis structure.

The next chapter aims to provide the study's theoretical underpinning through an examination of the related literature.

CHAPTER TWO
LITERATURE REVIEW

2.1 INTRODUCTION

With the research overview and significance of the study having been presented, the previous chapter also described the background to the study, the problem statement, research aim and objectives, as well as the research questions. This chapter provides the theory that underpins the study by examining the literature related to:

- Entrepreneurship development;
- Theories of entrepreneurship development;
- Entrepreneurship and its importance to the economy;
- The definition of an SME;
- SME development;
- The SME sector and its importance to the economy; and
- Challenges facing SMEs and the risks associated with these challenges.
- Risk management (RM);
- SME perceptions of the relevance of RM;
- The level of RM practices;
- RM theories;
- Demographic factors that influence RM practices;
- Cultural factors that impact RM practices; and
- The conceptual framework.

The study will use the above literature review as a framework to compile the research instrument for this study in order to further probe the extent to which demographic factors and culture affect the RM practices of SMEs, and recommend strategies that can be employed by SMEs to effectively manage risk. Using the findings, the study will specifically propose a framework to effectively manage risk in Zimbabwe's SME sector.

2.2 ENTREPRENEURSHIP DEVELOPMENT

As early as the late 1940s, the concept of the development of entrepreneurship was introduced into the landscape of development and growth by making targeted policies such as special tax treatment, subsidised credits and grants, amongst others, known to European governments (Kareem, Anuar and Salha 2018). Given that entrepreneurship and the way entrepreneurial processes evolve and spread out are context-dependent, it is likely that entrepreneurship unfolds differently in diverse settings and does not flourish evenly across continents and regions (Thomas and Mueller 2000). In other words, entrepreneurship development is in a reciprocal relationship with context. Contextualised entrepreneurship theory building is an important safeguard from over-generalisation, which can potentially compromise the relevance, rigour and ultimate usefulness of research findings. In addition, Low and MacMillan (1988) emphasised that entrepreneurship is a process that can be undertaken in a variety of contexts.

Schumpeter's theory of Economic Development sees entrepreneurship as central to developed countries and is, on the one hand, based historically on economics (Bernstein 1996). Moreover, it is a vital element of regional and national economies and significant to global modern business (Bernstein 1996; Byers, Keeley, Leone, Parker and Autio 2000). Furthermore, the development of entrepreneurship has captured the attention in today's globalised world of both developing and developed countries.

National growth and wealth capabilities are no longer exclusively generated and piloted by the government (Roudini, Hassan and Osman 2012). Instead, giant strides are made in the general development and welfare of the people, as well as in the creation of wealth and skills development through citizens' entrepreneurial effort (Lucky 2011). Many developing countries of the world are noted as being in a transitional state. Several entrepreneurs are severely restricted by numerous

limitations while they strive to move to an outward-looking economy that is surplus seeking and market-led from an inward-looking local economy that is tightly integrated and subsistence-oriented (Barba-Sánchez and Atienza-Sahuquillo 2012).

2.2.1 Entrepreneurship Development: The Global Context

The development of entrepreneurship has been propounded by various eminent social thinkers. Schumpeter (1949) advanced the first dynamic theory of Entrepreneurship Development. In his theory, Schumpeter considered entrepreneurship as a disruptive catalyst of the economy's stationary circular flow through which the process of development is initiated and sustained. The term 'innovation' was used by Schumpeter in arguing that the economy is activated to a new level of development by the entrepreneur. He defined entrepreneurship as "a creative activity" and labelled his theory the Innovation Theory of Entrepreneurship.

This theory has played a significant role in the drive for innovative ideas across the world, especially in the telecommunications industry, which has seen many individuals venturing into the mobile communications and information communication technology industries. The most prominent role-players include Bill Gates (Microsoft founder), Carlos Slim (Mexican telecommunications), Steve Jobs (Founder and CEO of Apple) and Bill Hewlett (Co-founder of computer giant Hewlett Packard), as well as Mark Zuckerberg (Facebook founder), Michael Dell (Founder and CEO of Dell Computers) and Strive Masiyiwa (Econet).

On a global scale, the development of entrepreneurship has seen the adoption of an Entrepreneurship 2020 Action Plan by the European Commission in answer to challenges resulting from the most severe economic crisis in the last half a century (Bula 2012). The fact that entrepreneurship has made a significant contribution to ending the economic malaise of the continent is harboured by all the governments of European countries (Kareem *et al.* 2018; Mcfarlane 2016). With big businesses mostly a remnant of the past, Auriol (2014) states that it was determined that when big

business innovates, it is frequently only a matter of replacing labour. Thus, amidst limited job opportunities, national governments across Europe are encouraging the spirit of entrepreneurship in recognition of the increased need for self-employment (Ndiweni and Verhoeven 2013).

Furthermore, Verheul and van Stel (2007) postulate that countries such as China, Brazil and the Kingdom of Saudi Arabia have been successful in promoting entrepreneurship activities. Nonetheless, it is not only capitalist economies that are encouraging entrepreneurs as economies that are managed, such as that of China, are starting to facilitate and encourage entrepreneurship. China provides financial support and tax incentives for entrepreneurship and innovation. The country has expanded funding channels for enterprises, including measures to enhance credit support and related services. The Chinese government further promotes fair competition, wider market access, improved tax services and has created an enabling environment for entrepreneurship and innovation. They have discovered that even though entrepreneurial activities were once seen as a threat to the established system, these have been found to be critical to achieving long-term success and maintaining economic competitiveness (Verheul and van Stel 2007).

The status of entrepreneurs globally is most discernible in most parts of Europe, the United Kingdom (UK) and the United States of America (USA), with entrepreneurs having always relied on financing from banks (Mcfarlane 2016). The development of entrepreneurship is aided by those governments that formulate a national protection fund for micro-entrepreneurs. This is achieved through its specialised agency, sponsored by government donations, a specific share from Non-Governmental Organisations (NGOs) and Micro Finance Institutions (MFIs) revenue, in addition to donations from international bodies; assistance collected from religious and regular charities; and corporate acts of social responsibility (Roudini *et al.* 2012).

In the USA, events show that while the nation re-structures and reforms its priorities for the new century, a cornerstone of its economic policy must be the fostering of entrepreneurship. Furthermore, it should be noted that where policy-makers do not take cognisance of the significance of entrepreneurship in policy infrastructure under which it thrives and the economy, this powerful engine that drives economic growth could easily be crippled (Verheul and van Stel 2007).

Similarly, the entrepreneurship movement in Brazil has initiated policies that are equipped for low-tech business development, along with firms oriented towards high technology (Ardichvili, Cardozo and Ray 2012). These policies aim to reduce the time it takes to open a company, whilst also simplifying the tax system. The policies presented by the Brazilian government have created a more favourable environment for entrepreneurship in Brazil.

In 2010, the Kingdom of Saudi Arabia launched a 10-year innovation and entrepreneurship plan. The strategy intended to ensure that the country had equal global opportunities as nations that were economically highly competitive (Verheul and van Stel 2007). In the Malaysian context, Mohamed (1988) states that various technology funding organisations have been set up by the government in an attempt to develop technology entrepreneurship growth through the provision of full technical support to business persons. This includes the government establishing venture capital firms to encourage investment in firms with high growth, due to the difficulties these firms encounter in raising sufficient financing during the initial growth stage. Thus, government efforts provide a foundation for promoting entrepreneurship development.

2.2.2 Entrepreneurship Development: The African perspective

In Africa, it has become an arguable necessity that locally-owned businesses have to be developed. It is in the interest of society that an operable and efficient environment be created for businesses and enterprises. Entrepreneurship is not a new idea in

Africa. When faced with a crisis, policy-makers in African countries often call on entrepreneurs to rescue the day (Roudini, Hassan and Osman 2012). Over the years, African governments have intervened in a variety of ways, such as by introducing fiscal, industrial and monetary policy measures to ensure that the development of entrepreneurs is supported (Roudini *et al.* 2012). Consequently, this has led to the view that entrepreneurship is important in promoting local business.

Nigeria

In Nigeria, the development of entrepreneurship only became significant after the Nigerian civil war. At the end of the war, the focus of the second National Development Plan was on developing the '3Rs' objectives of Reconstruction, Re-development and Reconciliation (Igbo 2005). The inventive skill and ingenuity of individuals were challenged by the activities in the plan. In addition, the Nigerian Enterprise Promotion Decree of 1972 was promulgated, as amended in 1977, in the form of a decree of indigenisation (Ayodeji 2015). This became a catalyst to develop entrepreneurship businesses as fully-fledged commercial enterprises.

Therefore, after 1960, once independence had been achieved, the government was required to advance indigenous entrepreneurs whom the British Royal Niger Company had outlawed and displaced (Ayodeji 2015). It can thus be said that when indigenous or local people create, develop and manage new ventures for the benefit of local or indigenous people, it is referred to as 'indigenous entrepreneurship'. Due to the government not neglecting the tripartite association between economic growth, industrialisation and entrepreneurship, the entrepreneur is the source of economic growth and thus, for entrepreneurship to effectively play this role, it has to be supported and developed by the government (Ayodeji 2015).

The appraisal and review of certain initiatives and policies of the government, in order to recognise the entrepreneur's potential role, has seen Nigeria's governments successively continue articulating programmes and policy measures to attain industrial

development and growth (Ayodeji 2015). As stated in the 1988 Industrial Policy of Nigeria, this has comprised participation that was either direct, alone or jointly with interest groups, the private sector and with external agency aid, as well as by providing adequate finance and industrial incentives (Obitayo 1989).

According to Kareem *et al.* (2018), the Nigerian government has specifically been active insofar as: (i) setting up and funding industrial estates to ease overhead costs; (ii) the establishment of specialised financial institutions to provide long-term credit, such as the Nigerian Industrial Development Bank (NIDB), Small-Scale Industry Credit Scheme (SSICS) and the Nigerian Bank for Commerce and Industry (NBCI); (iii) external finance guarantees enablement by the African Development Bank (AfDB), World Bank and other financial institutions internationally; (iv) enabling the formation of the National Directorate of Employment (NDE), which assisted with new SMEs being set up; (v) providing SMEs with medium- to long-term foreign and local loans through the establishment of the National Economic Reconstruction Fund (NERF), specifically those SMEs situated in rural localities; and (vi) providing advisory services and technical training through Industrial Development Centres (Kareem *et al.* 2018).

Uganda

According to a Uganda Global Entrepreneurship Monitor (GEM) report (Balunywa, Rosa, Dawa, Namatovu, Kyejjusa and Ntamu 2012), the entrepreneurial activity of some form is engaged in by more than one in three adult Ugandans, with engagement rates especially high amongst people aged between 25 and 34 years, the higher income earners and those who are better educated, as well as amongst men (Mutambi 2011). Rates of entrepreneurial activity in all self-reported categories of the labour market are surprisingly high, which points to a large number of employed people who also own a business (Naudé 2013). The GEM report intimates that in Uganda, distinguishing between self-employment and employment is a multi-faceted issue. The high rate of entrepreneurship amongst Ugandans is driven by need and opportunity (Shaw 2011).

The Uganda GEM report (Balunywa *et al.* 2012) additionally highlights that the country's Total Entrepreneurial Activity (TEA) is the second-highest amongst all GEM countries with an index of 31.6, which points to almost every third Ugandan or 32 out of 100 Ugandans, is occupied by some type of entrepreneurial activity. Compared with the USA's score of 11.3 for the "country of entrepreneurship", and a score of 1.5 for Japan, Uganda's score is very high.

In reference to TEA, Uganda used to be first amongst the GEM countries (Balunywa *et al.* 2012). Nonetheless, the 2012 report states that Peru overtook Uganda as the country with the highest TEA, yet Uganda maintains the highest rate for new firms or those firms that have initiated operations. TEA rates are reportedly high between both males and females. Nonetheless, the world trend is followed by Uganda, whereby a higher TEA rating is shown for men. In reference to entrepreneurship that is inspired by opportunity and by necessity, the country reflects the highest for "necessity" entrepreneurship and one of the highest rates for "opportunity" entrepreneurship (Kritikos 2014). Ugandans generally consider the idea of entrepreneurship and starting a business in a very positive light. Additionally, the majority see it as an excellent career choice that gives a high social status.

Kenya

The history of entrepreneurship in Kenya dates back to when the country achieved independence (Verheul and van Stel 2007). The journey to entrepreneurship development has been influenced by the combined efforts of the Kenyan government and the creative minds of its citizens. With the country boasting a vast wealth of resources, individuals from all levels of society were able to come into the country and 'set up shop'. Since then, Hickie (2013) states that Kenya has seen major growth in innovation and entrepreneurship through the increased appeal of mobile connectivity and new technologies. At present, Kenya is a forerunner of the development of digital technology on the African continent (Wang 2016). There has been a boom in mobile

and internet skills and abilities in the country and as of 2016, the penetration of mobile communications devices reached 90 percent, while mobile users that own smartphones were at 44 percent (Ssendi 2013).

The primary aim of Kenya's entrepreneurship development has been the youth in institutions of technical training, which is also expanding to incorporate universities (Middleton 2010). This has involved the introduction of youth to education about entrepreneurship and is aimed at motivating them to consider entrepreneurship and the contribution that business entrepreneurs make in developing the economy. Furthermore, they are presented with prospects whereby the country's difficult employment situation may be analysed, whilst considering self-employment as a career choice is encouraged. Many examples of failed businesses in the community mitigate against this choice, as do misconceptions about what allows a business to be successful and negative attitudes about business, with the general perception that 'capital' is all you need to succeed (Kabui and Maalu 2012).

South Africa

The unemployment rate in South Africa (SA) was at 25 percent in 2013, which at that time was already four times the global unemployment rate (Econometrix 2013). With under-employment and unemployment affecting millions of South Africans, the government had to give its full attention to employment creation and the generation of sustainable and equitable growth. In addition, approximately 16 million people, of the population of roughly 50 million relied on welfare grants to survive (Econometrix 2013).

Entrepreneurship, therefore, represented a significant way of addressing employment creation challenges, in addition to overcoming obstacles to the growth of the economy and equity in SA. According to Timm (2011), the small business policy of SA mainly relied on the 1995 "White Paper on National Strategy on the Development and Promotion of Small Business in South Africa". The need to assist access to information and advice; create an enabling legal framework; enhance access to physical

infrastructure that was affordable, as well as finance and boost procurement from small firms, was outlined by the paper. The 1995 White Paper objectives were practically expressed in the Integrated Small Business Development Strategy for 2005 to 2014, to reduce constraints in regulations and create a demand for SMME products/services, while the supply of financial and non-financial support would also be increased (Timm 2011).

Emphasising new policies for development after the democratic transition would promote the SME sector's role in the country's economy, thus improving economic growth. This was to be achieved through increased competitiveness, re-distributing income and generating employment (Berry, Sweeting and Goto 2006; Rogerson 2006). To create an environment that enabled SME development and growth, the National Small Business Act of 1996 was tabled by the SA government, with this Act amended by Act 29 of 2004 to allow SME enterprises equal standing in the economy of the country (Ntsika 2001; Rwigema and Venter 2004). Stipulations that dealt with the SME sector were incorporated as part of the Codes of Good Practice of Broad-Based Black Economic Empowerment (BBBEE).

Ethiopia

Ethiopia's estimated population of 70.7 million people, $89 per capita GDP and a growth rate of five percent sees half of the population living below the poverty line. Therefore, it is considered one of the least developed countries in the world (CIA World Fact-book 2004).

Services and industries were shown to contribute 37 and 11 percent to GDP respectively, which is very low compared to that of SSA, where it accounts for 53 and 31 percent of GDP respectively. The country still has a long way to go (Kaleyesus 2007) as it has consistently underperformed on the export front, with a negative trade account balance. Agricultural sectors contribute 52 percent in GDP terms, compared to 17 percent for SSA (UNFPA State of World Population 2003).

According to Issays (2005), entrepreneurship promotion in Ethiopia is facing severe constraints on the government front. As a result of insufficient government initiatives, Ethiopia lost a textile training centre to Kenya, which was planned to originally be established in Ethiopia to boost entrepreneurship in the region. This Regional Training Centre was anticipated to be established for all SSA countries through aid from the USA (Issays 2005).

Zambia

As stipulated in its first national policy document, Vision 2030, Zambia has been working towards building a middle-income nation (Mwaanga and Chewe 2016). This document outlines the socio-economic indicators concerning a desirable long-term vision to satisfy people's aspirations. The conditions for building a middle-income nation mentioned in the document include that of being enterprising, self-reliant and outward-looking, whilst having entrepreneurial capabilities that are strong, with nationals taking advantage of available and potential opportunities (Government of the Republic of Zambia 2006). Zambia's Vision 2030 policy document equally identifies entrepreneurship as one of the tools that can help in building a middle-income nation. It can therefore be noted that a critical role is played by government policies in the development of entrepreneurship in African countries.

2.2.3 Entrepreneurship development: The Zimbabwean context

Empretec Zimbabwe, established in 1992 by the United Nations Development Programme (UNDP), has successfully promoted the development of entrepreneurship in Zimbabwe by training more than 15 000 entrepreneurs. More than 20 000 jobs were created by those trained, with a 35 percent contribution to export products (Empretec 2011).

The Arab Bank for Economic Development in Africa (BADEA), an independent international financial institution, provided Zimbabwean entrepreneurs with credit

finance (GoZ 2015). An agreement was reached between the Zimbabwean Government and the BADEA in 2011 for a USD5 million loan facility (GoZ 2015). The Government of Zimbabwe and the Commercial Bank of Zimbabwe (CBZ) contributed USD5 million each to the SME fund and the available loanable funds to SMEs became USD15 million (GoZ 2015; Bomani, Fields and Derera 2015). Entrepreneurs accessed the loan facility by the end of September 2014 (GoZ 2015).

Furthermore, PROPARCO, a French financial development institution, provided financial assistance for entrepreneurship development (GoZ 2015). The institution provided loan facilities for the support of entrepreneurs to the Central African Building Society and the National Merchant Bank of Zimbabwe Limited in 2014, worth USD20 million (GoZ 2015). These loan facilities provided long-term financing necessary for the growth of entrepreneurs. Nonetheless, the interest rates of the loans were not affordable for entrepreneurs and required collateral, which most entrepreneurs did not possess.

In addition, the China Development Bank (CDB), a wholly Chinese government-owned financial institution, extended a credit facility of USD30 million to the Investment Development Bank of Zimbabwe (IDBZ) for the support of SMEs in the country (GoZ 2015). This shows that entrepreneurs have been provided with financial assistance through a partnership between the government and foreign financial institutions.

Creating awareness of regional and international markets is a policy strategy that involves the sharing of information (GoZ 2011). In this regard, information-sharing allowed some entrepreneurs to take part in the Business Expo in China in 2010, with others travelling to Zambia to attend a regional business exhibition. ZimTrade, the organisation responsible for trade promotion of the country, offers entrepreneurs training relating to export marketing so that an export culture may be cultivated amongst these entrepreneurs (Zimbabwe Ministry of Industry and Commerce 2012). Information regarding foreign markets is also provided, with assistance additionally

offered to entrepreneurs for the development of new markets (ZimTrade 2015). This type of assistance explains, in part, the approximately 90 percent contribution to the growth of the economy by SMEs (Zindiye, Chiliya and Masocha 2012).

The Zimbabwe International Trade Fair (ZITF) exhibition annually affords large-scale businesses and entrepreneurs an opportunity where their services and products can be exhibited, while also allowing them to network with local and international companies and establish linkages (ZITF 2014). Further opportunity is afforded to entrepreneurs to find markets locally and abroad. In addition, the Zimbabwean government seeks to support exports through facilitating trade, trade missions, export training for entrepreneurs and product certification where international standards are met (ZITF 2014).

Import tariffs were increased in 2007 to promote large companies and entrepreneurs in the production sector, as well as safeguard local industries from international competition (AfDB 2007). There was a reduction of tariffs on raw materials and customs duties were removed on capital goods, in order to encourage the international competitiveness of goods produced locally. Nevertheless, import duties were temporarily removed between 2008 and 2010 to allow individuals to import basic commodities and scarce food not obtainable in Zimbabwe. Import duties on basic goods were re-introduced in 2011 by the Zimbabwe Ministry of Finance, which included cooking oil and maize meal (GoZ 2011). This was a measure to protect local industries from foreign rivalry (GoZ 2014) as the country relied substantially on imports (RBZ 2013). Due to low-cost imports, the clothing industry had also experienced severe competition, especially from China, Botswana, Mozambique and SA, thus import tariffs on clothes were also imposed (GoZ 2014).

2.3 ECONOMIC THEORIES OF ENTREPRENEURSHIP DEVELOPMENT

The concept of entrepreneurship has been used in a variety of contexts to refer to many different kinds of human phenomena (Alvarez 2005). Theories of

entrepreneurship can broadly be classified into four categories. The economic theories of entrepreneurship are categorised into the classical theory, Neo-classical theory, Schumpeterian Synthesis and Post-Schumpeterian developments (Bula 2012). Various attempts have been made by Neo-classical and Classical theorists to define entrepreneurship. However, Entrepreneurship has no single definition (Mcfarlane 2016; Verheul and van Stel 2007). Lucky (2011), states that the meaning varies according to the one defining it, their focus and the perspective from which it is seen, which means that entrepreneurship is, therefore, a multidimensional concept (Bula 2012). The Classical, Neo-classical, Schumpeterian and Post-Schumpeterian developments are different approaches in explaining entrepreneurship.

2.3.1 A Classical Thought on Entrepreneurship

Entrepreneurship's classical theories concentrated on the features of competition, free trade and specialisation. These theories defined an entrepreneur's role in how goods are produced and distributed in a competitive marketplace. Certain noteworthy classical theories of entrepreneurship are explained below.

2.3.1.1 Cantillon (1755)

In Richard Cantillon's essay titled "*Essai sur la Nature du Commerce en Général"*, (1755, translated by Saucier to English in 2010), the role of entrepreneurship and entrepreneurs was, for the first time, extensively expressed (Minhas 2018: 14). Described as the "father of economic theory", Cantillon is credited with being the first "theoretical analysis of commerce", based on an essay he wrote that was published posthumously in 1755. Brown and Thornton (2013: 401) further stated that Cantillon was also the first to fully consider the critical role of entrepreneurship in the economy. Cantillon described entrepreneurship as pervasive and endowed the entrepreneur with the most pivotal role in the economy (Cantillon 1979).

According to Cantillon's theory, the entrepreneur is not viewed in isolation as a 'production factor'. Instead, an entrepreneur is considered as an agent that takes on

the risk and thereby standardises supply and demand in the economy (Cantillon 1979). This function is similar to that of an “optimising residual claimant” in a Neo-classical framework. For instance, the owner of a business pays for labour from workers and capital from landowners in a world of uncertain production or demand. It is believed that Cantillon (1979) was the first to recognise that an entrepreneurial function existed within the economic system and he introduced the very first concept of an entrepreneur. Cantillon (1979) identified three agent types, namely hirelings or wage workers; entrepreneurs or arbitragers; and landowners or capitalists. Furthermore, Cantillon perceived the market as a “self-regulating network of reciprocal exchange arrangements” and in this system, the entrepreneur has a central role, being answerable for all the exchange and circulation that takes place within the economy. Cantillon’s theory holds that entrepreneurs triggered the stability and balance of demand and supply (Cantillon 1979).

Cantillon (1979) explained the entrepreneurial class as “achieving its assignment by engaging in pure arbitrage”. While arbitrage in the present day generally refers to trading opportunities, it involves simultaneously buying and selling, with types of arbitrage opportunities that include risk arbitrage, amongst others (Kondor 2009). The motivating factor of the activity of “buying at a certain price and selling at an uncertain price” is that of potential profit. Cantillon (1979) therefore recognises that uncertainty is always part of arbitrage. According to Cantillon, other than arbitrage, entrepreneurs also participate in professional activities, namely the transporter, the banker, the seller in the marketplace, or the farmer. What distinguishes the entrepreneurial task from other kinds of agents is its nature of risk-taking, as it returns incomes that are both arranged non-contractually and that are uncertain. For instance, there is no exposure by landowners and hirelings to uncertain incomes, the former because of their rentals that are fixed by contracts and the latter because of their fixed wages (Cantillon 1979).

Cantillon (1979) argues that while the task of the entrepreneur basically comprises arbitrage, the entrepreneur has to be forward-looking and alert. Nevertheless,

entrepreneurs do not need to be innovative. The quantity supplied by the entrepreneur to the existing demand is merely adjusted and neither supply nor demand is increased or altered. However, an entrepreneur should be fully resourced to assume the risk fundamental to the undertaking. It is understood that a venture is not necessarily started with the entrepreneur providing their capital as finance but this can be borrowed on the “assumed perfect money market”, paying the banker interest, with this being another entrepreneurial profession (Cantillon 1979).

According to Cantillon (1979), the laws of supply and demand determine each occupation’s number of entrepreneurs. For example, when there is an over-supply of a specific type of merchant, some will go out of business until the over-supply ceases. This process of adjustment is not a random occurrence as it comes about according to the principle of “survival of the fittest”. Thus, it is understood that the worst-equipped merchants will become bankrupt. Alternatively, should there be too few entrepreneurs, the advantages of enterprise will attract new ones. Therefore, the economic meaning was first given to the concept of ‘entrepreneur’ by Cantillon (1979).

2.3.1.2 Say’s Theory of Production, Distribution and Consumption

According to Say (1971), a vital coordinating role is played by the entrepreneur where production and distribution are concerned. The entrepreneur is the coordinator within the firm and additionally, the modern manager and leader. Say extends Cantillon’s definition of the entrepreneurial function and is the first economist who accentuates the entrepreneur’s managerial role. He affords a very prominent position to the entrepreneur in the production and consumption system in its entirety (Say 1971).

In fact, Say’s clear rejection of the “zero-sum game” economy is where his theory originates. Alternatively, a value they did not previously have is provided through production to available materials, including nature and capital. Thus, their value creation is referred to by Say (1971) as the production of wealth. Three kinds of an industry can create value, namely manufacturing, commercial and agricultural

industries. Comprised of three well-defined operations, in each of these industries, these are regularly performed by a single individual, specifically, the construction of theoretical knowledge, knowledge application and its execution (Say 1971).

The extent of the occupation of an entrepreneur varies from knowledge application to product creation for consumption (Say 1971). This exceptional kind of labour is indispensable in getting industries started to achieve a country's prosperity. Nonetheless, since the diffusion of theoretical knowledge is for the sake of those concerned with science, it just flows from one nation to another. However, it is not possible to dispense with the other two industry operations to amass more formidable ways of attaining wealth, more so in a country that has enough intelligent manufacturers, agriculturists and merchants (Say 1971). Therefore, the functioning of the entrepreneur takes place within the distribution sector, which in turn rounds out the production sector. The function of the entrepreneur is the collection of revenue from the products that are traded and their distribution amongst the efforts of production, which comprise capital, land and labour. Say (1971) states that the owners of the inputs or the efforts are rewarded based on their efforts, in the form of interest, rent and wages, respectively.

The position of the entrepreneur within his enterprise is significant, having to coordinate, lead and manage. Nevertheless, trade-specific tasks must also be performed by the entrepreneur as this mostly also supplies some of the personal capital. An entrepreneur is, also a risk-taker, as the potential for failure exists with regard to any entrepreneurial activity, even when it is conducted well. In conducting business, the entrepreneur could lose not only a fortune but also to some degree, character (Say 1971).

Many qualities should be possessed by a successful entrepreneur, with the combination of the different tasks needing a seldom found mixture of moral characteristics. These are made up of considered opinion, determination and world

knowledge, along with business knowledge, or as stated by Say, the “art of superintendence and administration” (Say 1971). Furthermore, for success to be ensured, knowledge of and experience within the profession is a necessity, in addition to being in a solid position to provide the needed funds. Say (1971) maintained that an entrepreneur “should not already be rich as he may work upon borrowed capital but must at least be solvent, intelligent, prudent and have the reputation of probity, regularity and must be able to procure the capital that he may not possess” (Say 1971).

The number of competitors in the entrepreneurial market is, on the one hand, limited due to fundamental qualities such as talent and capacity. On the other hand, a limited supply will keep the worth of effective entrepreneurial labour at a high level, because supply and demand determine all prices (Say 1971). Likewise, the compensation of the entrepreneur at the micro-level of the firm is established as a residual payment. Differently stated, this means the deduction of payments to other production process inputs from turnover. The theory expounded by Say (1971) explains that there is an increase in the supply of entrepreneurs when there is more residual income than management’s wage and some risk premium. Even so, when profits are negative, firms become destitute until the balance is restored (Say 1971).

To put it succinctly, a vital role is played by the entrepreneur in the theory of production, distribution and consumption as determined by Say (1971) and this role is fulfilled as a coordinator at the firm and market level, as well as functioning as the modern manager and leader within the firm. An unusual blend of experiences and qualities is needed by the successful entrepreneur, which limits competitor numbers in the market for entrepreneurs. Consequently, the firm’s residual income can become very high when there is equilibrium in either the market or the entrepreneurial wage (Say 1971).

2.3.2 A Neo-Classical Thought on Entrepreneurship

As a consequence of criticism against Classical theories, Neo-classical theories were developed. Entrepreneurs, according to Neo-classical theorists (such as Walrass 1874

and Marshall 1919, as cited in Glancey and McQuaid 2000), are those people who assume business risk, ascertain new opportunities and at the same time, cut costs for a business, whilst also being responsible for the production and distribution of goods. Thus, entrepreneurs look after both the impact that shrinking marginal value has and the entrepreneurial reaction. Explanations for certain key Neo-classical theories follow.

2.3.2.1 Marshall's Point of View

As stated by Marshall (1930), the job of the entrepreneur is to provide merchandise while also being responsible for progress and innovations. The significance of innovations, according to Marshall, is that those businesses from which society mostly benefits may not be those that will endure under competitive circumstances. The compensation of every individual that undertakes business is explained as in proportion to direct private benefits, rather than the indirect social benefits afforded to society (Marshall 1930). All the responsibility is borne by the entrepreneur, while also exercising control, directing the production and undertaking business risks. In addition to the coordination of capital and labour, the entrepreneur is both manager and employer. Marshall (1930) additionally maintained that the alert entrepreneur is also constantly on the lookout for opportunities, such as innovations to minimise the costs of a given result. Thus, certain skills and capacities are needed to ensure successful entrepreneurship.

According to Marshall (1930), the first of these abilities and skills are general ability, instead of specialised ability, and intelligence, which is required to allow great success to be attained in the business. By general ability, it is inferred that an individual can simultaneously consider a variety of things; to have everything prepared when needed; to act straight away; and should anything go wrong, to be resourceful and to quickly accommodate changes, as well as to be trustworthy and steady, whilst always having a reserve of force. This general ability relies on inborn ability, education and family background (Marshall 1930).

The second type of skills and capacities needed in ensuring successful entrepreneurship are specialised abilities, including trade knowledge, forecasting power, being able to recognise an opportunity, and taking on risks. The third type of capabilities and skills are necessary because, in order to function as an employer, Marshall (1930) states the entrepreneur should be a “natural leader of men”.

While these are not the only abilities outlined by Marshall (1930) as being needed by a successful entrepreneur, other requirements include good fortune and business opportunities. The chance to acquire the capital needed to ensure the best application of ability varies among people. Nonetheless, as Marshall (1930) pointed out, those who work with loan capital are at a definite disadvantage in comparison to those with their funds. Should a businessperson who operates with loan capital not succeed, loans are easily withdrawn by money-lenders. Similarly, entrepreneurs’ children have an additional advantage over others when they start a business, which is not bounded by the trade plied by their parents. Due to intimately experiencing the proceedings of a real business from their youth, these children have more business opportunities (Marshall 1930).

Entrepreneurship returns, according to Marshall (1930), differ in other spheres of labour as individual profits show a variance way above ordinary earnings, and the number of successful entrepreneurs is shown as only a small percentage of the whole. Moreover, because entrepreneurs require rare abilities for their tasks, they earn a fee on these, with such fees seen as a surplus and an especially important element in the income of businesspeople.

Other than the expected earnings level, additional factors may impact the motivation for starting a business. Negative factors include the work effort and exertion and the earning variance, although some exceptionally high prices may be extremely attractive (Marshall 1930). The attraction occurs due to young risk lovers being more drawn to the probability of immense success than being dissuaded by their fear of failure. This

infrequent but potential extraordinary income notably makes the potential high regard for entrepreneurship more attractive.

The notion is advanced by Marshall (1930) that entrepreneurial supply is controlled by the required abilities that may ensure success. Thus, as determined according to the balancing forces of supply and demand, the entrepreneurial supply price is above average. This means that while there are higher entrepreneurial profits than other occupations' earnings and there is adequate opportunity, new businesspeople enter the trade. Should there be too many businesspeople in command of capital to sustain the high price, Marshall's substitution principle or the "survival of the fittest" principle will regulate who leaves and who remains in the trade (Marshall 1930).

Briefly, the Marshallian market economy is centred on an entrepreneur's class. These entrepreneurs drive the distribution and production process, while additionally coordinating the supply and demand of the market, as well as within the firm, and they direct both capital and labour (Marshall 1930). Entrepreneurs assume all risks linked to production while leading and managing their firms. As minimisers of costs, they are also innovators and the reason for growth. There are many required entrepreneurial capabilities in society, with a combination of these rarely found. Subsequently, there will mostly be a high supply value for entrepreneurship (Marshall 1930).

2.3.2.2 Knight's Theory of Profit, Competition and Entrepreneurship

Knight (1971) was the first that openly took real uncertainty and risk apart. The significance in this is found in the economic function of the entrepreneur in the ability to endure actual uncertainty. Knight (1971) generalised the theory of entrepreneurship advocated by Cantillon's theory and stated that the entrepreneur recognises uncertainty more specifically defined than the risk defined by Cantillon, and entrepreneurship is made up of more than just arbitrage. Additionally, an analysis of the motivation and characteristics needed to become a successful entrepreneur was

contributed by Knight, or differently stated, a “successful uncertainty-bearer and judgmental decision-maker”.

Uncertainty is the distinguishing attribute of a society, according to Knight (1971: 265). In contrast to risk, uncertainty involves a type of probability without reasonable grounds to classify instances because it deals with the result of an occasion that is distinctive. In view of this, assessment should be exercised both in forming an estimate and in estimating its value. The foundation of Knight’s theory is shaped by this real/ true uncertainty of competition, entrepreneurship and profit. Thus, this type of ambiguity, while previously ignored in economic theory, is shouldered by entrepreneurs (Knight 1971).

In general, business decisions by no means concern probabilities that are calculable. Entrepreneurs are experts when they deal with genuine improbability, with productive services supplied to entrepreneurs by everyone else and for which fixed compensation is guaranteed by the entrepreneur. Hence, the uncertainty of changing consumer wants is assumed by entrepreneurs, along with the vagueness of changing purchasing power. The savings that follow reduced uncertainty accrue to society (Knight 1971). Further to this, liability for economic progress is also made the responsibility of entrepreneurs, such as business organisation improvements and technology. Entrepreneurial ability, therefore, becomes the bottleneck in deciding the size of each business.

As explained by Knight (1971: 279-280), the real meaning of the position of an entrepreneur in a corporation lies in the responsibility for control and direction whenever there is uncertainty. The entrepreneur thus employs effective judgment and being the decision-maker, takes responsibility for his decisions. These include planning where, when and what kinds of products to create, whilst also being responsible for safeguarding the approximate values of other participants in the firm. However, this also means that un-insurable business hazards are assumed by the entrepreneur.

Successful entrepreneurship not only requires entrepreneurial ability, but also the belief in one's good fortune and good luck. Entrepreneurial ability is further stated by Knight (1971: 282) as being greatly dependent on the ability to manage uncertainty successfully. Individual differences about the ability to manage uncertainty mean that the apportionment of the function of the entrepreneur has to be to individuals that can cope best. A high degree of self-confidence is necessary to effectively deal with uncertainty, as is being able to judge personal qualities when these are compared to others. These not only include buyers, suppliers and employees, but also competitors. In addition, an entrepreneur must have the disposition to act independently of personal opinion, have an enterprising nature and be perceptive (Knight 1971).

Other than the requirements for dealing with uncertainty, entrepreneurial ability furthermore includes the power "of effective control over other men, as well as the intellectual capacity to decide what should be done" (Knight 1971: 269). Success as an entrepreneur additionally depends on adequate capital being available to safeguard secure compensation to various factors. Provided a potential entrepreneur has the personal capacity, confidence and the material means to support his conviction, there is no need to persuade others to dispose of the needed start-up capital. However, when there are insufficient means, external financial backing must be obtained and the entrepreneur must be able to offer assurance that he is right (Knight 1971).

Regarding the entrepreneurial task, residual income is the reward for bearing uncertainty. The price of this income is determined, as explained by Knight (1971: 277), by competitive bidding in the market by potential entrepreneurs for productive services of society. With greater ability and more good luck, the income of any individual entrepreneur will likely be higher, considering social income divisions and their underlying factors, as stated above. When studying entrepreneurial income, it must also be considered that the remuneration of the Knightian entrepreneur is not merely

through profit, with entrepreneurship prestige and the satisfaction of being self-employed also featuring (Knight 1971).

Finally, unspoken competition amongst those entrepreneurs who operate in the market relies on the supply and demand of entrepreneurial services. The factor of ability affects the supply of entrepreneurs, which entails various elements such as the power to provide satisfactory guarantees, the coincidence of these factors and willingness. The willingness that is not backed up by ability, along with the power to provide guarantees, will result in resource dissipation; while without the other two factors, the ability will be merely wasted. It is not only the individual entrepreneur's ability but also the supply of other productive services that directly influence the demand for entrepreneurs (Knight 1971).

In summary, savings are contributed to society by the Knightian entrepreneur who assumes all the uncertainty. Decisions are made with their accompanying responsibilities, which guarantees fixed remuneration for the factors of production (Knight 1971). Furthermore, entrepreneurship not only requires being able to deal with uncertainty but also having sufficient capital on hand to pay the remunerations that are guaranteed. A residual payment or profit is earned through entrepreneurial services, but prestige and job satisfaction also make up part of the remuneration. An individual entrepreneur increases their personal ability and good luck by the amount of profit made, while this reduces the level of self-confidence that a group of entrepreneurs has. The supply of entrepreneurial services is realised when there is a willingness by an individual and sufficient capital is possessed (Knight 1971).

2.3.3 Schumpeterian Synthesis

Schumpeter (1934) contributed significantly to entrepreneurship theory and was first in treating innovation as a process that is internal and autonomous. He did not agree with the leading paradigm that explained entrepreneurship as a firm's management, instead substituting it with the interpretation whereby in modern business management

language, an entrepreneur was the firm's leader and innovator and due to this, the economic system's main mover. Schumpeter (1934) defined the entrepreneur as an innovator by combining the dynamics of technology with the business enterprise. He was visibly not in favour of the view that the entrepreneur was a capitalist and a risk-bearer, thus Schumpeter (1934) incorporated psychological theory into the economic theory of entrepreneurship.

Schumpeter (1934) began his theory describing a world wherein there is no entrepreneur, termed as "the circular flow" so that he could highlight the entrepreneur's contribution to the economy. In this static world, Schumpeter (1934) stated that every day is a repeat of the one before, a world without change or uncertainty, with it being possible to take all decisions unconsciously after the extensive experience. Thus, at the time that the entrepreneur emerges in pursuit of opportunities from which he may profit, he can introduce innovations or combinations so that this goal may be reached (Schumpeter 1934).

The entrepreneur's innovative creation is perceived by Schumpeter (1934) as the main endogenous effect of development or change in the economic system. Further to this, the balance in the economy is destroyed by novel entrepreneurial permutations that create a new balance and because of this, "permanent discontinuous change and permanent disequilibrium" is inferred by continuous innovation.

As explained by Schumpeter (1934), an entrepreneur is not the independent director and owner of a business, but someone who accomplishes new combinations, regardless of the position occupied. New combinations are in many cases not carried out by those who produce the combinations that are eventually substituted. The new combinations include introducing new goods or services, a new method of production, new markets being opened, uncovering a new supply of raw materials, or implementing a new organisation. These combinations are personified by new firms that start production in conjunction with old firms. In this manner, old firms are eliminated once

they cease production and put new combinations into operation. The task of the entrepreneur is being a leader and an innovator, not a capital supplier or a risk-taker as Schumpeter feels that these tasks should be left to the banker (Schumpeter 1934).

Particular conduct and an unusual attitude are needed when there is a willingness to engage in an entrepreneurial task. To lead present-day production means out of familiar channels into new ones, leadership is necessary. Furthermore, there should be no hesitation on the part of the entrepreneur to undertake a new venture (Schumpeter 1939). It is when something new is done that deviates from behaviour considered as normal, that competition occurs in the social environment. There should be enough strength of character displayed by the entrepreneur that he can 'swim against the tide' of the society in which he lives. Furthermore, certain singular psychological motives are required to be innovative and entrepreneurs do not function to appease their requirements for consumption. Schumpeter (1934) maintains that an entrepreneur does not have to be rich to have the opportunity to start an entrepreneurial venture. Own wealth can support innovations and when this is the case, two jobs are fulfilled by the entrepreneur, namely his own and that of the banker. Regardless, the financial risk relating to innovation is borne by the banker, not the entrepreneur.

While innovation is profit-driven, instead of being motivated by the purchasing power profit provides, the main purpose of an entrepreneur is perceived by many as achieving business success, with profit being an indicator of such success. Baumol (1993) states that in this respect when a new combination is first introduced by an entrepreneur, a temporary monopoly of power is obtained.

Profit nevertheless signals to competitors that above-average profits can be achieved. Therefore, the early profit position of the entrepreneur is eroded by competition and a position of new equilibrium is reached. Although the entrepreneur may successfully establish a dominant position with an indefinite period of returns, the entrepreneur only

experiences a temporary flow of gains. Thus, it is neither a profession nor a lasting condition to be an entrepreneur. Furthermore, a social class is not formed by entrepreneurs, even though certain class positions may result from successful entrepreneurship, depending on how business proceeds are used (Schumpeter 1934).

In summation, the entrepreneur identified by Schumpeter (1934) is an innovator and a leader, but he is not a capitalist, a manager, or a risk-bearer. Economic growth is driven by the innovator, with the economy being led away from its position of static equilibrium at the time and being forced to a position of higher equilibrium. With entrepreneurs possessing certain unique motivating forces, they are eager to innovate. Nonetheless, entrepreneurial activity and the accumulating profits are short-lived. Additionally, for most people, the conditions for entrepreneurship are short-term, while innovation is an ongoing process for entrepreneurs.

2.3.4 Post-Schumpeterian Developments

Post-Schumpeterian theories were suggested to provide answers to questions that remained unanswered in the Neo-classical school of thought concerning entrepreneurship. These theorists focused on human actions based on their knowledge regarding the economy, defining an entrepreneur as one who is creative and imaginative in his work and one who sees a profitable opportunity. The post-Schumpeterian theories are explained below.

2.3.4.1 Kirzner (1973)

The entrepreneur was given a key position within the market process by Kirzner (1973). He contributed to entrepreneurship theory by stating that in the economy, entrepreneurs are those persons who are observant and discover and exploit profitable opportunities. The balancing forces in the market process, according to Kirzner (1973), are entrepreneurs. However, the position of equilibrium itself is never achieved. This is attributed to entrepreneurs possibly erring in their evaluation of profitable opportunities being present, or having discounted them completely. These kinds of

errors are in turn converted into new prospects for gain that is purely entrepreneurial and as a result, the possibility of new oversights.

Furthermore, even entrepreneurial activities that are prosperous continue while there are naturally changing basic provisions of supply and demand, with these types of changes altering what ought to be detected. Profitable opportunities involve profiting from (a) purchases/sales at one location and sales/purchases at an alternative location; (b) purchasing in one-time frame and selling in another time-frame; and/or (c) purchasing inputs and selling outputs that have been modified (Kirzner 1973). It is likely that entrepreneurs are also producers. Nevertheless, manufacturers and fabricators or others are only entrepreneurs once they make profitable discoveries.

No special character or aptitude is needed by Kirzner's entrepreneur to perform duties because he can hire any necessary talent and labour. However, entrepreneurship involves quite an exceptional kind of comprehension in recognising where knowledge can be found. This type of knowledge can be expressed as alertness and it may be hired. Nonetheless, whoever hires someone attentive to the probability of knowledge discovery, personally also displays knowledge of a higher order. As Kirzner (1973) points out, entrepreneurial knowledge can be described as knowledge of the highest order.

An entrepreneur needs only to perceive profitable opportunities before others. Hence, alertness is required. People who are most alert to profitable economic opportunities are entrepreneurs and their ability to learn from mistakes is above average concerning the best opportunities not being detected. Some added characteristics are needed to exploit and not just discover profitable opportunities. The entrepreneurial act itself is not merely the exploitation of opportunities. The moment a profitable opportunity is found, accompanying profits can be captured through innovation, change and creation (Kirzner 1973). Therefore, extra qualities are required to enable adequate action on profit opportunities, such as creativity and leadership.

It is not only those who possess resources who can practice entrepreneurship. Even when a capital outlay may be needed to take advantage of a profitable opportunity, it remains admissible to stipulate that no kind of investment is needed by the entrepreneur (Kirzner 1973). In addition, capitalists provide capital when the entrepreneur can put money into the interest payments that are needed. Despite this, some uncertainty is still borne by Kirzner's entrepreneur. The more time is needed for the required capital of the venture to produce the revenues expected, the less certainty is experienced by the entrepreneur. Uncertainty is undeniably part of entrepreneurial activity, as is risk-bearing (Kirzner 1973). Discovery does thus not happen by accident and is instead stimulated by entrepreneurial profit prospects.

These profit-motivated discoveries are reflected by entrepreneurial actions. Therefore, the most alert persons are likely to be entrepreneurs, either because of their nature or due to the profit incentive that has greater importance to them than to others (Kirzner 1973).

In summary, the market process constitutes the methodical succession of inaccuracies in the entrepreneurial valuation of profitable opportunities, the tangible gainful prospect, detection and adjustment. Considering conditions of demand and supply that are continually changing, the process never comes to a close. While this process in the market is also where the duty of the entrepreneur includes progress and long-term growth, the role of the entrepreneur is significant due to being an attentive profitable opportunity discoverer, which carries responsibility for movement in the short-term of production and pricing decisions. As it is also a competitive process, the entrepreneurial market process depends on the freedom of potential entrepreneurs to compete for possible profits that are available through market entry (Kirzner 1973).

2.3.5 A Comparison of Entrepreneurship Theories

Schumpeter, Cantillon and Kirzner explicitly propose that the entrepreneur plays a vital role in being able to move the market in a specific direction when measuring against its position of equilibrium. According to Cantillon (1979), an entrepreneur is a person who establishes equilibrium, while Schumpeter views an entrepreneur as one who does away with equilibrium and sets off activity to a position of higher equilibrium. Conversely, an entrepreneur is viewed by Kirzner (1973) as someone who accomplishes movements to a position of equilibrium that can never be achieved.

The entrepreneur's contribution to the economy, as explained by Cantillon, Knight and Kirzner, is brought about by assuming information that one way or another, is imperfect. While Knight's entrepreneur addresses utter ignorance and 'true' uncertainty, Cantillon's entrepreneur contends with risk. Other than Cantillon (1979), all economists attribute economic progress and innovation to the entrepreneur's activities.

The theories of entrepreneurship by Knight, Say and Marshall agree that the entrepreneur can be described as the firm's decision-maker, independent owner and manager. However, Cantillon (1979) makes no clear statement concerning the association of the firm and the entrepreneur. The employees of the modern entrepreneur are considered by Schumpeter, who states that they can perform new combinations, but does not include those owners of businesses who do not perform new combinations. Kirzner (1973) holds the view that only once some entrepreneurial decision-making has been taken by the entrepreneur does the firm come into being, particularly about certain resources being acquired.

There is an overlap in part in the number of ways in which the main task of the entrepreneur is explained. While risk is borne by Cantillon's entrepreneur due to buying/selling at an exact price and selling/buying at an inexact price, Say's entrepreneur assumes the risk of losing reputation and capital as a result of carrying

out trials and the opportunity of failure. However, the responsibility for the business risk associated with firm activities is assumed by the Marshallian entrepreneur. Risk-taking is excluded from the entrepreneur's business by Schumpeter (1934) with the entrepreneur conversely defined by Knight as the decision-maker at any time there is uncertainty. Actions by Kirzner's entrepreneur comprise doubt and no knowledge as to the degree or time frame for the collection of expected revenue. Marshall (1930) and Say (1971) and, to a limited extent, Knight (1971) allocate the management of employees to the entrepreneurial task.

Explanations by economists regarding the task and position of the entrepreneur in the economy are significantly divergent, with their views reflecting this about the required attitude, capability and conduct for the success of the entrepreneur. Whereas Kirzner (1971) and Cantillon emphasised the significance of alertness and foresight in the ability to find profitable business opportunities, Knight incorporates psychological obligations in the requirements for neo-classical ability. Moreover, Marshall and Say conferred great significance to certain capabilities related to leadership, management and industry. Schumpeter (1934), on the other hand, assumed that successful entrepreneurship depends on a specific attitude, an inclination to demonstrate conflicting behaviour.

There is a difference in the accessibility level for entrepreneurs to capital markets amongst theories of entrepreneurship. Cantillon's entrepreneur can borrow the capital required on the assumed perfect money market for his undertaking. Say (1971) pre-supposes a capital market that has information that is asymmetric and imperfect, where the entrepreneur with a certain reputation can borrow money. The 'perfect' capital market allows for easily borrowing money by the Marshallian entrepreneur, but when borrowed capital is used, there is a defect in his venture's operation due to the need to compensate the banker's risk by paying an additional risk premium.

The supply of capital is openly excluded by Schumpeter (1934) from the entrepreneur's business, which infers the idea of capital markets that work perfectly. The capital market in Knight's economy is not perfect and enough wealth is needed by entrepreneurs to compensate factors of production for their pledged remuneration. Nonetheless, it was acknowledged by Knight (1971) that there is a possibility that the entrepreneur would be able to convince a banker that his judgments are correct so that the required capital may be borrowed. In this respect, Kirzner agreed with Schumpeter.

In all the theories, profit is the motivation to undertake and return to the task of entrepreneurship, even though this is referred to by Say and Marshall as a wage. High esteem is also included by Marshall (1930), which is related to successful entrepreneurship, making up part of this profession's returns. Schumpeter (1934) stated that profit is not the force that drives an entrepreneur. Instead, it amounts to measurable success through social distinction and profit. Further to this, it was assumed by Schumpeter (1934) that pleasure is a drive in itself when gained through creation, with Knight similarly emphasising psychological rewards.

The laws of supply and demand are in most theories determined by the quantity of entrepreneurship the market is supplied with. When profit levels above normal are realised, entry takes place. The principle of "survival of the fittest" is the deciding factor concerning who will leave the market should the profit level outlook not be so bright. Relatively high wages for entrepreneurs are explained by Marshall (1930) and Say (1971) as due to a limited supply resulting from high entry qualifications where ability is concerned. Schumpeter's economy also restricts the supply of entrepreneurs. To become an entrepreneur, a unique blend of motivating forces is needed by an individual. Knight (1971) finds that the limited supply was a result of the constrained number of those who have the necessary capital and who are willing to become an entrepreneur.

2.4 ENTREPRENEURSHIP AND ITS IMPORTANCE TO THE ECONOMY

While entrepreneurship is the basis of innovation (Schumpeter 1934), entrepreneurship also encompasses the psychological characteristics of an individual (McClelland 1961) and judgemental decisions concerning scarce resource allocation. As a catalyst for economic change the entrepreneur uses purposeful searching, planning that is careful and sensibly reliable judgement while the entrepreneurial process is performed. Dedicated and uniquely optimistic, the entrepreneur operates innovatively to determine new resources or endow a new capacity to old ones, all to create wealth.

As the mechanism by which development and growth are achieved, writers view entrepreneurship as fabricating something new (Autio 2005). It has to do with recognising and exploiting opportunities into “the creation of new economic activity” (Davidsson, Delmar and Wiklund 2002). This uncomplicated definition describes entrepreneurship as new economic activity creation that encompasses the creative activity of a new venture and already established firms’ new economic activity. Where new economic activity comprises entrepreneurship, it could include converting a new idea into an innovation that is successful (Brunk, Caldeira and Lewis-Beck 1987).

2.4.1 The importance of entrepreneurship: A Global perspective

The entrepreneur is seen as the central factor in the basic economic theory of production (Roudini *et al.* 2012) and is also the coordinator or agent of production factors, such as capital, labour and land. In this instance, it is ensured by the entrepreneur that these factors are efficiently exploited so that the function of production can be performed within a time frame needed for economic growth acceleration (Naudé 2013).

This means that in an economy, the entrepreneur is a ‘gap filler’, with capabilities applied for economic opportunities to be identified and evaluated. Consequently, the entrepreneur organises the resources necessary for identified opportunities to be

exploited promptly, with an assumption of the risk linked to these activities (Hayek 1945; Leibenstein 1968; Kirzner 1973). The entrepreneur is thus responsible for the basic drive that inspires the pursuit and detection of new economic information, with 'new markets, techniques and goods' unearthed, while simultaneously assuming a leadership role (Schumpeter 1934; Leibenstein 1968; Chiles, Bluedorn and Gupta 2007; Westhead, Wright and McElwee 2011).

Entrepreneurship yields great value to global economies (Henderson 2002). This conclusion is widely evident in many parts of the world that have adopted entrepreneurial development strategies. Entrepreneurs play a key role in increasing productivity through increasing rivalry in local and international markets. The entrepreneurship development impact has been remiss for some time and has thus been acknowledged globally in several countries (Lucky 2011). For example, it was reported by Okpara and Wynn (2007) that entrepreneurship development's potential contribution to income and employment has been recognised generally. Corresponding to this, indications by prior studies are that 20 to 45 percent of full employment is provided through entrepreneurship, in addition to 30 to 50 percent of income in rural households (Okpara and Wynn 2007).

In an effort for the role of entrepreneurship development to be examined, Arowomole (2000) noted that where societal development is concerned, the development of entrepreneurship is quite a significant component. Akande (2008) expanded on this in noting the contribution of entrepreneurship development to economic growth (Darren and Conrad 2009), with subsequent innovation and job creation recognised and acknowledged globally. In further explanations, they maintained that all over the world the development of entrepreneurship represents quite a significant share of industrial expansion in many nations that are developed. The contention was that the character of entrepreneurial functions, capital conditions and effects in generating employment have resulted in entrepreneurship being the focal point of most developmental

endeavours in less developed countries, specifically concerning its identified capability as economic development mechanisms (Darren and Conrad 2009).

Economists the world over regard entrepreneurship as an economic development vehicle (Alvarez 2005; Auriol 2014; Lucky 2011), with a relationship considered as closely observed between a nation's economic development and entrepreneurial performance. In the progression of economic development, entrepreneurship and progress are taken into account in that one strengthens the other (Verheul and van Stel 2007).

The GEM determined that up to half the growth level difference between nations is accounted for by entrepreneurship, with the leading mover in economic development seen to be the entrepreneur, whereby the function of the entrepreneur is considered to be innovation or performing new combinations (Roudini *et al.* 2012). Hence, an entrepreneur is regarded as the engineer of the economic development process.

Globally, entrepreneurship development has played an important role in several countries (Keskin *et al.* 2010), with many having achieved success in enhancing economic development and growth to an extent through entrepreneurship. In this respect, intensive efforts have been made by the Chinese government through resources and policies in the development of businesses dealing with high technology. The impressive development in China's economy resulted from entrepreneurship promotion amongst its citizens. As an example, while China was positioned 100th in 1978 on the largest economy ranking in the world, in the year 2000 the Chinese economy moved to the second position, mostly due to entrepreneurship activities. Furthermore, China's annual growth rate grew more than 10 percent from 2000 to 2010 (Anderson, Li, Harrison and Robson 2003; CIA 2008).

A very strong relationship has been shown through research between annual economic growth and the entrepreneurial activity level (Dabo 2011; Korsgaard 2007;

Mukorera 2014). Some authors claim that the correlation is greater than 70 percent (Dabo 2011; Naudé 2013; Ssendi 2013). Once regarded as a destructive activity, entrepreneurship has become the centre of attraction in the economy of the 21st century. Entrepreneurs alter how people work and live remarkably for anyone willing to work through job creation and wealth. In this way, many are given a base from which to achieve their career and business objectives (Dabo 2011).

Due to its capacity to generate income by creating employment, Mukorera (2014) states that entrepreneurship has at all times been perceived as an important means of achieving economic development. Scholars and policy-makers strongly believe that for both developing and developed countries, entrepreneurship is an essential economic growth motivational force (Ardichvili *et al.* 2012). The role it plays through employment creation in economic development has turned into many countries' main focus (Dabo 2011; Mugozhi and Hlabiso 2017). Several countries have shifted their policies to an entrepreneurial economy from having previously focused on being a managed economy (Hickie 2013; Muponda 2012; Ssendi 2013). Hence, most countries all over the world have instituted support programmes for entrepreneurship within their communities.

2.4.2 The importance of entrepreneurship: The African view

Africa has a multi-faceted entrepreneurial landscape (Alvarez 2005), which includes the formal and informal sectors, modern and traditional, as well as foreign-owned and local enterprises. All of these are dispersed geographically across urban and rural areas. The entrepreneurial sector extends from large corporations with hundreds in their employ to enterprises that engage a single individual. Entrepreneurship has, for many African countries, been a powerful engine for wealth creation and economic growth, and is essential to improving the number, variety, quality and opportunities for the poor to gain employment (Lucky 2011). Indeed, Hickie (2013) avers that an important contribution has been made by entrepreneurial activity in the time during

which relatively high sustained and economic growth has been experienced by Africa over the last 10 years.

There are several multiplier effects on the economy of African countries, with entrepreneurship fostering investment in people and spurring innovation. This source of competitive advantage is better than other natural resources that get depleted (Igwe, Adebayo, Olakanmi, Ogbonna and Aina 2013). Entrepreneurs create new economic sectors, enterprises and commercial activities. They are responsible for providing employment for others; producing services and goods for society; improving or lowering cost outputs; and introducing new technologies, whilst also earning foreign exchange through the substitution of imports or export expansion (Oteh 2009).

Therefore, to celebrate African entrepreneurship on the continent, the main part that entrepreneurs play should be recognised as they foster the well-being and wealth of ordinary Africans. Middleton (2010) describes entrepreneurs as growth 'enablers' who assist in breaking down social constraints and economic barriers, while entrepreneurship is documented as an essential element of economic development in Africa. This is attributed to entrepreneurs innovating and assuming risks, hiring and managing labour forces, opening up markets and finding new mixtures of products, processes and materials (Roudini *et al.* 2012). Furthermore, they start to change and enable change in dynamic economies.

Through entrepreneurial activities, it is possible to impact a nation’s economy as well as the people’s quality of life (Weber 1904; Adejumo 2001). A positive relationship has been established by studies that have found that the disadvantaged segment of the population has been empowered, which includes the poor and women; economic growth stimulation occurs and employment generation is stimulated (Thomas and Mueller 2000).

A nation's economic development depends on successful entrepreneurship, combined with the forces of established corporations (Ikeije and Onuba 2015). Cahna (2008) asserts that entrepreneurship raises the living standards of many African countries. For instance, as a result of Nigeria's present downturn in its economy, there has been much demand and a push for the development of entrepreneurship. Due to the importance of entrepreneurship to the economic development of Nigeria, various individuals, the government and organisations would like people to initiate their own enterprises (Ayogu and Agu 2015). In particular, one of the areas that entrepreneurship has contributed to in Nigeria's socio-economic development is that of employment creation (Yusuf and Dansu 2013). Although the rate of unemployment is still high, suffice it to say that entrepreneurship has helped in providing a safety net for some groups of people, especially in the 'hidden economy' or informal sector (Ikeije and Onuba 2015).

While unable to find a job in the formal sector, many young people have found comfort in the informal sector, where they either work for medium or small-sized business owners or establish their small businesses that provide one kind of service or the other to the formal sector firms or organisations (Nwachukwu and Ogbo 2012). Even though entrepreneurship has a socio-economic impact on the economic growth of the Nigerian economy that is sustainable, it is not easy to accurately estimate or measure as it is understood to be significant and highly dynamic (Benzing, Chu and Kara 2009). Hence, entrepreneurship is considered the mainstay of the Nigerian economy.

2.4.3 The importance of entrepreneurship: The Zimbabwean context

Although Zimbabwe was once regarded as the bread basket of the Southern African Development Community (SADC) region, it has become a country of political conflict and starving people over the last decade or so. The economy of Zimbabwe has steadily declined since late 1996. This deterioration is illustrated through high poverty levels and shortages of fuel, as well as hunger, with many having only wild fruits to rely on for survival (Robertson 2013).

According to Moss (2007), the decline in the Zimbabwean economy is seen in currency notes with a high denomination being used; infrastructure that has significantly depreciated; learning institutions with an absence of teachers due to low salaries; and supermarkets with empty shelves, along with untreated water systems. This has led to the closure of big hospitals and the outbreak of diseases such as cholera, while there is a general lack of the rule of law. These are all part of everyday life, which together with excess money being printed and supplied to the economy, have caused a continuing rise in inflation (Moss 2007). These effects were the fallout of the economic meltdown that impacted Zimbabwe from 1997 to 2008, in which all assets significantly lost monetary value. The worst was felt in 2008, with inflation reaching a record high of 14,1 billion percent and an unemployment figure of 80 percent (CIA 2008). Post-meltdown unemployment was above 90 percent and most Zimbabweans still struggled to eke out a living, according to the World Bank (2017).

Accordingly, high levels of unemployment have been reached by Zimbabwe, to the extent that the focus of job creation through entrepreneurship has become evident. Mukorera (2014) asserts that the family business role is an important employment aspect as it provides close relatives and family members with employment. Planning by entrepreneurs can result in the employment of several children in the business or the establishment of a similar business in a different locality, which effectively solves their problem of employment. It is evident from the existing economic reality that the support of entrepreneurship is crucial to economic growth and the upward mobility of Zimbabwean citizens (Chidoko, Makuyana, Matungamire and Bemani 2011).

The Government of Zimbabwe (GoZ) undertook various policies following the economic meltdown which were directed at assisting entrepreneurial development as a means of boosting economic growth and recovery (Mugozhi and Hlabiso 2017). The significance of entrepreneurship, for economic growth through income generation and employment creation, specifically where SMMEs are concerned, for normal economies

has been studied well and is popular amongst first-world nation policy-makers (Deakins and Freel 2012).

The rapid and unexpected increase in the number of informal enterprises during the economic meltdown was obvious, with the managed economy not being viable. According to Muponda (2012), more than two million people have in the past two decades subsisted in the informal sector. Each year, Zimbabwe's schools produce hundreds of job-seekers, as do the universities or colleges, with little if any opportunity to find formal sector employment (Mugozhi and Hlabiso 2017). Thus, entrepreneurship promotion has become important in order to ease the situation. Unemployment is therefore a convincing reason for the development of entrepreneurship in Zimbabwe.

This conflicts with the claim by Schumpeter's Innovation Theory of Entrepreneurship, wherein it is proclaimed that individuals and countries are compelled by innovation to emphasise the development of entrepreneurship (Schumpeter 1934). Several entrepreneurial activities have emerged in an attempt to decrease rising inflation in Zimbabwe.

The informal sector of the country has grown more rapidly than the formal sector, with roughly three million people in the informal sector, as opposed to the formal sector where there are 1.3 million people (Mugozhi and Hlabiso 2017). Although a large number of enterprises in the country could be described as "informal businesses or traders", the entrepreneurship concept dictates the grounds on which these kinds of businesses are founded, expected to grow and turn into corporations (Mukorera 2014). In reality, the majority trade informally, with a few that may potentially grow into successful entrepreneurs, such as 'Strive Masiyiwa' and 'Shingai Mutasa'.

Even as the argument is put forward that entrepreneurship connects with the formal economy and is an innovative knowledge source (Naudé 2013), entrepreneurship in Zimbabwe can be considered as a route of escape from unemployment. Based on

these grounds, employment opportunities are provided by entrepreneurship to those who still have to find formal employment and for people retrenched from formal employment. A study by Kumar and Liu (2005) showed the Zimbabwean entrepreneurial sector is a significant contributor to the creation of employment. At present, this sector is the largest employer in the country, with the economy unable to take up a large number of job-seekers into formal employment.

2.5 DEFINITION OF SMEs

The definition of SMEs is very wide and constantly varies across nations, regions and even amongst international organisations, such as the Organisation for Economic Cooperation and Development (OECD), the United Nations Industrial Development Organisation (UNIDO), the World Bank and the EU (Zafar and Mustafa 2017). They all define and classify SMEs in similar or diverse ways. SMEs are defined or classified by some according to annual revenues, the number of employees or start-up capital; while they are defined by others in respect of their production method and legal status.

In addition, the SME definition also varies across regions and countries and is consistent with the economy's structure and size (Zafar and Mustafa 2017). For instance, SME classification according to employee numbers in countries that have large populations, such as the USA (318,9 million, 2014), India (1,252 billion, 2013) and China (1,357 billion, 2013), will have a higher limit than countries that are less populated such as Ghana (25,9 million, 2013) and Sierra Leone (6,592 million, 2016). Likewise, the economic development level could influence SME classification further when capital structure size is applied (Zafar and Mustafa 2017). In this regard, this sub-section highlights different definitions and classifications of SMEs from different countries, regions and international organisations.

2.5.1 International Definitions of SMEs

The OECD (2004) on one hand defines SMEs as "non-subsidiary, independent firms which employ less than a given number of employees". However, the problem with this

definition is that it does not specify the number of employees the SME should have. On the other hand, SMEs are defined by the World Bank (2017) as enterprises with 300 employees at most, annual revenue of US $15 million and assets valued at US $15 million. According to Henschel (2009), in the United Kingdom (UK), an SME is an organisation that utilises fewer than 250 workers, while the term SME in Canada refers to those businesses that employ fewer than 500 staff.

In the EU, the definition of SMEs is mostly based on employee numbers, with the SMEs categorised according to business enterprises, including forestry and fishing, outside agriculture and hunting, wherein less than 500 persons are employed (Mamman *et al.* 2015). There is a further distinction by the EU between medium enterprises with 100 to 499 workers; micro-enterprises that have fewer than nine workers; and small enterprises that employ from 10 to 99 workers. Mamman *et al*. (2015) argued that the EU's definition is more believable, with it assuming the diversity of SMEs and being based purely on the number of employees, as opposed to multiple criteria. The EU definition, therefore, does not take the similarity of all SMEs in a single group for granted. Differently stated, the definition distinguishes between micro, small, and medium enterprises (MSME). Nonetheless, the definition of the EU is too comprehensive to be applied to many countries.

UNIDO explains SMEs in terms of employment, offering varied classifications for developing and developed countries (Ayodeji 2015). In developing countries, enterprises are deemed to be micro-firms when they employ less than five people; small firms have five to 19 employees; firms classified as a medium are those that have 20 to 99 workers, and large firms employ 100 or more workers. In developed countries, those with 99 or fewer employees are referred to as small firms, those with 100 to 499 employees are medium firms, while 500 or more workers are employed by large firms (Ayodeji 2015).

Generally, any business with one to 499 employees and gross revenue less than $50 million is considered an SME in Canada. In Germany, an SME has no more than 250 employees, while the limit in Belgium is 100 employees. SMEs in China are defined using various criteria, including the employed number of people; sales volume or output; and asset value (Cunningham and Rowley 2007). The enterprise definitions in Malaysia, according to Hashim and Abdullah (2000), are based solely on a quantitative measure that is fixed, that is, the total worker numbers, the sum of capital, sales turnover and total assets.

In Egypt, the definition of SMEs is where an enterprise has employees above five and fewer than 50, while SMEs in Vietnam are considered to have from 10 to 300 employees (Nyanga, Zirima, Mupani, Chifamba and Mashavira 2013). The Nigerian Federal Ministry of Commerce and Industry describes SMEs as any business where capital investment does not exceed N750 000. SMEs are defined by Toyin, Issa and Chima (2014) as any business that has between N5 and N500 million as an asset base and employee numbers ranging from 11 to 300 people. In SA, small organisations comprise four categories, specifically; micro, very small and small enterprises, as well as ventures of medium size (Smit and Watkins 2012). Furthermore, the separating variable between these classifications is stated as the number of workers.

2.5.2 Zimbabwean definitions of SMEs

In Zimbabwe, a small enterprise is defined by the GoZ (2004) as an entity that is registered with 50 employees and assets not exceeding Z$3 million, while an enterprise of medium size comprises 75 to 100 employees, with between Z$7 million and Z$12 million as its capital base. According to the Zimbabwe Small Enterprise Development Corporation (SEDCO), an SME is defined as an enterprise that has no more than 100 employees and US $830 000 in annual sales (SEDCO 2010).

From the above definitions, it can be noted that they just state the maximum number of workers but do not give the minimum number of workers that SMEs can employ.

This, therefore, creates a challenge in that those businesses that are not SMEs can end up being classified as SMEs, especially the survivalist businesses that form the majority (71%) of business enterprises in Zimbabwe (Finscope survey 2012). Therefore, it is necessary to also give the minimum threshold for SMEs.

A definition that gives the minimum threshold of workers by SMEs is the one by the Zimbabwean SMEs Act Chapter 24:12. Magaisa and Matipira (2017) state that SMEs are classified according to legal structure, total assets and the number of employees. SMEs have a minimum of 6 full-time paid employees and a maximum of 75 full-time paid employees, with a maximum total annual turnover of between ZW$ 500 000 and ZW$ 3 million. SMEs also have a maximum gross value of assets of between ZW$ 500 000 and ZW$ 2 million (Magaisa and Matipira 2017). This is shown in Table 2.1 below.

Table 2. 1. Zimbabwe's Small and Medium Enterprises Classification

Sector	Size/Class	Minimum Number of full time paid employees	Maximum Number of Full Time Paid Employees	Maximum Total Annual Turnover (ZW$)	Maximum Gross Value of Assets (ZW$)
Manufacturing	Medium	41	75	1 000 000	1 000 000
	Small	6	40	500 000	500 000
Agriculture	Medium	31	75	1 000 000	500 000
	Small	6	30	500 000	250 000
Arts, Entertainment, Culture, Education and Sport	Medium	31	75	1 000 000	500 000
	Small	6	30	500 000	250 000
Mining and Quarrying	Medium	41	75	3 000 000	2 000 000
	Small	6	40	1 500 000	1 000 000
Construction	Medium	41	75	2 000 000	2 000 000
	Small	6	40	1 000 000	1 000 000
Energy	Medium	41	75	1 000 000	2 000 000

	Small	6	40	500 000	1 000 000
Financial services	Medium	31	75	1 000 000	500 000
	Small	6	30	500 000	250 000
Transport	Medium	41	75	1 000 000	500 000
	Small	6	40	500 000	250 000
Retail	Medium	31	75	1 000 000	50 000
	Small	6	30	500 000	250 000
Tourism and Hospitality	Medium	31	75	1 000 000	500 000
	Small	6	30	500 000	250 000
Services	Medium	31	75	1 000 000	500 000
	Small	6	30	500 000	250 000

Source: Magaisa and Matipira (2017)

Thus, an SME is agreed to as being a legal business entity, defined according to the number of workers that are permanently employed; the enterprise's capitalisation, not including fixed assets; and its turnover, in addition to the which sector in which it is operational. This corresponds to international standards and local economic developments. These definitions are an indication that Zimbabwe attaches great importance to employee numbers and the volume of business in defining an SME.

2.5.3 A Critique of SMEs Definitions

Many authors have noted that there is no consensus on the definition of SMEs (Adu *et al*. 2016; Katua 2014; Keskin *et al.* 2010; Fjose *et al.* 2010). Numerous efforts to define SMEs have been made using considerations such as employee numbers, the volume of sales, asset value and size of the firm. The most widely used parameters include employee numbers, total assets, investments and sales levels. However, it has been noted that the majority of countries acknowledge employee numbers as a general SME definition measurement, with the most regular upper point of confinement

assigned being 250 (OECD 2004; Senturk *et al.* 2013; Xhepa 2006). Therefore, although there are some exceptions, such as the USA and Japan where definitions make allowance for employees numbering up to 300 and 500, separately, in general no more than 250 workers are typically employed by SMEs. Despite the differences, many sources define SMEs to have up to 250 employees (Zafar and Mustafa 2017).

Furthermore, according to Bouazza (2015), the contexts within which SMEs are defined are specific to that context and change according to the country's economic size. The definition changes over time, even within a country. This implies that the definition is not universally applicable and constant. Hence, each country should develop its definition, applicable within the context in which SMEs operate.

As the definitions above indicate, in defining SMEs, the common variable used is employment. Even with the variable of employment used in studies of SMEs in SA by Van der Wijst (1989) and Jordan, Lowe and Taylor (1998), the sales threshold is preferred in use by other jurisdictions to make a distinction between SMEs and operations on a large scale. For instance, SMEs are considered by Lopez-Gracia and Aybar-Arias (2000) as companies that have less than 15 million Euros in turnover.

Nonetheless, using sales figures to ascertain the size of business is criticised by Storey (1994) because it leads to same-sector firms all being classified as small, while certain firms in other sectors can be classified as large-scale enterprises. The conclusion drawn by Abor and Quartey (2010) is that varying definitions of SMEs exist that are at variance throughout industries and also across jurisdictions. Notwithstanding the varying SME definitions, three important generic elements are found, namely employee numbers, level of capital and legal status.

It is important to provide a working definition of SMEs for this study, considering that there is no single agreed-upon definition of this term (Maseko and Manyani 2011; Chingwaru 2014), with literature showing that the definition differs from nation to

nation, subject to the economic system (Zindiye 2008) and the variables included (Chingwaru 2014). It was noted that SMEs have been defined on quantifiable characteristics such as the number of employees, asset value, or sales volume. SMEs can also be described qualitatively by their characteristics which set them apart from big businesses, such as ease of access to consumers, flat and flexible structures and resource limitations (Hudson, Smart and Bourne 2001: 1066).

It is also acknowledged that the definition of an SME varies according to the sector, geographical location and the researcher (Nicholas, Ledwith and Perks 2011). For this research study, the measure used is the number of employees, as other variables such as sales level and asset value were made useless by the hyper-inflationary economic environment and the under-valuation of assets following the dollarization of the Zimbabwean economy (Nyamwanza 2014). Additionally, the low-capacity utilisation in most businesses in Zimbabwe as a result of under capitalisation makes it difficult to use definitions that combine measures. This is because the usage of assets or low sales turnover can point to the wrong institutions (Nyamwanza 2014). For this study, variables such as sales level and asset value were ignored due to the problems cited above.

For this study, the researcher, therefore, defines an SME as a business organisation employing between six and one hundred full-time employees. This definition is centred on the definitions by the Zimbabwean SMEs Act Chapter 24:12 (Magaisa and Matipira 2017) and SEDCO (2010) (refer to section 1.2 pp.2). The justification for combining the definitions was that the definitions by SEDCO (2010) and GoZ (2014) did not provide the SMEs' minimum number of employees and only gave the maximum number of employees as 100 employees. On the other hand, the Zimbabwean SMEs Act Chapter 24.12 provided the minimum number of employees as 6, but the maximum number of employees is below the one given by SEDCO (2010) and GoZ (2004). Therefore the researcher took the highest figure in order to capture the differences. It was critical to indicate the minimum number of employees as this would assist in

avoiding the inclusion of Micro-enterprises (employing 1-5 employees) and survivalist businesses (with no employees), which were not part of this study.

2.6 DEVELOPMENT OF SMEs

The notion of SMEs was set in motion in the landscape of development in the late 1940s (Florescu, Barabas and Barabas 2015), with the primary aim to improve trade and industrialisation in presently developed nations (Senturk *et al.* 2013). Since then, much has been said and written about SME development globally, regionally and locally.

2.6.1 Development of SMEs: A Global View

The development of SMEs globally has been a subject of debate in various workshops and seminars (Peprah *et al.* 2016). Likewise, governments at various local, state and national levels have focused on SME development in one way or another (Ayodeji 2015; OECD 2004; Xhepa 2006). While policies have been formulated by some governments to facilitate and empower SME growth, development and performance, the focus of others was to assist the growth of these enterprises through soft loans and other economic motivations (Alhassan and Sakara 2014; Zafar and Mustafa 2017). In addition, international agencies and organisations such as the World Bank, UK Department For International Development (DFID), UNIDO and International Finance Corporation (IFC), as well as the European Investment Bank (EIB), do not merely have an ardent interest in making SMEs vibrant and robust in various countries, they have also invested in them heavily (Dabo 2011; Keskin *et al.* 2010).

A place of pride is occupied by SMEs in just about every state or country (Bouazza 2015; Goriwondo 2012). Commitment by the World Bank Group was established by a World Bank Review on Small Business Activities for the SME sector's development as a central strategy element to promote employment, economic growth and poverty alleviation (Ong'wen 2017). Ayodeji (2015) avers that SME development should be viewed as efforts towards attaining an extended socio-economic and economic

objective, inclusive of poverty alleviation. Thus, to supplement the formal sector in developing the economy, all countries ought to adopt SME development.

Asia

As a result of drastic changes in the trade structures of East Asia, SMEs in Asia have been in the public eye. The changes are related to a considerable intra-industry labour division (Yaacob 2016). These small enterprises are perceived to have a substantial capability to add to regional development, by taking part in production networks on an international scale, or global value chains. Improved involvement in production networks by SMEs through Multinational Corporation (MNC) linkages are considered to be a powerful way of speeding up SME upgrades in managerial know-how, productivity and technology (David 2012).

Basically, the SME sector in Asia is characterised by diversity. SMEs are keen to enhance innovative capabilities and productivity to meet intensified rivalry in the global market (Alhassan and Sakara 2014). In Singapore, business support programmes are made use of by more than 100 000 SMEs, which comprises 70 percent of the country's SMEs and are structured and arranged by the enterprise development agency and centres of the government (Ayodeji 2015). The majority of these enterprises are micro-sized and found in rural economies that are agrarian and have little or no access to finance and markets (Alhassan and Sakara 2014).

Notwithstanding economic integration trends in East Asia and the diversity of the Asian SME sector in different circumstances, two pathways to development are open to SMEs in Asia to take, as illustrated in Figure 2.1 below.

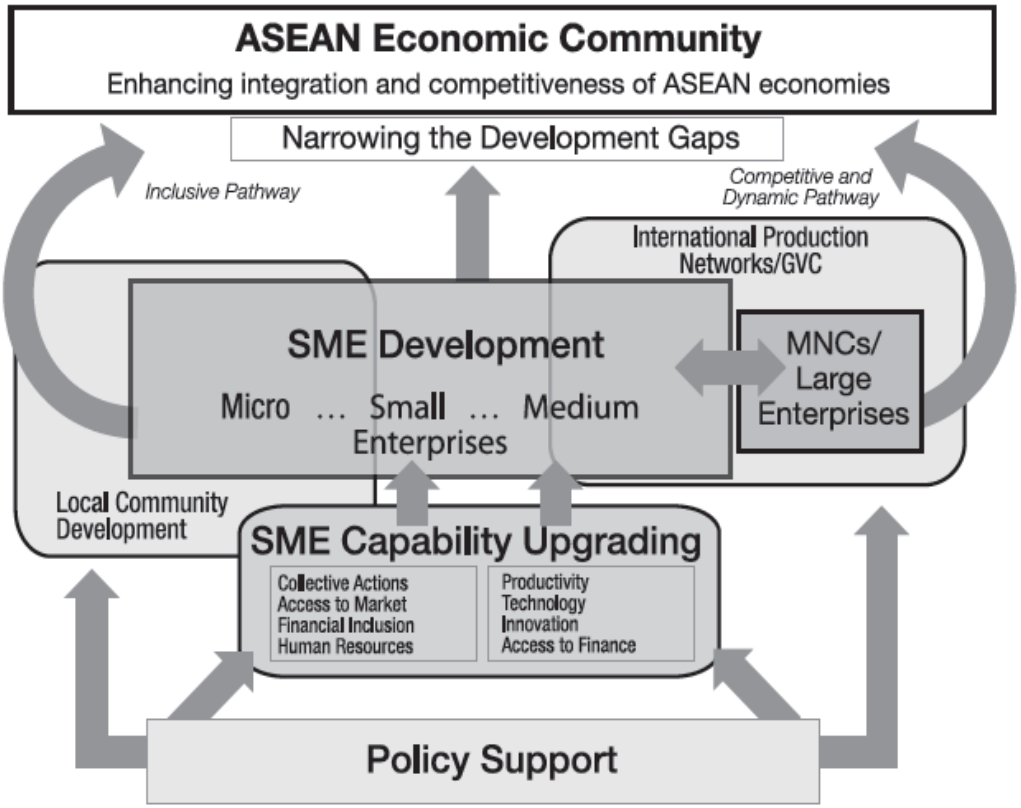

Figure 2.1: Framework of Asian SME development

Source: Sato (2015)

The development of SMEs is considered as the mainstay of the Asian Economic Community (AEC), which has as its aim the enhanced competitiveness and integration of economies in Asia (Alhassan and Sakara 2014). In addition, the perception of SME development is that it contributes to contracting gaps in Asian economies' development (Yaacob 2016). SME development in Asia is achieved through upgrading capability. Nonetheless, the upgrading processes they make use of and the pathways of development they take in order to accomplish the aim of the AEC are anything but uniform and reflect the Asian SME sector's wide range of entities (Panigrahi 2012).

Pathways for development are two-fold (Yaacob 2016), that is the competitive and dynamic pathway, The first, wherein the competitiveness of SMEs is increased, is by taking part in networks aimed at production and is done in conjunction with large local

enterprises or MNCs. In the second pathway, in which SMEs' capabilities are upgraded in partnership with the development of the local community, it is inclusive. These two pathways for development are not mutually absolute (Panigrahi 2012) and in the inclusive pathway, SMEs could have the prospect of participating in production networks either directly or indirectly (Yaacob 2016). Suppliers to MNCs in the competitive pathway that are SMEs could additionally make use of collective action mechanisms that emerge from the development of the local community. For example, order sharing and joint purchasing. Policy support by the government can be generally classified into (i) Direct support that enables the upgrading of SME capability; (ii) Indirect support that creates institutional environments favourable to the development of SMEs in both pathways; and (iii) Founding of the Asia Foundation to encourage SME policy-making and implementation that are more effective (Yaacob 2016).

SME development has been recognised by Asian leaders as an element that is vital for a competitive AEC to be an economically equitable region (Panigrahi 2012). For this reason, ASEAN has prepared policies specific to SMEs. Asia drew up the “Asian Policy Blueprint for SME Development 2004–2014” in 2004 to enable an Asian SME sector to emerge. The sector is entrepreneurial, competitive, innovative and resilient, as well as outward-looking (Yaacob 2016) and contains indicative outputs, work plans, and policy measures.

In the 10-year blueprint’s sixth year in 2009, it was decided by the Asian Economic Ministers (AEM) to develop the “ASEAN Strategic Action Plan for SME Development 2010–2015” so that the implementation of the blueprint could be accelerated (Keskin *et al.* 2010; Peprah *et al.* 2016). Not only did entrepreneurship create wealth and contribute to industrialisation, but it also played a role in economic growth. Entrepreneurship created employment, thereby improving SMEs’ living standards, while also increasing tax revenue, thereby contributing to the nations’ treasury.

Interest in the SME role with regard to the development process, according to Cook and Nixson (2000), remains a forefront priority in policy debates of developing countries. Due to SME relevance, the Taiwanese government launched a "branding" initiative in 2006 worth $61 million, intending to push the economy to be knowledge-based, from being production-based. The so-called "Branding Taiwan Plan" was outlined in a report in the Asian Times in August 2006, as per the government of Taiwan, as a programme spanning seven years, intended to assist SMEs that show promise with the development of their brand. This was introduced in recognition of SMEs' ability to drive the economy, specifically in the medium-term (Keskin *et al.* 2010).

China

SMEs in China have experienced three phases of development, in addition to the reform development of the country and its economy being opened up (Zoghi 2017). With SME expansion in both scale and number, the first phase was from 1978 to 1992. This was a result of the encouragement by the government and support for township development, as well as that of self-employed and collective enterprises. The enlargement of these enterprises was rapid and made a significant contribution to the improvement of the living standards of people and economic development (Terungwa 2012).

The second phase occurred from 1992 to 2002, where there was a high concern for the development of Chinese SMEs. This was an important historical period. The emphasis during this time was state-owned SME reform and non-public sector development (Zoghi 2017). Various measures were adopted by the government, including restructuring, joint partnerships, leasing, mergers and acquisitions, as well as contracting and sell-off, to hasten state-owned SME reforms and the gradual reduction of SME ownership by the state. Simultaneously, SMEs that were privately owned experienced rapid development, in addition to the socialist market economy being established (Šaric 2017).

With China promulgating the SME Promotion Law in June 2002, the third phase of development began, symbolising a new era for the development of SMEs (Zoghi 2017). During this time frame, the government's main mission was implementing the SME promotion law. The following tasks were involved: to further improve measures and policies, regarding SME development; to do away with institutional barriers that prevented SME development, specifically privately owned institutional barriers; to set up a balanced environment for SME development; to upgrade and promote technological and scientific innovations, in addition to SME industrial structure being optimised; and the overall competitiveness and quality of SMEs being enhanced. Consequently, entrepreneurship has contributed to employment creation, technology innovation and regional productivity (Zoghi 2017).

Furthermore, the shift in economic growth patterns is also dependent on entrepreneurship development in China. Entrepreneurship contributed an increasing share of GDP, which was recently estimated at approximately 70 percent and represented more than half of industrial output. Moreover, the annual growth of the Chinese economy has been at roughly eight percent (Yueh 2013). This has resulted in GDP growth that is almost ten-fold, with an increase in the rising middle-class to a notable 806 million in 2009, from 174 million in the 1990s, which ensured that hundreds of millions of Chinese citizens were uplifted out of poverty (Yueh 2013).

Turkey

Early in the 1990s, Turkey introduced extremely important policy goals, in the hope of fostering SMEs as larger firms had been downsizing (Isik 2005). Later, SMEs turned out to be significant tools that contributed not only to economic development but also to Turkey's GDP and the country's workforce (Kaya 2005; Isik 2005). Turkey is described as one of the EU's main partners in the Middle East, with both being European Union–Turkey Customs Union members (Arin 2013). Two EU member states border Turkey, namely Bulgaria and Greece. Across the EU member-states,

SMEs have become important to economic policy-maker agendas, wherein the stimulating of economic growth was a priority and remains increasingly significant (Arin 2013).

The Turkish Statistical Institute found that in 2008, there were 3 449 795 SMEs and 2 968 Large-scale Enterprises (LSEs) in the country; which translates to approximately 99.90 percent of all businesses being SMEs. These small enterprises in Turkey were positively encouraged by the government's social, economic and political stances (Kaygin, Tankut and Cayli 2008), with diverse policies implemented by the Turkish government to reinforce these enterprises (Isik 2005). Therefore, there have been several strategies and policies developed to enable an appropriate and suitable SME business environment.

Albania

Over, the past 10 years, a turbulent transition has been experienced by Albania, with phases of comparative peace and constant growth alternating with significant unforeseen setbacks (Zhao and Zeng 2014). Fairly vigorous development has been experienced by the private sector in the country in the recent past. There has also been mostly constant GDP growth at six percent per annum, which was driven by expansion in sectors such as services, transportation and construction. Consequently, the portion of activity in the private sector in Albania is amongst this region's highest, at 75 percent of GDP (Zhao and Zeng 2014).

The MSME sector's role and place in these developments are quite significant, being prevalent throughout the country from remote areas in villages to major cities. Thus, as Keskin *et al.* (2010) explained, neglect of their development would involve not considering noteworthy Albanian economic growth drivers. Registered and operating MSMEs in the Albanian economy at the end of 2004 were calculated to be more or less 54 596 firms, which constituted almost 99 percent of all firms that were in operation during 2004 (Senturk and Erdem 2008).

2.6.2 Development of SMEs: The African view

The emphasis on the promotion of LSEs several decades ago by scholars was that of being the main job providers in African countries (Peprah *et al.* 2016). This was obvious in the 19th and 20th centuries, with large enterprises at that time perceived as the mechanisms by which technological and economic progress was achieved (Klapper, Sarria-Allende and Sulla 2002). Post-colonial governments in Africa adopted this approach by establishing enormous enterprises owned by the state, while foreign enterprises were nationalised.

Although there had been an encouragement of SMEs during Africa's post-colonial era in planning the absorption of the surplus labour force, development of the agricultural sector was mostly emphasised along with public sector expansion (Chikomba, Dube and Tsekea 2013; Florescu *et al.* 2015; Terungwa 2012). Nevertheless, an increase in the interest in small enterprises was witnessed in the early 1970s as they were recognised to be a way of employment promotion in both developing and developed countries (Ong'wen 2017). In a bid to reduce poverty and accelerate economic growth, interest manifested in establishing SME institutions (Mamman *et al*. 2015).

Nigeria

The expectation from SMEs was to enable the development and growth of capital and human resources for general economic development, particularly in the rural sector (Ong'wen 2017; Peprah *et al.* 2016). Considering these presumed SME roles saw the Nigerian government devise policies and incentives in the past for SME development. These kinds of efforts could broadly be classified into three, namely (i) Fiscal and export incentives; (ii) Tariff schedules; and (iii) Programmes of technical assistance and financial support, according to Adebusuyi (1997).

Tax relief for small enterprises was part of the fiscal incentives in the first six years of operation, with pioneer status granted for five years, possibly extended for another two years where enterprises were situated in areas considered as economically

disadvantaged, with relief provision for infrastructure investment and capital allowances, along with the minimal utilisation of local raw material income of 20 percent (Yusuf and Dansu 2013). As part of export incentives, export credit, import duty shortcomings and insurance schemes were introduced.

Regulations and policies directed at SME promotion in Nigeria included, amongst others, the Industrial Development Tax Act No. 2 of 1971; the Patent Right and Design Act No. 60 of 1979; and the Nigeria Enterprises Promotion Act No. 3 of 1997 (Ogechukwu 2006). Certain institutions for micro-lending that were established to enhance SME development and capacity included the National Export and Import Bank (NEIB); the now-defunct NBCI; and the National Economic Reconstruction Fund (NERF), as identified by Ogechukwu (2006). Others are the Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN); Bank of Industry (BOI); National Economic Empowerment and Development Strategies (NEEDS); and the National Poverty Eradication Programme (NAPEP), as well as the Small and Medium Enterprises Credit Guarantee Scheme (SMECGS), the Micro-finance Development Fund (MDF) and the Small and Medium Industries Equity Investment Scheme (SMIEIS) (Ogechukwu 2006).
Further to this, the government also adopted high tariff rates as protection for SMEs from imports, and as part of discouraging the import of certain industrial goods that could be domestically produced. In addition, a complete ban was instituted in some cases on various agricultural and industrial products (Fisayo and Nwankwo 2010; Ogbonna 2010; Terungwa 2012). To provide funds to SMEs through commercial loans, the Nigerian Agricultural Cooperative and Rural Development Bank (NACRAB) and the BOI were established, in addition to national economic agencies to provide SMEs loan access to loan schemes.

Hence, several decisions were made to switch to SMEs from large-scale and capital-intensive industrial projects, founded on an import development philosophy that offers improved prospects for the development of the domestic economy. Since there were

no more office jobs desired by the teeming population, and with those who were successful in obtaining jobs having been thrown out, it became imperative that the people and the government find a way out of the situation (Fisayo and Nwankwo 2010; Ogbonna 2010; Terungwa 2012). Consequently, SMEs became a potentially concrete method of guaranteeing employment creation, self-dependence, an efficient and effective way to use local raw materials and import substitution, thus contributing to Nigeria's economic development (Fisayo and Nwankwo 2010; Ogbonna 2010; Terungwa 2012).

Ghana

As for Ghana, Abor and Biekpe (2006a) found that the concept of promoting SMEs has existed since 1970, even though not much was done at the time. To assist SMEs, key institutions were established. Prominent amongst these were the present Ghana Enterprise Development Commission (GEDC) and the Office of Business Promotion. The GEDC's main objective was to aid Ghanaian businesspeople in entering those areas in which foreigners mainly operated. To strengthen small-scale industries in general, both technical and financial packages were provided (Kayanula and Quartey 2000).

In 1983, the Economic Recovery Programme (ERP) was implemented in Ghana, which broadened SME institutional support. Further to this, to address small business needs from within the Ministry of Industry, Science and Technology, the National Board for Small Scale Industries (NBSSI) was also established. An Entrepreneurial Development Programme was also set up by the NBSSI to assist and train those who displayed entrepreneurial abilities for self-employment (Abor and Biekpe 2006b).

A further attempt was made by the Ghanaian government in establishing the new Ministry for Private Sector Development to focus on SME sector development (Abor and Biekpe 2006a). Nevertheless, the most significant weakness facing dynamic SMEs institutionally, as Peprah *et al.* (2016) state, is the inability to access external finance. Past financial policies that were exploitive, specifically low interest, and a

monopolistic banking system left banks in Ghana with little interest in developing this market. For the consequences of this type of practice to be reversed, it was necessary to combine financial liberalisation and institutional reform (Abotsi, Dake and Agyepong 2014).

Ethiopia

The entrepreneurship journey in Ethiopia has not been easy. On many fronts, various difficulties have kept the pace of business enterprises slow. Although small-scale industries have been the citadel of the economy, their advancement over the past decades has been non-existent (Wudneh 2005). Small-scale industry conversion to medium-scale industries has been minimal and is almost negligible in converting to large-scale industries. Whatever developments there have been concerning industries, these are mostly due to SMMEs. The Ethiopian government was not particularly interested in the micro and small enterprise sector until the late 1990s and no efforts were made to develop the classification systems and databases for these enterprises. The first comprehensive effort to collect data on the micro and small enterprise sector was embarked on by the Central Statistics Authority in 1996-1997 (Lois and St-Onge 2005). The initiatives by the government of Ethiopia have failed to keep sufficient pace with the anticipated entrepreneurial development. As a result of the lack of government initiatives, Ethiopia failed to utilise international funding for supporting micro and small enterprise sector development and women entrepreneurship. About US$14-15 in million European Union funds granted for such developments were reported to be unused owing to a lack of government initiatives (Wudneh 2005).

South Africa

The government of South Africa has recognised the necessity for promoting the SME sector as a means to foster job creation and economic growth by instituting several government initiatives to facilitate SME creation, cater for the financing needs of SMEs, foster and increase SME activity, create wealth for formerly underprivileged people, as

well as help in poverty alleviation and creating profitable business opportunities for local entrepreneurs (Morris and Zahra 2000). Despite such accelerated efforts, entrepreneurship is not as stimulated as it should be. The SA government had focused on SMEs as the fundamental policy focus area since 1994.

Owing to the importance of SMEs in job creation and economic development (Fatoki 2014; Smit and Watkins 2012; Fatoki and Garwe 2010), the SA government initiated numerous programmes and policies that are national, provincial and local in order to develop and support SMEs in terms of training, finance, business guidance and counselling as well as monitoring (Motsetse 2015). These support programmes, targeted at small businesses, are offered by various government departments, the private sector and several institutions. Nonetheless, SMEs are neither fully utilising nor profiting as much as they could from existing support programmes due to deficiencies in communication and accessibility to support these programmes.

2.6.3 Development of SMEs: The Zimbabwean perspective

During the pre-independence time frame, the economy of Zimbabwe acquired a strong industrial infrastructure (Mudavanhu, Bindu, Chigusiwa and Muchabaiwa 2011). In 1980, post-independence, the average rate of GDP growth between 1980 and 1990 was at 5.5 percent, which exceeded the average for SSA countries for the same period. However, economic growth slowed in the 1990s and due to low investment, the economy weakened, while there was also an unfavourable macroeconomic environment and industrial production cutbacks.

The economy of Zimbabwe underwent its highest economic activity decline from 2000 to 2008, with real GDP growth seeing cumulative decline approximating 50 percent as a result, while the country also experienced foreign currency shortages, capital flight and high inflation levels (Tinarwo 2016). Furthermore, the formal sector saw dramatic shrinkage as a result of companies that had to close, with retrenchments leaving many workers without jobs (Gwangwava *et al.* 2014). The extensive job losses gave way to

the Zimbabwean informal sector's growth and dominance, acting as a safety net for the majority of Zimbabweans for whom it became their means of survival (Gangata and Matavire 2013).

Globally, during the 1990s, the focus of business development moved to grow small enterprises that were already in existence, as opposed to the formation of new businesses (Chivasa 2014). The GoZ joined this bandwagon and by the end of the 1990s, the Department of the Informal Sector was established in the President's Office, in recognition of the emergence of the informal sector. There was an upgrade of the Department of the Informal Sector to the MoSMECD in 2002, with authorisation for overseeing SME sector development (Chivasa 2014). Since then, the SME sector's growth has been prioritised by the government as a mechanism to address national problems such as economic growth, unemployment and equitable wealth distribution amongst Zimbabweans (Goriwondo 2011).

Regarding representation, numerous associations have a substantial number of members, such as the Zimbabwe Cross Border Traders Association (ZCBTA) with 6 000 registered members, of which women comprise 72 percent. The sector represents empowerment groups, with examples being the Affirmative Action Group (AAG) and the United Indigenous Pressure Group (UIPG). Where ownership is concerned, the MSME sector is already owned by indigenous entrepreneurs and made up of 95 percent of informal/micro enterprises, small enterprises at 75 percent and 65 percent of medium enterprises (RBZ 2014).

2.6.3.1 Policies that promote SME development in Zimbabwe

In the first decade of independence, the policy environment that the SME sector was confronted with in 1980 was extremely restrictive. After Zimbabwe gained its independence in 1980, it inherited a relatively closed economy, with very restrictive trade policies (Green and Kadhani 1986). Government-imposed wage restraints and gazetted prices for growers at less than the cost large-scale farmers were incurred.

Electric power rates increased sharply, with export sector costs of production receiving limited attention, along with severe foreign currency allocation cuts for intermediate imports (Green and Kadhani 1986).

Consequently, access to foreign exchange for imports saw increased competition, with enterprises obsessed with this in all economic sectors. According to the rationing system of foreign exchange, established enterprises received first preference to the detriment of upcoming and new firms. High levels of product concentration resulted from this, and international as well as the domestic competition was thus limited. Additionally, a decline in investment levels resulted from foreign exchange rationing (Green and Kadhani 1986).

Even though some of the institutional concerns were addressed by the government in establishing the Venture Capital Company of Zimbabwe (VCCZ), SEDCO and the Credit Guarantee Company of Zimbabwe (CGCZ), most of these efforts did not create an environment that promoted SME development. According to SEDCO (2010) efforts have been made by the Zimbabwean government to promote SME growth and development since independence in the country.

The Zimbabwe Conference for Reconstruction and Development (ZIMCORD) was introduced in 1981 by the government, which was meant to rehabilitate rural businesses that were destroyed by the war, while cooperatives were also promoted in an attempt to manage the economy. Another effort, namely the Transitional National Development Plan (TNDP), was introduced in 1982 and it focused on the formation and decentralisation of rural area small businesses (GoZ 2004). This resulted in the formation of SEDCO in 1984, whereby financial support and extension services were offered to SMEs (SEDCO 2010).

Masuko (1998) argued that various arrangements emerged in the late 1980s and early 1990s for SME coordination and institutional support as part of the indigenisation

lobby. Business pressure groups or black entrepreneurs evolved by 1989. These pressure groups formalised themselves to form the Rural Traders Association (RTA); the Indigenous Business Development Centre (IBDC); the Zimbabwe Women's Finance Trust (ZWFT); the Indigenous Business Women's Organisation (IBWO), as well as Women in Business Zimbabwe (WIBZ). Special SME programmes were established by older business lobbyings organisations, such as the Employment Confederation of Zimbabwe and the Confederation of Zimbabwe Industries (CZI) after 1990. The CZI launched the Small Enterprise Promotion Unit to assist SMEs with realising their dreams, while the Small Business Support Unit (SBSU) was launched by the Zimbabwe National Chamber of Commerce (ZNCC), which offered institutional and financial SME support (Masuko 1998).

In 1991, the Economic Structural Adjustment Programme (ESAP) acted as an accelerator to SME development in Zimbabwe (Masuko 1998). The economy was transformed by the introduction of ESAP to a more competitive market and a free market economy. SMEs were intended to benefit from ESAP by being able to access markets that were once restricted and the acceleration of investment approval, along with diminished labour costs and tax reductions. Tariffs were to be lessened, with SMEs further benefiting through prices that were reduced and access to imported inputs being increased (Masuko 1998).

In 1991, Masuko (1998) states that with the introduction of the structural adjustment programme, it is important to note that the government's attitude significantly changed towards the private sector. To create more employment, the Government promoted SMEs with the hope that this would lead to opportunities for income earning by the poor, and therefore contribute to income redistribution. The aim was to achieve economic independence through the engagement of local entrepreneurs in industrialisation so that the industrial and economic development of small towns and rural areas would be promoted (Masuko 1998).

The Zimbabwe Millennium Economic Recovery Plan (MERP) was introduced in the year 2000, aimed at alleviating poverty. Additional objectives included sustaining investment capacity and enabling real income achievement. Furthermore, promoting the development and growth of SMEs in the country became the goal of the Ministry of SMEs (SEDCO 2010). The SME Policy was crafted by the GoZ and approved by the cabinet in 2002, providing guidelines on how challenges faced by SMEs could be addressed. A shared vision for all stakeholders was also provided, advancing the cause of small businesses and providing an enabling environment through which they could realise their full potential. In addition, the policy mapped out strategies to manage the barriers SMEs faced. These difficulties ranged from limited access to finance to a hostile regulatory environment, as well as inadequate entrepreneurial and management skills (SEDCO 2010).

The SME policy had as its main objectives to reduce unemployment and in so doing, alleviate poverty, while also stimulating increased foreign capital inflows and economic development. Furthermore, it outlined government strategies and approaches through which the private sector and other stakeholders could create an environment conducive to SME sector growth (Nyoni 2002). As Nyoni (2002) explained, the SME Policy attempted to develop a positive regulatory and legal environment, while providing financial aid, encouraging investment and developing infrastructure and technology, as well as facilitating access to markets. Over and above these were access to information that was enhanced; entrepreneurial development promotion; targeted support provision; and encouraging the formation of linkages and partnerships, as well as spearheading reforms at institutions (Nyoni 2002).

Support for SMEs by the Government is further highlighted in other policy documents, such as the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST), the Framework for Economic Reform and the Zimbabwe Agenda for Sustainable Socio-economic Transformation (ZIMASSET) (Nyamwanza 2014). Moreover, policies that the government designed specifically to address the

predicament SMEs found themselves in as a result of current policies are possibly not applicable to the SME sector and are more focused on larger enterprises (Nyamwanza 2014).

2.6.3.2 Institutions that promote SME development in Zimbabwe

A multiplicity of strategies and policies implemented and formulated by the GoZ deal with the main challenges the SME sector is faced with and promote its development, growth and survival (Maunganidze 2013). The enablement of SME development is done by institutions in Zimbabwe that include the Ministry of Industry and Commerce (MIC), SEDCO, the MoSMECD and the RBZ, as well as the Agricultural Bank of Zimbabwe, Institutions of Higher Learning, the CGCZ and the Zimbabwe Development Bank (ZDB).

(a) The Ministry of Small and Medium Enterprises and Cooperative Development

Established in 2002, the MoSMECD aims to create and maintain an environment favourable for the development and promotion of SMEs so that employment provision and economic growth could be facilitated, and issues that negatively impact SME growth could be dealt with while developing policies to improve sector development (Chivasa 2014). While purported to have implemented numerous measures, including marketing, trade promotions, workshops for training and the development of infrastructure, as well as relocating SMEs to the infrastructure, most Ministry claims are merely in writing, without any tangible evidence to support these measures (Zimbabwe Parliament Portfolio Committee on Small and Medium Enterprise Development (ZPPCSMED) 2010).

It seems the MoSMECD on the ground was practically non-existent, with only a small number of SMEs confirming that they benefited from the operations of the Ministry (ZPPCSMED 2010). Even though they have a supposed presence in towns and cities, rural area SMEs could not access MoSMECD services. Subsequently, a limited number of entrepreneurs received actual benefits from the services of MoSMECD in

urban areas. However, it is noted that most of the country's population is located in Zimbabwe's rural areas (Ruzivo Trust 2013).

Nonetheless, inadequate funding from the National Budget cripples the operations of MoSMECD, as the Ministry is usually under-funded and not acknowledged as a key ministry (Maunganidze 2013). This type of attitude regarding the MoSMECD sees its operations stifled, with participation in the economy not being effectively achieved through the provision of SME support. Even with insufficient National Budget funding, the MoSMECD has been able to attain considerable achievements in 2013, training 11 936 SMEs and acquiring business incubation premises; sheltering 6 363 SMEs; and organising USD4 million from development partners (GoZ 2014), utilised for SME growth.

(b) The Ministry of Industry and Commerce (MIC)

Prior to MoSMECD formation, the responsibility for the SME sector was with the MIC (Chivasa 2014), which undertook research, distributed information and coordinated programmes of SME development by different ministries. Efforts to support SME development were made by each ministry through their role in dealing with the SME sector challenges. These efforts were nevertheless ineffective, not properly coordinated and each ministry and department did whatever it thought would assist SMEs, without inter-ministerial or departmental consultation (Zimbabwe Parliament Portfolio Committee on Small and Medium Enterprise Development 2010).

The MIC today promotes access by SMEs to international and regional markets through bilateral and multilateral agreement negotiations, providing information concerning foreign markets and organising trade fairs on an international level, along with exhibitions and missions for Zimbabwean companies, including SMEs (Zimbabwe Ministry of Industry and Commerce (MIC) 2015). While promoting SME competitiveness, the Ministry is also concerned with enhancing product quality and is involved in international trade by ensuring that services and products meet

international standards (MIC 2014). The number of SMEs that benefit from these kinds of government programmes is however limited.

(c) The Reserve Bank of Zimbabwe

In the agricultural sector, SMEs were funded by the RBZ from 2004 (RBZ 2006), with loan facilities being made available to SMEs for irrigation, livestock production, crop production and mechanisation, as well as mining and tobacco ban rehabilitation (RBZ 2006). In addition, the RBZ funded schemes and programmes, including the Agricultural Development Bank of Zimbabwe (ADBZ), also known as the Agricultural Bank of Zimbabwe, but generally referred to as Agribank. This involved the Tobacco Scheme, Winter Wheat Programme and Public Sector Investment Programme (RBZ 2006). The loan repayment period was 180 days, with an interest rate of 20 percent (RBZ 2006).

Nonetheless, numerous farmers found it difficult to repay loans due to the devastating 2004-2005 agricultural season's drought (Malaba 2005). Other farmers also misused the scheme by diverting loans intended for farming to different needs, for example, cars, with others not having knowledge and farming skills (GoZ 2014). These were some of the reasons that valuable resources were wasted. However, farmers who received the assistance of chemicals, seeds, fertilisers and fuel also sold these inputs in exchange for money (RBZ 2007). This was due to governing bodies not having a monitoring system that was effective in ensuring that inputs were applied as intended.

(d) Small Enterprise Development Corporation

Established as a parastatal under the MoSMECD in 1984, SEDCO came into being through an Act of Parliament (Chapter 24:12) to provide SMEs with assistance through financial support, training, the provision of information and advice concerning business issues, as well as management counselling (GoZ 2015). SME support by the government was intended to promote economic growth, employ the unemployed, and

increase industrial production (Mumbengegwi 2007, cited in Ijeoma and Matarirano 2011).

SMEs received financial assistance in the form of loans, for which collateral was required. As a result of interest rates for the loans being too elevated for SMEs (Maunganidze 2013), the outcome was that loans were not repaid. The collateral requirement meant that loans were not accessible to all businesspersons (Chikomba *et al.* 2013). This suppressed SME sector growth since it was not possible to adequately address this financial challenge. However, notwithstanding insufficient financing, the Finscope MSME Survey of 2012 showed that loans from USD500 to USD5 000 were still provided by SEDCO (FinMark Trust 2013). Additionally, SEDCO operations remain crippled through the Ministry of Finance processing funding payments behind schedule (GoZ 2014). Against this background, it has not been possible for SEDCO to deal with SME challenges effectively where finances are concerned in Zimbabwe.

While failure by SEDCO is evident as far as solving the financial challenges of the sector, the organisation's role has been critical in factory space construction and provision for SMEs in Harare, Gweru and Bindura (Mhuka 2011). SEDCO has also provided entrepreneurs with machinery access in Chitungwiza for metal fabrication and woodwork and through the Indo-Zimbabwe Project's provision of machinery (SEDCO 2010). Moreover, SME access to markets is supported, with SEDCO establishing linkages for SMEs with suppliers, customers and large companies in the same or similar businesses (SEDCO 2010). This helps in strengthening the position of SMEs.

Despite the high need for collateral and interest rates, SEDCO was able to assist 4 900 SMEs in 2010 with the provision of loans (Moyo 2011). At present, SEDCO carries on awarding loans and technical support, regardless of it lacking adequate resources. Furthermore, SEDCO's involvement extends to business incubation (Chirisa, Dumba

and Makura 2012) in the provinces of Harare, Midlands, Masvingo and Mashonaland Central (SEDCO 2010).

Facilities for business incubation include providing start-up SMEs with the appropriate environment necessary to grow and develop their enterprises. The objective of incubation is to heighten the chances of success, minimise the time required for start-up and lessen costs to start and grow a business (Chirisa, Dumba and Makura 2012). When considering that SEDCO has received extremely insufficient funding, the negative effects on its incubation facilities have been evident. Subsequently, certain SEDCO structures, with Harare as an example, are being leased by SMEs. Business incubation by SEDCO has thus not been very effective where its centres are concerned (Chirisa, Dumba and Makura 2012).

(e) Credit Guarantee Company of Zimbabwe (CGCZ)

The CGCZ was established in 1977 and promotes access to finance for SMEs (Chivasa 2014). The Finance Trust was formed by the RBZ and five commercial banks to assist businesses that were viable and upcoming (Gangata and Matavire 2013). Loans were made available by the commercial banks to promising SMEs at minimal rates, while guarantees of 50 percent were offered by the Reserve Bank in the event of default by a borrower (RBZ 2007). Nevertheless, the funds were insufficient as a considerable number of SMEs required funding.

Due to the loans being highly subsidised, Mago (2013) states that the interest rates charged were below the market interest rates. It was further observed by Mago (2013) that loans from agencies of government were considered by certain SMEs as gifts that required no repayment. There were some failures in loan repayment, with other repayments only taking place after an extended period. Consequently, inflation diminished the value of the money. The SME lending cycle was thus affected as the money could not be accessed (Mago 2013).

(f) The Agricultural Bank of Zimbabwe

The ADBZ or Agribank became operational in the year 2000, with its main function being to offer credit finance to communal, resettled, commercial and small-scale farmers (Banker Africa 2013). Small-holder tobacco growers were provided with credit finance through a combined programme between the bank and the Tobacco Industry Marketing Board (TIMB) (Banker Africa 2013). The government introduced the Agricultural Input Procurement Scheme (AIPS) for use in the purchase of pesticides and herbicides, as well as fertilisers and seeds (Ijeoma and Matarirano 2011), with Agribank as a distributor of funding for agricultural inputs. A programme for mechanisation was furthermore implemented for re-settled farmers to allow access to tractors, farm implements and loans (Mumbengegwi 2007, cited in Ijeoma and Matarirano 2011).

At present, challenges faced by the bank include recapitalisation, in part due to advanced loans not being repaid by small-scale farmers. The bank is thus unable to carry on supporting agricultural sector SMEs. This has led to poor working capital. Furthermore, unsuitable macro and micro-economic policies are asserted by Malaba (2005) to have resulted in electricity, foreign exchange and fuel shortages, along with seeds and fertilisers, attributable to high inflation levels. All these elements worked against agricultural sector SME growth. This clarifies the Zimbabwean farming sector's poor performance to some extent. Nonetheless, the foundation of the country's economy is agriculture, with 70 percent of the population residing in rural areas and reliant on agriculture. However, of those farming SMEs, no more than five to ten percent can access credit (Matunhu and Mago 2013). It is therefore not a surprise that most SMEs in this sector fail under these circumstances.

(g) The Zimbabwe Development Bank

The intention of the ZDB, which started operations in 1984, was to provide debt finance to SMEs (Nyangara 2013). Although the ZDB intended to support SMEs, it did not receive sufficient government financial support. Before SMEs could access debt

finance, they had to first present details regarding any collateral, which is not something many have. Several SMEs could not pay back loans that the bank had provided and the bank could in turn, not execute its mandate as expected due to inadequate funding and non-payment of loans given to SMEs. In 2005, the ZDB was changed through the IDBZ Act (Chapter 24:14) into the Infrastructure Development Bank of Zimbabwe (IDBZ). This resulted in the expansion of the IDBZ directive to include financial support provided to businesses in the transport and construction industries (GoZ 2015).

Other than providing finance, equipment and other assets were also leased to companies by the IDBZ. With its focus on infrastructural development and finance in the long term (IDBZ 2013), the bank also concentrates on SME development through funding and technical assistance (Norsad Finance 2015). It is explained by the Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU) that Zimbabwe's banking sector operations were negatively affected by the economic crisis the country experienced from 2000 to 2008 (Zimbabwe Economic Policy Analysis and Research Unit 2013).

During this time the macro-economic environment was characterised by hyperinflation, a liquidity crisis, a dire shortage of foreign currency and high-interest rates on loans that rendered the financial sector ineffective, and the IDBZ was no exception (Chenga 2015). The economic climate saw SMEs experience difficulties in accessing credit finance from the IDBZ. Today, there is considerable focus by the IDBZ on the development of infrastructure and activities of commercial banking, resulting in the neglect of support for SMEs in the form of loans (Chenga 2015). Therefore, it is no longer part of its core business to support SMEs.

(h) Institutions of Higher Learning

It should be noted that higher education is an essential element in the development of SMEs and entrepreneurship (Ardichvili *et al.* 2012). In any nation, SME success and

entrepreneurship rely on the value of its higher education (Roudini *et al*. 2012). Where SME establishment and development are concerned in Zimbabwe, Higher Education Institutions (HEIs) have played a major role through the transfer of technology, research information provision and training (Technopolis Review 2011).

Universities and polytechnic colleges are encouraged by the GoZ to participate actively in the economy's development. This makes it clear why universities such as the Harare Institute of Technology and Chinhoyi University of Technology have turned into technology transfer centres and offer SME technical training facilities (Freitas, Silva, Paranhos and Hasenclever 2012). There is a technology centre at the Harare Institute of Technology where students and SMEs are trained on the understanding of product development stages (Technopolis Review 2011), while SMEs and technical students are offered tuition in entrepreneurial skills at a Technopreneurship Development Centre. The quality of SMEs furniture manufacture is due to improved skills acquired (Kangondo 2012).

There is also active involvement by other universities in technology transfer to SMEs, along with training and research. In addition, HEIs have created a high-quality workforce for SMEs. The unstable macro-economic environment has however resulted in the shutdown of large companies and has resulted in the number of unemployed increasing. Consequently, SMEs are engaging university graduates from HEIs (Rwafa 2006). HEIs are also involved in extensive research and have published their research findings through free internet access (Gibb, Hoffer and Koffen 2013). An increase in the online academic journal numbers and academics whose work is published online has resulted from this (Gibb *et al.* 2013). The published findings are a source of important information with significance for SMEs. Therefore, academics and HEIs are a valuable part of Zimbabwe's SME growth.

2.6.3.3 The governing body of SMEs in Zimbabwe

SMEs are required to register with the relevant regulatory bodies, in terms of the Company Act or partnership agreements such as MoSMEDC, the RBZ and SEDCO, as well as the Zimbabwe Revenue Authority, which recognises their legality and governs their operations (RBZ 2014). These enterprises are also expected to conform to the regulations prescribed by the relevant regulatory authorities. Moreover, they are required to be registered in terms of Cooperative Society Acts. The MoSMECD, the RBZ and SEDCO supervise the SME sector and do not recognise transactions carried out with any unregistered SME, with these transactions considered void and invalid.

2.7 THE CONTRIBUTION OF SMEs TO THE ECONOMY

Following the success stories of some Western European and East Asian countries such as Germany, Italy, Singapore and Taiwan, as well as North Korea, SME importance in economic and industrial development became known (Hallberg 2001). However, SME sector significance is not uniform across the world. It varies between countries according to the pattern, level and rate of economic development change (Havenga 2006; Kennedy and Hobohm 2012; Timmings 1999; Matshalaga 1998; Helmsing and Kolstee 1993).

2.7.1 The contribution of SMEs to the economy: Global perspective

In the world economy, the industry of small businesses has an immense role to play with regard to the formation of employment and economic growth. Nevertheless, SMEs' contribution to the more comprehensive economic development process is being recognised increasingly worldwide (Saeed 2002; Wiebe 2002) and has always featured significantly in the world economy (Keskin *et al.* 2010). While SMEs were once viewed as an aspect of industrial development that was relatively less important, international donors, governments and policy-makers increasingly view SMEs as critical to the industrial development and growth of economies, particularly developing countries.

In most developing countries, scholars have found that the SME sector employs more than 30 percent of the labour force (Saeed 2002). Added to this, certain researchers showed that the national industrial output proportion accounted for by SMEs has been on the rise since the mid-20th century (Wiebe 2002).

The SME sector's importance worldwide is well-recognised because of its contribution being significant in fulfilling a variety of socio-economic objectives, including higher employment growth, fostering entrepreneurship, output and export promotion. Recent empirical studies (for example, Kauffmann 2005; Fjose *et al.* 2010; Oduntan 2014; Ayodeji 2015; Bouazza 2015) show that the contribution by SMEs exceeds 55 percent of GDP and where total employment is concerned, it is more than 65 percent in high-income countries. The value of the small business sector is argued by these and other scholars to be recognised in worldwide economies. The contribution of the sector is highly valued, regarding job creation, growth and social progress, while small businesses are also seen as an integral part of the economic growth success formula. SMEs throughout the world assume a strategic role during the process of industrialisation, monetary development and sustainable advancement of any economy (Ariyo 2005).

As indicated by the Central Bank of Nigeria (CBN 2011), SMEs are fundamentally required to advance any economy, with incredible job creation possibilities; local innovation changes; yield expansion; and the improvement of indigenous business, along with the forward integration of large-scale commercial ventures. Kpelai (2009) focused on SMEs being the motor for economic development. In addition, as indicated by Terungwa (2012), SMEs may look small or unimportant, yet they form the basis for the establishment of any monetarily stable country. The potential advantages of SMEs to any economy integrate commitment into the economy, regarding the yield of services and products, as well as in the formation of employment at moderately low capital cost; the procurement of a vehicle for lessening salary variations; and the

advancement of a pool of semi-gifted and talented labourers as a proposition for the future modern extension.

Globally, the importance of SMEs to economic development is underlined by their commitment to both developed and developing economies. Terungwa (2012) found that SMEs have assumed an essential role in the sustainable development of developing economies. SMEs are work escalated and tend to prompt a more impartial circulation of income than bigger undertakings by developing expanded levels of livelihood and accordingly, mitigating destitution. They regularly provide employment opportunities at sensible rates of compensation to labourers from poor families and women who have fewer sources of income.

Additionally, SMEs have added to a more effective allocation of resources in developing nations by embracing labour-intensive production techniques, which all the more precisely mirror the asset enrichments in developing economies where work is rare (Zafar and Mustafa 2017). To the degree that SMEs operate in informal markets, the component and item cost they have to deal with likewise give a superior impression of social opportunity costs when compared to the costs faced by large organisations.

It is generally agreed that SME performance is essential for generating employment, economic development, job creation and the social development of all countries (Zafar and Mustafa 2017). Adu *et al.* (2016) aver that SMEs convey benefits to the nation as they create employment, expand income and cultivate economic development. SMEs provide numerous benefits from an economic perspective and many policy-makers consider these small enterprises as a major area of concern in attempting to accelerate the growth rate in low-income countries (Verheul and van Stel 2007).

Small enterprises are acknowledged as the mechanisms through which objectives can be achieved for the growth of developing countries as they are possible employment and income sources. SMEs contribute to the national product of a country through the

manufacture of goods of value, or by providing services to other enterprises and/or consumers. This incorporates product provision as well as services to foreign clients, to a lesser extent, which contribute overall to export performance (Fjose *et al.* 2010). These small enterprises can resist unfavourable economic conditions as their nature is flexible (Mamman *et al.* 2015).

Further to this, SMEs are a dominant force in successful economies all over the world (Adu *et al.* 2016) and in most economies' industrial and economic development (Ardichvili *et al.* 2012; Lucky 2011; Roudini *et al.* 2012). SMEs have also contributed to the industrial development of transitional economies and have been acknowledged for their extensive contributions to the economic growth of developed economies. The American economy, which is the biggest in the world, mainly depends on SME success for job creation, innovation, stability and productivity (Smit and Watkins 2012). In fact, with small businesses in the USA averaging roughly 23 million of the private workforce, more than 50 percent is employed by these small enterprises and half of the GDP of the nation is generated by them.

SMEs are also a major entrepreneurial skills source, where employment and innovation come from. Approximately 23 million SMEs in the enlarged EU of 28 countries provide more or less 75 million jobs, representing almost 99 percent of all enterprises (Xhepa 2006). SME importance to the economy of Austria is overwhelming, as in all EU member states, with SMEs accounting for 99.8 percent of all Austrian enterprises (Abe and Dutta 2014). Of the nearly 195 000 private Austrian enterprises in 1993, 500 were large-scale, with SMEs nearing 194 500, which represented over 75 percent of all who were employed. There is a majority of 97.5 percent of all enterprises in the manufacturing sector that is made up of SMEs, with the entire manufacturing sector reflecting only 2.5 percent that is accounted for by LSEs (Alhassan and Sakara 2014).

SMEs in the UK form the main hub of economic activity and it is widely accepted that they form the bedrock of the British economy (Katua 2014), perceived not merely as creators of jobs, but also of wealth. Nevertheless, in addition to everything else, the government of the UK strongly believes SMEs to be crucial for an enterprise economy to be successful and has committed fully to revitalising the creation, growth and competitiveness of small and new businesses (Zafar and Mustafa 2017).

Of all private sector companies in the Netherlands, a total of 98.8 percent are accounted for by SMEs, which contribute 31.6 percent of the country's GDP. Of the total workforce, 55 percent are employed by SMEs (Cudjoe *et al.* 2017). In Australia, small businesses make up close to 97 percent of all businesses in the private sector and 51 percent of their employment (Fjose *et al.* 2010). SMEs in Italy add exports of USD35 million, and 2.2 million of the people in the country are absorbed in national labour (Eze and Okpala 2015).

Conversely, the large enterprise share of total employment exceeds 45 percent in Ireland, while SMEs in Russia and Poland have become a significant force in industrial and economic growth (Mamman *et al.* 2015). The 1990's performance of the Polish economy was seen as good and mainly contributed to SME sector quantity and quality. In Poland, SMEs comprised 62 percent of the employment sector in 1997, in comparison to an average of 72 percent in EU countries (Adu *et al.* 2016). In addition, Switzerland and the European Economic Area (EEA) have 20.5 million enterprises that provide 122 million people with employment. Of these jobs, two-thirds are in SMEs. In other words, in all of the jobs in these countries, large enterprises provide only one-third of these (Alhassan and Sakara 2014).

According to Nurrachmi, Abd Samad and Foughali (2012), SMEs are the most noteworthy tools for economic improvement, GDP and workforce in the Turkish economy. There are 3 222 133 SMEs in Turkey, which constitute 99.9 percent of all business undertakings while contributing to 76 percent of total employment; 53 percent

of aggregate salaries and wages; and 63 percent of yearly sales turnover, as well as 53.3 percent of value-added and 53.7 percent of gross investment (Turkstat 2013). In Turkey, the predominance of SMEs is in the manufacturing sector and these small enterprises make up 99.5 percent of the manufacturing industry overall, with a total of 61.4 percent of employees (Adu *et al*. 2016).

As seen in the European states, a pivotal role has also been played by SMEs in most Asian countries where industrial development is concerned. The rapid transformation of Asian countries considered as highly performing, such as India, Taiwan, Indonesia, Malaysia as well as Hong Kong, are all associated with proof of SMEs being the major substance of their economic development (Fjose *et al.* 2010). Worth noting is that the importance to any economy of SMEs is centred on being able to encourage inventive entrepreneurship; to provide a greater number of people with employment; to utilise raw materials and mobilise domestic savings, while semi-processed products or intermediate raw materials are also provided to enterprises of a large-scale and limiting urban-rural migration. In light of this, it has been shown that SMEs provide the foundation on which the stability and economic growth of any country lies (Fjose *et al.* 2010).

SMEs play a decisive role in India's industrial economy, with a consistently higher rate of growth recently registered by the sector in comparison to the industrial sector on the whole (Mashingaidze 2013). India's SME sector employs approximately 31 million persons throughout 12.8 million enterprises, with SME sector labour intensity estimated in 2003 to be approximately four times higher than the figure for large enterprises. At present, an estimated 59.7 million persons are employed by this sector across 26.1 million enterprises (Cudjoe *et al.* 2017). MSMEs in India manufacture more than 6 000 products. These range from high-tech to traditional items, with the MSME sector providing both self-employment and job maximum opportunities. The MSME sector contributed 37.5 percent to India's GDP in the 2012 fiscal year. Of this, the

manufacturing sector contributed approximately seven percent and the services sector 30.5 percent in the 2012 fiscal year (Anshul and Sankalp 2016).

Furthermore, evidence also shows a 32 percent contribution to Malaysia's GDP by SMEs, with employment opportunities at 56.4 percent and exports at 19 percent (Mamman *et al.* 2015). A survey conducted in 2010 in Malaysia to assess SME performance determined that improved performance across all sectors of the economy was experienced by seven percent of SMEs. Indicators such as profit margins and production also increased by at least five percent. The Micro and Small Enterprise (MSE) sector in India comprises a manufacturing output of roughly 39 percent and approximately 33 percent of the total exports of the country (Mamman *et al.* 2015).

State-owned enterprises in Vietnam, as a socialist country, were made the lifeblood of its industrial system. Since Vietnam is a developing country, Sakai and Takada (2000) argue that the role SMEs play is important because they are responsible for job creation and for changing industry structures in the country. SMEs in Vietnam constitute 90 percent of economic interests, as well as accounting for 25 percent of the country's GDP, with its industrial output at 31 percent. According to the Vietnamese Institute of Economic Management, local companies comprise 90 percent while foreign-invested companies make up 34 percent of SMEs in Vietnam (Sakai and Takada 2000).

SMEs remain the main growing strength of China, which has the fastest growing economy in terms of involvement in the nationwide GDP, where this sector constitutes 40 percent, as well as the measure of properties, variations of product and generating employment (Zafar and Mustafa 2017). China's economic development has also seen SMEs playing a very important role, with over 10 million SMEs at present, which comprises 99 percent of all enterprises in China. Further to this, the industrial output volume contributed by SMEs is 60 percent, with total taxes and profits making up 40 percent of that realised by the country's enterprises. China's SME sector provides 75

percent of all urban and township employment and in itself plays a significant part to release the pressure of employment and maintain social stability. In addition, SME numbers in Thailand are also fast increasing, while they are progressively considered to be responsible for creating new jobs (Eze and Okpala 2015).

In Japan in 1994, with 6.53 million private companies nationally, SMEs made up close to 6.47 million or 99 percent of the total and nationwide employment of 54.16 million people. (Ministry of International Trade and Industry 2000). Indonesian statistics show that in 2003, Indonesian SME numbers totalled 42.4 million, contributing 56.7 percent of the country's GDP, whilst also accounting for 19.4 percent of total export, and the sector employs 79 million of the country's workforce (Naikuru, Gathenya and Kamaku 2016).

SMEs in Pakistan offer employment to roughly 65 percent of the industrial sector workforce. The economic survey of 1998-99 for Pakistan highlighted that SMEs generated 80 percent of the country's total employment, even though this required a mere 20 percent investment and not more than ten percent of the formal credit total in resources. The contribution of these small enterprises to the country's GDP is approximately four times as much as what large-scale industries provide (Mamman *et al.* 2015). In the Philippines, MSMEs undoubtedly make the biggest contribution to the nation's economic development at roughly 62.8 percent of the country's total workforce (Eze and Okpala 2015).

Thus, the MSME sector features significantly in most countries in the world. It employs in both rural and urban areas and contributes to equitable income distribution. According to Kamara (2017), Ghana's SME sector accounts for 35.7 percent of the nation's total GDP, with the manufacturing sector contributing the largest share of this, at approximately 6.8 percent. In addition, the MSME sector contributes greatly to Ghana's exports, accounting for 25 percent of total export revenue. It is estimated that 60 percent of all exports from the country belong to the MSME sector (Cofie 2012).

According to the country's Small and Medium Business Administration (2001), the total number of SMEs in Korea exceeds 2.67 million, with Korean businesses represented at 99.1 percent, and 8.2 million people employed, representing 74 percent of the national labour force. While the number of small and medium manufacturing enterprises exceeds 91 000 in Korea and between five and 300 persons are employed by each enterprise, these SMEs are 99.1 percent representative of all manufacturing companies (Small and Medium Business Administration 2001). With employees reaching 1.9 million in Korea, SMEs constitute 69.3 percent of all employees in the manufacturing sector. The production value and value-added activities of these SMEs amount to 177 billion Euros (46.3 percent) and 74.2 billion Euros (46.5 percent) respectively of the nation's totals in these areas, as highlighted by the Korean Administrative body of Small and Medium Business (Small and Medium Business Administration 2001). SMEs in the manufacturing sector in Korea thus play a pivotal role.

It is noteworthy that Korea's small and medium-sized manufacturing enterprises predominantly employ from five to 49 persons. Of all small and medium manufacturing companies, 91.56 percent are represented by these businesses, while employees, production and value-added activities are respectively at 58.7 percent, 42.9 percent, and 43.2 percent. SMEs in Korea engage in the following seven manufacturing sectors; textiles, food, beverages, and equipment and machinery, as well as fabricated metal products, apparel and wool products, rubber and plastic goods, with this representing 55.7 percent of all Korean manufacturing companies. Small and medium manufacturing enterprises are accountable for 42.8 percent of the total exports of the country (Small and Medium Business Administration 2001).

2.7.2 The contribution of SMEs to the economy: The African context

SMEs remain important in both developed and developing countries, particularly Africa. Even as SMEs have not been acknowledged as significant features of African

development, much has been contributed to many economies. As indicated by Roberts (2006), SMEs assume a significant part in the global economy, mainly in that of developing nations. Most recently, however, governments in the developing world have shown growing mindfulness of the SME role and economic contribution. According to Oduntan (2014), the SME role has been well-established in developing countries, such as in Africa. Numerous African countries further recognise the importance of small businesses. These countries include Ghana, Togo, Cote d'Ivoire and Uganda, along with Kenya, Nigeria, Burkina Faso and Malawi (Smit and Watkins 2012).

For example, in Nigeria, small-scale industry businesses are considered a better prospect for developing the domestic economy through the generation of goods and services and serve as a major source of economic growth and job creation (Abor and Quartey 2010). According to Fjose *et al.* (2010), SMEs constitute 97 percent of all Nigerian businesses. Thus, the necessity to focus on these businesses has become very important in Nigeria, as it is a means of ensuring self-dependence, job creation and import substitutions, as well as the effective and efficient utilisation of local raw materials (Fjose *et al.* 2010). Small-scale businesses, therefore, contribute immensely to employment and serve as a pathway to entrepreneurship.

The focus of small businesses has shifted from providing only social goods to being a vehicle for entrepreneurship (Peprah *et al.* 2016). The SME sector comprises 95 percent of the organised manufacturing sector enterprises and industrial employment constitutes approximately 70 percent. In 2012, the Enterprise Baseline Survey revealed that approximately 17 million SMEs operate in Nigeria, employing around 32.41 million persons and they contribute about half of Nigeria's GDP (46.54 percent) in nominal terms (Ayodeji 2015). Hence, the importance of the SME sub-sector in Nigeria's economy cannot be overestimated.

Another finding is that some 3.2 million people were employed by SMEs in 2003 in Kenya and comprised 18 percent of the national GDP. Of all enterprises in Kenya, 90 percent are SMEs, with employment provided to over 60 percent of the total population employed (Kauffmann 2005). Research also shows that in SA, micro and very small businesses provided total employment to more than 55 percent of the population in 2003 and contributed 22 percent of GDP. SA small firms accounted for 16 percent of both production and jobs, while 62 percent of production and 26 percent of jobs were provided by medium and large firms. SMEs in Morocco make up 93 percent of industrial firms while accounting for 46 percent of employment, 33 percent of the investment, 38 percent of production and 30 percent of exports (Kauffmann 2005).

In general, most developing countries, particularly Algeria, experience a variety of unemployment, such as disguised unemployment attributable to rapid population growth (Goriwondo 2012). Large enterprises are unable to create sufficient jobs for the country's unemployed to be absorbed or to manage the increase of individuals who enter the workforce annually. Goriwondo (2012) states that the important role of SMEs in addressing the problem of unemployment is highlighted by this situation.

Studies in the Algerian economy, such as that of Bouazza (2015), show the escalating impact of SMEs on total employment, with its share having increased from 2001 with a little more than 639 000 jobs to more than 1.985 million jobs in 2013. The rate of contribution by SMEs in Algeria in the year 2000 was at 74 percent, which in 2011 increased to 84.77 percent, equal to 5 137.46 billion dinars of contribution in total (Bouazza 2015).

According to Bouazza (2015), non-oil exports of Algeria totalled US$2.18 billion by the end of 2012, which is below three percent of export value in total. Apart from oil, 83 percent of these exports were achieved by large companies, with the remaining 17 percent shared by the MSME sector, equal to only 0.51 percent of the total exports of

the country. Bouazza (2015) states that this is an indication that the SME sector of Algeria does not participate significantly in the country's total exports.

The rate at which total employment in Algeria receives contributions from SMEs was still perceived as weak in 2013, at 18.4 percent. This is far from other developing countries and the proportion of contribution by SMEs is still low (Bouazza 2015). An explanation of this phenomenon is as follows: Firstly, the first employer in Algeria is the state, which bears any problems in transitioning to the private sector, which in turn is still in a stage of emergence. Secondly, more than 80 percent of the SME sector's activities are clustered in the service and construction sectors, areas with a substantial rate of job creation. Conversely, higher job creation rates are found in other sectors, such as tourism, agriculture and manufacturing. Thirdly, micro-enterprises are predominantly SMEs in Algeria, with limited ability to generate new jobs, while constituting 97 percent of the entire corporate structure (Bouazza 2015).

In Ghana and SA, for instance, SMEs represent an extensive segment of businesses in both the informal and formal sectors (Mamman *et al.* 2015). The SME sector represents approximately 92 percent of Ghanaian businesses and constitutes roughly 70 percent of Ghana's GDP, while it provides an employment rate of more than 80 percent. As indicated by Rogerson (2008), Ghana's SMEs utilise half of the working populace and contribute around half of GDP. It is contended that SA's SMEs offer a critical vehicle to address unemployment issues as they advance the development and equity globally, and particularly in SA (Smit and Watkins 2012).

The SA government ascertained that the SME sector can enable economic growth sooner. In SA, approximately 91 percent of formal businesses are accounted for by SMEs, and between 52 and 57 percent of the GDP of the country is contributed by these small enterprises while providing an employment rate of 61 percent (Adu *et al.* 2016). SMEs also assume a critical part in Tanzania's economy and the estimate is that roughly a third of Tanzania's GDP is provided by this sector. Estimates by the

country's International Finance Corporation (IFC) is that there are nearly 2.7 million of this type of enterprise in the nation, with roughly 60 percent found in urban zones of Tanzania. The greater part of these small enterprises employs less than five individuals and most have yearly turnovers under $2 000 (Ssendi 2013).

2.7.3 The contribution of SMEs to the economy: The Zimbabwean context

The Zimbabwean economy has SMEs playing a substantial role in its development (Odero 2006). In this regard, the significance of this sector is generally recognised only concerning its commitment to job creation, innovation and GDP. The development of small businesses in terms of Zimbabwe is nonetheless seen as crucial to achieving more extensive development goals. Incorporated in these goals is the alleviation of poverty; dispersal of jobs to rural areas; improvement of women's circumstances; and expansion of local ownership of investments in the economy (Mangudya 2017).

Since opportunities for formal employment are contracting around the globe (Zafar and Mustafa 2017), there is a need to engage with the SME sector as it has investment potential and is responsible for job creation. With traditional sources of employment diminishing, formal work opportunities are turning out to be progressively restricted in Zimbabwe. There is a belief that small businesses are mechanisms for the development and growth of many countries' economies in the world, with Zimbabwe not being an exception (Mashingaidze 2013). SME importance in Zimbabwe is particularly high, with the economy approximately 80 to 90 percent informal, sector contributing 60 percent to the GDP of the country as set out in a Finscope SME survey of 2012 (FinMark Trust 2013).

Over time, the operating environment in Zimbabwe has experienced a structural shift in the economy, from large firms for the most part to SMEs (RBZ 2014). Through job creation and poverty alleviation, the SME sector plays a crucial part in economic development and contributes above 60 percent of Zimbabwe's GDP. The importance of the SME sector to the economy of Zimbabwe can be attributed to their employment

provision (Ruzivo Trust 2013), contribution to GDP (Chidoko *et al.* 2011), poverty alleviation (RBZ 2014) and the opportunity for participation by women and youth to the mainstream economy (Goriwondo 2012).

According to the RBZ (2014), a crucial role is fulfilled by SMEs in the process of the economy's regeneration. It is universally acknowledged and accepted that SMEs are valuable employment creation instruments, whilst also contributing to economic growth, eventually leading to poverty alleviation, which benefits not only entrepreneurs but employees as well (Katua 2014). Their contribution to economic activities in the mainstream will assist in addressing the country's economic ills, resulting in many who will benefit from a better way of living.

For Zimbabwe's SMEs to bring their strategic position to fruition in the mainstream economy, they ought to be aware of the factors that are critical so that they may remain part of the foundation of business success. Participants in this sector include a variety of people who are in business to somehow succeed or benefit. Through their gains, the nation will also benefit as a whole when their endeavours are successful (Odero 2006).

Zimbabwe's social and economic development now pivots on the country's SME sector. Mudavanhu *et al.* (2011) describe them as the engines of growth and economic empowerment in Zimbabwe, in the informal and formal sectors. This is attributed to the contribution that SMEs make to the creation of wealth and employment, while they also generate income and forge strategic relationships across economic clusters with large companies (RBZ 2014). SMEs are described by the RBZ as the key drivers of the ZIMASSET (RBZ 2014).

In addition, SME sector development forms part of the strategy by the GOZ to succeed with wide-ranging developmental goals, such as creating employment, alleviating poverty, indigenisation and empowering women (Chidoko *et al.* 2011). Furthermore,

Odero (2006) agreed that to achieve the broader developmental goals of the country, the SME sector is crucial and its contribution is necessary to spread employment opportunities, alleviate poverty and increase the ownership of national resources by the indigenous people. The contributions of SMEs that are specific to the economy of Zimbabwe are discussed below.

2.7.3.1 Employment Creation

The Zimbabwean economy has undergone extended periods of decline, typified by retrenchments and closures of companies and resulting in the shrinking of formal employment opportunities. Nyoni (2002) claimed that there had not been sufficient levels of investment in the economy for employment creation for the country's annual graduates from training institutions, which numbered more than 300 000. SMEs were started to complement family incomes and create wages for those who were retrenched following the closure of companies, as well as to provide graduates from numerous HEIs with employment as the formal sector had not absorbed them. Thus, the contraction of the formal job market has resulted in people being worse off, causing the SME sector's expansion (RBZ 2014).

As the main employment source, the SME sector has become the income source for millions of Zimbabweans (Zindiye *et al.* 2012). SMEs not only generate most new jobs, but they also offer employment to the largest number of people. The estimate of the 2012 survey by FinScope concerning SMEs (FinMark Trust 2013) found that the SME sector in the country employs 2.9 million people (RBZ 2014). The absolute size of the sector is perhaps the most striking revelation, with approximately 2.8 million owners. Employment opportunities directly give rise to Zimbabwean citizens' disposable income, while it also increases demand for services and goods locally (RBZ 2014).

2.7.3.2 Contribution to Economic Growth

Not only are SMEs regarded as the development engine room for any economy, in a growing economy they constitute most business activities and have additionally been

found to be essential providers in the recovery process of Zimbabwe's economy (Worku 2013). The SME contribution to this recovery and growth is acknowledged to be their employment creation ability; capacity to lower-income discrepancies; make the most of inputs produced locally; and the production of intermediate goods, as well as the escalation of national output, stimulation of balanced development, and strengthened government revenues (Worku 2013). This echoes Zindiye *et al.* (2012), who found that development opportunities are offered by SMEs for not only new services and products but also innovation. Furthermore, they stimulate the business landscape by introducing competitiveness. Monopoly by large enterprises is eliminated through this competition, resulting in a free-market economy (Zindiye *et al.* 2012).

The SME contribution estimate to the GDP of the nation is approximately 60 percent (RBZ 2014). A 2012 FinScope SME Survey (FinMark Trust 2013) found that the Zimbabwean SME sector's increased growth directly affected GDP growth, which was attributed to improved output, value addition and profits. SME growth also indirectly affects GDP through increased productivity and innovation, which heightens macro-economic flexibility. The economy further benefits from the sector because as SMEs tend to innovate, they require low start-up capital, are flexible and can rapidly develop (Maseko and Manyani 2011: 171-181).

Bukaliya and Hama (2012: 57-72) claim that a stronger Zimbabwe SME sector can advance the resilience of the national economy through varied expansion and enlarging economic activities that will consequently reduce the vulnerability of the country's economy to sporadic disruptions. The innovativeness and flexibility of SMEs permit easy adjustment to variations in the economic environment, needs of the market and techniques in production.

Nevertheless, it is not only services and goods for consumers that are produced by SMEs, they also provide tailor-made products that are produced according to domestic market quantities and sizes (RBZ 2014). With transport and other costs maintained at

a lower price due to the proximity of the SME sector to markets, their products are more competitive as they are relatively cheaper. Furthermore, with small businesses highly reliant on raw materials that are locally produced, as well as local production methods skills, foreign currency payments by the country can be reduced with local resource exploitation that is also promoted (RBZ 2014).

Another benefit that SMEs bring to the Zimbabwean economy is the nurturing of entrepreneurial skills. The immense possibilities of business entrepreneurship, wealth creation and expansion of local economic capacity are mobilised and stimulated by the SME sector (Maseko and Manyani 2011: 171-181). Nyoni (2002) had also found that making use of local commodities and the human resources of the country contributed to wealth creation and a self-sustaining economic structure, with highly developed links between its different sectors. Further to this, SMEs also add to industrial growth in the long-term through an increase in firms that are formed in this sector (Nyoni 2002).

The realised potential of SMEs in accelerating economic growth and alleviating poverty has encouraged multilateral institutions and World Bank to provide this sector with targeted assistance. According to Zindiye *et al.* (2012), the World Bank SME policy is established on three arguments. The first is that competition and entrepreneurship promoted by SMEs lead to economic efficiency, as well as growth and innovation in productivity. In the second instance, it is acknowledged that generally, because of being able to specialise in niche products, SMEs are more productive than large firms. The advantage these small enterprises have over large businesses lies in their greater flexibility and capacity to launch new services and products more easily. In the final instance, SMEs can make decisions more easily and therefore, they are more efficient when considering timely action and solutions adapted to circumstances dictated by the market (Zindiye *et al.* 2012).

2.7.3.3 Poverty Alleviation

In Zimbabwe, poverty increased from 62 percent in 1995 to 85 percent in 2008 (Odero 2006). Due to harsh economic conditions, large companies were pressured to downsize with many others ceasing trading, which resulted in extensive retrenchments (Matutu 2014). Since the introduction of the Economic Structural Adjustment Program (ESAP) in the 1990s (Bhalla, Davies, Chitiga-Mabugu, Mabugu and Kaliyati 1999), SMEs in Zimbabwe have grown from the resulting jobs losses and the shrinking of the official job market in addition to impoverishment, which created an environment whereby SMEs could rapidly increase. Following the introduction of ESAP, the socio-economic situation in Zimbabwe deteriorated and was worsened further in the early 1990s by a severe drought and people had to find other means to fend for their daily needs (Marunda and Marunda 2014). Consequently, for 80 percent of the Zimbabwean populace, SMEs became their main source of income (Chandaengerwa 2014).

The increasing importance of SMEs as a source of livelihood for many Zimbabweans is supported by a 2012 FinScope SME survey report (FinMark Trust 2013) that highlighted the critical role that SMEs play in alleviating poverty for entrepreneurs and their employees (RBZ 2014). By providing business opportunities and employment, workers and entrepreneurs are provided with disposable income by SMEs and, in turn, this alleviates poverty, thus improving their standards of living (RBZ 2014).

2.8 CHALLENGES FACING SMEs

There are limitations to any business model, which does not exempt SMEs (Cofie 2012). Several challenges are facing SMEs at global, regional and local levels and these shall be discussed below.

2.8.1 Challenges facing SMEs globally

Present-day global level economic conditions have worsened the typical challenges already confronting SMEs (Kravchenko 2014) that in times of crisis, are particularly vulnerable owing to various reasons. It is often not an option for SMEs to downsize

because of their already small size. Furthermore, economic activities of SMEs tend to be less diversified, while their financial structure is also weaker, with a credit rating that is lower or non-existent, with fewer options for financing (Ackah, Vuvor and Lovstal 2011)

Owing to the economic crisis of 2008, access to finance by SMEs in Ireland has become progressively more limited (Zhao and Zeng 2014). Even though there have been several government lending programmes and initiatives, Central Bank figures reflect that SMME bank lending has continued to fall. Now a double crunch is faced by Irish SMEs, with demand for services and goods steadily decreasing. There has been a drop in their income, while controls on credit availability have been simultaneously tightened by financial institutions (Cofie 2012). Irish SMEs have as a result not been able to cover day-to-day expenses as they cannot access the required capital.

Further to this, with payments delayed by debtors for as long as possible, payment times have also increased. In 2010, it was indicated by 64 percent of Irish businesses that their cash flows were impacted by late payments, and an extension of credit terms to clients was reported by 48 percent of companies (Zhao and Zeng 2014). Should smaller businesses not be paid timeously, they cannot themselves pay their suppliers, which creates a ripple effect. There is an increase in the costs of doing business, with debt finance having to be resorted to by many companies. For example, through overdrafts, so that they may facilitate the requirements for cash flow. In the end, forced closure is the only avenue open to the most vulnerable businesses, with the resultant increase in job losses (Zhao and Zeng 2014).

Moreover, the costs of doing business have remained high, even as there have been decreases in incomes for Irish enterprises, thus competitiveness has become a significant challenge (Kravchenko 2014). The challenges to businesses in Ireland remain and include salaries, high rents, transport and utility costs, and other local charges. Even though more SMEs need to maximise their sales by making use of

internet technology, there is no online presence for 40 percent of Irish SMEs and as a consequence, they are unable to take advantage of business opportunities (Kravchenko 2014).

For an SME in China, the average development life is approximately 3.6 years. Difficulties with financing are essentially an important constraint (Zhang 2017). Although SMEs in China are operating flexibly, they have a lower threshold and smaller-scale operations, which means that the corporate financing amount will not be extensive. Compared to loans of large enterprises that not only have longer terms but also larger amounts, Zhang (2017) states that the difficulties for SMEs concerning financing are naturally increased.

Furthermore, most SMEs in China have no credit rating and there is no guarantee of relevant enterprises (Zhang 2017). To minimise risks, secured loans can be obtained from mature enterprises that have stable business conditions as this offers a small risk for bankruptcy. In addition, in comparison to foreign countries, there is an inclination by SMEs in China to conduct indirect financing. They seldom conduct direct financing (Zhang 2017), which frequently leads to loans being in short supply. The financing situation of China's SMEs is thus made more severe as there is more pressure on banks to be increasingly cautious in the manner in which each loan is treated. Due to a variety of unfavourable conditions, these enterprises are at times unable to obtain bank loans (Zhang 2017). In order to raise funds, numerous business operators, alternate means for finance, resulting in financing costs that far exceed those of a bank, with this further increasing the costs by SMEs in obtaining finance.

It was found by Rahman, Yaacob and Radzi (2016) that financial constraints; a lack of access to credit; training; and development issues, along with government policy, marketing complexity, poor management skills and low awareness of technology, as well as cultural barriers and a heavy regulatory burden, were the main challenges for SMEs within several countries. For instance, Sharma, Dua and Hatwal (2012) reported

that women entrepreneurs in India face challenges such as finance, marketing, workplace facilities and social constraints, in addition to a lack of technical skills and knowledge.

Agyenim (2004) highlighted that SMEs encounter challenges in their endeavours to conduct business activities, such as a lack of management, financing, and marketing skills. Martin and Staines (2008) aver that the main reason SMEs fail is attributed to a lack of managerial competency. Rahman *et al*. (2016) furthermore determined poor management skills as a major challenge for SMEs across different countries.

According to Belás, Macháček, Bartoš, Hlawiczka and Hudáková (2014), challenges of SMEs include limited capital, increased competition and a low level of managerial skills. In addition, Canales and Nanda (2012) stated that small businesses have little internal cash flow to finance their operations. Accessibility to financing has therefore been established as a major factor affecting the growth and success of SMEs (Haron, Said, Jayaraman and Ismail 2013). Furthermore, Sharma *et al*. (2012) found that because of bottlenecks in the availability of credit for women, women entrepreneurs face financial problems in rural areas in India. Mazidah, Rashidah, Hafizah, Salmi, Intan and Saridan (2016) established financial matters as a major challenge raised by micro-entrepreneurs, while Mahussin (2017) stated that SMEs face increasing costs of doing business.

Over the years, competition amongst SMEs has also increased radically (Gunasekaran, Rai and Griffin 2011). Mahussin (2017) found that competitors imitating products cause a business to lose customers, which has an impact on revenue collection. However, Jamak, Sedek, Rohani, Subarna and Azrai (2012) discovered that high rivalry problems are one of the most discouraging problems faced by SMEs during start-up. According to Schlogl (2004), small-sized firms also failed to improve basic

infrastructure, such as expanding broadband and secure servers, with these factors impacting small-sized firms in turning to an e-business approach.

2.8.2 African SME challenges

Micro businesses and SMEs in Africa have seen various challenges in terms of their growth, expansion and contribution to the local economy. In Nigeria, SMEs are faced with the problems of finance, management, marketing and technology. Access to finance is seen as one of the main barriers to small enterprise development and hence to entrepreneurship in Nigeria (Yusuf and Dansu 2013). As in many other African countries, there is little access to finance for SMEs in Nigeria, restricting their start-up and subsequent growth. The foremost capital sources for SMEs are their informal savings and retained earnings, as well as unpredictable loan associations that are not very secure, with minimal scope for shared risk due to their focus being sectoral or regional (Yusuf and Dansu 2013).

Ayodeji (2015) determined that a lack of finance is the fundamental problem faced by most entrepreneurs in Nigeria, whether for already existing or new businesses. The author believes that banks have failed to support SMEs adequately and that a platform ought to be launched by banks, particularly commercial banks, to finance entrepreneurship development, as well as that of small and medium-scale industries through the provision of loans. As explained by Ayodeji (2015), the stringent security demanded by the bank in providing collateral frequently results in entrepreneurs not having the opportunity to obtain loans as they cannot meet the demands of the banks due to this amount being more than what they would like to borrow. Furthermore, Ayodeji (2015) added that high-interest rate charges on loans by banks scare off potential small and medium-scale entrepreneurs.

Kareem *et al.* (2018) stated that of 72 percent of SME owners studied in Nigeria, it was indicated that a lack of finance is a major problem to develop and run their business. Nigerian SMEs are all faced with the problem of finance. Obtaining a loan to add to

the capital they had to set up their businesses was difficult due to the high-interest rate, huge collateral and limited access to funds from any financial institution. SMEs also complained that bigger companies or businesses secure loans more often than SMEs. Presently, they are still unable to gain access to adequate finance. The only source available entails high costs, thereby rendering the business unprofitable, depending on the turnover in the business (Kareem *et al.* 2018).

A study by Kuzilwa (2005) also highlighted a key constraint of small enterprise growth as finance capital. It was not possible for owners of small enterprises to easily access finance for the expansion of their businesses. They faced difficulties of credit restrictions in addition to a requirement to provide collateral, amongst several other conditions. The result was that entrepreneurs did not have adequate financial resources in pursuing growth to enable the achievement of the intended target (Kuzilwa 2005).

Ayodeji (2015) likewise concluded that access to formal finance by SMEs in Nigeria is poor. In most instances, small businesses are rarely able to comply with the conditions that financial institutions set, as lending to SMEs is considered risky because of inadequate guarantees and insufficient creditworthiness information. There is a recognised risk related to doing business with clients that do not have sufficient financial history, as well as the comparatively high costs that accompany SME finance. Ayodeji (2015) asserts that the financial sector is over-regulated and the government imposes interest rate ceilings concerning financial institutions, which undermines the desirability to service the small business sector.

Small business owners in most developing countries are faced with the problem of mastering the science and art of managing their businesses, which poses economic growth problems as they do not pay adequate attention to assimilating knowledge pertinent to the managerial skills needed to operate their business (Nwachukwu and Ogbo 2012). Competent training is required to manage a business in marketing,

production, financial control and leadership. Igwe *et al.* (2013) explained that management problems are known as one of the challenges in Nigeria's SMEs. Not only do managerial skills influence the perceptions of owners where their business is concerned, but insufficient managerial training and skills are also an important reason for the failure of enterprises (Watson 2004). McConnell (2011) concurs in noting that the challenge of poor management was a factor entrepreneurs needed to consider in pursuing growth for their enterprises.

Kiumarsi, Jayaraman, Salmi and Asra (2014) classified the lack of marketing orientation as one of the main factors in the failure of small businesses. Most SME owners do not have the skills or ideas about marketing in business and tend to face marketing problems. In Nigeria, the owners of SMEs stressed that it was almost impossible to market their new business due to the cost of using advertising media, with the result that they resorted only to printed flyers that are handed out to people. Other commonly used aspects of marketing comprised direct marketing and street expositions with cars (Ayogu and Agu 2015). Marketing is affected because locally-made Nigerian goods and services are regarded as meant for the poor, unfashionable and meant for the uneducated; whereas foreign goods and services are regarded as meant for the wealthy and influential, even though some locally-made goods and services are of better quality in comparison to foreign brands.

Nwachukwu and Ogbo (2012) state that such situations affect the increase in marketing to and contentment of consumers locally. Amongst other problems in marketing for SME owners in Nigeria are the development of a marketing plan; identification of new opportunities; firm branding; and competition posed by large businesses, as well as gaining positive publicity, pinpointing customers, effecting strategies for marketing and comprehending the customer, along with being able to overcome negative perceptions, networking effectively, ensuring business from large corporations and the development of new services and products (Ayogu and Agu 2015).

Technology is described by Nwachukwu and Ogbo (2012) as one of the problems encountered by small business enterprises in Nigeria. SMEs that produce goods emphasised that the acquisition of modern technological equipment at the inception of the business was not possible due to the capital required in getting the machines into the country. Consequently, SME owners ended up with old equipment, which always develops faults, either in the production process or as a result of failures in the power supply.

However, most SMEs tried to save money to acquire modern technology, which requires all their life savings, in the hope of recouping these in the years to come (Katua 2014). Many complained of a lack of infrastructure concerning their expectations of government. This ranges from the belief that government would enforce an adequate supply of power/ settle irregular power supply and rectify the inadequate educational and technical environment, whilst also addressing the lack of research and development, unfriendly fiscal policies, excess taxes, and levies rates. Other expectations are related to inconsistencies in government policies, transportation and bad road networking. Furthermore, Osotimehin, Jegede, Akinlabi and Olajide (2012) argued that financial constraints and the lack of management skills were the main challenges faced by small firm owners in Lagos State.

SMEs in Algeria face a variety of challenges that may impede not only their development but also impact their ability to create more jobs (Bouazza 2015). Included in these is that SMEs, in particular, and the Algerian private sector, in general, have unfriendly business environment hindrances that impact their development. Examples include a lack of access to industrial real estate, regulatory obstacles, poor quality financial statements, as well as the weak capacity of human resources. Furthermore, several internal challenges are encountered by these SME owners, which are a major cause of their failure. These challenges include poor competencies in management,

insufficiently skilled managers, marketing strategy deficiencies, weak research and development and weak technological capacity (Bouazza 2015).

The problems that challenge SME owners in SA are classified as finance and industry-related. SA bankers are less inclined to finance SMEs (Abor and Quartey 2010) due to their perceived high level of risk and a weak expected return (Smit and Watkins 2012). This is emphasised by SA micro-enterprise surveys, with inaccessibility to finance listed as one of the primary external constraints encountered by SMEs. Some of the factors that contribute to the complex financing problems are insufficient knowledge of the SME entrepreneur (Sunjka and Emwanu 2015). For example, their inability to draw up a business plan; the lenders' inability to determine the SMEs' credit risk, which can be attributed to their lack of enterprise information; and general communications issues (Berry, Coad, Harris, Otley and Stringer 2009). Kotzé and Smit (2008) and Rajaram (2008) postulate that these factors lead to low levels of entrepreneurship and a high SME failure rate of SA SMEs. It is therefore important to develop an effective and efficient process whereby all SME dimensions are evaluated when measuring the borrower's risk.

The development of a more inclusive SME risk measurement framework will enable lenders to make rapid and objective decisions based on the actual business environment, while SME management cannot then criticise the banking environment for over-evaluating the risk (Smit and Watkins 2012). At present, few risk evaluation models exist that allow for an overall evaluation of SME risk. The lack of suitable risk models is emphasised by the banking sector's continued reliance on financial models where information is derived by way of financial statements, as this information is considered more objective than information obtained from other sources (Sunjka and Emwanu 2015).

According to Naicker (2006), market-related factors that exert the most negative influence on enterprise success are increased competition, limited market size, low

demand and inefficient marketing, as well as poor competitor understanding, poor location and market understanding, along with the inability to identify the target market (Naicker 2006; Watt 2007). SA SMEs are hampered by a structural problem in that contrary to SMEs in other developing countries, SA SMEs do not complement larger organisations with specialised products or services, instead of competing with larger enterprises in the same product markets (Rogerson 2004), albeit for different consumer segments.

Fatoki and Garwe (2010) argued that a lack of education and training are amongst the challenges that hamper the growth and sustainability of SMEs. Furthermore, Osotimehin *et al.* (2012) believe that a lack of management skills is one of the main challenges faced by small firms in Lagos State, while Musara and Fatoki (2011) determined that access to financial resources is a major challenge impeding the survival of most SMEs. Maas and Herrington (2006) maintained that access to financial resources in the SME sector is one of the main challenges that result in the high failure rate of SMEs in SA. This is further reinforced by Mazanai and Fatoki (2012), who established the challenge that mostly hinders the growth and survival of start-up SMEs in SA is access to finance.

According to Osotimehin *et al*. (2012), the majority of SME owners specified a lack of capital and high costs of procuring equipment as the most serious problems in establishing SMEs. Sitharam and Hoque (2016) pointed out that most SME owners believe access to finance to be a notable challenge affecting the growth of a business. Arinaitwe (2006) states that SMEs also have insufficient technological capabilities. Moreover, little, if any, technological implementation, despite great technological advancements globally. Without technology, small businesses find it difficult to either compete or grow (Arinaitwe 2006). Fatai (2011) echoed that financial constraints, a lack of infrastructural facilities; unfavourable government policy inconsistencies; and internal characteristics are obstacles encountered by SMEs.

Musara (2010) pointed out that SMEs are also faced with harsh competition from large business firms since they operate in the same business environment. Sitharam and Hoque (2016) stated that competition is viewed as one of the main challenges affecting the performance of SMEs by the majority of SME owners. In a 2012 Finscope SME Survey (FinMark Trust 2013), competition was ranked as the third greatest obstacle to business growth. Bowen, Morara and Mureithi (2009) highlighted that one of the primary impediments amongst SMEs in Nairobi, Kenya, is that of competition.

According to Sitharam and Hoque (2016), most SME owners believed that government bureaucracy impacts the growth of the business. Mensah, Fobih and Adom (2017) emphasised that without finances, proper management skills, competitiveness and technology innovation, as well as the bureaucratic nature of licensing new business, SMEs face major challenges. Furthermore, Okpara and Kabongo (2009) found that infrastructure factors such as power supply and access to roads were also major contributing factors to SMEs' difficulties. Sitharam and Hoque (2016) showed that SME owners/managers perceive that business performance is also affected by the power supply and telecommunications infrastructure.

2.8.3 Zimbabwean SME challenges

The prevalent challenge faced by most SMEs in Zimbabwe inhibiting them from growing is limited access to finance from formal sources (Tinarwo 2016). It is common knowledge that financial institutions are unwilling to support SMEs since these small enterprises lack collateral security and the financial institutions cannot follow up on SMEs again. While the government and other stakeholders in the economy have started to realise the SME sector’s importance, there is still little assistance for many small businesses and some are operating below capacity (Chidoko *et al.* 2011). Many entrepreneurs in the informal sector have no access to banking facilities at all, with most not having any collateral to secure loans from banks, which exposes SMEs to cash flow risk.

In addition, suppliers are unlikely to provide goods on credit, mostly due to some SMEs not functioning from proper places of operation, in addition to also having little or no collateral assets (Mudavanhu *et al*. 2011). This is then worsened by the bargaining power of customers of SMEs who, because of their relations, have the power to negotiate credit terms. In Zimbabwe, economic challenges and the cash crisis are the cause of many SMEs being forced to sell their products and services on credit terms. The consequence is that SMEs then experience problems of payment default by their customers, which ultimately affects SMEs' liquidity (Mudavanhu *et al*. 2011).

The dilemma, according to Mudavanhu *et al*. (2011), is that SMEs have a comparative advantage in providing credit to individuals or businesses with whom they have an ongoing relationship, thereby creating excessive concentrations in geographic and industrial sectors. Defaulting on payments thus triggers a total or partial loss of any amount owed by the debtor. SMEs therefore cannot dictate terms to their customers because of their very nature and as a result, are exposed to collection risk on the receivables portfolio, which may strain their liquidity position, thereby exposing the SME to cash flow risks. Cash flow becomes a problem when certain customers do not pay on time (Mudavanhu *et al*. 2011).

Furthermore, most informal business operators lack the necessary skills in operating their businesses (Nyamwanza 2014). At times, they do not keep proper records, while additionally relying on their memory for business record purposes, which is not an alternative to written records, since the biggest drawback is that of forgetting and thus losing income.

SMEs are unable to identify sources of technologies suitable for their specific activities as a result of a lack of knowledge (Tinarwo 2016). While technology enables SMEs to efficiently service their clients, they nonetheless end up investing in expensive technology that might not be appropriate for their business operations. The lack of knowledge regarding information technology (IT) also deters the growth and

development of SMEs in Zimbabwe, since it results in increased cost of production, which diminishes SME viability (Nyoni 2002). Low barriers to entry into the SME industry further worsen the situation in that it increases competition and SMEs have to subsequently lure customers through relaxed credit terms (Tinarwo 2016). All these factors determine the growth of SMEs and can result in small enterprise owners missing the normal trajectory growth, as explained in the 'Stage Models of SMEs Growth' by McMahon (1998). Additionally, access to both local and foreign markets remains a major constraint facing SMEs. Numerous Zimbabwean SMEs have failed to successfully operate because they do not possess adequate information on market trends and opportunities (Chikomba *et al.* 2013). Moreover, the SME sector is also not prepared for exports, with most entrepreneurs finding the complications and costs of export burdensome.

Other factors that have a bearing on the success or failure of SMEs are the fact that some are located in remote areas, far away from centralised regulators (Mudavanhu *et al.* 2011) and in any resources are lost travelling to the provincial capital where business documents are issued. In addition, these enterprises can only afford short-term licences or permits, resulting in the continuous incurrence of expenditure through travelling long distances to provincial towns to renew such short-term permits when they expire (Mudavanhu *et al.* 2011).

According to Dumbu (2014), established SME challenges are regulation and policy issues; competition from large companies and from within the SME sector in terms of market share; technological and infrastructure unavailability; and the intellectual property rights issue. Furthermore, SMEs found it costly to have state-of-the-art technology and did not adopt e-commerce. This was attributed to the unstable electric power supply and a lack of adequate infrastructure, specifically the buildings from which they operate (Dumbu 2014).

Mudavanhu *et al.* (2011) argued that many small organisations fall short in identifying and developing potential in-house leaders. This is a real problem in small to medium-sized businesses as well as in big companies, even though larger firms are normally required by their shareholders and boards to carry out succession planning. Without succession planning, companies become reliant on the external labour market, and top employees are more prone to leave the organisation because of the absence of a clear career path. A comprehensive and clear succession plan should be put in place in all organisations, whatever their size. Mudavanhu *et al.* (2011) aver that a well-planned employee succession plan can help retain key employees, decrease disruptions to the business and reduce outside hiring costs.

2.9 RISKS ASSOCIATED WITH CHALLENGES FACING SMEs

From the above discussions, several challenges affecting SMEs globally, regionally and nationally were identified. These include, amongst others, the lack of access to formal sources of capital, poor management competencies, failure by customers to pay money owed to SMEs, and intense competition due to low barriers to entry in SMEs. Additional factors are a cumbersome business environment, a lack of proper infrastructure, weak technological capacity and the high cost of doing business. These challenges expose SMEs to various risks.

Aziz and Yazid (2015) stated that the problems and challenges faced by SMEs expose them to various types of risk. There are many areas or categories of risk related to small businesses (Smit and Watkins 2012). Due to limitations in size and capabilities, small businesses suffer from several risks, other than those faced by large firms. Identifying the risks that SMEs have to face will enable the selection of appropriate tools and techniques to manage these risks (Jayathilake 2012). According to Cihovska and Nekolova (2012), SMEs are unable to maintain control over the markets in which they operate. SMEs are sensitive to changes in the business environment and therefore take higher business risks. As stated by Belás *et al*. (2014*),* the most important business risks perceived by entrepreneurs in the Czech Republic and

Slovakia were market, financial and personnel risks. Results from this study are similar to those determined by Jayathilake (2012), who found strategic, operational and financial risks to be the dominant risks faced by SMEs in Sri Lanka.

On the one hand, Bocker (2008), cited in Mironescu, Turcu and Ceocea (2015) highlighted four major risks, namely Hazard Risk, Economic Risk, Operational Risk and Strategic Risk. The Casualty Actuarial Society (2003) on the other hand indicated that the four major risks include Hazard Risk, Financial Risk, Operational Risk and Strategic Risk. Risks facing SMEs can thus be categorised as Strategic Risk, Financial Risk, Operational Risk and Hazard Risk.

2.9.1 Strategic Risks

Risks that affect company values are identified by Bocker (2008), cited in Mironescu *et al*. (2015) as strategic risks. They can lead to bankruptcy, stagnation, or a fall in activities due to the inability of the organisation to adapt to a competitive, constantly changing environment. Specific risks include changes in customer priorities; threats from competitors; emerging changes in brand perception; and changes in access to capital, as well as to human capital, while technology developments, change in economic and political factors, along with legal and regulatory environment changes are included.

Strategic risks are risks emanating from customers, competitors and the external environment (Jayathilake 2012). It involves business planning failure and bad reputation (Mahussin 2017) with, for example, business owners receiving major complaints from customers, thereby creating a bad image of the business. A business failing to plan its business accurately is thus unable to anticipate changes in customer preferences and demand. Strategic risks relate to issues such as customer preferences, competition, technological innovation and regulatory issues (CAS 2003).

For instance, SMEs face the challenge of the high cost of doing business, which has resulted in many small businesses cutting corners to remain economically viable. Many SMEs subsequently make use of inferior raw materials, whilst also paying very low wages under unfavourable working conditions to lower operational costs and maximise profits. However, this exposes SMEs to reputation risk. Reputational risks incorporate all risks from conceivable infringements of the law, approaches and benchmarks of national and worldwide organisations, as well as the absence of good practices identified with social obligation, along with modifications or the absence of attention to principles and practices that influence business acknowledgment (Restrepo, Díaz and Ocampo 2014). This is by far the most commonly overlooked risk, even though a firm's reputation is its single most important asset.

Every SME business needs to carefully monitor its reputation. This risk has dramatically increased in recent years due to the increased use of social media in Zimbabwe and beyond. Unhappy customers do not hesitate to attack the firm on social media, with negative consequences for the firm's trading capacity (Mahussin 2017). In Zimbabwe, for example, Alpha and Omega Dairy suffered reputational damage after their ice-cream brand was labelled unsafe, following the suspected poisoning of the then Vice-President of Zimbabwe, Emmerson Munangagwa, after he ate the ice cream at a rally and it was talked about on social media.

With social media, bad news can spread fast, so even small businesses need to think about risks to their reputation. Therefore, managing reputation in SMEs has become more difficult because every disgruntled customer now has easy access to a public social media platform or outlet where they can go when they are unhappy with any aspect of a firm. Hence, a firm must have a social media policy and strategy (Mahussin 2017). The following comments concerning various SMEs were extracted from the Facebook platform:

The Alpha and Omega Dairy products are no longer safe for consumption considering that Grace is very angry with Zimbabweans. (Comment 1)

I will never buy any Alpha and Omega dairy products, especially ice cream. You die for sure. (Comment 2)

Beware of Alpha and Omega ice cream. (Comment 3)

Several small-scale poultry producers in Zimbabwe are mixing their chicken feed with Anti-retroviral tablets to fast track the growth of their birds for quick sale. (Comment 4)

In some parts of Zvishavane, unscrupulous chicken farmers are feeding their broiler chickens on ARV drugs to fatten them so that they fetch more money on the market. (Comment 5)

I have seen my neighbour adding ARV tablets into chicken feed and he is already selling, yet I know they should be four weeks old now. The chickens are very big and fetch higher prices on the market. (Comment 6)

I have chicken and egg dishes on my menu. Since people heard of the avian flu outbreak, mistrust grew amongst my customers as they think I'm preparing dishes using infected chickens. (Comment 7)

I am losing hope in my business because my customers no longer trust me since I'm a small-scale businessman. I now have to look for other types of meats to use as alternatives for the time being since customers think all chicken meat is infected with bird flu and I have lost my customers. (Comment 8)

Consequently, the negative publicity brought about by social media messages results in the reputation of these companies being lost, in addition to the loss of existing and prospective customers. This threatens the future survival of these companies as it is difficult to undo a company's tarnished image and win back lost customers (Mahussin 2017).

Furthermore, SMEs face a cumbersome business environment. This has made it difficult for many SMEs to operate legally and within the confines of the law, as compliance with registration, taxation and customs requirements make their products more expensive in comparison to big businesses that enjoy economies of scale (Keith 2014). Products or services can become less marketable through legislation or taxation. Keith (2014) states that this challenge, therefore, exposes SMEs to compliance risks, which are associated with the need to comply with laws and regulations.

Compliance risk is the possibility that the business will not comply with laws and regulations in the jurisdictions where it operates, or that the organisation will violate a legally binding contract. Non-compliance can be wilful, or it can result from being unaware of local legal requirements (Beck 2004). In Zimbabwe, many SMEs operate unregistered businesses and consequently do not pay taxes to the government. SMEs are also required to have an operating licence from the local authority and many do not bother to obtain the operating licence. Most of the time, they play 'cat and mouse' with municipal police.

Additionally, SMEs face strong competition from other SMEs and big businesses, coupled with an unstable operating environment. This exposes SMEs to market risk, which relates to changes in the competitive market environment, meaning their competitors, the products they offer and the competitive advantages they might have, as well as potential future competitors and their competitive strategies and tactics (Boyd, Dess and Rasheed 1993). Market Risk is also a risk to earnings arising from

changes in underlying economic factors, such as interest rates or exchange rates, or fluctuations in bond, equity, or commodity prices. SMEs are subject to market risk in their trading operations. Zimbabwe's economy is characterised by unstable interest and exchange rates and high inflation. Boyd *et al.* (1993) state that businesses face pressure on their profit margins as they cannot raise their price but have to absorb the high input costs and are thus prone to market risk due to commodity price increases.

2.9.2 Financial Risks

According to Bocker (2008) cited in Mironescu *et al*. (2015), economic/ financial risks are risks that include changes in interest rates, exchange rates, commodities, shares, and other property, as well as credit risks and liquidity risks. Financial risks include potential losses from fluctuations in the operations of the financial markets, such as the foreign exchange market, commodity market and capital market (CAS 2003). Financial risks are identified as events or situations affecting money flowing in or out of a business. They are also defined by Mahussin (2017) as events disrupting cash flow.

For example, selling goods on credit exposes SMEs to credit risk as there is a high probability of failure by customers to pay the money owed to SMEs. Van Greuning and Brajovic (2009) define credit risk as the chance that a debtor will not repay principal and other investment-related cash flows according to the terms specified in a credit agreement. Inherent to SMEs, credit risk means that payments may be delayed or not made at all, which can result in cash flow problems and affect the enterprise's liquidity. A lack of management of credit risk has repeatedly been the primary cause of SME failures. The dilemma is that SMEs have a comparative advantage in giving credit to individuals or businesses with whom they have an ongoing relationship, thereby excessive concentrations are created in geographic and industrial sectors (Mudavanhu *et al*. 2011).

Furthermore, SMEs lack access to formal sources of capital, which leads to insufficient cash flow to meet their needs. This is a risk whereby a company's available cash will not adequately meet its financial commitments (Tetteh 2012). Every business must carefully understand where the day-to-day funds to sustain the core operations of the business come from. Therefore, with critical issues such as rentals, bills, wages and payments for supplies being the lifeblood of a business enterprise, these commitments must be met on time for a business to be sustainable.

The researcher noted that the failure to manage cash flow is one of the biggest risks facing SMEs in Zimbabwe. The current state of the economy, coupled with severe cash shortages, has exposed most SMEs to cash flow risk, while the poor economic environment has seriously reduced the financial power of SMEs. There is no stable cash flow in Zimbabwe due to the limited cash in circulation and shortages of cash in banks, resulting in late payments. This risk usually leads to business failure. The researcher noted that the shortage of cash has forced customers to abandon SMEs in favour of the formal market. Most SMEs are still not accepting electronic money, which is now the common payment method. In addition, according to SME owners, many suppliers of raw materials demand cash up front, which has affected firms' production levels. These are some of the comments from the respondent SME owners:

> *Formal retail businesses are benefitting from the increased use of plastic money caused by a worsening cash crisis, which is slowly undermining the informal sector. (SME 1)*
>
> *Business is down. Money is not circulating. (SME 2)*
>
> *Where we buy steel and metal, they need cash. (SME 3)*
>
> *Cash crisis buffeting the nation is worsening the situation. We are accepting payments via mobile money or bank transfers, but the problem is money*

cannot be accessed in the bank. Right now, we cannot keep money in the bank. I queue at the bank till I get all my money. (SME 4)

Consequently, SMEs' available cash will not be adequate to meet their financial obligations, such as the payment of rentals, electricity bills, wages and payments for supplies. This calls for careful planning by SMEs to ensure that money to sustain the core operations of the business is available.

2.9.3 Operational Risk

Operational risk is the risk of indirect or direct loss from failed or inadequate internal systems, processes and people, or due to external events (Sabastian 2008). It is evident in the form of incompetence, mistakes, criminal acts and the unavailability of employees, as well as malfunction of technical systems and external factors comprising threats such as violence, fraud, physical threats, or natural disasters (Sabastian 2008). Bessis (2011) pointed out that malfunctions of information systems, reporting systems, internal monitoring rules and internal procedures designed to take timely corrective actions, or compliance with internal risk policy rules, result in operational risks. Therefore, operational risks emerge at different levels, such as human errors, technical processes and information technology.

According to Bocker (2008) cited in Mironescu *et al*. (2015), operational risks are related to key people, the orientation of human resources and employment, as well as IT systems, accounting, auditing and control systems. Additional factors include regulatory compliance, design errors, disruptions in operations and the supply chain. Furthermore, the Casualty Actuarial Society (2003) pointed out that operational risks arise due to numerous situations, such as product failure, product development, IT and management fraud, as well as employee agitation.

Operational risks are any risks that stem from human resources, production methods, IT and other internal processes that significantly impact business activities. It is the

system, process, procedure and people risks that interrupt business operations (Jayathilake 2012). Mahussin (2017) defined operational risk as system, process, procedure and people risks that disrupt business functions. For instance, an equipment failure slows down production processes due to workers having to manually do the process. Another example would be a disruption in the supply of raw materials, which would cause production delays or termination.

Falkner and Hiebl (2015) highlighted that most SMEs depend on one supplier in the acquisition of products as a procurement strategy. While the strategy may be good to gain a better trading position, it also creates a strong dependence on the supplier. Consequently, production interruptions can happen when there are any difficulties with the supplier.

For example, many SMEs lack management competencies which expose them to operational risk, a risk arising from the execution of a company's business functions (Goodhart and Danielsson 2001). Furthermore, many SMEs also fall short in identifying and developing potential in-house leaders. Gilmore, Carson and O'Donnell (2004) echoed that practically every business is presented with a loss of knowledge when experienced workers with profitable data and information and/or contacts leave the organisation. In this manner, Gilmore, Carson and O'Donnell (2004) inferred that the loss of long-haul workers and administrators might be particularly unsafe for SMEs because there are frequently no other workers or managers in the firm with comparable knowledge.

Many SMEs in Zimbabwe are family-run businesses, with the founder typically being the CEO, the offspring as the managing director and other extended family members working in various departments in the enterprise (Mudavanhu *et al.* 2011). The top risk in this setup is the lack of succession planning. As senior positions are usually filled by family members, such SMEs will find it tough to recruit and retain talent since there are limited or no avenues of progression available to non-family members. Another

risk is the lack of knowledge and/or training of staff. Technical expertise is often 'passed down', which may lack current technology. Such 'training' is not structured and provides no continuity. Hence, the unexpected departure of any member will cripple the enterprise's operations (Mudavanhu *et al.* 2011).

2.9.4 Hazard Risks

The Casualty Actuarial Society (2003) defined hazard risks as traditionally insurable risks, sometimes referred to as pure or insurance risks. Hazard risks are events that cause a loss of usage of business premises or equipment. SMEs are exposed to hazard risks such as fire, theft and natural disaster. The direct impact is that the business may suffer the loss of usage of the premises and equipment, while the indirect impact is that the business may have to cease operations and ultimately lose revenue. Hazard risks, according to Bocker (2008) cited in Mironescu *et al*. (2015), determine the decrease of non-financial assets because of natural phenomena, damage of the assets, employee actions or events that affect the liability, while product revocation and integrity, as well as business interruption, may also be the cause.

For example, many SMEs lack proper infrastructure, resulting in many of them operating in areas with no proper buildings, thereby raising security and safety issues. Furthermore, this exposes them to business interruption risk, which includes but is certainly not limited to, any type of business interruption and/or other types of catastrophic occurrence (Casualty Actuarial Society 2003). Catastrophic events such as fire floods and major thefts are rare. However, it only takes one event to close a business permanently when the proper coverage is not in place.

As one of the most ignored areas of risk, hazard risk has been perceived by many corporate executives as improbable (Bocker 2008, cited in Mironescu *et al*. 2015). A significant number of businesses never re-open following a disaster such as a fire. According to Bocker (2008) cited in Mironescu *et al*. (2015), the unfortunate reality of the world today is that businesses must be prepared to deal with all types of undesirable circumstances. Ill-prepared businesses are often forced to completely

shut down operations during repairs to their premises, which can do irreparable damage to their brand and leave employees without work for extended periods (Bocker 2008, cited in Mironescu *et al*. 2015). SME risks are summarised in Table 2.2 below.

Table 2.2: Small and Medium Enterprise Risks

SMALL AND MEDIUM ENTERPRISE RISKS	
OPERATIONAL RISKS • Human resources risks (key skill shortage or personnel turnovers) • Violence at the workplace • Product failure • Loss of key equipment • Internal control failures • Vandalism • Information Technology System failures • Utility failures • Supply chain disruptions • Health and safety violations • Operator errors • Accidental damages • Information reporting/management	**STRATEGIC RISKS** • Reputational Damage • Timing of major business decisions • Competition • Trade barriers • Intellectual property loss • Customer relations • Supplier relations • Joint Venture/ Strategic Alliance/ Mergers • Budget overruns • Ineffective planning • Ethics violations • Product design and manufacturing • Customer demand variability • Regulatory Compliance • Technology Innovation
FINANCIAL RISKS • Credit default • Interest rate fluctuation • Foreign exchange rate fluctuations • Adverse changes in environmental regulations • Tax law changes • Inflation • Fuel prices • Financial markets instability • Liquidity Risk • Uncompetitive cost structure • Economic recession • Asset valuation • Inadequate/ Inaccurate financial controls and reporting	**HAZARD RISKS** • General liability • Third-party liability • Product liability • Directors' and officers' liability • Property damage • Building or Equipment Fire/ explosion • Loss of key facility • Collapse of building • Pollution • Natural disasters • Terrorism/sabotage • Disease • Epidemic • Disability • Cargo losses • Business interruption • Theft

2.10 RISK CONCEPT

The concept of risk has been widely discussed ever since it surfaced in the field of management theory (Gajewska and Ropel 2011). According to Abotsi *et al.* (2014), risk is a complex concept with different meanings and limited consensus. This could be attributed to various measures that strive to describe different phenomena that are referred to as risk and which are typically related to expected adverse effects (Ekwere 2016). Nonetheless, expected positive effects are also embraced by the concept. According to Classical Decision theory, risk is the potential ambiguity of results that arise from a selection and is viewed as a reflection of alternatives in the allocation of possible consequences, their expectations and particular accepted meanings (Versluis 2015; Wijekoon, Amaratunge and Sisira Kumara 2016).

According to Misiura (2015), any research that is focused on the phenomenon of RM requires a thorough comprehension of the term “risk”. Various definitions exist for this phrase, with those generally found in academic and popular discourses concerning potential injury or loss, the possibility of an impact that is negative and of an undesirable event. Panigrahi (2012) describes risks as the possibility of something taking place that will either negatively or positively affect objectives.

More accurately, the goals of a small business could include: providing the best quality service; maximising revenue and decreasing expenses; having quality employees; and increasing product quality and productivity, in addition to increasing its share of the market (Cienfuegos 2013). Nonetheless, in general, risk can be broadly defined as any concern that can influence a business entity’s objectives and the possibility that both predictable and unpredictable occurrences may adversely impact the capital and earnings of the enterprise (Rørvik 2013).

Risk is measured and defined in a variety of ways in scientific literature. However, the fundamental and primary meaning of risk is deemed to be ‘threat and danger’ (Smit and Watkins 2012). Risk may further be described as the likelihood and scale of that

loss in how it puts an organisation and/or a person at a disadvantage (Harvett 2013). It is viewed by Ng'ang'a, Muthusi and Nassiuma (2015) as the likelihood of something taking place that will affect an organisation and its objectives. Risk is regularly connected with instability, as the opportunity for risk is possible and it implies being open to vulnerability or risk (Gorzeń-Mitka 2015). At the same time, there is the choice to do nothing, which explicitly avoids opportunities that exist and leaves risks unmanaged.

Auriol (2014) states that risk has been viewed as negative results and unfavourable occasions. However, the thought of risk from a negative point of view is inhibitory and misdirecting for two basic reasons. To begin with, vulnerability may show in either negative (risk) or positive (open door) structure, or both; and secondly, how risk is perceived impacts how it is taken care of (Henschel 2008a). Overseeing risks from a negative point of view may result in the exclusion of opportunities (advantages/pick-ups) in the occasion under consideration. In any case, perceptions on risk differ as the risk definition depends on and is influenced by the one perceiving the risk (Alliance 2005). In addition, risk infrequently involves some financial advantages as firms may determine significant increases by going out on a limb. Thus, according to Perusahaan, Konsolidasian and Perusahaan (2013), business grows through more serious risk-taking.

According to Huang and Jia (2010), business risk is prevalent at all levels, whether at the start, during growth, or in closing. Firstly, the biggest risks of all are taken in starting a business. For instance, leaving a well-paying job and facing the risk of losing one's own money or money from other financiers of the business. Secondly, to leave or close a business one has built through hard work, there is risk in passing it to others who might only have a self-interest in mind when managing the business. It was suggested by Muhammad and Amber (2011) that entrepreneurs and business owners are, possibly due to their nature, less averse to risk, as opposed to those who are content to be employed by someone else. It is necessary to be prepared to take risks for

business start-up and growth to take place. However, in order to succeed, it is also necessary to reduce risk by applying RM practices.

Even though concepts of theoretical risk are far-reaching, they are not firmly grounded in the specific experiences of SMEs and entrepreneurs (Abotsi *et al.* 2014; Mittal 2012; Smit and Watkins 2012). According to Yusuf and Dansu (2013), there are three apparent differences. Firstly, many SMEs and entrepreneurs do not deal with uncertainty relative to positive outcomes as an important risk factor. From the perspective of Decision Theory, an option is considered risky when it has an extensive scope of probable outcomes. However, from the perspective of an entrepreneur, an option is risky when it entails the threat of a poor outcome. Secondly, risk is not primarily a probability concept for most entrepreneurs. Even though uncertainty is seen as a factor in risk, the degree of possible negative outcomes appears to be more persuasive. Lastly, the majority of SMEs and entrepreneurs endeavour to be precise in assessing risk, yet do not show much desire to moderate it to a quantifiable, single measure (Yusuf and Dansu 2013).

Based on these narratives, it is apparent that the personal evaluation and interpretation of risks by an entrepreneur are relevant to the risk-management activity. Therefore, the factors that influence RM are centred on individual perceptions, such as demographics and culture. Thus, risk can be defined from the entrepreneur's perspective, as:

> *Any issue to the business firm that entails the threat of a poor outcome, or an event whose occurrence has the potential of influencing negative outcomes to the business.*

External and internal factors can cause risky events (Belinskaja and Velickiene 2015). On the one hand, external factors include legal, political, economic and taxation changes, along with currency exchange, bankruptcy, new competitors and interest

rates, as well as client loyalty and product seasonality. Thus, broadly stated, the external environment is comprised of the conditions in which the firm operates, namely economic, social and political, as well as the changing aspects it is obliged to adjust to. On the other hand, internal factors include risks of arrears, profit, credit and investment, as well as reporting, project, strategic and personnel risks, while also including company structure and property risks. Internal risk sources result from the business itself, with this risk originating with management that is ineffective, false marketing policies, along with the exploitation of position within the company. Personnel risk is the primary internal risk associated with the character and professionalism of company employees (Belinskaja and Velickiene 2015).

2.11 RISK MANAGEMENT CONCEPT

As an inevitable and integral part of the human economic pursuit, the existence of risk resulted in RM growing into an enterprise-level endeavour, evenly fashioned and urgent (Yusuf and Dansu 2013). This is because what is seemingly stable today may change tomorrow (Belinskaja and Velickiene 2015). Mainly aimed at detecting, evaluating and ranking events that could adversely impact the organisation, RM is a concept more appropriate in an uncertain business climate. There is a need for businesses to shield themselves against occasions able to deter the achievement of their objectives and aims (Gorzeń-Mitka 2015).

Risk Management is explained as the intended method to protect company assets against the damages it could suffer in exercising its undertakings through various kinds of instruments, for example, deterrence, preservation, insurance and in conditions that offer the best cost (Habib, Masood, Hassan, Mubin and Baig 2014). Another RM definition alludes to the methods of preparation, arranging, leading and guidance, as well as overseeing of resources, so that given objectives may be achieved at the time that good or bad events may happen without prior notice (Harvett 2013).

Further re-defined by the International Organisation for Standardization (2009), RM comprises activities coordinated to focus and constrain an organisation regarding risk. Further to this, RM principles were identified as value creation integral to organisational processes; participation in making decisions that specifically address uncertainty; being structured and systematic as well as established on the best information available; remaining inclusive and transparent; being tailored and considering human factors. In addition, further principles of RM involve being responsive to change, dynamic and iterative, whilst also being capable of enhancement and continual improvement (Cienfuegos 2013).

According to Huang and Jia (2010), not only does the RM process include identifying possible events that could impact objectives, but it also distinguishes the strategy through which response plan processes and assessments are driven. Accordingly, the process should support the risk by the recognition of probable events and their management so that reasonable assurance may be provided concerning achieving objectives. This makes it a fundamental part of the strategic management of any organisation (Huang and Jia 2010). Thus, the RM process allows corporations to systematically attend to their activities associated with risks, while the objective is for sustained benefit within each activity to be achieved, as well as across the portfolio of all activities.

Furthermore, Aaron (2004) avers that the RM process should be continuous and developing, and run throughout the organisation's strategy and its implementation. RM should also systematically address all risks about the past, present and future activities of the organisation. In addition, the process of RM must be assimilated into the organisation's culture with an effective programme and policy that senior management leads (Perusahaan *et al.* 2013). The RM process has to transform the strategy into operational and tactical objectives, allocating responsibility throughout the organisation, with responsibility for risk management accepted as part of their job description by each employee and manager. This reinforces the culpability,

measurement and reward of performance. Hence, operational efficiency is promoted at all levels.

Abotsi *et al.* (2014) argued that the implementation of a RM framework or methodology can guide firms to reduce negative impacts and benefit from uncertainty in enterprise management and its positive effects. In so doing, production continuity and market trading are ensured, while the risk of failure is also decreased and the external and internal image of the enterprise is promoted (Abotsi *et al.* 2014). Business value is therefore created by RM, with business profits maximised through costs that are minimised.

Eikenhout (2015) summarised RM as how the unfavourable impact of risk is dealt with and possible opportunities made use of through curtailing those features that may affect a business negatively, detecting and channelling factors that would assist in achieving the goals and objectives of the business. However, the RM process requires that organisations think systematically about any potential risks, complications or adversities before these take place, and establish measures that would circumvent the risk as well as minimise or contend with its impact. This entails the separation of truly unknown and unforeseeable occurrences that may be encountered while conducting some activity from those occurrences (Eikenhout 2015).

2.11.1 Evolution of risk management

RM is best understood through its history (Henschel 2008a). The concept of RM has developed over some time from simple risk transfer strategies, which was viewed as the traditional approach through compliance steered RM schemes, steadily translating into coordinated programmes that made up a vital aspect of enterprise strategies (Keith 2014), as illustrated in Figure 2.2 below.

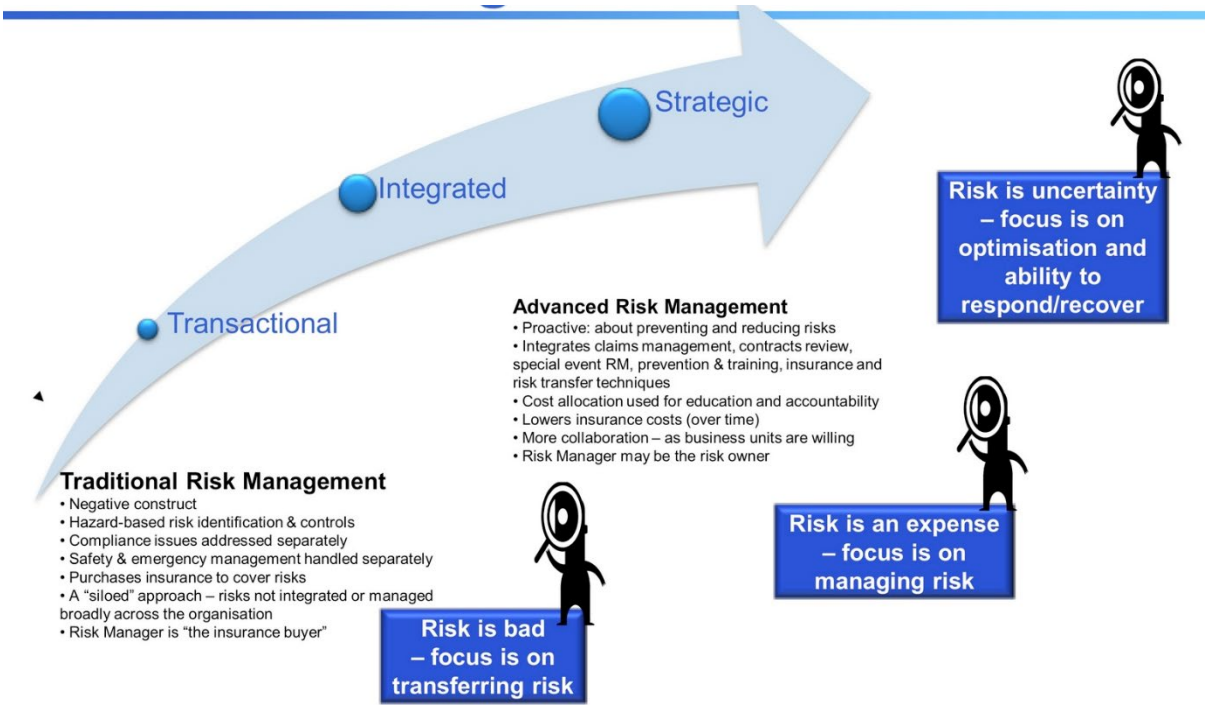

Figure 2.2: Evolution of risk management

Source: Cienfuegos (2013)

According to Woods (2007), formal RM programmes date back to the 1950s, where risk management was achieved through insurance, with the development of financial RM strategies ushered in during the 1970s. Misiura (2015) stated that initially, RM concentrated only on downside risk management, without concern for potential upside risk. Developments in the RM discipline have often been pioneered by the financial and insurance industries. These two industries have as their basic concepts the character and lucrativeness of business that is strengthened through being able to effectively manage risk (Vasvári 2015).

The Finance and Insurance Industries were the first to systematically think about risk, apart from academic bodies, mainly because RM comprises these industries' core competence (Jadi *et al.* 2014). Later on, the perception of opportunity and the potential of risk to create value started radiating to more widespread business communities and

there was a shift from a defensive attitude towards risk to an attitude that takes advantage of risk (Vesković 2014).

Numerous elements propelled the changing paradigm towards the adoption of even broader RM approaches. The environment initially became more turbulent and vibrant, resulting in interconnected and more complex risks (Brustbauer 2016). Globalisation, competition, innovation and deregulation, along with technological advancement, economic crises and e-commerce, catapulted business environment complexity and propelled the need for RM evolution (Verbano and Venturini 2013). Additionally, as a result of classic corporate scandals, external demands were exerted by regulators, corporate governance oversight bodies and institutional investors that demanded the requirement for a view of enterprise risk that was more complete (Shoki *et al.* 2014). Consequently, this triggered the promulgation of regulations and laws, for example, the Sarbanes-Oxley Act in the USA and the Combined Code in the UK (Lemus 2014).

Increases in market regularisation propelled the expansion of RM programmes in organisations that were structured. However, these programmes were originally focused on the role of compliance, including several industry standards and regulations (Beck 2004). Initially, RM comprised the implementation of numerous controlling and auditing procedures of key business processes. Fraser and Henry (2007) further found that the later improvement of RM in respect of adeptness was achieved by implementing standardised procedures and automated monitoring controls throughout organisations.

Nevertheless, these practices of RM frequently disproved their adequacy in safeguarding the interests of organisations resulting from incomplete risk portfolios considered in RM plans, or due to certain risk groups and their interconnectivity being ignored (Casualty Actuarial Society 2003). Disjointed methods in risk control, often expressed as “silo-based approaches”, attempted the separate management of certain risks, without much concern about their interconnection (Olson and Dash-Wu 2008). It

also separated RM initiatives from the strategic planning function, but with disregard for risks being interconnected, significant strategic risks would be neglected by organisations (Olson and Dash-Wu 2008).

After the economic crises over the past decades, the significance of a wider-ranging approach to RM has become evident, particularly when the “silo-based” RM approach was often not successful and impacted the performance of organisations negatively (OECD 2014). Following these crises, there has been a growing awareness, that there is an undeniable need for an approach to RM that is more holistic (Fisayo and Nwankwo 2010).

2.11.2 Approaches to Risk Management

The major RM approaches have, after an in-depth literature review by Verbano and Venturini (2013), been categorised as Traditional risk management, Strategic Risk Management (SRM) and Enterprise Risk Management (ERM).

2.11.2.1 Traditional Risk Management

Traditionally, firms seem to have been overseeing risks verifiably or using a silo approach, which implies that risks are regularly overseen in disconnection (Beasley, Clune and Hermanson 2005). Two decades ago, RM was not viewed as a strategic and vital management practice. It was principally impacted by the manager’s view of risk (Thompson 2003). At present, overseeing risk is turning into an essential concern, and the capacity to distinguish risks and adjust to the steadily changing business environment are amongst the basic achievement components for enterprises (Baranoff and Brockett 2012). Managerial prudence in recognising risks and reacting to them prompted distinctive methodologies in overseeing risk. For example, political RM and insurance and financial RM.

Conventional RM sees risk as a progression of single and random components, whereby singular risk is sorted and managed separately (Hoyt and Liebenberg 2011).

The noteworthy inadequacy of traditional RM is the narrow concentration on risks, instead of focusing on both risks and opportunities.

Few systems and procedures have been developed lately to advance ERM in both developed and developing economies. Top management in several firms no longer perceive such a silo methodology as a powerful approach to deal with the numerous types of risks they confront (Shenkir and Walker 2006). Thus, the need to productively distinguish and react to different risks has brought about the adoption of extensive RM programmes by numerous organisations (Woon, Azizan and Samad 2011).

2.11.2.2 Enterprise Risk Management (ERM)

As explained in a guide compiled by the UK's main risk management organisations namely the Public sector risk management association (Alarm), the Institute of Risk Management (IRM) and the Association of Insurance and Risk Managers (AIRMIC), ERM is the most commonly used approach in managing risk that affects any firm (AIRMIC, Alarm and IRM 2010). This is concurred with by other authors (Brustbauer 2016; Keith 2014; Shoki *et al.* 2014). Described as a process employed throughout the enterprise, ERM is devised to pinpoint events that may impact the organisation and to deal with risk, whether it be financial, strategic, human, or market risk, as well as operational and technological risks, to ascertain what risks can be tolerated so as to offer realistic surety that enterprise objectives may be achieved (OECD 2014). This approach to RM has developed further than conventional risk silos, where a common thinking process is applied in recognising, evaluating and administering the risks that enterprises have to deal with (Abotsi *et al.* 2014).

Firms are affected by risk more holistically, implying that their management should also be holistic, encroaching on the chosen disciplinary boundaries or functional silos (Gorzeń-Mitka 2015). ERM connects with risks over an assortment of levels in the organisation, therefore concentrating on both risk and opportunities.

There are different meanings of ERM. For instance, the Committee of Sponsoring Organisations (2004) characterised ERM as a procedure influenced by an enterprise's top management as well as other members of the workforce. This procedure is concerned with the setting of strategy and overseeing risk so that it remains within the acceptable risk appetite while giving reasonable affirmation concerning the achievement of the entity's goals (Committee of Sponsoring Organisations 2004).

ERM was also characterised by the Casualty Actuarial Society (2003) as a discipline used by an organisation in any industry to evaluate, screen and control risks from all sources in order to expand the organisation's short- and long-term worth. Additionally, Lam (2000) described ERM as a coordinated structure for overseeing market risk, operational risk, credit risk and financial capital, as well as risk transfer, with a definite goal to enhance firm value.

Furthermore, AIRMIC, Alarm and IRM (2010) qualified ERM as a basic leadership guide that addresses variations in the objectives of the organisation. ERM can also be regarded as a deliberately integrated approach in overseeing risks within organisations in order to guarantee that firms accomplish their objectives of creating stakeholder value (Eikenhout 2015). Two key focus areas must be highlighted by the definitions given above. The first key point is the principal role of ERM itself, as it incorporates and facilitates a wide range of risks over the entire organisation. Therefore, it implies that risks cannot be overseen in a silo approach. All risks in the organisation must be consolidated and overseen in an enterprise approach.

The second key point is that by utilising ERM, clients can distinguish any potential episodes that may influence the organisation and know their risk appetite. If the risk appetite is specifically known, any choice made by the organisation to control risks might be parallel to the organisation's goals (Walker, Shenkir and Barton 2003). According to Ng'ang'a, Muthusi and Nassiuma (2015), ERM is a procedure that joins

the corporate with RM exercises in one incorporated, all-encompassing system to accomplish an exhaustive corporate point of view.

ERM aggregates every single risk in the entire firm by considering interdependencies between risks, which allows a superior evaluation of the organisation's risk circumstance and further enhances the choice of procedure concerning operational and strategic development (Hoyt and Liebenberg 2011; Pagach and Warr 2011). The focus is thus shifted towards more hostile handling through joining ERM with the corporate strategy, and the choice procedure is unequivocally planned to add to increased shareholder value (Liebenberg and Hoyt 2003). Therefore, ERM does endeavour to minimise risk, as well as clear records for potential opportunities.

ERM is most recently related to a general RM way to deal with business risks (Raghavan 2005). Risks are managed on a venture-wide premise in ERM, which is a generally new field of practice that has immediately tackled various distinctive terms. This has prompted some confusion as individuals who tend to associate themselves with ERM might create the impression that they are discussing distinctive aspects. The ERM perspective is the inverse of the common "silo" methodology of unmistakably overseeing risks inside the entire organisation and the perspective that RM can be a quality-making exercise, notwithstanding risk mitigating procedures (Harvett 2013).

Liebenberg and Hoyt (2003) explained that ERM is a coordinated way to deal with overseeing risks that move the focus of RM capacity from being essentially cautious to being hostile and strategic. It is critical to start by inspecting the meaning of ERM with a specific end-goal; to be aware of the potential uses of ERM; and to gradually build up a typical comprehension of such a term. Lately, ERM has turned out to be progressively important for overseeing corporate risk. ERM considers the organisation's complete risk portfolio in a coordinated and all-encompassing manner (Abeyrathna and Kalainathan 2016).

Furthermore, it constitutes a part of the general business technique and is planned to add to ensuring and upgrading shareholder value (Hoyt and Liebenberg 2011). The interest in ERM as an all-encompassing and far-reaching RM structure is an after-effect of a few changing external and internal components in the workplace, which include a higher risk unpredictability, a more extensive risk scope and expanding organisations and conditions between risk sources (Smit and Watkins 2012).

Due to increased interest in ERM over time, the RM role has shifted from the marginal areas of organisations to the corporate echelons (Arena, Arnaboldi and Azzone 2010). Consequently, the ERM programme developed into one of the central strategic efforts by which more precise and rapid reactions to changing market conditions were created to improve the organisation's general performance (Hampton 2009). According to Gordon, Loeb and Tseng (2009), the increased awareness, acceptance, progressively broader organisational exposure and development of assimilated approaches to RM were followed by enterprise-wide RM frameworks and standards that were gradually formalised. Therefore, organisations must manage enterprise-wide risks under the ERM approach, utilizing a complete programme covering further than an internal audit, adherence to compliance requirements or internal control processes.

Rørvik (2013) asserted that ERM could build shareholder value in line with most corporate goals. Moreover, ERM offers a noteworthy source of competitive advantage for individuals who can demonstrate concrete ERM ability and quality (Stoh 2005). ERM is an all-encompassing methodology in distinguishing conceivable risks that a firm would experience, as well as in selecting suitable reactions that match the venture's risk appetite. The application of ERM may build risk mindfulness in a firm and improve basic leadership capacity, prompting firm value augmentation (Razali, Yazid and Tahir 2011).

According to Baranoff and Brockett (2012), ERM deals with a portfolio of risks that organisations are confronted with which ought to comprehensively enhance corporate

governance and RM practices. Beasley, Chen, Nunez and Wright (2006) alluded that ERM is a need to distinguish risks in and around an organisation, thus safeguarding that they are overseen viably overall, instead of being overseen autonomously.

D'Arcy and Brogan (2001) contended that since ERM includes a wide range of parts of an organisation's operations and incorporates a wide assortment of risks, it is important that the management of risk takes the form of a systematic, receptive and shared methodology. Additionally, ERM is an instrument that can help SMMEs to exploit new business opportunities, thereby eventually enhancing their odds for survival (Yilmaz and Flouris 2010). Despite the advantages of ERM usage, numerous organisations are yet to embrace it (Beasley *et al.* 2005).

2.11.2.3 Strategic Risk Management (SRM)

This is a process that is continuous and integrated into strategic risk assessment and identification, with these risks ranging from human to brand, technological and project risks, to stagnation and competition risks, which are perceived to be obstacles that hinder an organisation in reaching its operational and financial goals (Ndope 2016). It is referred to as SRM because it is used to deal with situations that could constrain the ability of an organisation in achieving its strategic objectives and its strategy, ultimately aimed at shareholder protection and creation. Thus, the focus of the SRM approach is to link strategy and RM and be able to identify and manage risk in a highly uncertain environment (Verbano and Venturini 2013).

2.11.3 Risk Management Process

The execution of the RM process is long-term and must constantly be enhanced so it may be incorporated into the strategic planning of the organisation (Di Serio, de Oliveira and Siegert Schuch 2011). The risk management process is depicted in Figure 2.3 below.

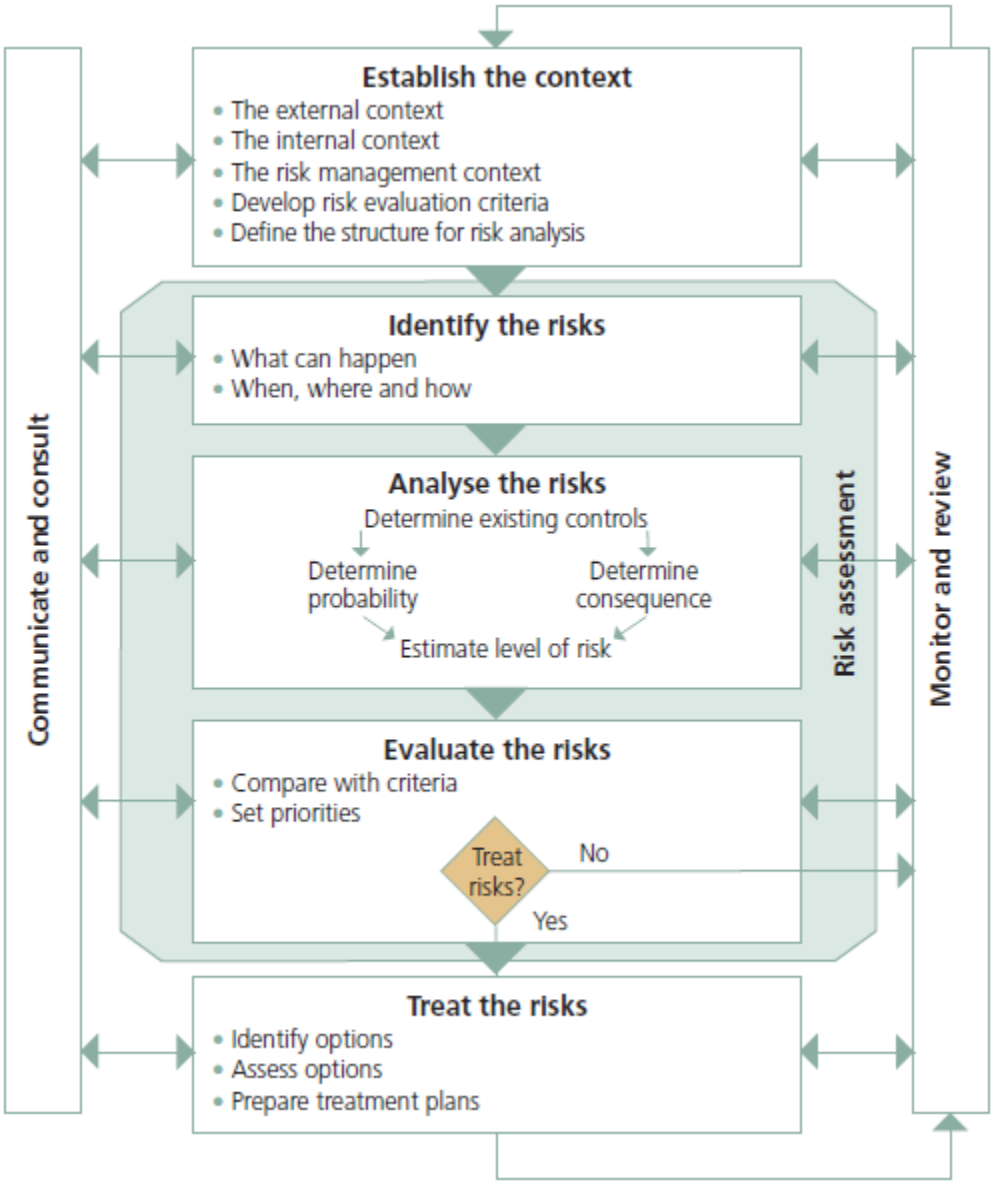

Figure 2.3: Risk management process

Source: Henschel (2009)

2.11.3.1 Establishing the Context

RM is undertaken within the context of the goals of the organisation (Henschel 2008a). It is important when RM is considered for a small business for boundaries to first be established so that the RM process may be applied within these confines (Ekwere 2016). This is essential to establish the context in which the process will take place,

as the organisation defines the internal and external boundaries to be considered when managing risk. Establishing the context involves setting the limits around RM activities and the organisation's risk appetite, which entails the deliberation of external and internal factors (Shoki *et al.* 2014).

Furthermore, the context for the RM process must be developed, which comprises establishing a RM policy, plans, risk rating criteria and processes, along with methodologies, training and reporting processes, as well as roles and responsibilities (Holgeid and Thompson 2013). Essentially, an all-inclusive understanding of the organisation's operating context is essential for facilitating parameters that are adequately defined and within which the risks will be managed. Consequently, the context of the organisation offers a clear understanding of the entire organisation, including its goals and capabilities, as well as its objectives and strategies (Holgeid and Thompson 2013).

Importantly, RM should be defined within internal and internal contexts. The owner should, in determining the internal context, examine those issues that will affect the objectives of the business (Cerić 2003). In this regard, the goals and objectives of a business, activity or project have to be identified first, thus allowing for a better grasp of all significant risks.

On the one hand, this will guarantee that there is always support for the broader goals and objectives of the business when decisions are made regarding risks (Ekwere 2016) due to this method encouraging strategic thinking in the long term. In determining the external context, on the other hand, it is not only necessary to define the overall environment in which a business operates, but also to understand the perceptions of the business by customers or clients. Furthermore, analysing these will ascertain factors that impact the external environment of the business, highlighting the strengths, weaknesses, opportunities and threats (SWOT) (Ekwere 2016).

In a SWOT analysis, strengths and weaknesses are perceived as internal factors that can be controlled and acted upon. For example, staff turnover and the image of the organisation. Moreover, opportunities and threats are seen as external factors that are uncontrollable and include demographics, interest rates and legislative changes (Ekwere 2016). Some believe that a company desiring growth should prioritise the objective appraisal of strengths and weaknesses as part of the necessary activities (Ansoff 1957).

2.11.3.2 Risk Identification

Unless it is first identified, risk cannot be managed (Ekwere 2016). However, as soon as there is a definition of the business context, this information can be used in the next step, whereby as many risks as possible can be identified. The purpose of identifying risks is to uncover any potential risks that could, whether positive or negative, impact the business objectives and the activity being analysed (Ekwere 2016). According to Terungwa (2012), recognising risks is the first step to viable RM. These can be differentiated by investigating what the business does, after which it should be determined what could hinder the acknowledgment of the targets of the business.

The initial phase in the RM process is recognising conceivable origins of loss and, along these lines, risks (Huang and Jia 2010). Huang and Jia (2010) identified three techniques to recognise the risks of loss that can be used by SME managers. These include methodical audit information about the staff; business resources and exercises; distinguishing sources of possible monetary losses by making use of financial statements; and examining all the venture's exercises or operations through graphs. However, risk identification may likewise be definitive in SME venture management (Marcelino-Sádaba, Pérez-Ezcurdia, Lazcano and Villanueva 2014). It was recommended by Marcelino-Sádaba *et al.* (2014) that key project risks with the potential to jeopardise the survival of the SME or the entire venture ought to be evaluated in full and additional operational risk should be deliberately recognised and scrutinised.

An investigation by Gao, Sung and Zhang (2013) highlighted that effective risk identification in SMEs might be prevented by SME workers' constrained information on RM. Thus, the main purpose of this stage lies in recognising all risks whereby business development could be damaged or interrupted. The identified risks can either negatively impact the company's financial situation and its development, or not (Napp 2011). The identification process is very important since only risks that have been identified can be dealt with successfully in the following steps of RM (Hobohm 2001). According to Falkner and Hiebl (2015), the critical factors and uncertainties of the business could be determined when the business processes are checked regarding their risk potential.

There are two approaches used in identifying risks, namely regressive and progressive. The regressive approach starts with the company's major goals and attempts to discover potential risk factor explanations that could result in departing from the set objectives (Baranoff and Brockett 2012). The progressive approach intends to establish probable deviations from the plan and resultant losses, based on typical risk factors. The risk factors might be from different sources of origin, for example, legal aspects, financial factors or changes in the markets (Jayathilake 2012).

Risk identification techniques can either be analytical or creative. Under the creative tools, use is made of group interviews, brainstorming and a subjective assessment of the risk (OECD 2014). In employing analytical tools, the regressive approach commonly uses an analysis of cause and effect and flow charts, while the progressive approach mainly utilises checklists of risk classes and factors (OECD 2014). Identification of the relevant risks under both approaches does not take place according to a detailed, general procedure. Any techniques used to attempt to reveal potential areas where plans exist or where there are possible deviations from goals that can develop due to risk factors. Management knowledge and experience and their

capability to gather relevant information are vitally important in this process (Falkner and Hiebl 2015).

To react with an appropriate time frame, management requires actual and complete data, hence all risks must be identified (Keith 2014). Nevertheless, a risk identification aspect that creates a challenge is found in the intention to employ accurate and detailed information to pinpoint all risks because the company resources used in the process of discovery should be used sparingly (Verbano and Venturini 2013). Nonetheless, the comprehensiveness of information contradicts the aim for economical reasoning of the process (Keith 2014). Therefore, consideration must be given to processes that are partially standardised or establishing a level from where risks should be studied, which could aid in solving the conflict of goals.

Furthermore, the company can emphasise specific areas where more important risks can be expected to take place (Raghavan 2005). This makes it imperative that SMEs recognise every possible risk and once the risks have been investigated, only those considered as most significant are focused on and workers are trained to practically manage these risks. Considering the lack of subtle elements in empirical evidence of the actual way in which SMEs recognise risks, more insight into this issue is expected to be revealed through exploration. However, the perspectives and experiences of whoever conducts the risk analysis will limit risk identification (Raghavan 2005).

2.11.3.3 Risk Analysis

Many risks may have been identified by a business owner during the risk identification step, which makes it near impossible to address all identified risks. RM needs are thus set up through the risk analysis step and a beginning point is provided to select fitting RM strategies for every risk (Sunjka and Emwanu 2015). The analysis results in determining which risks have an impact, or whether some risks have a greater consequence than others. This will allow a better understanding of the potential risk impact, or the possibility that it will occur, which affects the decision to commit

resources to risk control. The analysis of risk incorporates a combination of the probable effects or influence of an event, and the possibility of that event taking place. The outcome is a ‘level of risk’ or the ‘risk analysis equation’ (Ekwere 2016).

Risk = consequence x likelihood

The purpose of risk analysis is to provide information to business owners from which to make informed decisions regarding priorities, treatment options or balancing costs and benefits (Geessink 2012). Just as decisions differ, the information needed to make these decisions will also differ. However, not all businesses or even areas within a business will use the same risk analysis method. As such, the risk analysis tools need to reflect these risk types to ensure that the risk levels estimated are appropriate to the context of the business (Geessink 2012).

Thus, the risks can be positioned based on their significance to the organisation. The risks that have been identified have to be categorised or clustered depending on the field of risk, for instance, whether it is market or financial risks. More particularly, where the risk stems from can be utilised, which is established through the single risk factors of the risk fields (Verbano and Venturini 2013). Where clustering is concerned, an organisation can then later establish if certain risks are connected or if others counteract each other. Additionally, clustering helps to identify the major business risks, which is useful for the focus of RM and its future analysis (Abotsi *et al.* 2014).

Consequently, there should be an evaluation of the impact of different risks and any potential damage that these may impose on the company. To do this, the costs to the company need to be identified in case the risk happens, in addition to the possibility that it will take place (Shoki *et al.* 2014). According to Raghavan (2005), it is possible to estimate the expected damages of the risk positions using the assessed values and single risks. However, it is mostly not feasible to quantify the impact due to future outcomes being uncertain. Hence, firms rely on estimations.

Two categories of analysis exist, namely qualitative and quantitative, with the qualitative analysis generally made use of in the analysis of risk (Radu 2009). This analysis type is reliant on the subjective judgement of consequence and likelihood and typically depends on which area of risk is analysed. In other words, what could take place in the worst possible outcome. The size of the risk is thus presented as a 'word picture' and where no data is available, it is a viable option. Although qualitative risk analysis is easy to understand and simple, it has disadvantages such as being based on intuition, which can result in bias, whilst the validity of results can be degraded. Qualitative risk analysis methods include an evaluation through multi-disciplinary groups, brainstorming, expert and specialist judgement, as well as structured questionnaires and/or interviews, risk categories and word picture descriptors (Radu 2009).

In both cases, the purpose of the estimations is to obtain an outline of the possible loss resulting from diverse risks (Sunjka and Emwanu 2015). The risks can subsequently be categorised based on the expected loss or visualised about the scope of their effect and likelihood of taking place (Verbano and Venturini 2013). Furthermore, to assess the significance of managing the risk, its impact ought to be contrasted with the maximum tolerated loss and this has to be outlined clearly in the risk strategy. The third RM phase should assess any positions that threaten business continuity or surpass the accepted loss (Wesel 2010).

Nonetheless, it can be quite complicated to determine the exact harm that risks may cause and whether it will happen (Jadi *et al.* 2014). To establish the potential loss quantitatively, large and objective data sets are crucial to facilitate statistical analysis. These data sets can be accessed by larger companies, as can the IT systems needed for their evaluation (Tetteh 2012). These resources are mostly not available to smaller companies and they thus depend on qualitative methods (Duong 2013). Since these

evaluations are subjective, previous experience is indispensable and very helpful in this phase of the RM process (Veskovic 2014).

In SME venture management, risk analysis may similarly be crucial (Marcelino-Sádaba *et al.* 2014). For example, inadequate worker training in SMEs with inferior risk identification may hinder appropriate risk analysis (Gao *et al.* 2013). However, Marcelino-Sádaba *et al.* (2014) recommended dissecting risks in SMEs through a streamlined procedure comprised of two variables. The first is gravity, which is measured as "negligible", "significant", "major" or "catastrophic", and the second is the probability, which is measured as "highly unlikely", "unlikely", "likely" or "highly likely". The purpose of analysing the risk is to ascertain the scope of the identified risks and calculate their impact on the company from a financial perspective. Consequently, an analysis of how the risk could affect the business is necessary (Eikenhout 2015).

2.11.3.4 Risk evaluation

The ability to establish the severity of the risks faced by the business is important as the level of risk a business is willing to accept must be determined by the business owner (Ekwere 2016). The evaluation of risk involves a comparison between the risk level evident in the process of analysis and the risk criteria established previously, after which a decision is made on whether treatment is necessary for these risks (Vasvári 2015). Whether further action is needed and where to start are indicated by the prioritised list of risks resulting from an evaluation. In this step, it is decided whether risks need treatment or are acceptable, keeping in mind that risks may be accepted should they be very low or can be tolerated (Vasvári 2015).

Shoki *et al.* (2014) explain that when a business chooses to 'accept' risk, the term 'acceptable' can be applied. Acceptance of the risk is either due to not being possible to implement any reasonable treatment because of its low level and the treatment cost of the risk outweighing the benefit. It is commonly referred to as ALARP, the acronym for 'As Low as Reasonably Practicable'. When the treatment cost is way beyond the

benefit of a risk, it may be accepted. In this manner, acceptance becomes the only alternative and is specifically applied to risk that is lower ranked. However, when the risk level is so low that there is no appropriate treatment with the resources available, the risk may still be deemed acceptable. This also holds when the threats are outweighed by the presented opportunities, to the degree where the risk is acceptable and when there is no treatment available, for example, the risk of the business possibly suffering from storm damage (Shoki *et al.* 2014).

2.11.3.5 Risk Treatment

After risks have been distinguished and assessed, they must somehow be reacted to. Risk treatment has to do with options to consider in treating risks not deemed tolerable or acceptable (Islam and Tedford 2012). This entails distinguishing choices to treat or control risk, either for the reduction or elimination of negative outcomes or to diminish the possibility of an undesirable incident. Positive outcomes should also be enhanced through risk treatment, with it regularly either not being possible or cost-effective for all treatment strategies to be implemented (Islam and Tedford 2012). Therefore, the owner of a business ought to attempt to select, prioritise and apply the risk treatment combination best suited to the situation.

The measures to manage risk range from risk prevention or avoidance to the transfer of the risks, or acceptance of the risk and finally, the reduction of the risk (Henschel 2008b). Shoki *et al.* (2014) recorded seven essential reactions on identified risks: recognised yet no move made, avoided, reduced and shared, along with transferred, retained and absorbed, or handled by a mix of the above. As Tetteh (2012) explained, all methods to deal with the risk fall into one or more of these four noteworthy classes, namely tolerate, treat, terminate and transfer. Some may include trade-offs not valuable to the organisation or individual settling on the RM choices. Bliss (2005) recorded five types of comparable risk reactions as follows: avoidance, reduction, transfer and deferral, as well as retention of risk.

Risk avoidance includes changing the first plans for the undertaking so that risky components are eliminated, which could incorporate choosing not to play out an action that conveys a high risk (Smit and Watkins 2012). Embracing such systems of refrainment may seem to be an undeniable approach to managing all risks. Nonetheless, frequently, the zones of the undertaking that include high risks include the territories of the project that may contain the highest worth or the best cash value. Maintaining a strategic distance from such risks may likewise bring about the dismissal of possibly the 'best bits' of an asset while substituting another system and retaining these risks might be more appropriate (Abotsi *et al.* 2014)

Risk reduction or risk alleviation includes the employment of techniques that decrease the possibility of a risk happening, or lessen the gravity of the effect of a risk on the result of the undertaking (Gorzeń-Mitka 2015). The loss of exceptionally gifted staff is a significant risk in any venture and not one that can be completely maintained at a strategic distance (Barnabei 2008). Appropriate risk alleviation could include implementing a notification period; comprehensive documentation that considers replacing staff to continue the current task with adequate management oversight; as well as using staff advancement projects to retain staff. Risk transfer moves the responsibility for risk to an outsider, typically by contract, which also moves the effect of the risk away from the undertaking itself to an outsider. Risk deferral involves re-scheduling parts of the undertaking to a date when a risk is more unlikely to happen (Aaron 2004).

The effect that a risk can have on a task is not continuous for the duration of the life of an undertaking (Nielsen 2010). For instance, dealing with client desires can be tedious, more so where the substance and delivery of an asset are concerned. One approach to minimise this risk is, for instance, by not making a web asset accessible until client testing is finished (Nielsen 2010). Risk-retention acknowledges that a specific number of the risks that were initially recognised can be expelled by changing the project plan

or managed through exchanging the risk obligation to outsiders. Nonetheless, certain risks must be acknowledged as a strategic part of the task. All risks that have not been maintained at a strategic distance or exchanged, are held or acknowledged risks (Alliance 2005).

A straightforward measure to deal with an identified risk is to decide to circumvent the risk (Aaron 2004). Nevertheless, it must be accepted by the firm that risk avoidance does not only eliminate the risk, it also removes all related opportunities and activities (Rørvik 2013). In addition, the rejection of possible risk activity gains when doing business is not always achievable or intentional (Wong 2012). Alternatively, the firm can decide to maintain these prospects and thus decrease the anticipated damage (AIRMIC, Alarm and IRM 2010). Raghavan (2005) states that this is possible either by diminishing the risk occurrence probability or through restraint of its financial effect. The likelihood that some risks may occur may be lessened through surveillance and strategic handling. On occasions where a reduction of risk is not possible inside the company, outside assistance may be required, with a decrease achieved through a third party being made responsible for dealing with the risk (Aaron 2004), such as where opposed risks can be matched to insurance companies, or transferred to someone who can deal with them more effectively (Versluis 2015).

The final alternative is to accept the risk of a position in full (Huang and Jia 2010). This can be a possibility when, for example, it is not a hazardous risk and insurance benefits are less than the outlay, which is the exact opposite of risk prevention (Pacheco do Vale and Monteiro de Carvalho 2013). Additionally, not all risks are insurable. Should it not be feasible for the position to be eliminated and the corporation decides to accept the risk, this option is possible when there is no direct link between the risk and the core business (Abotsi *et al.* 2014). To opt for the best-suited assessment for each position of risk, there should be the anticipated significance of the risk position for the company and the necessity to manage it (Wesel 2010). Most companies utilise a mixture of all risk measures (Henschel 2008b).

2.11.3.6 Risk Monitoring and Review

In the RM process, monitoring and review is an integral and essential step (Ekwere 2016). Risks must be monitored and reviewed by the business owner for the treatment plan's effectiveness, as well as that of the management system and strategies put in place to manage risk effectively. Periodic monitoring of risks is needed to ensure that risk priorities are not altered by changing circumstances. A limited number of risks will stay inactive. Thus, the process of RM must be repeated regularly to ensure the capture of new risks in the process and their effective management. At a business level, there should be frequent reviews of a RM plan, which can be effectively ensured through a combination of annual business planning with risk review or risk planning (Raghavan 2005).

As explained by Gorzeń-Mitka (2015), the RM process should conclude by checking if success has been achieved in identifying, evaluating and assessing risk. This stage is critical for taking suitable measures on time in the event of deviations between the planned and actual risk situation (Henschel 2008b). Therefore, risk monitoring should comprise risk position developments and measures through which they are managed (AIRMIC, Alarm and IRM 2010). Furthermore, the firm's risk situation should be contrasted to the plan, with the strategy for risk and any divergences noted. Duong (2013) contemplated that a performance standard or criteria should be characterised by SMEs so that the RM process can be viably and persistently monitored. Saunders and Allen (2010) highlighted that when a suitable risk checking technique is received, it implies that the best-suited product valuing is accomplished in accordance with evaluated risk, which thus influences profitability. As differences are identified, the RM process should be started all over again.

2.12 RISK MANAGEMENT PROCESS IN THE SME CONTEXT

RM highlights that a business entity's survival is heavily dependent on its ability to anticipate change and prepare for it, as opposed to awaiting it and then reacting to the

change (Brustbauer 2016). There should be a clear understanding that the purpose of RM is not to prohibit or prevent risk-taking. Rather, the aim is to make sure that certain risks are taken consciously, with clear understanding and complete knowledge, thus allowing for its measurement in assisting with its mitigation. This applies even more where SMEs are concerned (Raghavan 2005). SMEs cannot avoid the financial, operational, market, environmental risks and strategic risks, according to Khosla (2009). An approach is needed by SMEs that will minimise business risks and prevent the disruption of business operations.

2.12.1 Establishing the context in the SME context

Some boundaries must be established first within the RM process when considering RM within SMEs. There is a need to establish internal, external and RM contexts. In determining the internal context, consideration should be given by SMEs to the internal and professional cultures that might create risks for the business that are unnecessary (Ekwere 2016). In ascertaining the external environment, it is necessary to understand customer perceptions of the business, as well as identify the business SWOT in the external environment.

SMEs should consider the legislation that the business must comply with, the market, the competitors, and cultural, social or political issues that need to be considered, as well as relationships of the business with external stakeholders in terms of risk and opportunity (Ekwere 2016). Before initiating a risk identification exercise, it is imperative to define the parameters, objectives and scope of RM. Establishing the parameters and boundaries of the activity involves agreeing to a set time frame, the resources required, the various roles and responsibilities, as well as the required expertise and desired depth of analysis (Ekwere 2016).

2.12.2 Risk identification in the SME context

Through self-assessment, SMEs must internally determine and rank business risks (Khosla 2009). For an SME, different risk areas can be identified because not all the

risks will necessarily be the same intensity for all areas. Based on the business environment and industry in which the SME operates, there is a need to determine the areas in which there is a possible risk. Certain risks are generally experienced by most or all businesses, with others that are particular to SMEs. Risks to consider are property losses, business interruption risks and human resources risks, for example. SME managers may thus be assisted by RM to identify important risks that could threaten the company's existence or success (Falkner and Hiebl 2015).

Risk identification was indicated by Marcelino-Sádaba *et al.* (2014) as potentially critical to the project management of SMEs. Nevertheless, Gao *et al.* (2013) highlighted that limited RM knowledge may stall efficient SME risk identification. Thus, to achieve effective and comprehensive risk identification in SMEs, it is necessary to first build RM capacity. Several authors (Bruns and Fletcher 2008; Ellegaard 2008; Moore, Culver and Masterman 2000; Sukumar, Edgar and Grant 2011) found SMEs to have financial and human resources that are limited and are also unable to simultaneously manage all risks effectively. It is thus advisable that all potential risks faced by their organisations are identified by SMEs, as well as to build capacity in their employees to effectively identify risks in order to successfully manage these risks.

2.12.3 Risk analysis in the SME context

According to Marcelino-Sádaba *et al.* (2014), risk analysis involves determining SMEs' vulnerability to each risk identified. Vulnerability is a function of probability or likelihood. In other words, what the chances are that a specific risk will happen and the cost thereof, that is, how much does the SME consequently stand to lose? The main objective of this stage is for the SME to quantify which risks are worth worrying about and which are not. For those risks that are worth the worry, the SME should determine the affordability of protecting the company against that risk (Marcelino-Sádaba *et al.* 2014). When, for example, there is a low likelihood of a specific risk happening and should it occur, the cost to the SME could be US$50,000 in losses but US$45,000 to protect against this risk. Hence it may not be prudent to protect against it.

Risk analysis assists in establishing priorities about RM and offers a starting point to select suitable RM techniques for each risk identified. Even though the analysis of risk in SME project management is very important (Marcelino-Sádaba *et al.* 2014), proper risk analysis in SMEs may be hindered by the lack of RM knowledge (Gao *et al.* 2013).

A basic process for risk analysis suggested for SMEs by Marcelino-Sádaba *et al.* (2014) comprised of two variables, namely:

(i) Probability, which is assessed as “highly unlikely”, “unlikely”, “likely” or “highly likely”, and
(ii) Gravity, which is determined as “negligible”, “significant”, “major” or “catastrophic”.

2.12.4 Risk treatment in the SME context

Once risks are identified, management should introduce the strategy most appropriate for avoiding these risks and put controls in place to manage other potential risks (Khosla 2009). These actions would have as their purpose the prevention of future risk, as well as the complete reduction or elimination of the possible influence the risk may have on business operations. Many ways exist in which SMEs can manage risks, including putting employee safety policies into service, as well as guarding against property losses through the installation of a security system.

Research showed that even though insurance is the primary risk treatment tool for most SMEs, it generally covers unexpected happenings and is associated with significant costs (Cioccio and Michael 2007). In general, SMEs take out insurance against financial losses, property damage, fire, and floods, along with personal injury. Ellegaard (2008) indicated that SMEs can mitigate risks by influencing supplier behaviour when they enter contracts with their suppliers. Additionally, performance guarantees that require SMEs to have a continuous supply of quality products may result from contracts with suppliers.

Poba-Nzaou, Raymond and Fabi (2014) reported that as a result of companies dealing only with suppliers they already knew, risks related to new suppliers were circumvented. Excess production capacity and warehouse stocks that are meant to avoid production or delivery interruptions are used more often in SMEs (Thun, Drüke and Hoenig 2011). Furthermore, Cioccio and Michael (2007) argue that companies must have an established contingency or continuity plan in case of natural disasters. Nevertheless, Gilmore *et al.* (2004) established that personal networks are frequently used by SME managers for the management of risky situations. In addition, networking was found by Kim and Vonortas (2014) to be a risk-mitigation strategy frequently used in SMEs.

2.12.5 Risk monitoring and review in the SME context

The RM process is dynamic and SMEs must apply the monitoring process in such a way that they can guarantee the eradication of specific risks in the future and allocate resources to new likely risks (Ekwere 2016). For instance, in the example of a delay in the supply of goods after which an apology was made to customers, it is necessary to check whether the apology was accepted and to determine any other instances of delay in the supply of goods. The final step that requires planning is when and how a review of the risk areas and indicators will be conducted. RM plans should be regularly reviewed and updated through for example quarterly, half-yearly or yearly reviews. This is an essential part of the efforts by SMEs for continuous improvement (Ekwere 2016; Duong 2013).

2.13 SMEs' PERCEPTIONS OF RISK MANAGEMENT RELEVANCE IN BUSINESS SUCCESS

According to Tshikovhi and Shambare (2015), perception refers to an individual's attitude of personal interest in executing entrepreneurial behaviour. Perception towards action is the level at which someone holds an estimate of the behaviour as either unfavourable or favourable, in this case, RM. The approach and outlook of

owner-managers and their comprehension of risks are a crucial part of the extent to which risks are systematically dealt with (Bayaga and Flowerday 2010).

The main responsibility for RM in SMEs, as stated by Haviernikova and Okreglicka (2019), is borne by the owners, whose risk perception and attitude towards RM influence whether the achievement of the stated goals is adequate. Moreover, Das and Teng (2001) argued that characteristics of decision-makers, such as risk attitude or perception, also affect RM practices in companies. This is echoed by Chimwai and Munyanyi (2019), who confirmed that both perceived risk and risk attitude have a positive and significant relationship to the adoption of RM strategies by entrepreneurs.

The RM practices of SMEs are greatly affected by the risk perception of the owner and the accompanying attitude towards RM (Ntlhane 1995). Owner-managers' attitudes and knowledge of risks affect how thoroughly risks are dealt with (Bayaga and Flowerday 2010). According to Dimitratos, Johnson, Plakoyiannaki and Young (2016), the perception of risk is closely linked to the attributes and characteristics of the business manager and is evidenced in critical decisions. The way the risk is perceived also affects the decisions and actions regarding its management (Dib, Rocha and Silva 2010). Due to the lack of financial resources or trained human resources, RM in SMEs is often overlooked, with risks assessed as intuitive for the most part and based on managers' experiences (Kubíčková, Votoupalová and Toulová 2014).

According to Yakob, Hafizuddin-Syah, Yakob and Raziff (2019), the overall implementation of RM is viewed as less important in SMEs. This might be due to the perception of the SME owners in Bangi Sentral in Malaysia where the study took place, who did not regard RM implementation as essential, probably because the majority are relatively small enterprises. Moreover, these SMEs do not anticipate being exposed to challenges and higher risk in the same way that large firms do. RM is also perceived as costly. Hence, SMEs are financially unable to fully implement RM in their

businesses. As a result of limited financial resources, the implementation of ERM has not become a priority in SMEs (Yakob *et al.* 2019).

Hoyt and Liebenberg (2011) discovered that firms that had adopted ERM were mostly large. It was further determined that large firms were more likely to have effective ERM as compared to smaller firms. Similarly, Waweru and Kisaka (2012) explained that the size of a firm, which is reflected in the form of assets owned, can influence the effectiveness of RM systems. The larger the organisation, the more complex its operations become and therefore, its exposure to threatening events increases. Gordon *et al.* (2009) pointed out that firm size, which translates into resource endowment, was critical when considering management control systems, hiring staff to implement ERM and designing ERM systems.

Yakob *et al.* (2019) determined that ERM in SMEs has not been fully implemented when compared to large firms. SMEs in Malaysia have, for example, not fully implemented an ERM strategy. This is due to a lack of experience and knowledge in the business that may result from a lack of awareness and lead to inadequate responsiveness concerning the importance of ERM in their businesses (Yakob *et al.* 2019).

Several authors (Ekwere 2016; Islam and Tedford 2012; Sunjka and Emwanu 2015; Smit and Watkins 2012) confirm that due to various limitations, SMEs are far from having a positive approach towards RM. These include insufficient infrastructure; limited expertise on managerial and technical levels; inadequate intellectual and financial resources to produce change and substantial technological developments; and fragile information networks to recognise and locate applicable knowledge and information as well as low investment in research and development (Ekwere 2016; Islam and Tedford 2012; Sunjka and Emwanu 2015; Smit and Watkins 2012)

Findings by Knox (2012) emphasised that SMEs believed RM to be only relevant for implementation in large organisations. This echoes the opinion of SMEs in a study by Rautenstrauch and Wurm (2008) with close to 10 percent that perceived only larger corporations could practically apply RM. Furthermore, Patsis (2007) argued that because of the size of their businesses, many SME owners do not believe they are at risk. This view is also supported by Winks (2008), who pointed out that RM is practiced only by large firms, as opposed to SMEs.

According to Baker (2011), ERM is under-utilized by SMEs as it is perceived to be complex and reserved for specialised experts, with a connection to large organisations. However, the results are not consistent with findings by Enterprise Risk Management Initiative (2017) and CGMA (2017), which show a growing interest in and a positive perception of RM by SMEs in influencing an enterprise's strategic success.

Anil and Cakir (2015) examined risk perception in Turkish SMEs and found that Turkish managers perceive risk as a loss based on their cultural differences. This view is supported by Deloitte (2009), which highlighted that fewer smaller organisations have RM programmes as they expect the limited value to be derived from its implementation. Additionally, in their start-up phase, risks are often underestimated by SMEs or even completely ignored (Fisayo and Nwankwo 2010). According to Mogire, Obeng, Owusu, Opoku-Ware and Yankey (2011), SMEs in Kumasi in Ghana had relatively high knowledge and awareness levels of business risk, but there was no practical implementation of business RM as only a small number were insured due to their negative perception of insurance. To enhance the adoption of RM strategies by SMEs, it is important to alter the perceptions of owners and managers concerning the probability of occurrence, the possibility of impact and the severity of the impact of a risk event (Mogire *et al.* 2011).

As stated by several experts (Hudáková, Dvorský, Lusková and Schönfeld 2017; Klucka and Grunbichler 2016; Leskaj 2017; Masar and Kelísek 2017; Sira, Vozarova and Radvanska 2016), there is a dangerous tendency by SME managers to have an inflated self-assurance that they will be able to resolve problems without much loss and in time when these occur. This tendency of being confident is founded on the success they achieve in setting up and managing their enterprise with the result that small business owners generally relegate RM plans to the bottom of the priority list (Klucka and Grunbichler 2016; Leskaj 2017).

2.14 LEVEL OF RISK MANAGEMENT PRACTICE IN SMEs

SME manager-owners face different types of risks while running the business, and RM practice could play a vital role in this risky business environment (Duong 2013). Over the years, RM has been acknowledged as a fundamental practice in SMEs (Cienfuegos 2013; Dorresteijn 2017; Yusuf and Dansu 2013; Woods 2007). It is a practice that can be adopted in a business to improve the opportunity for continued long-term success. To navigate the uncertainties of the business and succeed, SMEs need to be well-acquainted with the practice of RM (Harvett 2013; Jayathilake 2012).

The effectiveness of the RM process of a successful business is a critical attribute because the more sound the process is, the more prosperity is assured, along with a competitive advantage in the long term (Baranoff and Brockett 2012). Faced with a variety of risks in managing a small business in an uncertain environment, RM practice could be crucial in ensuring the success of SMEs (Abeyrathna and Kalainathan 2016). RM has additionally been recognised as a necessary basic practice for SMEs for some time (Duong 2013; Falkner and Hiebl 2015; Panigrahi 2012). Nonetheless, SMEs should become familiar with RM so that they may deal with insecurities and survive in the complex environment in which small enterprises operate. Otherwise, they may suffer disastrous consequences should they not be ready to prevail over possible risks (Verbano and Venturini 2013). Despite the importance and wide diffusion of SMEs from a social and economic perspective, RM for SMEs remains a “spot” subject, even

though they are weaker structurally and prone to failure when unanticipated risks befall them (Ekwere 2016). Thus, SMEs need to manage risks in order to minimise and reduce loss exposure.

Most decisions taken by SMEs are based mainly on one-sided owner-manager judgments, instead of on more objective-oriented decisions made according to 'pure analysis,' which tends to be unlike large firms (Falkner and Hiebl 2015). The "subjective risk" of the owner-manager, where a role is played by inherent characteristics, ability, attitudes and beliefs (Sparrow and Bentley 2000), as well as owner-manager risk perceptions and their investment level in the firm (Gilmore *et al.* 2004), impacts how risk is understood and dealt with in the business. SMEs tend to manage risk by using an approach that is described as "reactive, informal or unstructured, intuitive and incremental" in comparison to large organisations. In some instances, RM is executed in a very basic way in SMEs, without the link between RM and business planning being developed (Ekwere 2016).

Most SMEs that have been studied have been found to not have organised RM strategies (Dorresteijn 2017; Napp 2011; Perusahaan *et al.* 2013). Furthermore, root causes of the determinants of risk and where these originate are not identified in SMEs. Moreover, in those enterprises where this is practised in some way, many of the relevant personnel are not a party to the flow of information. All risks can be identified by SMEs and related solutions pointed out by using a structured RM method (Shoki *et al.* 2014).

There is a severe lack of RM skills and knowledge in SMEs, with RM capability, review and supervision being dominated extensively by owner-managers (Yaacob 2016), confirming that RM in SMEs is orientated towards owner-managers. A study by Turpin (2002) similarly found no official risk strategy in most SMEs, attributed to communication problems in entrusting employees with RM skills. It was also noted that changing customer demands, incorrect strategies owing to insufficient market data, a

low level of competencies as compared to competitors, as well as increasing competition pose the most important and frequent risks for SMEs (Turpin 2002). Therefore, RM is often not well structured nor systematic or standardised while many SMEs additionally do not have an explicit picture of business risk.

Moreover, self-insurance is used as a manner of risk-retention by SMEs (Gwangwava *et al.* 2014). Frequently, SMEs use bank deposits to keep their personal accumulated funds, although numerous owner-managers keep some of their funds in self-insurance funds should this be required to rescue their business (Islam and Tedford 2012). This is achieved through a minimum of 10 percent of annual turnover being set aside as adequate cover in the event of a disaster. However, the success of this approach depends on a self-insurance programme that is aligned perfectly with a cost control programme that is well-managed (Nyakang'o and Kalio 2013).

Furthermore, SMEs rarely practice risk transfer because of a lack of confidence in insurance companies, with most SMEs arguing that insurance companies lack a well-developed insurance culture. In addition, making use of the services of RM specialists is not popular amongst SMEs as they lack confidence in the consultants and cannot afford the high price of their services (Nyakang'o and Kalio 2013). Many CEOs tend to designate the function of training and development to an employee rather than to hire consultants, even with additional resources. They have more confidence in the knowledge and experience of their friends and/or relatives than in advice from a consultant that is outsourced. Moreover, SMEs do not trust the quality of auditing companies' services, finding these services too expensive. Thus, it can be concluded that SMEs do not have a RM strategy for appropriate risk identification, assessment and selection of RM instruments for risk control and monitoring, without which the business can be temporarily disrupted and even fail (Nyakang'o and Kalio 2013).

Having evaluated the RM approach to SME-specific theoretical assumptions in applying RM, instruments have been revealed that are inherent in SMEs. There is a

research gap in the extent to which SMEs practice ERM, with RM still not being prevalent amongst SMEs (Sifumba, Mothibi, Ezeonwuka, Qeke and Matsoso 2017). The approach used by SMEs is related quite closely to the perception of an owner-manager of a firm that nothing untoward will occur and should this be the case, the business will survive (Chikomba *et al.* 2013). This type of thinking far exceeds insurance services, which are used minimally in the SME sector as there is no trust in their benefits.

The simplest RM strategy for many SMEs is to avoid risk. SME owners are often, by their very nature, optimistic and successful entrepreneurs (Florescu *et al.* 2015). According to Zhao and Zeng (2014), the expenditure for the RM of SMEs is substantially less than that of larger businesses, with the budget spent by SMEs generally allocated to internal or external audits and insurance. Some SMEs, use the firm's financial audit services to verify financial statements, instead of RM or do this through the consolidated financial statements that audit the financial condition of the firm, cash flows and operating results. A financial audit is an approach most often used in SME RM (Verbano and Venturini 2013).

Due to the need for a higher understanding of RM, such as investment management, improvement of the recruitment of skilled employees, loss control system establishment and financial audits, very few firms use these instruments (OECD 2014). In addition, they fail to ensure property protection, install a fire alarm, attend to physically protecting objects or consult with insurance managers, brokers and other consultants. However, most firms are satisfied with forming a self-insurance fund. Various studies have confirmed that some of the most popular tools are investments, as well as fund-accumulating, whereby SMEs reduce and manage business risk (Abotsi *et al.* 2014; Chikomba *et al.* 2013; Eikenhout 2015; Ishtiaq 2015).

SMEs lack adequate advice on the most suitable way to manage risk, as well as whom to approach for advice. RM in SMEs is revealed by literature to still be rather

fragmented and in an early phase of development (Verbano and Venturini 2013). As there is little knowledge regarding the potential benefits, many SMEs do not integrate the RM process in their business, while they also lack the risk behaviour and attitude that is developed (Henschel 2008a).

In SMEs where the culture refutes the management of risks in a manner that is professionally structured, RM is less developed (Angeline and Teng 2016). SMEs show reluctance for adopting a formal RM strategy and favour employing an approach to RM that is reactive, which is not successful. Their RM techniques are limited to risk avoidance and risk transfer. Around 84 percent of SMEs do not insure against risk, which is a clear indication that RM by SMEs is low (Dumitrescu, Purcărea, Negoiţă and Negoiţă 2015).

Therefore, due to the nature of risk in SMEs, with no specific notion of risk being apparent and various meanings ascribed to risk, entrepreneurs are willing to accede to potentially significant losses, even while the likelihood of gains is as meaningful (Abotsi *et al.* 2014). Additionally, in their start-up phase, SMEs often either completely ignore or underestimate risks (Fisayo and Nwankwo 2010). Moreover, in SMEs, the quality and the extent of RM is usually dependent on the amount of time invested by the owner-manager in an official risk strategy being developed and implemented, in addition to communicating the details to the respective employees (Fisayo and Nwankwo 2010).

It has been noted that small business owners have not invested enough time in previous years for risk strategy development and implementation within their firms (Zhao and Zeng 2014). In most cases, informal approaches are used to manage risk related to business activities, assisted by past experiences from previous situations and their knowledge. Furthermore, they exploit the networking capacity and relationship with different parties, including consultants, business peers and investors, believing these to be more important to identify and manage risks faced in the business

world (Smit and Watkins 2012). Thus, a significant role is played in RM in SMEs by the network capabilities of owners and their experience.

Nevertheless, Smit and Watkins (2012) show that RM is still in an early phase of development and that there is no established standard for SMEs to explain how a comprehensive RM practice ought to be performed. It can be argued that the adoption of a positive RM approach has yet to become a reality for SMEs (Smit and Watkins 2012). Thus, SME RM has not received consideration in literary works, despite its significance. ICAEW (2002) infers that limited direction is provided on how SMEs ought to best oversee risk, which ought to be dependable and where to turn to for counsel.

To identify business risks in SMEs, the knowledge of the CEO and the use of the enterprise's limited financial resources are necessary for identification techniques. Most owner-managers are convinced they can deal with even the most unforeseen threats (Nyakang'o and Kalio 2013). Hence, many SMEs do not have a professional employee responsible for managing crises.

The practice of ERM by SMEs in SA seems to be very low. This is reflected in a study by Masama, Ndlovu, Mambwe, Rabohome, Chakabva, Fologang, Badze and Bruwer (2012), where the study outcome indicated that most SA SMEs engaged informally in ERM activities. This finding is similar to the result of another study in the context of Zimbabwe. The study by Gwangwava *et al.* (2014) examined the RM implementation scope amongst SMEs, with the results indicating that most SMEs do not practice RM.

In their study amongst Nigerian SMEs, the findings of Olowokudejo and Nwankwo (2016) align with the above findings, revealing that although RM practice is regarded as fundamental to business operations by SMEs, the majority do not have a systematic RM approach. In another study by Madembu, Namusonge and Sakwa (2017), the findings indicated that most SMEs failed to consider RM practice as a key element of business management. According to a survey by Price Waterhouse Coopers (PWC

2012) in Kenya, ERM in Kenya is weak. In addition, compared to advanced countries, in many SMEs in Slovakia, the application of RM shows extensive shortcomings (Sira *et al.* 2016). Sifumba *et al.* (2017) also found that manufacturing SMEs in SA have to a large extent not gained control of the use of RM initiatives, which puts their businesses at risk in ultimately attaining their objectives.

According to Ibiwoye, Mojekwu and Dansu (2020), SMEs in Lagos State passively implement ERM, as confirmed by the findings of earlier studies in Nigeria (Luper and Kwanum 2012; Olowokudejo and Nwankwo, 2016). According to Brustbauer (2016), approximately two-thirds of SMEs adhere to a RM approach that is relatively passive with minimal effort spent on identifying, assessing and monitoring risks. The study results showed that larger firms are more likely to have an ERM that is more developed and there are fewer incentives by family-owned firms to implement ERM. These findings correspond to those of other studies (Hoyt and Liebenberg 2011; Paape and Speklé 2012).

Furthermore, Gunasekaran *et al.* (2011) pointed out the lack of adoption and implementation of risk mitigation strategies in SMEs. Chihuri and Pretorious (2010) postulated that in SA, RM was also not widely used amongst both small and large firms and a lack of actual adoption and implementation of RM practices existed. In addition, SME owners in Slovakia, while aware of the risks facing the organisation, are reluctant to apply RM, unlike in other developed countries (Haviernikova and Okreglicka 2019). Additionally, Aziz and Yazid (2015) indicated that SME involvement in RM is not encouraging, with Yusuf and Dansu (2013) arguing that most Nigerian SMEs do not financially control and measure risks.

Furthermore, Masama *et al.* (2012) concluded that SMEs do not have formally implemented enterprise risk processes in place. In the same vein, SMEs are disinclined to implement a formal RM strategy. A lack of RM strategies is highlighted by several authors and seems to be a common trend amongst SMEs regardless of the

many risks, which could be linked directly to high failure rates of small enterprises (Nunes, Viveiros and Serrasqueiro 2012). Islam and Tedford (2012) also discovered that in New Zealand, many SMEs had no systematic RM strategies in place. This is much the same as results from a study by Luper and Kwanum (2012), who established that SMEs do not keep proper accounting records and subsequently cannot have the capacity to distinguish, evaluate and plan the management of their business risk adequately.

Moreover, Yusuf and Dansu (2013) drew attention to most SMEs not having a clear picture of business risk, with RM strategies frequently being neither well-structured nor methodical or consistent. In agreement with this, Poba-Nzaou *et al.* (2014) revealed that SMEs are more inclined to have relaxed, unstructured, informal and instinctive RM practices. Haviernikova and Okreglicka (2019) showed that SMEs in Slovak and Poland recognise risk in their activities and the responsibility of RM is carried out by SMEs owners, but only in a few cases. Zoghi's (2017) study revealed that Turkish SMEs are managing risks on a very basic level. In addition, Sarkodie-Poku (2019) argued that the application of RM practices is still at reduced concentrations in SMEs in Ghana.

Samugwede and Masiyiwa (2014) revealed that no formal risk identification and assessment tools were utilised to manage risks in SMEs. Brustbauer (2016) also determined that SMEs follow a passive approach to RM and put minimal effort into identifying, assessing and monitoring risks. This view that SMEs do not identify the risks faced by their organisations is supported by Hassan and Ali (2013). In terms of risk analysis and assessment, SMEs have been shown to rarely analyse and evaluate their business risks (Zhao and Zeng 2014). Prinsloo, Walker, Botha, Bruwer and Smit (2015) further pointed out that business leaders do not identify imminent risks faced by small businesses due to the lack of proper internal controls and assurance activities.

According to Zoghi (2017), a significant proportion of Turkish SMEs do not benefit from any guidelines in implementing a RM system in their company. Moreover, Zoghi (2017) highlighted that SMEs from different industrial sectors mostly reported that they identify and assess risks that “sporadically” jeopardise their companies. Therefore, Turkish SMEs have no regular system for identifying and assessing risks and do not have risk maps and risk analysis plans. Zhao and Zeng (2014) pointed out that SMEs mainly rely on consulting friends and colleagues who have more experience and do not even utilise a specialist in RM.

Hudáková, Masar, Lusková and Patak (2018) emphasised that there is an underestimation of risk in the enterprise, in addition to insufficient knowledge and practical experience in applying RM. Not having knowledge and expertise regarding RM is observed in SMEs (Henschel 2008a). Findings also indicate that roughly 40 percent of the companies surveyed do not distinguish risks to their business, while 64 percent do not properly evaluate their risks (Henschel 2008a). Smit and Watkins (2012) furthermore pointed out that SME owners or managers are ignorant regarding the risks faced by their enterprises. Smit (2012) stressed that most SME owners in SA are unaware of risks and methods of assessing risks in the business environment.

Not having RM strategies in place also remains a common trend amongst SMEs amidst many risks, which could be closely linked to their high failure rate (Nunes *et al.* 2012). According to Gao *et al.* (2013), knowledge of the RM strategies applied by SMEs remains scanty, especially in less developed economies. Yusuf and Dansu (2013) showed most SMEs do not have any formal risk strategy, which is attributed to communication problems in delegating RM skills to employees. In SMEs where there is some extent of RM, the information flow bypasses many employees associated with the process (Islam and Tedford 2012). Noteworthy is that the RM scope and the quality in SMEs generally depend on the time owner-managers invest in an official risk strategy’s development and implementation, as well as how it is communicated to individual employees.

Many SMEs do not have a specific image of what company danger entails according to Matthews and Scott (1995), with their RM frequently not well organised or systematic. Janney and Dess (2006) observed that SMEs do not implement a favourable strategy for risk leadership as a result of limitations that include insufficient internal systems; restricted organisational and technical knowledge; and monetary and intellectual resources that are in short supply.

Aziz and Yazid (2015) and Grant, Edgar, Sukumar and Meyer (2014) indicated that the commitment of the decision-maker towards implementation of RM is crucial. A mandate from top management is necessary to ensure that organisational goals are achieved (Burnaby and Hass 2009). It can be noted that there is a lack of resources and well-supported staff needed for sound RM in SMEs, according to Lopez and Hiebl (2015) and Burgstaller and Wagner (2015). In addition, Servaes, Tamayo and Tufano (2009) showed that risk-based thinking is often not part of accepted business activities and corporate strategies. In most firms, the link between RM and business planning is not well developed.

Jayathilake (2012) argued that SME owner-managers responsible for RM do not devote sufficient resources or time in developing a RM strategy and its implementation. Furthermore, Mironescu *et al.* (2015) stated that small and medium companies in Romania do not have a history of RM, thus introducing integrated future investment in information systems for RM is recommended, along with the training of employees in the assimilation of RM to enhance their work efficiency. However, Sukumar *et al.* (2011) confirmed that formal learning programmes and the continuous education of employees are rarely offered in SMEs.

The outlay for RM of smaller businesses was shown through research by the Institute of Chartered Accountants in England and Wales (Virdi 2005) to be significantly less than for larger businesses. In general, the budgets of SMEs are expended on internal

and external audits and insurance. However, SMEs do not apply RM practices adequately, particularly as they are unable to manage the costs of re-dedicating resources due to their limitations (Marcelino-Sádaba *et al.* 2014).

Knowledge of RM was indicated by Gao *et al.* (2013) to be mainly informal in SMEs, with effective RM capacity building amongst SME employees causing difficulties. Hudáková *et al.* (2018) argued that enterprises do not know the details of process opportunities and risks or the target key risk indicators' actual statistics. Hudáková *et al.* (2018) further highlighted that enterprises often apply RM initiatives late, which is mostly only done when problems are already experienced and consequences are then being dealt with, as opposed to prevention.

Additionally, several international surveys (Enterprise Risk Management Initiative 2017; CGMA 2017) indicated that the ERM application global trend incorporates factors such as risk assessment and early risk identification. The results show a growing interest in RM in SMEs (Enterprise Risk Management Initiative 2017). Both the Enterprise Risk Management Initiative (2017) and CGMA (2017) highlighted that the global trend in ERM application includes such factors as a positive perception of RM. The results are proof of a growing interest in RM in SMEs and a positive perception of RM to positively affect an enterprise in achieving success (Enterprise Risk Management Initiative 2017).

The literature points to low levels of RM by SMEs around the world. Luper and Kwanum (2012) determined that RM in SMEs was low, with this view supported by Dumitrescu *et al.* (2015). Related findings were also obtained from empirical investigations in SA (Masama *et al.* 2012; Chihuri and Pretorious 2010; Sifumba *et al.* 2017); Zimbabwe (Gwangwava *et al.* 2014); Kenya (Madembu *et al.* 2017; PWC 2012); Slovakia (Sira *et al.* 2016; Haviernikova and Okreglicka 2019); and Romania (Mironescu *et al.* 2015), as well as Turkey (Zoghi 2017); Ghana (Sarkodie-Poku 2019), Slovak and Poland (Haviernikova and Okreglicka 2019); New Zealand (Islam and Tedford 2012); and

Nigeria (Ibiwoye *et al.* 2020; Luper and Kwanum 2012; Olowokudejo and Nwankwo 2016; Yusuf and Dansu 2013).

Moreover, Howard and Jawahar (2002) noticed that RM assumed a crucial role in small businesses and that an improperly managed risk can weaken their survival. Therefore, the high rate of failure of these entities can to some extent be attributed to the absence of RM practice. RM additionally assists SMEs in recognising risks that could endanger the achievement of or the organisations' existence (Brustbauer 2016). RM is also extremely important in securing business capital and other assets (Chavali and Mohanraj 2016).

2.15 SHORTCOMINGS IN RISK MANAGEMENT PRACTICE

The absence of RM is one of the main reasons that entrepreneurial failure exists and competitive advantage of enterprises is lost (Hudáková and Lusková 2016; Hudáková *et al.* 2017) Even though there is an increasing interest in implementing RM, there are still some shortcomings in RM practice. The shortcomings are evident from foreign studies (Enterprise Risk Management Initiative 2017; AICPA 2017; CGMA 2017), where key findings are as follows:

- Not enough current RM models that are flexible to account for market dynamics;
- Insufficient support exists for early risk identification;
- RM systems are inefficiently implemented;
- The RM process is not recognised as a strategic tool that offers a unique competitive advantage;
- There is a lack of resources to introduce a RM system;
- No provision is made for training and advice on RM;
- Risk control responsibility is delegated to an internal audit;
- No systematic, established and effective reporting exists of the greatest risks to owners; and
- No provision of space is accommodated at regular meetings to discuss key risks.

Hudáková and Lusková (2016) and Hudáková *et al.* (2017) drew the following conclusions on the current state of RM practice in companies in Slovakia:

- The benefits of introducing a RM system are not properly interpreted and understood;
- Enterprise risk application represents a significant problem, specifically in planning suitable prevention measures to eliminate or counteract identified risks;
- There is a negative perception of RM, which is caused by incapability or feeling powerless to possibly influence risks;
- The terminology of the RM system and its comprehension is not elaborated on adequately and it is not communicated or further shared;
- There is no advantage comparison for selected industries in applying RM methodologies, standards and tools;
- The suitability of RM tools and methods have no guidelines;
- Practical RM application in many enterprises is inadequate and is misconstrued by business managers;
- RM is not understood by managers as one of the fundamental management tools;
- A lack of practical guidelines exists regarding the application of the RM system;
- Enterprises generally deal with risks separately in specific fields, and do not consider the overall system view of ERM; and
- There are shortages of institutions to assist companies in applying RM, which could provide a communication platform and allow experience exchanges in the RM field.

2.16 RISK MANAGEMENT THEORIES AND THE LINKS TO RISK MANAGEMENT PRACTICES

There are several foundational theories from which ERM frameworks have evolved. These include the Modern Portfolio Theory (MPT), the Capital Asset Pricing Model (CAPM) and the Contingency Theory (Alviniussen and Jankensgård 2009). An understanding of these fundamental theories is necessary to comprehend the present

state of research, along with the practices of organisations that apply ERM implementation.

2.16.1 Modern Portfolio Theory

ERM is a philosophical expansion of Modern Portfolio Theory (MPT) by Harry Markowitz. A framework for thinking is provided by this theory regarding a portfolio of securities and its collective risk and the contribution of each security to that risk portfolio (Ballantyne 2013). It was implied by the Casualty Actuarial Society (2003) that RM is generalised beyond financial risks through ERM to manage all types of risk faced by an organisation. The connotations of this principle have generated increased recognition that the total organisation must be considered when risks are managed, or as a "portfolio of risks" that is company-wide. ERM has evolved from two foundational theories, one of which is MPT (Alviniussen and Jankensgård 2009), which is broadly acknowledged as a ground-breaking classical finance theory introduced in the article "Portfolio Selection" by Markowitz (1952).

MPT demonstrates how risk can be managed by investors through asset allocation and diversification and endeavours to curtail risk for a specific level of expected return through securities being carefully selected and weighted. MPT's basic assumption is that investors are risk-averse, which means that generally, given two portfolios with the same return expected, investors will prefer the less risky one (Markowitz 1952). The inference is that investors are logical and realistic and will look for those portfolios that have profiles with a favourable risk-return, or the maximum return for the lowest risk level. It is also assumed by MPT that markets are efficient. In other words, assets are fairly priced and given the publicly available information, one cannot consistently beat the market (Ballantyne 2013).

Although ironically, ERM is not supported by MPT, Ballantyne (2013) also represented how ERM is linked to MPT. Nevertheless, according to Ballantyne (2013), ERM principles approximate those of MPT:

- Portfolio risk does not equal the sum of individual organisational risks;
- To quantify portfolio risks, each risk must be quantified and the co-movements or interactions between each risk accounted for, namely correlation analysis; and
- Portfolio risk relates to all decisions regarding risk within the organisation.

These principles were stated by Ballantyne (2013) to have generated a growing knowledge that the management of risks must be performed with the entire organisation in mind, which means interests that are enterprise-wide. The basic reason for implementing ERM is to enhance the value of stakeholders and shareholders (Committee of Sponsoring Organisations 2004). Nonetheless, costly ERM implementation is suggested by MPT to not be in shareholders' best interest as their risk cost could be efficiently diversified to remove the idiosyncratic risk (Beasley, Pagach and Warr 2008). MPT has been widely applied, within the RM systems of investment companies, although the securities and investment community have also been followed by other industries. For example, MPT was suggested as a suitable tool for ERM by Nikonov and Medvedeva (2012) within a project portfolio that is efficient, as opposed to a security portfolio, with a distinctive link between contemporary mitigation and RM techniques and MPT.

2.16.2 Capital Asset Pricing Model (CAPM)

CAPM expands the model and MPT by quantifying how an investment or a firm risk influences investors' expected return. The total portfolio risk is divided into two components through MPT, namely systematic and unsystematic risks, with the ability to diversify unique firm-specific risk. Nevertheless, the (systematic) market risk cannot be diversified and inherent (Markowitz 1952). According to CAPM, investors do not need to be compensated for risks that are not systematic, due to assets earning a risk premium above the risk-free return rate, solely based on their market sensitivity.

This infers that when resources are used by organisations to enhance management control systems such as ERM to mitigate specific risk to the firm as investors, their

compensation is based only on market returns. By implication, shareholder value is diminished by any expenditure to mitigate firm-specific risks and represents a negative net present value project (Beasley *et al.* 2008). On the one hand, Meulbroek (2002) maintained that the result of distracting the attention of management and direct expenses would be that, under perfect market conditions, RM becomes a “negative net-present-value proposition” for the enterprise, as the classic research by Modigliani and Miller (1958) theorised.

On the other hand, as described by the Committee of Sponsoring Organisations (2004), ERM supporters frequently argue that with integrated decision-making across all the levels of business organisation and functions, companies can avoid RM cost duplication. This is accomplished through exploiting so-called natural hedges, such as netting positions of financial risk between different business units of a firm (Bertinetti, Cavezzali and Gardenal 2013).

According to Stulz (1996), shareholders can diversify risk that is not systematic and optimise their portfolios according to MPT and CAPM in order to maximise their lowest level of risk returns. Company stakeholders and even strategic shareholders who are normally owner-managers are however tied to a certain company’s success. The “lower-tail outcome” denotes an event or situation where a single economical loss on large-scale profitability, or a decline, would cause severe negative consequences for the firm (Stulz 1996).

Therefore, with a bigger possibility of lower-tail outcomes, the possibility of losses associated with such outcomes lessens any RM activity and signifies a project with a positive net present value (Stulz 1996). For instance, public firms’ key employees and managers have a stake in the firm that is un-diversifiable and that will carry a greater share of the cost of a lower-tail event, which will result in the demand for a higher compensation cost for a firm, and ERM implementation will have a net present value project created that is positive (Beasley *et al.* 2008). Nocco and Stulz (2006) re-

asserted that “at the micro-level, ERM becomes a way of life for managers and employees at all levels of the company”.

2.16.3 Contingency Theory

Contingency Theory proposed that no single best approach existed to organising and managing, with this theory based on the seminal works of Burns and Stalker (1961) and Lawrence and Lorsch (1967). The theory further holds that the effectiveness of an organisation relies on the fit between an organisation’s characteristics, for instance, its structure, and eventualities that signify the organisation’s situation, for example, organisational strategy (Hulkko-Nyman 2016). Contingency theory has since the 1960s formed a large part of the background of organisational science and dictates many thoughts that business schools teach today (Donaldson 2001).

Certain features common to most research where the theoretical framework is built on contingency theory were categorised by Butler, Coates, Pike, Price and Turner (1996) as follows:

- The escalating rate of change in organisations and their surroundings;
- The complexity of the environment, which cannot use a few simple variables to be modelled;
- A view on an organisational structure that is holistic and being aware that the structure itself is a device for control;
- Control system differentiation and decision-making in the short-term; and
- Endeavours to detect and research key environmental factors. For example, organisation size and the effects on management control systems.

The Committee of Sponsoring Organisations (2004) recognised that through the development of its ERM framework, the ERM system that would be most appropriate would probably vary between firms, and a contingency perspective was suggested by COSO towards the suitable ERM system for a particular organisation (Gordon *et al.* 2009). As many authors in the literature have suggested, there is no ideal or perfect

ERM system (Beasley *et al.* 2005; Moeller 2007). In addition, the ERM systems' contingency perspective concurs with literature that investigates the customary structures of management control systems (Merchant 1998; Chenhall 2003).

Nonetheless, the key factors were determined by Gordon *et al.* (2009) in the contingency relation between the performance and ERM system of a firm. Contingency relationships are further stated by Gordon *et al.* (2009) as far from an exact science. As proposed, no general model or theoretical framework exists that allows for an examination of the most relevant factors that affect the relationship between the implementation of ERM and the performance of a company, or any other company variable. Based on extensive literature, Gordon *et al.* (2009) however, propose five factors as critical pre-conditions in understanding the associations between ERM and general performance of a firm, in the context of ERM and the performance of a firm, generalisable to other factors for success such as access to debt financing. According to Gordon *et al.* (2009), these five factors are environmental uncertainty, industry competition, firm size, firm complexity as well as monitoring of the board of directors.

A literature review on RM in SMEs by Falkner and Hiebl (2015) proposed that RM sophistication may increase the SME owner's attitude of risk-taking and that this may differ according to growing firm size. Furthermore, it could indicate that over time, SME RM systems are not stable but dependent on specified developments, for instance, growth, the evolution of business portfolios and ownership changes. Considering present ERM literature, Bromiley, McShane, Nair and Rustambekov (2015) also suggested this phenomenon in the context of ERM adoption, implementation and administration.

The study determined the key factors in the contingency relation between demographic factors and culture and SME risk management practices. There is no general theoretical framework or model that can predict the key factors influencing the relation between SMEs' demographic factors and culture and their risk management practices.

From a risk management perspective, a firm's choice of a risk management system should be properly matched with several key demographic and cultural factors. The firm's risk management practice is contingent on the demographic and cultural variables of the SME owners (Ferkolj 2010; Chavali and Mohanraj 2016; Florescu *et al.* 2015; Gwangwava *et al.* 2014).

However, based on the existing literature, there appears to be a set of seven demographic factors and five cultural factors that are critical to understanding the relationship between demographic factors and culture and SME risk management practices. These seven demographic factors are age, gender, race, marital status, level of income, level of education and family size. Additionally, the five cultural factors are social complexity, social cynicism, religiosity, reward for application and fate control (Ferkolj 2010; Chavali and Mohanraj 2016; Florescu *et al.* 2015; Gwangwava *et al.* 2014). The rationale underlying the selection of each of these factors is developed below.

The Contingency theory was used in other studies of a similar nature. For instance, a contingency framework for ERM implementation was proposed by Mikes and Kaplan (2013; 2015), who recommended that additional research be carried out so that a more mature contingency theory of ERM could be developed. Additionally, Kulchmanov, Hassan and Rashid (2016) explored the Contingency theory to explain the risk management practices in Islamic and conventional banks in Kazakhstan, Central Asia. The result of this study helped to identify the contingency variables that explained the risk management challenges encountered by Islamic bankers in Kazakhstan. Another study by Husin and Oktaresa (2011) explored the risk management implementation in West Java Provincial Government by using the Contingency and also Institutional theory.

2.17 INFLUENCE OF DEMOGRAPHIC FACTORS ON RISK MANAGEMENT PRACTICES

RM is dependent on various factors of influence. These include occupation, income, gender, age, education and culture, with several authors that mention all these variables (Ferkolj 2010; Chavali and Mohanraj 2016; Florescu *et al.* 2015; Gwangwava *et al.* 2014), which are believed to influence SME RM practice. Some popular opinions exist about these factors including (i) Women are deemed to be less risk-tolerant than men; (ii) Younger individuals tend to invest in assets that are riskier than older individuals; (iii) Where individuals have attained higher levels of education, they seek more risk; and (iv) Higher levels of risk-taking are associated with individualist cultures.

Various factors exist that impact decision-making concerning risk where an individual is concerned. Of these factors, the most important are demographic variables such as gender, age and education. A study was conducted by Bashir, Ahmed, Jahangir, Zaigam, Saeed and Shafi (2013) in Pakistan to gain a better understanding of the impact and relationship that demographic variables have on investment decisions. Their study findings indicated that risk-takers are mainly youngsters and men when compared to the older generation and women.

An analysis by Gilliam and Grable (2010) sought to determine the level at which married women and men could estimate their tolerance for financial risk. This was done through an assessment of estimation bias that was gender-based, which concerns decisions in the household that deal with financial risk. Due to previous experience, older respondents were found to be more prone to underestimating their tolerance for financial risk. Additional findings by Gilliam and Grable (2010) showed that better-educated respondents tended to misjudge their tolerance for taking financial risks, attributed to the possible gain of wisdom and financial decision-making expertise.

Furthermore, single individuals who are not married were identified by Grable and Joo (2000) as more risk-tolerant than married individuals. An examination of the existing literature concerning differences in gender where investment is concerned saw Gorzeń-Mitka (2015) determine that there is a difference in how women allocate their portfolios to the way men do, and there could also be a difference in how they approach risk-taking. Differences between genders in risk-taking and investing can be due to individual preference differences. Risk aversion is directly influenced by these factors or because of results that include gender differences in education and age.

2.17.1 Influence of Age on Risk Management Practices

Age is a demographic factor that is often deemed to conclude investors' attitudes towards risk. In general, the perception is that because there is less time for older investors to recover from potential losses, they are therefore less likely to make risky investments (Cienfuegos 2013; Smit and Watkins 2012). Numerous authors concur with this argument (Misiura 2015; Nyakang'o and Kalio 2013; Sunjka and Emwanu 2015).

However, some authors determined that riskier investments are made by older people as opposed to younger ones (Dorresteijn 2017; Bula 2012). This implies divisive findings relating to financial risk tolerance and age. Many studies have shown that risk tolerance increases with the increase in age (Grable 2000; Kourtidis, Sevic and Chatzoglou 2011). Nonetheless, other studies reported that younger people are more risk-tolerant than older people (Grable and Joo 2004). Moreover, characteristics of decision-makers such as demographic variables, including age, are argued by Das and Teng (2001) to also affect RM practices in companies.

Some authors found no significant relationship with regard to age and risk-taking of investors (Böblingen 2008; Marcelino-Sádaba *et al.* 2014; Verbano and Venturini 2013). The contention amongst authors who determined that less risky investments were made by older people found a non-linear relationship between risk-taking and

age, and that risk tolerance is a concave function related to age. In other words, there is first an increase in risk tolerance with age that diminishes once a certain age is reached (Farrell 2014; Hallahan, Faff and McKenzie 2003; Jianakoplos and Bernasek 2006).

The debate regarding the age at which risk tolerance becomes less is ongoing. A quadratic or concave relationship was found by Jianakoplos and Bernasek (2006) where age and risk tolerance is concerned, with 22.5 years determined as the peak. This does not agree with the peak established by Farrell (2014) and Hallahan *et al.* (2003), which ranged between 30 and 40 years. Jianakoplos and Bernasek (2006) pieced the observed risk-age profile together and in examining this, they determined that the highest point of the mean ratio of risky assets was reached between the age of 30 and 54 years. This risky asset mean ratio differs from the effect of pure age that is employed to construct the profile for age-risk (Bula 2012).

Nevertheless, risk tolerance is commonly measured by the mean ratio of risky assets (Pashkova 2016). The research by Hallahan *et al.* (2003), Jianakoplos and Bernasek (2006) and Farrell (2014) also links this assumption, with all these authors in agreement that the age of 30-40 or 30-50 years is the highest point in risk tolerance. Gorzeń-Mitka (2015) used a different method to that of previous authors and similarly investigated the turning point in the effect of age: a variable that measures risk-taking after age 65 was included. The result of this variable was positive, indicating that after age 65, risk aversion increases (Gorzeń-Mitka 2015). Nonetheless, there is a negative coefficient of the normal age variable. In combining both variables, it is demonstrated that when aging, individuals become less averse to risk. Yet once they pass the age of 65, they become more risk-averse. The assumption by Gorzeń-Mitka (2015) was that the risk tolerance reached its highest point before the age of 65. However, this was not measured. Therefore, the possibility exists that there is a much earlier peak in risk tolerance.

Risk tolerance is argued by certain authors to be concave rather than being a linear function of age (Dohmen, Falk, Huffman, Sunde, Schupp and Wagner 2011). The distribution of age can explain the linear function found by Dohmen *et al.* (2011), who separated age into three categories, namely under 35, between 35 and 54 and over 54 years. Should the function be concave, the top is at age 30 to 40 years and Dohmen *et al.* (2011) could thus not measure this. Therefore, not testing whether age has a quadratic or a linear effect on the tolerance of risk by the investor could still mean that the function is concave.

Dohmen *et al.* (2011) did find that general risk-taking influenced linearly by age where matters of a financial nature are concerned, is not tested for. Again, the impact of age on risk tolerance in the domain of investment is not measured directly. Measurement is instead done through the effect of age on financial matters and the correlation between risk-taking in the investment domain and financial matters (Dohmen *et al.* 2011). Therefore, while not tested, a concave function is possible.

When the strength of the age effect is examined, it becomes apparent that there is only a marginal influence by age on risk tolerance (Dorresteijn 2017). Even though this could be due to the scale of measurement, there will presumably be a minor impact by an increase of one year, or an age decrease in the tolerance of risk. Nevertheless, this does not happen. Age is transmitted into a categorical variable by the majority of research (Nyakang'o and Kalio 2013; Vasvári 2015; Verbano and Venturini 2013). This small coefficient could be better explained by the concave function by which age is characterised. A coefficient roughly 15 times larger than the original age effect is determined when the coefficient of age after 65 is explored (Dorresteijn 2017). However, Yusuf and Dansu (2013) established a coefficient of only 0.0002 for the quadratic function of age, which indicates that the coefficient is not necessarily increased by the concave function. The assumption is thus that investor risk-taking is only moderately impacted by age.

Another interesting result was found by Yusuf and Dansu (2013), namely that the tolerance of men and women for risk is affected differently by age. The tolerance for risk by women diminishes more rapidly with age than for men (Yusuf and Dansu 2013). Vasvári (2015) also maintained that men and women tolerate risk differently according to their age. It was indicated that when approaching their 40s, single women become more risk-seeking, while single men become more averse to risk (Vasvári 2015). However, once they reach their 40s, the aversion to risk of both women and men stays at roughly the same level until they reach 65 years. The tolerance for risk by both single women and men quickly diminishes after this age (Vasvári 2015).

During the entire age range, the tolerance for risk of married people stays stable and is similar to the risk tolerance level of 35 to 65-year-old single men and women (Vasvári 2015). Individuals approach retirement as they get older, thus years to retirement and age might have the same power of explanation for risk tolerance. In this study's analysis, this will be controlled. However, without consensus between previous studies about whether age is significant to risk tolerance, there is no certainty that age there is an increase or decrease with age where risk tolerance is concerned.

2.17.2 Influence of Gender on Risk Management Practices

Studies introduced the question of whether entrepreneurs are distinguished by increased risk in the company environment as a result of demographic characteristics, with gender included (Gorzeń-Mitka 2015). The well-documented importance of risk-taking in creating and resultant firm performance largely motivated this interest (Cagliano *et al.* 2015). According to Dorresteijn (2017), gender is used as one of the best-known factors for purposes of differentiation in SME RM. The link between risk-taking and gender has, mainly from a managerial perspective, been assessed through a wide range of approaches, including leadership-related literature and entrepreneurial orientation (Dorresteijn 2017; Bula 2012).

Furthermore, women are popularly considered by scholars as more averse to risk than men (Charness and Gneezy 2012; Croson and Gneezy 2009; Dohmen *et al.* 2011; Farrell 2014). Conventionally, men are the providers of income while women remain at home. Nonetheless, it is not only the man who makes the financial decisions in the household nowadays, nor the sole provider of the family income.

While many scholars use gender as one of the factors of influence (Cienfuegos 2013; Misiura 2015; Smit and Watkins 2012), the investigation of gender only took place extensively in the 1990s. While in 1990 men were generally accepted to be more risk-seeking than women, scholars had not reached a consensus regarding the influence of gender (Jayathilake 2012). In contrast, some researchers pointed out that SME owners who are male seemed to indicate a greater appetite for risk than SME owners who are female (Keith 2014; Ng'ang'a *et al.* 2015; Nyakang'o and Kalio 2013). Hence, it is important to establish whether the gender of the owners or top executives of the firm is reflected in the approach to RM. Moreover, it was argued by Das and Teng (2001) that RM practices in companies are also impacted through the characteristics of decision-makers, such as demographic variables including gender.

Anbar and Eker (2010) report that men are more risk-tolerant than women. The justification for this gender disparity is associated with women's responsibility as mothers, and their preference for a smaller amount of steady income rather than a larger amount of doubtful income. It has been discovered that women approximate the likelihood of losses and gains differently to men and ascribe more significance to losses than men do (Weber 2015). Additionally, a higher risk aversion level is negatively linked with trading frequency. As the trading activities of women are much lower than that of men, it is an indication that women are more risk-averse compared to men (Böblingen 2008).

There is more agreement in recent literature regarding the influence of gender on investment risk, with most scholars believing that gender affects the propensity for

investor risk-taking. For example, Charness and Gneezy (2012) determined that smaller investments are made by women in risky assets than that of men. Risk perception and risk attitude offer explanations for this reasoning (Vesković 2014). Due to women often perceiving a situation as riskier than that of men, they are inclined to take fewer risks. Furthermore, quantitative research studies, which are the common way to deal with contemplating gender contrasts in risk perception, uncover that men and women perceive the same risks but at distinctive levels (Misiura 2015). Especially where business and finance are concerned, limited research has confirmed more risk is seen by women than men. Consequently, in the overall population, there are lower inclinations to risk by women as opposed to men. This is also the case in expert populaces, which include directors, business people and business students (Misiura 2015).

However, some authors maintain that there is no influence of gender on investment risk-taking (Brustbauer 2016; Gao *et al.* 2013). While there is a difference in risk-taking in the health domain, as found by Gao *et al.* (2013), this is not the case in the financial domain. No significant correlation was discovered by Brustbauer (2016) between gender and risk tolerance, but it was argued that an interaction effect exists between gender and wealth. He asserted that aversion to risk decreases relative to wealth, with this effect found to be more pronounced for male investors than for female investors. By implication, gender does after all affect investor tolerance for risk.

Methods to clarify contrasts of gender in recognition of risk and state of mind emphasise natural elements, socialisation and social experience (Abeyrathna and Kalainathan 2016). Due to societal convictions that risk-taking is an exceedingly esteemed masculine propensity, women may have lower risk inclinations than men (Islam and Tedford 2012) as a result of contrasts in social roles. Furthermore, there is a lower recurrence of risky conduct amongst women as opposed to men (Harris, Jenkins and Glaser 2006), with women also being less disposed to attempt conduct of a risky nature regarding decision-making where business and finance are concerned

than men (Bernasek and Shwiff 2001; Zinkhan and Karande 2002). In addition, due to their relative lack of resources, women in business may encounter less accomplishment in their past risk conduct than men (Zinkhan and Karande 2002).

Whereas some research points to significant gender differences (Yordanova and Tarrazon 2010; Shinnar, Giacomin and Janssen 2012), others contradict any gender-associated differences (Madichie and Gallant 2012; Maxfield, Shapiro, Gupta and Hass 2010). In this regard, Koellinger, Minniti and Schade (2013) argued that men and women have different perceptions of the business environment and consequently, make diverse decisions that influence their inclination to be engaged in entrepreneurial activities. Therefore, women are shown to exhibit lower levels of self-confidence and optimism, and higher fear of failure, which ultimately influences the probability that they will take part in entrepreneurship (Koellinger, Minniti and Schade 2013). In addition, research on finance and business offers conflated confirmation of contrasts in gender orientation regarding the propensity of risk and conduct (Nyakang'o and Kalio 2013). For the most part, different business and finance studies, including tests of managers, business visionaries and experts, demonstrate that men and women are comparable regarding risk-taking behaviour (Keith 2014).

However, the strength of the gender and risk tolerance correlation is not as clear. Most authors insist that only a small part of the risk tolerance variance is explained by gender. When gender is compared to other demographic factors, only a minor impact on risk tolerance is often seen (Böblingen 2008; Gajewska and Ropel 2011; Klimczak 2007). Nevertheless, the opposite was found by some authors who asserted that amongst the demographic factors, gender is one of the main explanatory powers (Weber, Weber and Nosic 2013). The effects of gender on their own, with no consideration of other factors, were examined by a group of authors (Charness and Gneezy 2012; Nelson 2016). With other factors of influence that could also affect this difference, it is thought that this might lead to biased results. Their research determined coefficients that can therefore not be employed when gender is compared to other

factors of influence. The assumption is thus that in risk tolerance, a minor part of the variance is explained by gender due to the support of most authors for this argument (Marcelino-Sádaba *et al.* 2014; Moag 2011).

Certain studies have claimed that there is a similar amount of risk tolerance by both women and men (Schubert, Brown and Gysler 1999; Grable and Joo 1999). According to Powell and Ansic (1997), the methodology used to conduct these experiments could have resulted in these inconsistent results, where there was no consideration for context influences. Included in these influences, but not limited by them, are ambiguity; framing of gain or loss; and familiarity.

Powell and Ansic (1997) used an experimental setting since these factors could impact decision-making, where a realistic series of financial decisions were used, founded on actual financial data. In this setting, Powell and Ansic (1997) controlled for these influences of context and established that women were more averse to risk than men. However, many studies had previously determined that women are significantly less tolerant of risk than men (Grable 2000; Hallahan, Faff and McKenzie 2004; Yao and Hanna 2005). Therefore, it is assumed the same results may also be found.

2.17.3 Influence of Race on Risk Management Practices

When physical characteristics are examined, it is often claimed that race influences the risk tolerance of investors (Dorresteijn 2017). The ‘white male effect’ is the most common example of risk-taking influenced by race, whereby it is presumed that white males are the most eager to take risks (Finucane, Slovic, Mertz, Flynn and Satterfield 2000). This effect is generally employed to clarify variances concerning risk-taking in issues of health. When this is applied to economic, and specifically investment matters, the influence is uncertain. For example, Palmer (2003) did not find any evidence that risks were perceived lower by white males as opposed to other sub-groups. Furthermore, it was maintained by Palmer (2003) that there is no deviation between ethnic sub-groups. Thus the risk attitude is not influenced by race.

However, the ‘white male effect’ was also investigated by Farrell (2014), who found white males to be the investors that are the most risk-seeking. Further to this, his results show the most risk-averse sub-group to be African-American women. The race effect appears to be stronger for African-Americans than the gender effect. In other words, African-American men are more averse to risk than white women. Hispanic women were further found to be more averse to risk than African-American men and white women, but they sought more risk when compared to African-American women (Farrell 2014).

These results do not match those of Jianakoplos and Bernasek (2006), who established that single black women are more prone to seek risk than single white women. Similarly, black married couples and single black men are more averse to risk than white men or white couples, yet an examination of single females found the opposite effect (Jianakoplos and Bernasek 2006). Single black women are not only more prone to risk-taking than single white women, they also hold more assets that are risky than that held by black couples or single black men. The cause of this, as argued by Jianakoplos and Bernasek (2006), may be attributed to the varying roles that black and white women have where financial household decisions are concerned.

Furthermore, it is shown that African-American women more often participate in financial decision-making and thus they are more involved in investing, which could result in an attitude that is more tolerant of risk (Jianakoplos and Bernasek 1998). While overall African-American people have more aversion to risk than white people, it is not certain that African-American women seek more risk or are more averse to risk than white women. Farrell (2014) investigated whether the Hispanic race impacts the attitude towards risk. Unfortunately, there was no significance in the variable for Hispanic men, thus comparing Hispanic men with other races is not possible.

The variable ‘Hispanic’ was found by other authors to have a significant influence on tolerance for risk (Brown 2007). Results by Brown (2007) suggest that African-American people are more averse to risk than Hispanic people and they are in turn more averse to risk than white people. Nonetheless, the opposite was found by Brown (2007), who argued that Hispanic people are more averse to risk when compared to black people. White people are shown in both cases to be the group that is most risk-tolerant, which concurs with findings by Farrell (2014). Therefore, the stereotype of ‘white male’ seemingly finds white males to be the sub-group that is most tolerant of risk. However, whether black or Hispanic people follow white people in this regard remains unclear.

The difference in race is often maintained as a result of a class or education difference. For instance, Farrell (2014) emphasised that race does not matter in itself as cultural issues stem from racial differences, which incorporate education and financial knowledge. Indeed, there have been more wealthy and educated people that are more tolerant of risk. The proportion of risky assets were measured by Brown (2007) according to income and educational level. The analysis indicated white people as the group most tolerant of risk, even when corrected for income or education. In a study of college-educated individuals, 85 percent of white people indicated ownership of risky assets, as opposed to ownership by black people at 50 percent and Hispanic people at 40 percent (Brown 2007).

This difference is smaller for the least educated sub-group, with 35 percent of whites owning risky assets compared to ten percent of black and Hispanic people (Brown 2007). Therefore, by implication, an increased education leads to a more rapid accumulation of risky assets where white people are concerned, as opposed to amongst black or Hispanic people (Brown 2007). However, when the results are corrected for income, the risk tolerance difference is smaller. Amongst the highest income group, 56 percent of white people are deemed to seek risk as compared to 26 percent of black and 21 percent of Hispanic people. Nonetheless, even when corrected

for income or education, the results show the group that to be most risk-tolerant is white people (Brown 2007).

In comparison with other factors of influence, there is no major impact by race on tolerance of risk. Apart from Farrell (2014), whose results show similar race and gender coefficients, the majority of results infer a smaller impact. It was found that one of the influence variables of least importance is that of race, according to Jianakoplos and Bernasek (2006).

2.17.4 Influence of Marital Status on Risk Management Practices

It has also been postulated that marital status has an influence on investors' attitude towards risk and the impact of marital status is often a point of contention (Dorresteijn 2017). It is asserted by Hallahan *et al.* (2003) that more risks are taken by single people than married people since they have fewer responsibilities. It is also believed that married individuals are more sensitive to the risk of a social nature, which is seen as a loss of perceived regard by peers and colleagues that leads to a lower tolerance of risk (Henschel 2008b). Another view proposes that more risks are taken by married people as they have a greater capacity for undesirable outcomes to be absorbed (Chavali and Mohanraj 2016). Certain scholars concur with this argument, having found that more risks are taken by people who are married (Gorzeń-Mitka 2015; Yusuf and Dansu 2013; Vesković 2014).

While some authors established that single people seek more risks (Dohmen *et al.* 2011), Roussanov and Savor (2014) further established that there is an interaction by age with this effect. Age was first implemented in the equation to confirm that the marital effect is not disguised as an age effect due to older individuals being considered as less tolerant of risk, while they are also more often married. Nonetheless, this was not indicated by their results. When Roussanov and Savor (2014) investigated the effect of interaction, they established the influence of marital status on investment risk to not be very important where older individuals were

concerned. Chavali and Mohanraj (2016) also argued that there is an effect of interaction between marriage and wealth. While aversion to risk diminishes with wealth, there is a more pronounced effect in this regard for married couples as opposed to single individuals (Chavali and Mohanraj 2016). This means that there is a more rapid increase of risk tolerance for married couples than for singles with wealth.

There was not only a difference made by Jianakoplos and Bernasek (2006) as far as married and single individuals were concerned, they also accounted for married couples, single women and single men. They expected that single women would be more averse to risk than married couples, while they thought that single men would seek more risk than married people (Jianakoplos and Bernasek 2006). Other than measuring the risk aversion that was observed, the authors additionally noted risk aversion that had been stated and established verbal indicators by men that they are more risk-taking. Nonetheless, when observed risk-taking is explored, no difference exists between the attitude towards risk held by single men and married couples.

2.17.5 Influence of Family size on Risk Management Practices

Another factor thought to affect tolerance for risk by investors is family size. The number of dependents or the size of the family is another demographic factor that is sometimes considered to influence investor risk-taking (Dorresteijn 2017). Jianakoplos and Bernasek (2006) argue that individuals with fewer dependents or a smaller family size are more risk-taking than individuals with bigger families. This is caused by the increased responsibilities that come with increased family size. Chakreeyarat (2015) found that people with no other dependents invest more in risky assets than people with one or more dependents. These results are however influenced in two ways. Firstly, Chakreeyarat (2015) only distinguishes between family size = 1 and family size > 1. This means that the effect could also be caused by the difference between single and married people. Secondly, family size only matters for the lower wealth group.

Chakreeyarat (2015) distinguishes between higher and lower wealth and finds that in the lower wealth sample, family size matters. In the higher wealth sample, however, family size has no influence. When looking at the strength of the effect, Chakreeyarat (2015) shows that in the lower wealth group, 59 percent of investments are made in risky assets if the family size is one. When the family size is bigger than one, only 38 percent of the investments are made in risky assets. However, the effect only appears in the lower wealth sample, which means that family size only influences this part of the sample.

Results from Perusahaan *et al*. (2013) show that dependents are one of the only significant explanatory demographic variables for risk tolerance. The size of the effect can only be compared to gender because this is the only other significant variable. Compared to gender, the number of dependents only has a minor influence on risk tolerance. This could also be caused by the different levels of measurement, where gender is a nominal variable and therefore only distinguishes between men and women. The number of dependents is a ratio variable. However, the coefficient of dependents is still approximately six times smaller than gender. When looking at both articles, the effect of dependents seems to be rather small compared to other socio-demographic variables (Perusahaan *et al.* 2013).

2.17.6 Influence of Education on Risk Management Practices

An added factor that appears to influence the tolerance of risk by investors is education. It is generally believed that people who obtain higher education levels are more prone to take more risks concerning investment (Dohmen *et al.* 2011; Farrell 2014; Guiso and Paiella 2008). Highly educated individuals are more able to carefully assess benefits and risks and are subject to more options for investment (Chavali and Mohanraj 2016). Kim and Vonortas (2014) demonstrated that higher SME proprietor education is emphatically identified with receiving risk mitigation procedures. For example, strategic activities and networking to alleviate innovative operational and financial risks.

Firms driven by more educated business visionaries tend to engage in strategic unions and in different inner strategic activities to oversee risk. This infers that the understanding of risks inherent to investments is increased due to education. Therefore, the level of tolerance for risk increases. Further to this, Das and Teng (2001) believe that characteristics of decision-makers, including demographic variables such as education level, also affect RM practices in companies. In an analysis of possible determinants of the financial RM levels in Dutch SMEs, Van den Boom (2019) found the level of education to be a determinant.

Researchers have linked an increased educational level with better information processing capabilities, tolerance for ambiguity, innovation and strategic change (Chavali and Mohanraj 2016; Cienfuegos 2013). Furthermore, Dorresteijn (2017) asserted that managers with higher educational levels would more likely engage in comprehensive information search, which results in richer information for strategic decision-making.

The level of education is also seen as a pointer of an individual's inclination to recognise and assess new alternatives and opportunities, degree of innovation and strategic change (Ng'ang'a *et al.* 2015). Many authors established that increased risk tolerance stems from a higher educational level (Dohmen *et al.* 2011; Farrell 2014; Guiso and Paiella 2008). The argument is that education has a linear effect. Several authors deem education to be the variable most influential to the tolerance of risk (Chavali and Mohanraj 2016; Dorresteijn 2017; Wijekoon *et al.* 2016). The level of education was measured by all these authors as an interval variable.

When authors who assert that there is a moderate impact by education on risk tolerance are examined, all were noted as using a different measurement type. Rather than the level of education being used, education was measured by these authors

through a dichotomous variable, namely educational degree (Dohmen *et al.* 2011; Farrell 2014; Guiso and Paiella 2008). The *Abitur*, an exam that is essential to attend university, was used by Dohmen *et al.* (2011). Education was quantified by Guiso and Paiella (2008) in relation to the diploma for junior high school, deemed to be a rather basic diploma.

Different dichotomous variables were used by Farrell (2014) to determine education from an associate degree to a doctorate. The variance in measurement levels could account for the difference in measured coefficients. The actual education level is more accurate and could thus better interpret tolerance of risk. There is an especially small education coefficient that Guiso and Paiella (2008) measured in comparison to what other authors found. When allowing for a diploma for attending junior high school being a low level, this could easily be explained. Only a minor impact would thus be made in understanding the risks characteristic of investments and it would only influence the risk tolerance moderately.

The impact of parental education was also investigated by Dohmen *et al.* (2011) in assessing whether respondents' parents had passed their *Abitur*. The findings reflected that there was only an impact by the educational level of the father on tolerance of risk. Children whose fathers passed the *Abitur* exam are indicated as more risk-tolerant than those children whose fathers did not pass the exam. The mother's educational level did not influence risk tolerance. The impact of the level of education of parents on investors' tolerance of risk was only assessed by Dohmen *et al.* (2011). Additional research could determine whether there is an impact of parental education on the risk tolerance of investors.

A clear distinction was also made between pure and speculative risk by Halek and Eisenhauer (2001), with pure risk deemed to be a definite loss, while the speculative risk is considered as either a gain or a loss. Regarding these types of risks, different conclusions were drawn concerning education. As there was an increase in education,

in the case of pure risks, the risk tolerance decreased and in the case of speculative risks, it increased (Halek and Eisenhauer 2001). In investigations by previous studies that measured risk tolerance whereby speculative risks were presented to participants, it was concluded by most researchers that education has a positive influence on risk tolerance (Hallahan *et al.* 2004; Grable 2000; Sung and Hanna 1996). This may be due to educated people being seen as better able to deal with risks in a more positive manner.

Other than the coefficient difference, all the previous studies' authors presented above stressed that education is important. However, other authors also concluded that there is no influence of education on risk tolerance (Geessink 2012; Sunjka and Emwanu 2015). Sunjka and Emwanu (2015) measured years of education to determine education and they are the only authors who applied this scale of measurement. The lack of findings in their research might be attributed to this. Even though the number of education years is a good educational level proxy, it is not as accurate as of the level of education. There is not necessarily an increase in the educational level as a result of an increase in the number of years of education attained (Sunjka and Emwanu 2015).

Apart from these two studies by Geessink (2012) and Sunjka and Emwanu (2015) that argued against an effect, the majority of literature highlights the correlation between education and tolerance of risk (Dohmen *et al.* 2011; Farrell 2014; Chavali and Mohanraj 2016; Dorresteijn 2017; Wijekoon *et al.* 2016). Educational level has been viewed as a measure of an individual's knowledge, cognitive abilities and skills base. However, there is also an issue with causality when this variable is studied. While education can affect risk tolerance education can also be influenced by risk tolerance. As Chavali and Mohanraj (2016) demonstrated, individuals with a higher risk tolerance will be better educated as they invest more in human capital.

2.17.7 Influence of Income on Risk Management Practices

Income is the key variable employed in explaining risk tolerance (Abotsi *et al.* 2014). In this context, income is defined as a household's gross salary. Thus, income is described as the total household income obtained through labour. There is an important difference in wealth or income being used as a variable because wealth is measured in many different ways and incorporates many more financial household assets than only income (Woods 2007). Due to household income being fixed, it is not possible to calculate it differently. The researcher chooses to use income as an independent variable.

By studying individual investors, Cienfuegos (2013) established a positive relationship between income and relative risk tolerance. This is echoed by Ng'ang'a *et al.* (2015), who came to a comparable inference making use of household data. Nevertheless, it was also determined that there is a high correlation between income and education, which Otieno (2016) concurs with. In addition, a positive effect between income and risk tolerance was found by Pashkova (2016), while a U-shaped distribution was observed by Jayathilake (2012), where there is first a decrease of risk tolerance with income, and it increases again after a certain point. This could be due to the ability of wealthy individuals to incur more losses, whereas poor individuals think of a lottery ticket as a risky opportunity (Marcelino-Sádaba *et al.* 2014).

Chikomba *et al.* (2013) could not find any evidence that an income or wealth change impacts risk tolerance. However, constant relative risk aversion was found by their study, raising the question of whether income does in fact influence risk tolerance. In addition, Harvett (2013) showed that there is not a clear relationship between income and risk tolerance, as causality arises when the risk tolerance and income relationship is probed. Should an effect exist, there is a need to establish whether there is a positive effect by risk tolerance on income and whether a higher risk tolerance is generated by higher income or both.

2.18 INFLUENCE OF CULTURE ON RISK MANAGEMENT PRACTICES

Culture is an elusive and difficult concept to define (Hofstede 2011). People observe culture differently and some argue that its complexity adds to the difficulty in establishing its definition. Numerous people view culture as simply the way of life that conveys certain values and meanings of people (Ashby, Palermo and Power 2013). Furthermore, Wong (2012) views culture as a means of finding different approaches to doing things, or the ultimate way of doing things. Mir (2014) claimed that culture includes art, knowledge, law and belief, as well as customs, morals and any other habits and capabilities obtained by man as a part of society. Sarkodie-Poku (2019) found RM in SMEs in Ghana primarily focused on the cultural beliefs of owners/ managers and stated that these seriously hamper sustainable business development. Within the small business sector, RM is further believed to be less developed, as a strong enterprise and individual culture diminish the management of risk in a way that is professionally structured (Keith 2014). When culture is focused on, the consensus amongst scholars investigating the effect is the most noticeable. Amongst these authors, the common opinion is that culture is of importance when the risk-taking of investors is explored (Barnabei 2008; Dorresteijn 2017; Wong 2012).

America and China are used by numerous authors as case studies when different cultures are compared, mainly due to the major differences in the cultures of both countries. While America is typified by individualism and a market environment, China is a collectivist and hierarchical country. On one hand, decision-making is done according to standard procedures in hierarchical societies with individuals and therefore presumed to be averse to risk (Fan and Xiao 2006). On the other hand, the structure of the individualistic market is more focused on opportunities being explored, thus uncertainties are caused and risk-taking encouraged (Fan and Xiao 2006). When the case of America and China is investigated, Chinese investors are by implication more averse to risk than American investors.

Nonetheless, when research is examined where measurement is made on the actual influence of culture on risk-taking in the domain of investment, there is less risk aversion by Chinese respondents as opposed to American respondents (Nyakang'o and Kalio 2013). The argument by Nyakang'o and Kalio (2013) is explained using the 'cushion' hypothesis. It is predicted by this hypothesis that in countries such as China that are social-collectivist, family or other group members will assist each other when a catastrophic event takes place. In countries that are individualist, such as America, there is no such social safety net, with individuals expected to bear all the effects of a risky decision personally (AIRMIC, Alarm and IRM 2010). Chinese respondents perceive risks as less severe because of this safety net and they are thus more risk-tolerant (Nyakang'o and Kalio 2013).

Nyakang'o and Kalio (2013) also investigated risk-taking attitudes in Germany and Poland. They expected that both countries would score between America and China due to these countries being distinguished by less individuality than the US, but with more individuality than China. Their hypothesis was confirmed by the results, with Germany and Poland scoring between America and China in the study of investment risk-taking. This was however limited to students. Therefore, the generalisability was affected and it was questioned whether, with different respondents, this effect would apply.

A non-student sample was used by Fan and Xiao (2006) to solve this, and the same conclusion was reached as Nyakang'o and Kalio (2013), whereby Chinese were found more agreeable to taking considerable risks in the investment domain. However, the influence of culture on the tolerance of risk is difficult to measure, as authors who investigate culture do not incorporate other demographic variables. A comparison between different variables is thus impossible. This has been acknowledged by Wong (2012) and Ashby *et al.* (2013), who argued that variances between different cultures in the tolerance of risk could also be attributed to other factors. The cushion hypothesis is stated by both authors to be a fact and that risk tolerance is influenced by culture.

However, they further conceded that there is probably a small actual influence. Research regarding culture, along with additional variables in multiple regression, is proposed to assess culture's actual effect.

While a significant part of the examination on risk discernment has focused on the individual (Böblingen 2008; Napp 2011), an extensive volume of work has been done around the significance of cultural influence in the improvement of attitude to risk. That cultural values influence risk observation is maybe quite clear as people are all subject to a scope of connections that imprint and shape their state of mind. Convictions and values that identify with risks are similar to more comprehensive convictions and values (Nyakang'o and Kalio 2013). Subsequently, it follows that values and convictions identifying with risks are identified with more extensive cultural variables and procedures.

Henceforth, risk observation and conduct must be liable to these influences, a supposition bolstered by individual risk discernment research (Jayathilake 2012). Investigations of individual and national culture demonstrate that people in Eastern social orders have lower risk and vulnerability resilience when contrasted with Western people (Ferkolj 2010). Along these lines, the extreme need for risk appears to differ with individual cultures (Acar and Goc 2011). Thus, risk-taking in various areas may change with the cultural orientation of people.

Differences in culture influence personal decisions and affect societal decisions, due to culture shaping and strengthening social institutions and these institutions consequently reinforce cultural values over time (George and Zahra 2002). It is also likely that cultural values can establish the level at which entrepreneurial behaviours are considered by society, for instance, whether independent thinking and risk-taking are desirable (Hayton, George and Zahra 2002). The evaluation of uncertainty and thus risk-taking is also affected by cultural background and social effects.

Furthermore, SMEs show little separation between the strategic thinking and decision-making of an entrepreneur and the formal planning system of a firm (Brustbauer 2016). Indeed, it has been observed that SMEs are depicted with the owner playing the central role while performing numerous and varied duties, as well as closely identifying with employees. Jayathilake (2012) stated that in SMEs, RM practices relate to the attitudes and beliefs of the entrepreneurs who found the enterprise, with their influence on RM practices in SMEs corroborated by Verbano and Venturini (2013). As a result, decisions are made regarding the business as an entity, instead of being based on risks that are manager-specific. Hence, in optimising significant risks, SMEs do not use special techniques.

The concept of culture has been extensively studied through values (Singelis, Hubbard, Her and An 2003), with culture defined traditionally according to values (Bond, Leung, Au, Tong and Chemonges-Nielson 2004). The mapping of the value universe has been made possible by endeavours of social scientists to incorporate values that are culturally distinct into measurements (Leung and Bond 2004; Bond *et al.* 2004). Comparisons can thus now be made of persons through a value profile, even when they have been socialised in different cultures (Leung and Bond 2004).

Human values are goals that people attach importance to and values have frequently been utilised to interpret and describe cultures (Hofstede 1980; Schwartz 1994). However, Leung and Bond (2004) argued that values do little to answer the “how” question, and proposed the concept of social axioms to provide answers to the “how” question.

2.18.1 Social Axioms

According to Leung and Bond (2008), social axioms represent people’s cognitive map of their social world. Social axioms are generalised beliefs about people, social institutions, social groups and the spiritual world, as well as the physical environment, classes of events and occurrences in the social world. These generalised beliefs are

encoded as an assertion of the relationship between two concepts, for example, “fate determines one’s successes and failures” (Leung and Bond 2008). Assumed to play a significant role in people’s belief systems, social axioms are also thought to enhance the functioning and survival of people in their physical and social environments.

To identify a broad set of social axioms, Leung, Bond, Reimel de Carrasquel, Muñoz, Hernañndez, Murakami, Yamaguchi, Bierbrauer and Singelis (2002) drew from the Western psychological literature on beliefs, as well as from two cultures, namely Venezuela and Hong Kong. A Social Axioms Survey (SAS) scale comprising 182 items was constructed initially and administered to adults and college students in Venezuela and Hong Kong. An exploratory factor analysis proposed a five-factor structure for both cultures. Leung *et al.* (2002) also collected data from the USA, Japan and Germany, utilising confirmatory factor analysis and factor analysis to test the universality of the five-factor structure. Their analyses reinforced the same five-factor model. Thereafter, Leung and Bond (2004) conducted a comprehensive cross-cultural study to examine whether the five-factor structure would be generalisable to other cultures. Data from 41 national or cultural groups were incorporated, and findings confirmed the five-factor structure of the social axioms. These five dimensions were labelled social complexity, social cynicism, reward for application and fate control, as well as religiosity.

Social cynicism represents a negative assessment of human nature; a mistrust of social institutions; a bias against some social groups; and a belief that people tend to ignore ethical means in pursuit of their goals (Leung and Bond 2009). An example of a social cynicism statement is “kind-hearted people usually suffer losses” (Bond *et al.* 2004). Social cynics tend to hate themselves and other individuals; they lack enough motivation to obtain outside professional help regarding everyday challenges; use maladaptive coping strategies and feel helpless against a corrupt world (Leung and Bond 2009).

Reward for application signifies a belief asserting that the investment of knowledge, effort, planning and other resources will result in positive outcomes (Leung and Bond 2009). An example of a reward for application statement is that “hard-working people will achieve more in the end” (Bond *et al.* 2004).

Social complexity is embodied by a certitude that numerous solutions to social problems exist; the outcome of events is uncertain; and that people’s behaviour may vary across situations (Leung and Bond 2009). Social complexity refers to the belief in several ways of attaining a given outcome and agreement that human behaviour is different across situations. This means that social complexity is a belief that there is no distinct rule governing social occasions and individuals must adjust their behaviours to changing circumstances. Social complexity upholds the notion that the world is complex, with no single general rule that always works in all circumstances because social behaviour varies in different circumstances (Leung and Bond 2009). The social complexity dimension is concerned with whether people will always depend on methods that worked before, or whether individual behaviour is compelled by situational changes (Leung *et al.* 2002). An example of a social complexity statement is that “one has to deal with matters according to the particular circumstances” (Bond *et al.* 2004). Generally, social complexity serves as an active enabler of problem-solving (Bond *et al.* 2004).

Fate control corresponds to an opinion claiming that life events are predetermined by numerous external forces, but there are ways in which people can influence the negative impact of these forces (Leung and Bond 2009). Fate control is the conviction that there are impersonal, external forces that determine life events (for example destiny, fate and luck) and the possibility for individuals to influence or shape their outcomes by engaging in several culture-specific practices (Leung and Bond 2004). In other words, people who approve of fate control adapt to their supposed fate. At the same time, they actively find ways to improve their fate. An example of a fate

control statement is that “fate determines one’s success and failures” (Bond *et al.* 2004).

Religiosity affords credence to the existence of a supernatural being and beliefs regarding the beneficial social functions of religious practices and institutions (Leung and Bond 2009). Religiosity denotes the perception that the human world is influenced by spiritual forces and that a positive influence is exerted by religious institutions on social outcomes. An example of a religiosity statement is that “religious people are more likely to maintain moral standards” (Bond *et al.* 2004).

The researcher, therefore, examined the influence of culture on the RM practices of SMEs. The current study investigated a limited number of cultural groups. Hence the focus is on the five-dimensional individual-level structure. As a result, the constructs of interest are the five domains of social beliefs, namely social cynicism, social complexity, reward for application, fate control, as well as religiosity. Much is known about social axioms, but a systematic investigation of the relationship between social axioms and RM practices has not yet been conducted. No empirical findings concerning the relationship between the social axioms under study and SMEs’ RM practices were identified in the reviewed papers, which may therefore be regarded as a fruitful field for further research. This study was conducted to fill this gap.

2.19 CONCEPTUAL FRAMEWORK

As specified in the reviewed literature, empirical research that comprehensively assesses the impact of demographic factors and culture on SME RM practices is scarce. The literature review indicated several areas related to SMEs’ RM practices that need additional exploration. The researcher developed a conceptual framework, following theoretical perspectives that were reviewed to gather information regarding research in organisational design, in response to the stated research questions and objectives of this study.

The demographic factors identified to influence RM practices are Age (Cienfuegos 2013; Smit and Watkins 2012; Dorresteijn 2017; Bula 2012); Gender (Charness and Gneezy 2012; Dohmen *et al.* 2011; Farrell, 2014; Keith 2014; Ng'ang'a *et al.* 2015; Nyakang'o and Kalio 2013); Race (Dorresteijn 2017; Farrell 2014); Marital status (Gorzeń-Mitka 2015; Yusuf and Dansu 2013; Vesković 2014); Level of income (Pashkova 2016; Abotsi *et al.* 2014); Level of education (Geessink 2012; Sunjka and Emwanu 2015; Chavali and Mohanraj 2016); and Family size ((Dorresteijn 2017). The researcher, therefore, examined the effect of these demographic factors on the RM practices of SMEs in Zimbabwe.

Identified culture and related factors that influence RM practices include social cynicism, social complexity, reward for application and fate control, as well as religiosity (Leung *et al.* 2002; Leung and Bond 2004; Bond *et al.* 2004; Leung and Bond 2009). Therefore, the researcher examined the effect of these cultural factors on the RM practices of SMEs in Zimbabwe. Figure 2.4 below presents the conceptual framework for the study.

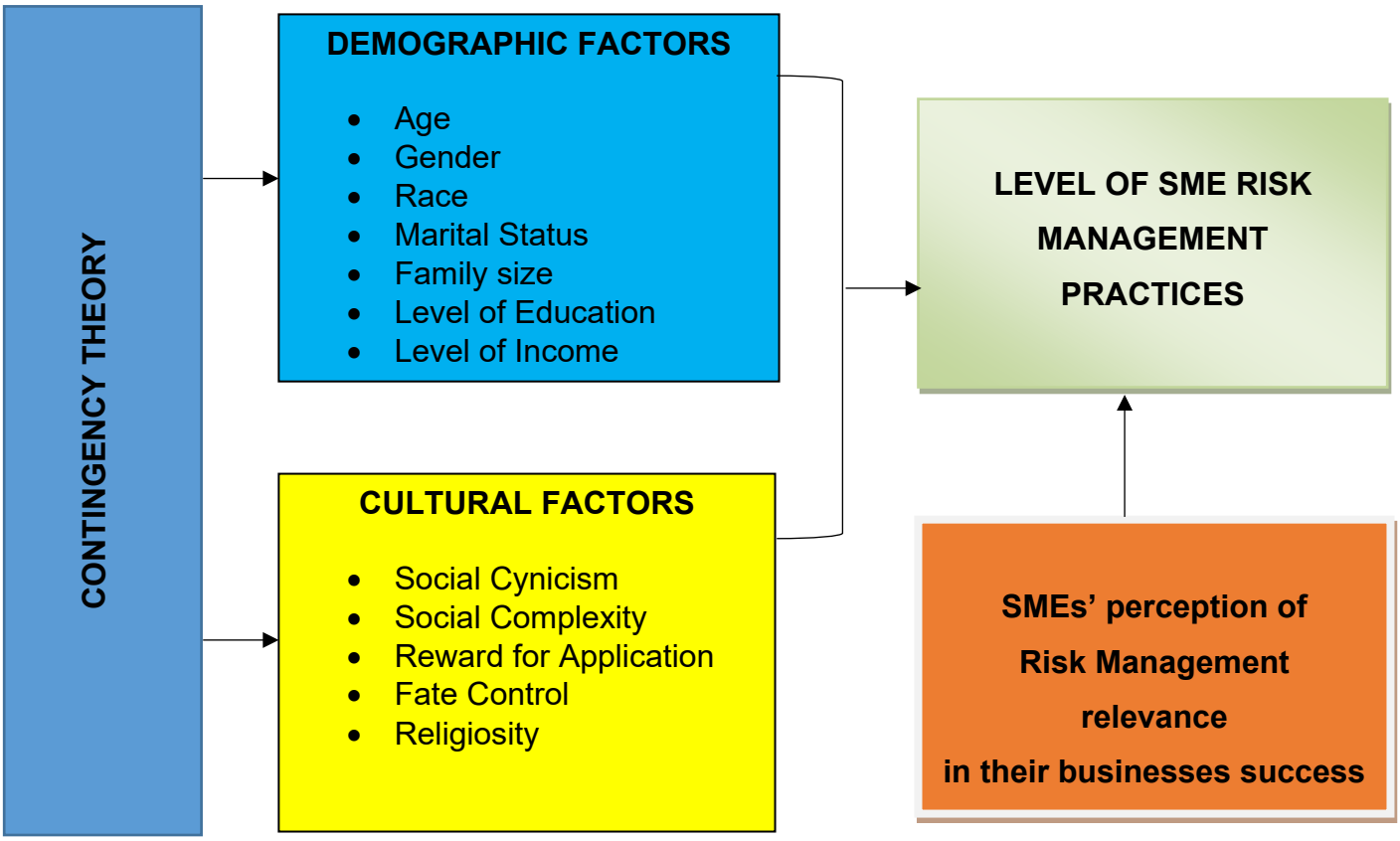

Figure 2.4: Conceptual framework for the study

2.20 RESEARCH GAP

Conflicting views on the use of RM by SMEs have prompted the researcher to carry out this study to determine the extent of RM usage by SMEs in Zimbabwe. Research on RM focused on particular industries such as the financial sector, chemical processing and aviation, with lower priority given concerning RM in the SME sector (Islam and Tedford 2012). This is at odds with the fact that SMEs are the backbone of most economies in both the developed and, more so, developing countries, such as Zimbabwe. The high rate of unemployment in Zimbabwe and the closure of many companies, due to economic hardships and downsizing of existing companies have left thousands of people jobless, and the only hope lies in SMEs. Therefore, it becomes imperative that they engage in RM to ensure their survival and growth.

Even though the worldwide financial crisis of 2008 shed light on the significance of RM practices of firms (Arena *et al.* 2010; Quon *et al.* 2012), proof shows a pattern towards ERM adoption that is however restricted in practice (Daud *et al.* 2010; Yusuwan *et al.* 2009). This may be credited to poor regulatory powers for compulsory adoption. The Zimbabwean Code on Corporate Governance merely suggests ERM adoption by firms listed on the Zimbabwean Stock Exchange. While past research uncovered a few variables that impact ERM implementation (Daud *et al.* 2010; Razali *et al.* 2011), there is a gap in the degree of ERM usage amongst firms in various industries, SME proprietors' distinctive demographic characteristics and diverse cultures. While past research focused on ERM adoption generally, this research will investigate the level of ERM implementation in SMEs in Zimbabwe.

Although RM as a concept and in practice is widely understood, it is an area that is rather under-researched (Bezzina, Grima and Mamo 2014) as there is a limited body of knowledge on the area (Anchor and Benesova 2012) and this calls for further empirical research on RM practices in other countries. An examination of existing literature on RM indicates that most research was conducted in the developed world, particularly in Europe and Asia, and very few in the developing world (Al Khattab and Hood 2015; Falkner and Hiebl 2015). There is an over-emphasis on sectors such as aviation, medical science, construction, chemical processing and the financial sector, where it is believed consequences of failure are significant to people and the environment. A lower priority has been placed on RM in the SME sector (Islam and Tedford 2012).

Therefore, a need for further research into SME RM in developing countries exists (Falkner and Hiebl 2015). There are no empirical findings on the implementation of RM strategies and control of RM processes in SMEs (Falkner and Hiebl 2015), which are indeed critical stages in the RM process. Consequently, the researcher will endeavour to fill this gap. Limited research has been conducted on RM in SMEs in Sub-Saharan

Africa, particularly in Zimbabwe. Hence, the current research seeks to establish the level of RM practices of SMEs in the Zimbabwean context, along with the perceptions of SMEs owners of the relevance of RM to the success of their businesses.

Additionally, there is little in the way of literature regarding RM practices in relation to demographic factors and culture in SMEs (Chakreeyarat 2015; Dorresteijn 2017; Loke 2017; Wijekoon *et al.* 2016). Previous studies have focused their attention on economic factors, political factors, government policies and tax and business characteristics (Gorzeń-Mitka 2015; Yusuf and Dansu 2013; Pashkova 2016). While these factors shape the environment in which SMEs operate, they do not give assurance on operational excellence in SMEs.

Therefore, it is necessary to take the demographics of SME owner-managers into account towards the utilisation of RM in their businesses, considering factors such as age, gender, race and marital status, as well as family size, level of education, level of income and individual culture. There is little separation between SMEs and the owner/managers in strategic thinking and decision-making. The researcher also intends to contribute to the body of literature by proposing a framework to effectively manage risk in the Zimbabwe SME sector.

2.21 CHAPTER SUMMARY

The chapter assessed the development of entrepreneurship and SMEs in both developed and developing countries. Four theories of entrepreneurship development were discussed to establish how they influence the embracing of entrepreneurship in different countries. These theories of entrepreneurship were classified into Classical theory, Neo-classical theory, Schumpeterian synthesis and Post-Schumpeterian developments. The chapter emphasised that entrepreneurship, as well as SMEs, are the solution to employment creation and economic development, especially in a country such as Zimbabwe where there are fewer opportunities for formal employment. The varying definitions, classification and characteristics of SMEs were examined in

detail. With no universal definition or classification of SMEs and with definitions and literature varying according to country, region, organisation or author, the common characteristics of categorising SMEs were determined as employment numbers, legal status and turnover of the firm. This categorisation is also applicable to Zimbabwe. The study defined SMEs as business organisations employing between 6 and 100 employees. Financial constraints, lack of access to credit, marketing complexity, poor management skills, low awareness of technology, as well as cultural barriers and a heavy regulatory burden, were the main challenges for SMEs within several countries. The risks that SMEs are exposed to were operational risks, strategic risks, hazard risks and financial risks.

This chapter also focused on risks and RM concepts; the role of RM in business management; the level of SME RM practices; and the perception of SMEs on the relevance of RM in their businesses, along with RM theories and the demographic and cultural variables that influence RM practices. The conceptual framework and the research gap were also presented.

In this chapter, the literature review offered evidence of conflicting views on the level of RM practice by SMEs. While most studies confirm that the level of SME RM practice is low, there is a negative perception of the relevance of RM amongst SMEs, with demographic factors and culture influencing SME RM practices. Therefore, the researcher has been prompted to carry out this study to determine the level of usage of RM by SMEs in Zimbabwe; the perception of SMEs of the relevance of RM; and the influence of demographic factors and culture on their RM practices.

The information collected and explained will be utilised to propose approaches to improve SMEs' ability to manage risk for business success. The researcher used the above literature review to compile a research instrument to identify, examine and test the demographic factors and culture that influence the RM practices of SMEs in Zimbabwe.

The next chapter will focus on the research methodology applied to this study.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter discusses the research methodology used in investigating the influence of culture and demographic factors on SME RM practices in the Republic of Zimbabwe. The research strategies utilised during this study are discussed. Furthermore, the research approach, design and strategy, as well as the data collection and analysis techniques utilised by the researcher in evaluating collected data are also discussed. Additionally, this chapter addresses the ethical issues associated with the study.

3.2 RESEARCH PHILOSOPHY

It is important to select the proper research paradigm and methodology as these are the key foundations of a high-quality study (De Villiers and Fauche 2015). The current research study adopted a positivist approach that assumed that the article/ item under study was free of researcher bias, and information was acquired through measurements of phenomena or observation (McKerchar 2008). Positivists derive information about a phenomenon through the utilisation of the five senses. The positivist approach entails deductive reasoning/ logical thinking and postulates theories that may be tested.

The researcher's thoughts are structured, thereby enabling the observation of phenomena from which valid conclusions will be drawn (Repko 2012). Positivists believe that knowledge is acquired scientifically and they additionally believe in empiricism wherever observation and measuring are central to the scientific endeavour (Krauss 2005). Deductive reasoning holds that the investigator starts by ascertaining the known facts about a phenomenon, then moves to the unknown through hypothesis development that is tested and from which conclusions can be derived (Walliman 2011).

3.3 RESEARCH METHODOLOGY

Research methodology is the method used to collect information to make business choices (Saunders, Lewis and Thornhill 2011). Bryman (2004) states that research methodology incorporates the techniques, tools and procedures through which the information is gathered, analysed and interpreted for the research. Thus, research methodology provides a framework of the strategies employed in the collection, analysis and reporting of information.

During this study, a combination of qualitative and quantitative research strategies was employed to gather information to examine the RM practices of SMEs in Zimbabwe. This research study is thus mixed-method-based because it profits from both qualitative and quantitative research strategies. Creswell (2014) characterised mixed methods research as an approach to inquiry that mixes quantitative and qualitative forms of research. The model was chosen by the researcher in an endeavour to substantiate and cross-validate findings within a study. Using such techniques ensured the credibility and validity of the research findings.

While the quantitative research methodology was in the form of a self-administered questionnaire, the qualitative research methodology during this study relied on semi-structured interviews. Both the questionnaire and the interviews were developed from a similar perspective and were expected to realise similar objectives of finding pertinent responses to the research questions. This study employed a mixed-methods research methodology that is extremely helpful to capture the best of both qualitative and quantitative approaches (Creswell 2013). A mixed methods research methodology was appropriate for generalising the results and developing an in-depth view of the implication of a phenomenon.

The gathering and analysis of qualitative responses can augment and clarify complicated or opposing survey responses (Creswell 2013). Whilst carrying out this study, the researcher treated qualitative and quantitative methods as complementary

instead of rival approaches. Merging these approaches improved the validity of the research. The mixed methodology design is considered the most effective and most suitable research design in several research studies because it presents the smallest experimental error and curtails bias, thereby increasing the reliability of the information collected. The limitations of one methodology are compensated for by the other and enforce the credibility of the findings (Creswell 2013).

In this study, the researcher adopted a sequential mixed-methods approach, which started with a quantitative methodology (questionnaire) within which theories or ideas were tested. The quantitative methodology was then followed by a qualitative methodology (interview) involving elaborate exploration, with a limited number of cases or people. Therefore, qualitative data is gathered simply to strengthen the quantitative data collected from the study participants. According to Robinson (2014), interviews provide an opportunity for the researcher to probe further where explanations to given responses are required. A primary disadvantage of this strategy was the time needed to design and conduct separate tailored instruments for each key informant.

3.4 RESEARCH DESIGN

Bhattacherjee (2012) described a research design as a comprehensive plan for gathering information in an empirical research project. Alternatively, Polit and Beck (2013) defined a research design as the researcher's overall method for responding to the research question or testing the research hypothesis. The purpose of the research design is to guide the research procedure from commencement to finish by providing the outline within which all the essential work will be completed. Social research ought to be built with a specific design in mind before a researcher starts collecting and analysing data (Bhattacherjee 2012).

Bryman (2004) considers a successful research design as able to characterise the research problem; decide the problem-solving data required; design the descriptive,

exploratory or causal phases of the research; and specify scaling and measurement procedures. Additionally, it allows the researcher to create and pre-test a questionnaire or an acceptable type of instrument for the collection of information. The research design has to also indicate the method of sampling and sample size; develop a data analysis plan; specify the financial and time limitations and follow up on the finished research study. This study utilised a descriptive survey research design.

A survey is defined as a study into one or more variables in a population (Gray 2014). Sekaran and Bougie (2011) distinguished a descriptive survey as a study undertaken to establish and be capable of describing the characteristics of variables in a scenario. The goal of a descriptive study is to provide the researcher with a profile of an event of interest. It additionally seeks to determine the answers to the *When, Where, How, Who* and *What* questions of the research (Zikmund 2003).

The researcher established how population members are distributed in terms of variables such as age, gender, income and family size, along with their marital status, race, education and culture. During this study, these variables for SMEs in Zimbabwe were examined. There was also the need to take the perceptions of SMEs into account regarding the relevance of RM in their businesses. Additionally, the study considers the influence of demographic factors such as age, gender, race, and marital status, as well as family size, education, income and cultural factors such as social cynicism, reward for application, social complexity and fate control, in addition to religiosity, on the RM practices of SMEs in Zimbabwe.

Surveys use structured interviews or a questionnaire that involves a big group of individuals and collects information on many variables (Robson 2011) and were frequently applied to studies regarding the extent of ERM implementation. In this study, the researcher made use of a questionnaire and interviews to collect information. The main research instrument for this research was a self-administered questionnaire, which was hand-delivered to the selected SMEs.

The justification for choosing a descriptive survey in this study was the reasonable costs to research only a sample of the population was used (Saunders, Lewis and Thornhill 2007). The researcher was able to research an entirely natural setting, which resulted in more reliable data. However, there was a lack of replication of the experiment/ observational/ empirical studies and reviewing of the results once completed.

3.5 TARGET POPULATION

The entirety of units from which research data was sampled is referred to as the target population (Robinson 2014). SMEs in Zimbabwe made up the research population for the study. During this survey, SMEs were characterised by the number of employees. The study adopted the definition of SMEs as enterprises having between 6 and 100 employees, as stipulated by the Zimbabwean SMEs Act Chapter 24:12 (Magaisa and Matipira 2017) and SEDCO (2010). Only organisations fitting this criterion and adhering to the definition of an SME as specified in section 1.2 pp.2 were targeted.

SMEs were drawn from those who recognise themselves as business owners or who generate income through business activities, as well as those who employ between 6 and 100 employees. A 2012 Finscope MSME Survey (FinMark Trust 2013) estimated that there are 3,4 million businesses in Zimbabwe. However, approximately four percent are small businesses and one percent are medium enterprises, which translates to 170 000 SMEs (FinMark Trust 2013). Of the 170 000 SMEs, 13 percent are situated in Harare Province and eight percent are in Mashonaland Central Province. Thus, for this study, the effective target population of SMEs was estimated to be 35 700.

3.6 SAMPLE SIZE

Kothari (2004) asserted that sample size refers to the number of items to be chosen from the universe to represent a sample. A sample may be a sub-group of the

population, selected in a way to represent the entire group (Kumah 2011). The sample characterises a population of concern (Fraenkel and Wallen 2008) and is also viewed as a sub-set of the population (Sekaran and Bougie 2011). Therefore, it is the group the researcher can study and implies that some but not all components of the population make a sub-set or sub-group of the population. By focusing on this sample, the researcher can draw conclusions that may be generalised to the entire population of interest.

In this research, the sample comprised SMEs in Harare and Mashonaland Central provinces. This study relied on a sample as it was not practically possible to gather data from all SMEs nationwide. Another pertinent issue was that it would have been prohibitive to gather information from the entire population due to limited financial, human and time resources. Sampling was thus regarded as the best procedure because it produced very reliable results since the challenges of errors and fatigue were kept to a minimum throughout the data collection process (Sekaran and Bougie 2016).

Sampling was implemented in this study to cut costs, obtain the correct results and speed up data gathering. Blumberg, Cooper and Schindler (2014) reinforced sampling strategy advantages that include lower costs, rapid information gathering and accessibility of the population elements.

According to a 2012 Finscope MSME Survey (Finmark Trust 2013), there are 170 000 SMEs in Zimbabwe, 13 percent of which are situated in Harare Province and eight percent in Mashonaland Central Province. In light of this, the total population of the study is given by:

SME owner population in Harare Province

13% × 170 000 = 22 100

SME owner population in Mashonaland Central Province

8% × 170 000 = 13 600

The total population in the two provinces is therefore 35 700. This study used the formula developed by Israel (1992) to determine a suitable sample size:

$n = N/1 + N(e^2)$

Where n=sample size; N=Population sample and e= margin of error.

The margin of error shows the accuracy of responses from the sample in relation to responses from the whole population. Hence, the sample size for the study was 276 respondents, computed as follows:

$35\ 700/ 1 + 35\ 700 (0.06^2) = 276$

The questionnaire was distributed to 171 respondents in Harare Province and 105 respondents in Mashonaland Central Province in the proportion of the total population in the two provinces. This translates to 62 percent of the total respondents being drawn from Harare Province, while 38 percent were drawn from Mashonaland Central Province.

3.7 SAMPLING METHODOLOGY

A mixture of cluster sampling and simple random sampling strategies was used to determine the subjects. Primarily, the researcher utilised cluster sampling as it allowed the use of a bigger sample for similar fixed expenditure. Cluster sampling is helpful when the sample is large (Kumah 2011). Gray (2014) states that it involves the sequential sampling of units by progressing from larger population sizes to smaller ones. This method divides the population into clusters and these clusters are chosen randomly, ensuring that they are sampled.

Zimbabwe is split into ten provinces that represent the SME clusters in this research. From the ten clusters, two clusters were concentrated on, specifically Harare Province and Mashonaland Central Province. The estimate was that these two provinces constitute 21 percent of the 170 000 SME owners in Zimbabwe (Finscope MSME Survey 2012, as cited by FinMark Trust 2013), which translates to 35 700 SMEs in Harare and Mashonaland Central provinces.

The selection of Harare Province was supported by the fact that it is the capital city of Zimbabwe. It has a population of 1 896 000 (ZIMDAT 2012) and an estimated 13 percent of SMEs are situated in Harare (Finscope MSME Survey 2012, as cited by FinMark Trust 2013). Additionally, Harare is the country's commercial and administrative centre, thus increasing the possibility of selecting a representative sample. The selection of Mashonaland Central Province was supported by the fact that it has a population of 1 152 520 (Zimbabwe National Statistics Agency 2013) and has the second-largest fraction (51 percent) of SMEs amongst its total mature population (Finscope MSME Survey 2012, as cited by FinMark Trust 2013). Respondents were then randomly selected from each of the two clusters to realise a sample size of 276 respondents.

Random sampling ensured that everyone in the SME sub-sectors had an equal opportunity of being incorporated within the sample, which would accommodate the statement by Anchor and Benesova (2012) that some sectors are more prone to risk than others. The technique of simple random sampling is a method of choosing a sample size from a population randomly and providing every component with an equal and independent chance of being selected (Kumah 2011). Choosing SMEs from the two provinces enabled the incorporation of cultural variations and their impact on the RM practices of SMEs. The researcher chose subjects from each of the two provinces based on the percentage composition of SMEs in these provinces to permit for better and improved comparison.

3.8 MEASURING INSTRUMENTS

To establish the influence of demographic factors and culture on SME risk management practices amongst SMEs in Zimbabwe, the researcher made use of a questionnaire, which was divided according to the research objectives. Respondents were given a questionnaire to complete and return to the researcher. The contents of the questionnaire were informed primarily by past research. The questionnaire was employed to collect data on SME RM practices; SME perceptions on the relevance of RM in their businesses, as well as demographic and cultural variables influencing the RM practices of SMEs. Respondents to the questionnaire were primarily the owners of selected SMEs.

Interviews were also conducted in situations where respondents did not have time to complete the questionnaire. According to Robinson (2014), interviews offer the researcher the opportunity for a more in-depth examination when clarification is necessary for given responses. They were also used as a follow-up on questionnaire responses, targeting those SMEs that showed low levels of risk perception and to establish the rationale for that and to probe their responses more in-depth. In addition, respondents had the option to seek further clarification on complex questions, thereby increasing the reliability of the research information.

3.8.1 Questionnaire

In terms of questionnaire design, the questions were mainly closed-ended, with only one open-ended question. Where open-ended questions are concerned, respondents can answer the questions in any way they desire and the answers need to be recorded fully. Sekaran and Bougie (2009) defined open-ended questions as those that permit respondents to answer them in any manner they opt for, while closed-ended questions are explained as questions that offer respondents an opportunity to choose amongst set alternatives. The justification for using closed-ended questions was that they were quicker and easier for respondents to answer and equally straightforward for the researcher to code and analyse data.

A closed-ended format of questions also ensured that all subjects had a similar frame of reference in responding to questions. Additionally, this format allowed subjects to react to questions in an uncomplicated manner while addressing topics of a private and sensitive nature (Sekaran and Bougie 2009). Nevertheless, the shortcoming of closed-ended questions was that they restricted respondents to particular answers and did not leave any opportunity to include additional information. The drawbacks of closed-ended questions included the loss of naturalness and self-expression and the possibility of the introduction of bias by forcing respondents to settle between given alternatives and making them concentrate on alternatives that may not have occurred to them (Sekaran and Bougie 2009).

The researcher included an open-ended question within the same questionnaire, which was justified by allowing freedom of expression for respondents and presenting an opportunity to gather a variety of responses. The open-ended question offered respondents latitude in phrasing their responses and they were able to articulate their views, ideas and opinions. Respondents were encouraged to structure the response as they desired, which provided a way for obtaining data that could not be obtained adequately by using closed-ended questions. The drawback of open-ended questions is that they produce a mass of various views regarding a similar issue, or a variety of similar opinions that represent different aspects of the same topic.

Open-ended questions also required more time for both the respondents and the researcher. Additionally, it made the task of interpretation, comparison and analysis complex. This made it difficult for the researcher to capture all responses and later classify and code the information for analysis. Open-ended questions were, therefore, simple to ask, complex to answer, and more difficult to analyse. For this reason, the researcher curbed her inclination to have several open-ended questions. The researcher thus limited open-ended questions to only one, with all other questions being closed-ended.

The justification for using a questionnaire in this study was that the format of a questionnaire was standard for all subjects; was not influenced by the mood of the interviewer; and offered standard answers. Responses were therefore gathered in a much-standardised manner, making a questionnaire much more objective than an interview, as well as easy to administer and user-friendly. Respondents matched their answers to what the researcher wanted to know and they were afforded more time to answer, enabling more accurate responses. A questionnaire also avoided interviewer bias, while it additionally facilitated the comparison of answers and simplified their capture into statistical form. Results were rapidly obtained from a large sample of SMEs, as it was generally quick to gather data using a questionnaire.

Furthermore, subjects felt a greater sense of anonymity, with the questionnaire's anonymity providing respondents the encouragement and freedom to answer questions honestly, particularly sensitive questions, with SME owners more likely to provide honest answers. The questionnaire was also completed at the convenience of the respondents as the questionnaires were left with SMEs for completion. Added to this, the questionnaire was economical as an instrument to collect and process information. However, there was no opportunity to correct any misunderstandings, probe, explain or offer help, as no one was present to clarify any questions when necessary. Regardless of this hurdle of questionnaires, the instrument was quite helpful and efficient in data collection.

3.8.2 Interviews

Brink (1996, cited in Walliman 2005) pointed out that an interview could be a methodology of collecting data during which an interviewer gathers responses from respondents, either face-to-face, telephonically or via electronic means. Therefore, it is a purposeful communication, typically between two or more people, and is directed by one to obtain data from the other. The technique was used to collect data from SME owners who had a busy schedule and other respondents who found it difficult to

answer the questionnaire. Appointments were made telephonically, with subjects interviewed on an individual basis.

In this research, the researcher carried out a semi-structured interview in which she asked numerous, specific, open-ended and closed-ended questions, reinforced with probes. To complement the questionnaire and facilitate fast access to information, face-to-face interviews were carried out. These were done in situations where responses were not clear or incomplete, and where it was felt that the questionnaire might not be responded to.

Semi-structured interviews encompass several key questions that assist in defining explorable areas and permit the interviewee or interviewer to diverge or to follow up on an idea or response in more detail (Broadbent, Gill and Laughlin 2008). This interview format is used by most researchers as it provides respondents with some direction on what to speak about, which is quite helpful. The flexibility of this approach also allows for the elaboration of information that is important to participants (Broadbent *et al.* 2008).

The rationale for the interview was to discover the experiences, views, motivations or beliefs of respondents on particular matters. Qualitative strategies such as interviews produced a deeper understanding of a social phenomenon than would be obtained from strictly quantitative strategies, for example, a questionnaire. Interviews were thus most applicable where very little was known regarding the study phenomenon and elaborate insights were needed from individual participants (Broadbent *et al.* 2008).

Interviews were also the best way of ensuring that questionnaires in the current study were completed and reduced the challenge of non-responses found in questionnaires. As explained by Driscoll (2011), data validity was also enhanced due to human interaction and interview results had less likelihood of being biased and unreliable. In addition, it was not a prerequisite with interviews that respondents should be able to

read or write, which helps to avoid discrimination against those who are illiterate but who wanted to participate in the study. They were less expensive than other communication processes as they are very simple and quick, while they also increased the knowledge of both the interviewee and the interviewer as ideas could be exchanged (Harris and Brown 2010).

Detailed information was gathered in this study, enabling a suitable analysis of the problem at hand. This assisted with the collection of primary, fresh and new information, as required. Adequate information was gathered through the interview process, with the interviewer able to pose any question to the interviewee. Therefore, intangible factors such as feelings, attitudes and opinions could be analysed and evaluated effectively through interviews. They were flexible because they could be framed differently, depending on the researcher's circumstances. Misunderstandings and mistakes were resolved with ease, while mutual understanding was increased, as was a collaboration between the interviewer and the interviewee, and relationships were developed.

However, interviews tend to be artificial scenarios and there is no means of knowing whether what respondents said during the interview was what they believe in or reflects their actual behaviour (Broadbent *et al.* 2008; Driscoll 2011; Harris and Brown 2010). Subjects were also anxious and not relaxed as their answers were recorded. Time was another major limitation of the interview. Preparing for the interview, capturing the interviews and interpreting the responses required much time, which made the interview time-consuming. Interviews were also more expensive than questionnaires.

Further to this, the sample was scattered, which led to greater costs being incurred, such as travel and call-back costs. There were also significant and expensive coding operations linked to the utilisation of interviews. In addition, the analysis of interview

data was difficult because the information collected contained non-standard responses.

3.8.2.1 Interview Questions

1. How is risk managed in your organisation?
2. In your analysis, is risk management important for SMEs like yours?
3. Would you say that gender affects the way you manage risk in your organisation?
4. Would you say that your age affects the way you manage risk in your organisation?
5. From your analysis, would you say that your level of education affects the way you manage risk in your organisation?
6. Would you say that your income affects the way you manage risk in your organisation?
7. Would you say that your marital status affects the way you manage risk in your organisation?
8. From your analysis, would you say that your level of education affects the way you manage risk in your organisation?
9. Would you say that your family size affects the way you manage risk in your organisation?
10. From your analysis, would you say that your culture affects the way you manage risk in your organisation?

3.9 DATA COLLECTION PROCEDURES

The researcher made appointments to meet with respondents and they were visited in person in their areas of operation. The objectives of the research were explained and the researcher assured them of response anonymity in order to encourage high participation. A questionnaire was delivered directly to the respondents and collected by the researcher or research assistant to expedite data gathering. An appointment date was set for the collection of the questionnaire to minimise the effort of the respondent in contacting the researcher. Wherever possible, the researcher requested respondents to hand back the questionnaire as soon as completed.

3.10 QUESTIONNAIRE DEVELOPMENT

The questions were derived from the study's research questions, which were directly connected to the research objectives, ensuring that the questions directly dealt with the research objectives and thereby guaranteeing the reliability of the outcome of the research. A pilot study was carried out in Bindura improved the validity of the questionnaire. Closed-ended questions were used, with predetermined answers. The justification for the utilisation of a mostly closed-ended questionnaire was that it would possibly be complex to analyse responses from open-ended questions given the large volume of questions and the extensive sample size. It furthermore ensured ease of completion by respondents and facilitated the ease of response analysis by the researcher, which saved time and enhanced the response rate.

The researcher used an assistant in administering the questionnaire. She distributed the questionnaire, clarified any misinterpreted questions by the respondents and collected the completed questionnaires. This was done to ensure that the questionnaire was completed by the intended respondents and to clarify any questions not understood more easily by respondents. The questionnaire was divided into sections, each addressing the objectives of the research.

This approach ensured that all the research objectives received full attention. Additionally, it permitted results to be connected easily to the objectives, making cross-referencing manageable. The following shows the themes of the questions addressed in the questionnaire, as well as the rationale for their inclusion. The questionnaire was arranged as follows:

QUESTIONS 1-9: Demographic variables

The questionnaire captured the demographics of respondents relating to age, gender, race, marital status, family size, level of education, level of income, business sector, as well as the number of employees. The inclusion of these characteristics followed recommendations by previous research studies (Tamizharasi and Panchanatham

2010; Acar and Goc 2011; Kim and Vonortas 2014), where demographic factors were used to explain the level of RM practices of SMEs.

Additionally, research on SMEs highlights the necessity to include characteristics of the firm, such as the number of employees and sector. A study by Zindiye (2008) suggested that more women than men operate SMEs in Zimbabwe. The question remained whether the present study could either confirm the findings of Zindiye (2008) or produce a different result.

Robb and Fairlie (2009) argued that the success of the business is associated with the owner's educational level. Thapa (2007) revealed that education positively influenced entrepreneurial success. The demographic characteristics facilitated the recognition of population clusters and features linked to certain levels of RM practices. Correlations could also be recognised from amongst a range of demographic characteristics and the level of RM practices in SMEs.

QUESTIONS 10-11: The challenges and risks facing SMEs

Question 10 focused on the challenges and Question 11 on the risks that SMEs face. It was imperative to first identify the challenges encountered by SMEs as these expose SMEs to numerous risks. The risks faced by SMEs also needed to be identified before venturing into the management of such risks by SMEs.

QUESTION 12: The level of SME Risk Management practices

The questions in this section generally measured the level of RM practices of SMEs. RM practices of SMEs were measured using a RM Practice Scale, which consisted of 11 items (for example, 'RM is monitored and reported as part of our normal management reporting system'). Each item was rated on a 7-point Likert scale, ranging from *strongly disagree* (1) to *strongly agree* (7). This scale was utilised by Sifumba *et al.* (2017) where they studied RM practices in manufacturing SMEs in Cape Town, SA. Sifumba *et al.* (2017) confirmed the acceptable reliability of this

scale, with a Cronbach Alpha Coefficient of 0,876. These results proved to be reliable, as the Cronbach Alpha is close to 1 (Pietersen and Maree 2007; Jackson 2004).

QUESTION 13: SME owner perceptions of Risk Management's relevance to the success of their businesses

The questions in this section generally measured respondents' understanding of RM and appreciation of the importance of RM within small and medium businesses using the RM Perception Scale. Perceptions of SME owners of the relevance and value of RM to the success of their businesses were measured with this scale, as explained under Question 12. However, in this instance, it was based on 12 items (for instance, the cost of employing RM initiatives is justified compared to the benefit). Each item was rated on a 7-point Likert scale, ranging from *strongly disagree* (1) to *strongly agree* (7).

RMPS was used by Sifumba *et al.* (2017) in their study of Cape Town manufacturing SMEs' RM practices. Their study confirmed the acceptable reliability of the scale in this instance, with a Cronbach Alpha Coefficient of 0,836. As the Cronbach Alpha is close to 1, these results proved to be reliable (Pietersen and Maree 2007; Jackson 2004).

QUESTION 14: SMEs' culture

This section contained questions that assessed the culture of the selected SMEs. The SAS scale developed by Leung *et al.* (2002) was used in this study to measure SME owners' cultural beliefs. The researcher used the 25-item brief version of the SAS (Burgess 2011). According to Leung *et al.* (2002), the Social Beliefs Questionnaire comprises 25 social axiom statements. The scale required respondents to rate the degree to which they agree to be true on each of the 25 items, on a 7-point Likert scale. The scale ranged from 1 (*strongly disagree*) to 7 (*strongly agree*).

The five social axiom factors included were social cynicism (five items); social complexity (five items); reward for application (five items); religiosity (five items); and fate control (five items). The following Cronbach coefficient alphas were reported by Bond *et al.* (2004) for this scale. For social complexity, alphas were below 0, 65 (mean= 0, 68); social cynicism had a reliability coefficient higher than 0, 70 (mean= 0, 79); religiosity alphas all exceeded 0, 70 (mean = 0, 85); and reward for application alphas were higher than or close to 0, 70 (mean= 0, 77). For fate control, four alphas were below 0, 65 (mean= 0, 68). The inclusion of culture followed findings by previous research studies (Kim and Vonortas 2014; Acar and Goc 2011; Tamizharasi and Panchanatham 2010), where culture was used to explain the level of SME RM practices.

QUESTION 15: Recommendations

This section obtained respondents' viewpoints on how risk can be managed successfully in SMEs. The question was open-ended to allow participants to provide as many ideas as possible.

3.11 RESEARCH QUESTIONS AND HYPOTHESES

This study identified the level of RM practices of SMEs; established the perceptions of SME manager-owners of the relevance of RM to the success of their businesses; examined the influence of demographic factors on the RM practices of SMEs, and examined the influence of culture on RM practices of SMEs; as well as proposes a framework to effectively manage risk in the Zimbabwean SME sector. Different hypotheses were formulated, guided by the literature and previous research by scholars in the same discipline.

3.11.1 The level of Risk Management practices of SMEs

The literature points to low levels of RM by SMEs around the world. Virdi (2005) established that RM is less developed in SMEs where the culture mitigates against managing risks in a professionally structured way. SMEs are furthermore reluctant to

adopt a formal RM strategy. A research study by Samugwede and Masiyiwa (2014) found no prescribed tools of risk identification and assessment in use in managing risks in SMEs. Entire organisations surveyed had no RM procedures and policies and their risk response effectiveness was not verified. Masama *et al.* (2012) aver that SMEs do not have formally implemented enterprise risk processes in place.

Brustbauer (2016) also found that SMEs follow a passive approach to RM and put minimal effort into identifying, assessing and monitoring risks. This view that SMEs do not identify the risks facing their organisations is supported by Hassan and Ali (2013). Further to this, Islam and Tedford (2012) also discovered that the majority of SMEs did not have systematic RM strategies in place in New Zealand. This is in line with the results by Luper and Kwanum (2012), who established that RM in SMEs was low due to SMEs not keeping proper accounting records, with the result that they cannot adequately distinguish, evaluate and plan the management of their business risk. The current study thus sought to identify the level of RM practices.

3.11.2 SME perceptions of the relevance of Risk Management in the success of their businesses

Knox (2012) stressed that SMEs believe RM to be relevant and implemented in large organisations. This echoed the view of Winks (2008) who stated that RM is only practiced by large organisations and not by SMEs. Baker (2011) pointed out that ERM is under-utilised by SMEs as it is perceived to be complex and reserved for specialised experts, with a connection to large organisations.

Al Khattab and Hood (2015) went on to highlight that larger organisations were more likely to engage in RM than smaller firms. Deloitte (2009) highlighted that fewer smaller organisations have RM programmes as they expect the limited value to be derived from its implementation. The current study, therefore, tested the hypothesis that SMEs have a negative perception regarding the relevance of RM to their businesses. This led to the first hypothesis being developed, namely:

H1: SME owners have a negative perception of the relevance of Risk Management to the success of their businesses.

3.11.3 The influence of age on the Risk Management practices of SMEs

The study also sought to determine whether RM differs according to age. While many studies have shown that risk tolerance increases with the increase in age (Grable 2000; Kourtidis *et al.* 2011), other studies nonetheless reported that younger people are more risk-tolerant than older people (Grable and Joo 2004). Acar and Goc (2011) exhibited proof that more youthful SME administrators have higher risk cravings than older ones, with Velandia, Rejesus, Knight and Sherrick (2009) having discovered age to diminish the probability of adopting a RM tool. In addition, Wiersema and Bantel (1992) argued that characteristics such as flexibility may decline with age, while resistance to change and rigidity may increase with age. The current study, therefore, tested the hypothesis that there is a relationship between age and SME RM practices, which resulted in the development of the second hypothesis, namely:

H2: There is a relationship between the age of SME owners and their Risk Management practices.

3.11.4 The influence of gender on the Risk Management practices of SMEs

Anbar and Eker (2010) reported that men are more risk-tolerant than women, confirming that women are more risk-averse when compared to men (Fellner and Maciejovsky 2007). Watson and Robinson (2003) stated that organisations controlled by females are portrayed by lower profits and less risk than male-controlled organisations. This is confirmed by empirical literature, which found that women have lower risk inclinations than men (Jianakoplos and Bernasek 1998; Williams and Narendran 1999; and Hallahan *et al.* 2004).

Harris *et al.* (2006) also established that women have a lower recurrence of risky conduct than men and are less inclined to attempt risky decision-making conduct in finance and business than men (Bernasek and Shwiff 2001; Zinkhan and Karande

2002). Therefore, the current study tested the hypothesis of a relationship between gender and SME RM practices, from which the third hypothesis was developed, namely:

H3: There is a relationship between the gender of SME owners and their Risk Management practices.

3.11.5 The influence of race on the Risk Management practices of SMEs

Dorresteijn (2017) argued that race influences investor risk tolerance, with Finucane *et al.* (2000) arguing that white males are the most willing to take risks. Palmer (2003) argued that race does not influence risk attitude and no ethnic group deviates from other sub-groups. However, Farrell (2014) found that white males are the most risk pursuing investors. Furthermore, Jianakoplos and Bernasek (2006) observed that single white women are less risk-seeking than single black women. In addition, Jianakoplos and Bernasek (1998) highlighted that African-American women are regularly involved in making financial decisions and are thus very much involved in investment activities, which can lead to an attitude of risk tolerance.

Farrell (2014) maintained that race itself does not matter, but racial differences identify issues of culture such as education and financial knowledge. When compared to other factors of influence, race was found not to have a huge impact on the tolerance of risk. Jianakoplos and Bernasek (2006) found that race was one of the less important variables of influence. The current study, therefore, tested the hypothesis that there is a relationship between race and SME RM practices, which led to the development of the fourth hypothesis, namely:

H4: There is a relationship between the race of SME owners and their Risk Management practices.

3.11.6 The influence of marital status on the Risk Management practices of SMEs

Hallahan *et al.* (2003) asserted that single people take more risks than married people owing to their fewer responsibilities. Married individuals are more sensitive to social

risk, which causes a lower risk tolerance (Henschel 2008b). Moreover, Chavali and Mohanraj (2016) proposed that married people take up more risks because of their bigger capability to deal with undesirable outcomes. Linked to this argument, some scholars found that married people indeed take up more risks (Gorzeń-Mitka 2015; Yusuf and Dansu 2013; Vesković 2014).

While some authors established that singles are more risk-seeking (Dohmen *et al.* 2011; Roussanov and Savor 2014), Jianakoplos and Bernasek (2006) did not distinguish between unmarried and married individuals. Nonetheless, they considered single men, single women and married couples. Jianakoplos and Bernasek (2006) expected single men to be more risk-seeking than married people, and single women to be more risk-averse than married people. Thus, the current study tested the hypothesis of a relationship existing between marital status and SME RM practices, from which the fifth hypothesis was developed, namely:
H5: There is a relationship between the marital status of SME owners and their Risk Management practices.

3.11.7 The influence of family size on risk management practices of SMEs

Where family size is concerned, it was established that the number of dependents or size of the family influence investor risk-taking (Dorresteijn 2017). Scholars argue that individuals with fewer dependents or a smaller family size are more risk-taking than individuals with bigger families (Jianakoplos and Bernasek 2006). This is caused by the increased responsibilities that come with increased family size. However, there is a lack of consensus about the direction and existence of this effect. Chakreeyarat (2015) found that people with no other dependents invest more in risky assets than people with one or more dependents.

The results of Perusahaan *et al*.'s (2013) researcher showed that dependents are one of the only significant explanatory demographic variables for risk tolerance. The size of the effect can only be compared to gender because this is the only other significant

variable. Compared to gender, the number of dependents has only a minor influence on risk tolerance. This could also be caused by the different levels of measurement, where gender is a nominal variable and therefore only distinguishes between men and women. The number of dependents is a ratio variable. However, the coefficient of dependents is still approximately six times smaller than gender. When looking at both articles, the effect of dependents seems to be rather small compared to other socio-demographic variables (Perusahaan *et al*. 2013).

Hence, the current study sought to determine whether RM differs according to family size. The current study thus tested the hypothesis that there is a relationship between family size and SME RM practices. This led to the development of the sixth hypothesis, namely:

H6: There is a relationship between the family size of SME owners and their Risk Management practices.

3.11.8 The influence of level of education on Risk Management practices of SMEs

Kim and Vonortas (2014) demonstrated that higher SME proprietor education is most assuredly identified with receiving risk mitigation procedures. Researchers have linked an increased educational level with better information-processing capabilities, tolerance for ambiguity, innovation and strategic change (Herrmann and Datta 2005). Advanced education has also been found to support risk-taking (Donkers, Melenberg and Van Soest 2001; Hartog, Ferreri-Carbonell and Jonker 2002). Hence, the current study sought to determine whether RM differs according to education level. The study, therefore, tested the hypothesis that there is a relationship between the level of education and SME RM practices. This led to the development of the seventh hypothesis, namely:

H7: There is a relationship between the level of education of SME owners and their Risk Management practices.

3.11.9 The influence of income level on risk management practices of SMEs

A positive relationship between income and relative risk tolerance was established by Cienfuegos (2013) through the study of individual investors. Ng'ang'a *et al.* (2015) used household data and reached a similar conclusion. Nevertheless, they also established that income is highly correlated with education, which is also reinforced by Otieno (2016). In addition, Pashkova (2016) further established a positive effect between risk tolerance and income, whereas Chikomba *et al*. (2013) found no evidence that a change in income influences risk tolerance.

In corroboration, Harvett (2013) could not clearly show that a relationship between income and risk tolerance existed. The current study also wanted to establish whether RM differs according to income level and thus tested the hypothesis that there is a relationship between the level of income and SME RM practices. This resulted in the eighth hypothesis being developed, namely:

H8: There is a relationship between the level of income of SME owners and their Risk Management practices.

3.11.10 The influence of culture on the Risk Management practices of SMEs

The study also sought to determine whether RM differs according to culture. Burgess (2011) used social axioms as a cultural measure for business research. Culture is an elusive and difficult to define concept (Hofstede 2011). People observe culture differently and some argue that it is complex and difficult to define. Numerous people view culture as simply the way of life that conveys certain values and meanings of people (Ashby *et al.* 2013). Furthermore, Wong (2012) believes that culture is establishing how things are done, or the best approach to accomplishing things. In addition, Mir (2014) claimed that culture includes art, knowledge, law and belief, as well as custom, morals and any other habits and capabilities obtained by man as a part of society.

The concept of culture has been studied extensively through values (Singelis 2003) and traditionally defined in those terms (Bond *et al.* 2004). Efforts to integrate culturally distinct values into measurements by social scientists have resulted in the value universe being mapped (Bond *et al.* 2004; Leung and Bond 2004). This allowed comparisons of the value profile of people who were socialised in different cultures (Leung and Bond 2004).

It is further believed that within the small business sector, RM is less developed, with a strong individual and enterprise culture mitigating against risk being managed in a way that is professionally structured (Keith 2014). Most noticeable when focusing on culture is that there is consensus amongst scholars who investigate its effect. Amongst these authors, the common opinion holds that culture is significant when the risk-taking of investors is examined (Barnabei 2008; Dorresteijn 2017; Wong 2012).

When different cultures were compared, China and America were used by several authors as case studies. This is because the cultures of both countries vary greatly. On the one hand, China is a country that is defined as collectivist and hierarchical, while America on the other hand is characterised by individualism. Fan and Xiao (2006) pointed out that decision-making in hierarchical societies is centred on standard procedures. Therefore, persons are expected to be risk-averse. In contrast, there is a greater focus in the individualistic market structure on exploring opportunities, leading to uncertainties and the subsequent encouragement of risk-taking (Fan and Xiao 2006). Thus, where China and America are concerned, Chinese investors are more risk-averse than their American counterparts.

When measuring the actual impact of culture on risk-taking in investments, the Chinese were found to be less risk-averse than Americans (Ombongi and Long 2018). This argument was explained with the cushion hypothesis by Ombongi and Long (2018). The cushion hypothesis foresees that in social-collectivist countries like China, other group members or family help one in the event of a catastrophic event taking

place. Conversely, this social safety net is absent in individualist countries such as America, and it is expected that all the consequences of a risky decision must be personally managed (AIRMIC, Alarm and IRM 2010). Due to this safety net, risks are perceived as less severe by Chinese respondents, thus making them more risk-tolerant (Ombongi and Long 2018).

Ombongi and Long (2018) also explored Germany and Poland, with the expectation that both countries would score between America and China. These countries were characterised by more individualism than China, but by less individualism than the USA. The findings confirmed their proposition, with the scores for Germany and Poland determined as somewhere between America and China as far as investment risk-taking was concerned. However, as this research was limited to students, generalisability was affected and the question posed whether this effect applied to different respondents.

Nevertheless, Fan and Xiao (2006) used a sample of non-students as a solution and concurred with Ombongi and Long (2018) that in the investment domain, the Chinese are more prepared to take considerable risks. Despite this, measuring the impact of culture on risk tolerance is problematic, mostly because of those who research culture without including other demographic variables. Thus, a contrast between different variables is close to impossible. Wong (2012) acknowledged this, as did Ashby *et al*. (2013), although the latter argued that other factors could also contribute to variances in risk tolerance between different cultures. Nonetheless, Ashby *et al*. (2013) and Wong (2012) confirmed both the existence of the cushion hypothesis and the influence of culture on risk tolerance, but they conceded that the actual influence is probably small. Research concerning culture and other variables is proposed to estimate the actual effect of culture.

While the individual was the focus of much of the risk discernment examination (Böblingen 2008; Napp 2011), an extensive selection of research is found regarding

the importance of cultural influence in the improvement of attitude to risk. Cultural values influence risk observation since people are all subject to their state of mind being imprinted and shaped by a range of associations. Convictions and values that relate to risks are equal to convictions and values that are more wide-ranging (Ombongi and Long 2018). It, therefore, follows that values and convictions that are related to risks are associated with cultural variables and procedures that are more extensive.

Henceforth, risk observation and conduct must be liable to these influences, a supposition bolstered by work on individual risk discernment investigations (Jayathilake 2012). Studies of individual and national culture show that in Eastern social orders, people have lower risk and vulnerability resilience, as opposed to those from the West (Ferkolj 2010). Risk voracity appears to differ with individual cultures in a similar manner (Acar and Goc 2011). Therefore, risk-taking in various areas may change with the cultural orientation of people.

Differences in culture impact personal decisions and affect societal decisions because culture shapes and strengthens social institutions and over time, the consequence is that these institutions reinforce cultural values (George and Zahra 2002). It is thus likely for cultural values to also determine the degree of consideration of entrepreneurial behaviours by the society, such as whether independent thinking and risk-taking are desirable (Hayton *et al*. 2002). Cultural background and social effects also affect the evaluation of uncertainty and thus, risk-taking. Due to this, the researcher examined the influence of culture on the RM practices of SMEs. The current study examined fewer cultural groups, with the focus on the five-dimensional individual-level structure. Therefore, the constructs of interest are the five domains of social beliefs namely social complexity, social cynicism, reward for application, fate control, as well as religiosity.

Much is known about social axioms. However, an investigation into the relationship between social axioms and RM practices had not yet been conducted. Therefore, this study was undertaken to fill this gap. The current study determined whether RM differs according to cultural beliefs and it tested the hypothesis that there is a relationship between culture and SME RM practices. The 9th hypothesis was developed in response to this premise as follows:

H9: There is a relationship between SME owners' culture and their Risk Management practices.

3.12 DATA ANALYSIS TECHNIQUES

Once the sampling plan was concluded, all questionnaires had been collected and interviews were conducted and transcribed, data analysis was performed to summarise the data obtained. Data analysis is the process whereby information that is collected is condensed to a size that is convenient and manageable (Cooper and Schindler 2003). The researcher identified trends, implemented statistical techniques and summarised the data to enable the interpretation of findings and answering of questions (Cooper and Schindler 2003). The information was analysed using SPSS, version 26 for Windows. The analysis also included descriptive statistics, as employed by Ayinde, Omotesho and Adewumi (2008); Al Khattab and Hood (2015); Masama *et al.* (2012); and Abotsi *et al*. (2014).

3.12.1 Quantitative data analysis

The information collected from SME owners operating in Harare Metropolitan and Mashonaland Central Provinces was categorised and analysed according to the research objectives and research questions. The researcher grouped the research questions according to the objectives, after which these were categorised to display patterns and draw conclusions from the data. Data were captured according to pre-determined question codes and analysed using SPSS, version 26.0 for Windows.

The first form of analysis examined frequencies like the number of times a particular response was made. Screening of variables was then done, detecting those that highly influenced the dependent variables of the study. The presentation of data was achieved using graphs and tables. Data analysis for this study was done using Cronbach's coefficient alpha, descriptive statistical analysis, Spearman's rho test, frequency analysis, as well as correlations and inferential statistical analyses. These are discussed below:

3.12.1.1 Cronbach's Coefficient Alpha

Internal consistency tests are necessary to endorse the reliability and validity of the data received and the measurement instrument (Tavakol and Dennick 2011). Cronbach's Coefficient Alpha was utilised in this study to test for the internal consistency of the questionnaire. It is a measure of the questionnaire's ability to measure the variables of interest consistently. Researchers such as Islam and Tedford (2012) and Pietersen and Maree (2007) indicate that the typical values for Cronbach's alpha range from zero to one, where higher scores indicate higher reliability and generally, a score above 0.70 is considered acceptable in most Social Science Research.

3.12.1.2 The Spearman rho test

Spearman rho tests were utilised to establish the relationships amongst the study variables. Sekaran and Bougie (2011) defined the Spearman rho test as a non-parametric test, suitable for determining correlations between any two variables on an ordinal or a nominal scale. In this study, the cultural and demographic variables were correlated with SMEs' risk management practices using Spearman's rho test. Spearman's rho was also utilised in this study to understand whether an association existed between the variables being tested. It measured the strength of the association between two ranked variables.

3.12.1.3 Descriptive statistical analysis

Descriptive statistical analysis was utilised to summarise the data collected to aid an understanding of the information using frequency analysis and graphs (Adams, Khan, Raeside and White 2007). It was used to identify data distribution and patterns of the study variables using summaries. Descriptive statistics were used to show SME demographics, challenges and risks faced in Harare and Mashonaland Central Provinces. The data collected from questionnaires were summarised using figures and tables.

3.12.1.4 Frequency analysis

This study also used frequency analysis to examine the demographic information of the respondents. The frequency analysis was used in this study to establish how frequently a respondent made a particular response to a certain question, as well as to cross-check the coding of data. When the responses did not equal the sample total, it was an indication that the data was not captured correctly (Babbie and Benaquisto 2002). Thus, the empirical data collected from the frequencies allowed the examination of demographic factors and culture influential to the RM practices of SMEs in Harare and Mashonaland Central Provinces.

3.12.1.5 Correlations

According to Saunders, Lewis and Thornhill (2003, 2012), correlations are a statistical technique that shows whether pairs of variables are related and how strongly they are related. The strength of the relationship between two ranked or quantifiable variables are represented by -1 and+1. Therefore, the Pearson correlation was used in this study to analyse the demographic factors and culture influencing RM practices of SMEs, with specific reference to Harare and Mashonaland Central provinces.

3.12.1.6 Inferential statistical analysis

Keller and Casadevall-Keller (2009) define data analysis using inferential statistics as a process of forecasting based on the sample data of a population, which was also

used in this study. It allowed the inference of sample statistical data to the entire population. Inferential tests were used to evaluate whether the means of two variables are statistically different from each other (Trochim 2013). Its formula is a ratio, whereby the top part is the mathematical difference between the two sets of means and the bottom is a measure of the variability or dispersion of the scores. This form of analysis enabled the evaluation of the difference between the mean scores of two groups, relative to the spread or variability of their scores.

3.12.1.7 T-Test

According to Kim (2015), a t-test is a type of inferential statistic used to establish whether a significant difference exists between the means of two groups, which may be related to certain features. The t-test is one of many tests used in statistics for hypothesis testing. In a One-Sample t-test, the test variable is compared against a "test value", a known or hypothesised value of the mean in the population. The Independent Samples t-test draws a comparison between the means of two independent groups to determine whether statistical evidence exists of a significant difference in the associated population means (Kim 2015).

A One-Sample t-test was used to test Hypothesis 1, while an independent samples t-test was used to test hypotheses 2 to 8, where there was an investigation of the influence of age, gender, income and marital status, in addition to family size, race and education, on the RM practices of SMEs. The t-test was used to verify whether the hypotheses were accepted or rejected. It determined whether the sample mean was significantly different from the hypothesised mean based on a particular confidence level. A confidence level indicates how much of the entire population will fall into that sample (Kim 2015). When a confidence interval of five percent is used, it implies that 95 percent of every observation done within that population will reach the same conclusion. In this research, a confidence interval of five percent was used, based on other research (Liebenberg and Hoyt 2003; McShane, Nair and Rustambekov 2011).

3.12.1.8 Regression analysis

Regression analysis was used for the measurement of the influence of cultural factors on the RM practices of SMEs. According to McShane, Nair and Rustambekov (2011), multivariate regression is employed to establish causality. A regression, in this case, describes the dependency of the dependent variable of RM practices on the independent variable of culture (Moore and McCabe 2006). In this study, the researcher used more variables to clarify RM practices, thus multivariate regression was required. This multivariate regression was conducted using SPSS, version 26.

3.12.2 Qualitative data analysis

The analysis of data gathered through semi-structured interviews depends on the research interest (Jugder 2016). Firstly, a researcher might be interested in the characteristics of the language used by the participants. Secondly, the researcher may wish to discover symmetries and finally, the researcher may want to comprehend the meaning of the language or action of the participants. The most used method for the analysis of qualitative data is thematic analysis. According to Braun and Clarke (2006: 79), thematic analysis is defined as: “A method for identifying, analysing and reporting patterns within data”.

Thematic analysis is a systematic approach of analysing qualitative data involving the identification of themes, coding and classification of data according to themes and interpreting the subsequent thematic structures by looking for relationships, commonalities, patterns, explanatory principles or theoretical constructs (Butler-Kisber 2010). It is a widely used method of analysis in qualitative research. The most important aspect of this analysis technique is to identify the themes in the interview data.

According to Braun and Clarke (2006), a theme captures the key idea about the data concerning the research question, representing some level of patterned response or

meaning within the data set. Braun and Clarke (2006) further explained that themes within data can be identified, either by using a data-driven approach or a theory-driven approach. The former entails establishing themes from the data itself and is used when the researcher wants to develop a model or theory from the data. The latter involves linking the themes developed from the data to the known theoretical perspective.

This study used a data-driven approach to examine the demographic factors and culture affecting RM practices of SMEs in the Zimbabwean context, which were not possible to categorise from a theoretical perspective. The researcher began the process by listening to audio recordings and reading interview transcriptions. Both listening to the audio and reading the transcriptions were done twice to familiarise the researcher with the data. This was followed by the allocation of codes to the data. Once satisfied that the research questions aligned with the codes generated from the transcripts, the data-driven coding followed, focusing on identifying patterns of meaning. Themes were categorised according to global and local views. The global view represented the research objectives, while the local view represented the themes developed within the research objectives.

3.13 PRE-TESTING

According to Williams (2014), pre-testing a questionnaire is an essential stage in the preparation of a self-administered questionnaire to establish weaknesses and ambiguity of questions and subsequently correct them. Pre-testing validates the questionnaire and improves validity (Williams 2014; Faux 2010). The questionnaire was pre-tested before the actual survey was conducted through a pilot study, and corrections or additions were made accordingly.

A preliminary, small-scale study was conducted before the main research to ascertain the feasibility of the research. The utilisation of pre-testing or a pilot study allowed the scrutiny of respondents' responses to questions. It is through this process that insights into any misinterpretations by respondents, lack of continuity, poor answers and

inadequate time, as well as other alternatives for pre-coded and closed-ended questions, were obtained. Zikmund, Babin, Carr and Griffin (2013) affirmed that pilot studies gauge the feasibility and understanding of the study and are employed to refine instruments by rectifying important problems.

A pre-test was vital because it highlighted any shortcomings before the document was fully launched. The objective was to ascertain the document's general presentation, reasonableness and clarity in terms of the length of the questions, as well as the depth of the information sought. Additionally, piloting was very important to ascertain the uniformity of interpretation of all the respondents, and whether respondents were responding to the questions properly.

The pilot study was conducted on 10 randomly chosen companies from each of the SME sectors that were not part of the sample population. This was done to eliminate ambiguous and irrelevant questions in response to the pre-test subjects' comments, in addition to the findings from the pre-test. Respondents were asked whether the questionnaire was too long, instructions were clear, any of the statements were vague, and if any of the questions were found to be sensitive, whilst also checking whether there were any major topic omissions, the layout was clear and attractive and whether they had any comments and suggestions.

The reliability and validity of data were achieved after fine-tuning the questionnaire by incorporating feedback from the pilot study, thus guaranteeing that the instrument used was appropriate in providing correct data. The questionnaire was thoroughly evaluated before its final administration. Cohen, Manion and Morrison (2006) pointed out that pre-testing enhances the validity, reliability and feasibility of the questionnaire.

3.14 VALIDITY AND RELIABILITY

The quality of data is measured in terms of validity and reliability. According to Bhattacherjee (2012), reliability is the extent to which the measure of a construct is

dependable or consistent and validity refers to the extent to which a measure adequately represents the underlying construct it is believed to measure. In other words, the use of this scale to measure a similar construct multiple times should produce similar results on every occasion, assuming that the underlying phenomenon has not changed. As explained by Silverman (2010), validity and reliability enhance the objectivity and credibility of the research.

The questionnaire draft was reviewed by educational experts to establish the content validity of the measurement instrument. The researcher considered the changes made to the questionnaire based on input from the specialists. Reliability was achieved through pilot testing and the use of two research instruments. The researcher ensured that information was collected from two sources of information, questionnaires and interviews, thereby triangulating the results of the study and guaranteeing the validity of the research findings (Trochim 2013). The use of multiple research strategies results in a more reliable, valid and diverse construction of realities. Duplicability in a questionnaire is very important in realising validity and reliability and this was achieved by administering the same questionnaire to all respondents. Conformity was gauged by assessing whether the questionnaire and interviews resulted in the same conclusions.

3.14.1 Reliability and Validity tests

An assessment of the internal consistency of the questionnaire was done quantitatively for each of the study variables. It is extremely important to assess the reliability and validity of the research instrument and these were measured quantitatively by the Cronbach's Alpha (Zohrabi 2013). Bolarinwa (2015) explained that an alpha value of more than 0.6 is the acceptable minimum score. Table 5.2 shows the reliability test of all 48 questionnaire items, based on Cronbach's Alpha test.

3.14.1.1 Factor analysis

According to Traynor and Andrews (2015), factor analysis is a statistical technique with the main goal of data reduction. It is used in survey research, where a researcher requires to represent many questions with a small number of hypothetical factors. Factor analysis was conducted on group variables in the questionnaire under each study objective-related theme.

In Section B of this study, the questionnaire had three sub-themes. Sub-theme 1 had 11 questions, Sub-theme 2 had 12 questions and Subtheme 3 had 25 questions, which were based on the objectives of the study. According to Levine (2015), each question by itself would be an insufficient measure of expected response towards each sub-theme. However, together they can provide a better measure of the sub-theme and the related objective.

Therefore, factor analysis was used to establish whether the questions in each sub-theme measured the same thing. When this is the case, they can then be joined to create another new variable (Traynor and Andrews 2015). Factor analysis was only performed for Likert-scaled items in the study.

The application of the principal component technique was done by making use of a Rotation matrix method to determine the collective effect of the most significant variables of this research and to place them into a common score. The matrix tables also reflect the Kaiser-Meyer-Olkin (KMO) and Bartlett's Test results. It is required that the KMO Measure of sampling adequacy should be greater than 0.50 and Bartlett's Test of Sphericity should be less than 0.05 (Traynor and Andrews 2015; Levine 2015). These conditions were satisfied in all instances, which allowed for the factor analysis procedure, as shown in Table 3.1 below:

Table 3.1: KMO and Bartlett's Test

Rotated Component Matrix[a]

	Component						
	Risk management practices	Risk management perception	Social Cynicism	Reward for application	Social Complexity	Fate Control	Religiosity
RMP1	.983						
RMP2	.985						
RMP3	.889						
RMP4	941						
RMP5	949						
RMP6	.920						
RMP7	.924						
RMP8	.932						
RMP9	.928						
RMP10	.928						
RMP11	.929						
RMA1		.982					
RMA2		.972					
RMA3		.904					
RMA4		.947					
RMA5		.937					
RMA6		.564					
RMA7		.919					
RMA8		.929					
RMA9		.930					
RMA10		.936					
RMA11		.981					
RMA12		.955					
SCY1			.971				
SCY2			.966				
SCY3			.904				
SCY4			.917				
SCY5			.904				
RA1				.943			
RA2				.965			
RA3				.942			
RA4				.904			

RA5				.918			
SCO1					.939		
SCO2					.933		
SCO3					.922		
SCO4					.925		
SCO5					.911		
FC1						.964	
FC2						.962	
FC3						.942	
FC4						.937	
FC5						.926	
RL1							.934
RL2							.730
RL3							.905
RL4							.921
RL5							.946
RELIABILITY	.926	.985	.968	.956	.962	.958	.968

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 9 iterations.

b. Kaiser Meyer Olkin Measure of Sampling Adequacy .972

c. Bartlett Test for Sphericity 25413.689 (253); p= .000

All the conditions for factor analysis were satisfied, that is, the KMO measure of sampling adequacy value was greater than 0.5 and Bartlett's Test of Sphericity sig. value was less than 0.05. Therefore, the values of each of the sub-themes respectively exceed the threshold (p=0.000). This indicates that the clustering of variables under each sub-theme was statistically significant in measuring the same thing. Each item is loaded in its respective construct, thereby showing convergent validity. The absence of cross-loadings showed discriminant validity. The research instrument was, therefore, valid and reliable.

Table 3.1 reveals that all the items of the research instrument have a Cronbach's Alpha value of more than 0.6, showing that the items listed correlated with each other. The

research instrument also passed the internal consistency test for reliability. Therefore, the instrument could gather valid data, thereby ensuring data validity and reliability.

3.15 ETHICAL CONSIDERATIONS

The researcher first and foremost informed and sought consent from the regulatory authority MoSMECD to research SMEs in Zimbabwe. In addition, the researcher offered the assurance of confidentiality and anonymity to the respondents. The main method used by researchers to protect research participants from a potential breach of confidentiality is through the process of anonymity (Wiles, Crow, Heath and Charles 2006: 9). Participants were made fully aware of the aim of the study and the research sponsor. The consent form signed by respondents before taking part in the research ensured voluntary participation. The researcher adhered to the rules regulating the attainment of higher qualifications and the Durban University of Technology's (DUT) ethical requirements. Furthermore, the researcher acknowledged the work of different scholars used, through referencing.

3.15.1 Ethical issues relating to research participants

There are six dimensions when ethical issues relating to the participants are examined, namely: seeking consent, providing incentives, collecting data, and seeking sensitive information, as well as maintaining the confidentiality and reducing the prospects of harming participants (Pimple 2002). On the issue of maintaining confidentiality, the researcher ensured anonymity in the research instruments. The data collected did not have a source of origin or an identity requirement to safeguard confidentiality. When seeking sensitive information, the researcher ensured that the questions asked of respondents did not invade their privacy. Additionally, the researcher ensured that participants were keen to participate in the study without any inducement.

No incentives were provided to the respondents during this research. Seeking the consent of the participants was crucial (Bailey 2017). The researcher ensured that participants were voluntarily willing to participate in the study, without any pressure

from the researcher. The likelihood of harming participants was ascertained to ensure that the research did not harm them in any manner. The researcher also ensured that the collected information did not result in anxiety or harassment of respondents. Furthermore, when collecting data, the researcher confirmed that the collected information was relevant and useful. The research was meant to enhance the management of risk by SMEs, which implies that the collected data was helpful.

3.15.2 Ethical issues relating to the sponsoring organisation

There are two dimensions in this area, namely restrictions imposed by the sponsoring organisation and the use of data. Sponsoring organisations may place rules and regulations or restrictions on funding and the way to carry out the research. For this research to be successful, gatekeepers' consultations were done. Gatekeepers are generally referred to as guardians and may be called on to protect the interests of participants in the study (Gallo, Weijer, White, Grimshaw, Boruch, Brehaut, Donner, Eccles, McRae, Saginur and Zwarenstein 2012). The researcher ought to be sensitive to the hierarchy that entails seeking permission from the gatekeepers (Ritchie and Lewis 2013).

During this study, the approval of the MoSMECD and DUT ethical clearance committees was sought before undertaking the study. On the utilisation of data, the ethical committee examined how the sponsoring body could make use of the collected data, while also considering the consequences of the data on the study population. The information will be used to improve the management of risk by SMEs, whilst at the same time improving their performance.

3.15.3 Ethical issues relating to the researcher

Kumah (2011) stated five ethics problems of the researcher, which include avoiding bias, accurate reporting, using data, using appropriate research methodology and the provision or deprivation of treatment. Bias is a deliberate endeavour to hide the actual findings of the study or to misrepresent the data (Kumah 2011). Not only did the

researcher provide feedback to participants, but the findings were also an accurate account of the information collected. The researcher made use of an appropriate methodology with an unbiased sample, while the measurement instruments were acceptable, resulting in the correct conclusions being reached.

The researcher was expected to report correctly and this was achieved, as the findings were presented properly, guaranteeing that they did not serve either personal or someone else's interests. In this research study, the researcher ensured that the collected information was confidential and that the names of respondents were not enclosed within the research instruments. The data was not employed in a way that would harm the reputation of the research participants. During this research, the researcher presented the results to the respondents to obtain their feedback.

3.16 CHAPTER SUMMARY

The study adopted a positivist approach, which assumes that the researcher and the objects being studied are independent. A mixed methods research design was used and information was collected using a questionnaire, which was administered to a sample of 276 SME owners and managers in Harare and Mashonaland Central Provinces, with interviews also undertaken. Multi-stage cluster sampling was used to choose two provinces from the population of ten provinces, followed by a random selection of respondents within the two provinces in proportion to the size of the population, assuring adequate representation. Data processing and analysis were conducted using SPSS version 26, which allowed for the presentation of data through tables and figures.

In the next chapter, the researcher will focus on presentation, analysis, interpretation and discussion of findings.

CHAPTER FOUR
PRESENTATION, ANALYSIS, INTERPRETATION AND DISCUSSION OF FINDINGS

4.1 INTRODUCTION

Having offered the details of the study's research methodology in the previous chapter, this chapter presents and analyses the results of the survey data obtained from SMEs in Harare Metropolitan Province and Mashonaland Central Province. The main objective of this study was to identify and examine the influence of demographic factors and culture on SME RM practices and propose a RM framework that can be employed by SMEs in Zimbabwe to manage risks effectively and efficiently.

The following study objectives formed the basis of how the study findings were presented, as the study sought to determine, establish and examine:

- The level of RM practices of SMEs,
- The perception of SME owners on the relevance of RM in the success of their businesses,
- The influence of demographic factors on RM practices by SMEs,
- The influence of culture on RM practices by SMEs, as well as
- Propose the adoption of an SME RM framework that can be used by SME owners in Zimbabwe.

4.2 QUESTIONNAIRE RESPONSE RATE

Questionnaire response rate is the proportion of the sample that participated as estimated in all research procedures (Harris and Brown 2010). According to Nulty (2008), a good response rate of the questionnaire is important to judge the reliability and validity of study findings. This is supported by Mellahi and Harris (2016), who established that the validity and reliability of quantitative data depend on a high response rate of the questionnaire. The response rate of the questionnaire (Table 4.1)

was calculated using a formula proposed by Rindfuss, Choe, Tsuya, Bumpass and Tamaki (2015) as follows:

$$\textit{Response Rate} = \frac{\textit{Total number of responses X 100}}{\textit{Total number of sent questionnaires}}$$

Table 4.1: Questionnaire response rate

Item	**Harare Province**	**Mashonaland Central Province**	**Total**
Distributed questionnaires	171	105	**276**
Returned questionnaires	164	92	**256**
Response rate	96%	88%	**93%**

The results indicated that a total of 276 questionnaires were distributed to the study sample in the two provinces. Of the distributed questionnaires, 256 were returned constituting an overall response rate of 93 percent. Table 4.1 above shows the response rate from the two provinces.

Nevertheless, the attained response rate of 93 percent was high enough to ensure the validity and reliability of the research findings. This was an acceptable response rate as it compared well with previous studies that used a questionnaire as a research instrument. According to Saunders, Lewis and Thornhill (2011), a response rate above 70 percent is an acceptable response rate for a quantitative survey. Hence, this study's response rate of 93 percent was considered valid and reliable for data presentation and analysis.

4.3 QUANTITATIVE DATA ANALYSIS

The data were analysed using SPSS version 26 and descriptive statistics were computed. The respondents' demographic characteristics are presented in Table 4.2 below.

4.3.1 Respondents' Demographic Profiles

Creswell (2014) asserted that the investigation of respondent demographics is significant before the analysis and interpretation of the findings. In this study, demographic data were central in determining how demographic factors influence RM amongst SMEs in Zimbabwe. Section A of the research instrument contained questions regarding the demographic profile of the respondents. These included age, gender, race and marital status, as well as income level, family size, level of education and type of business, along with the number of employees.

The researcher was eager to establish the age distribution of the respondents. This was necessary to determine which age group dominated SME businesses in the study area. The results (Table 4.2) showed that the majority (57.8 percent) of respondents were middle-aged, between 40 and 64 years; 39.9 percent were between 18 to 39 years who are the young generation and 2.4 percent were 65 years and older. The 18-64 age range, which is the majority, is the economically active group and most participate in business as their source of livelihood due to employment prospects dwindling and salaries being inadequate to meet their needs.

It should be noted that young people in Zimbabwe are failing to secure formal employment, hence they opt for small businesses. Those who graduate from various educational institutions in Zimbabwe have limited opportunities for obtaining formal employment. The country has a low industry base that is not able to cope with the employment demands of young people. This finding was in congruence with a study conducted by Isele and Rogoff (2014), who found that the majority of SME owner-managers are aged between 41 and 50 years. This calls for government initiatives to equip economically active citizens with entrepreneurial skills through workshops and making resources available to start-ups and assisting in ensuring enterprise growth.

To determine the gender distribution of SMEs in the study area, respondents were asked to indicate their gender on the questionnaire. From the results (Table 4.2), most

(63.7 percent) of the respondents were male, with only 36.3 percent being female. The gender distribution of the entrepreneurs showed that males dominated most entrepreneurial activities. The dominance of males in the SME sector reflected trends in other areas where studies on the sector have been carried out (Pedersen 1998; Helmsing and Kolstee 1993; McPherson 1991). These studies revealed that males dominated most SME activities.

However, this finding was not supported by Shava and Rungani (2016), who determined that the majority of SMEs in emerging economies belong partly or wholly to women. The large proportion of men is attributed to African societal norms where men have traditionally been responsible for providing for the family. Hence most sought sources of livelihood to sustain their families and women's roles were limited to household chores. In addition, this kind of thinking has since changed, with women now also involved in activities earlier dominated by men (Pedersen 1998). Furthermore, women have recently started participating in economic activities as they are becoming more educated and independent. There is therefore a need for more women empowerment programmes to encourage the participation of women in entrepreneurial activities through training and the provision of capital.

To determine which race is more dominant in SME business, the respondents were asked to indicate their race on the questionnaire. As indicated by the results (Table 4.2), the majority (67.2 percent) of the respondents were Black, with only 32.8 percent being White. These percentages show that the majority of SMEs in Harare Metropolitan and Mashonaland Central provinces are operated by black people. The finding corresponds with the population distribution of the country. According to a Census report (ZIMDAT 2012), 99.6 percent of Zimbabweans are Black, while the remaining 0.4 percent are white and of European descent. The large percentage of blacks participating in entrepreneurial activities is a clear testimony of the Government of Zimbabwe's initiatives of encouraging black empowerment through efforts such as the Indigenisation and Economic Empowerment Policies and the land reform program.

The government made a deliberate effort to economically empower black people who were previously marginalised. This saw a significant number of black people participating in sectors such as agriculture and mining, which were previously dominated by white people. The majority of citizens in Zimbabwe are Black and more effort should be made for their empowerment so they can make a meaningful contribution to the development of Zimbabwe. White people should also be accommodated and not marginalised in building the nation, as they have a role to play as citizens of Zimbabwe.

The researcher was keen to know how the marital status of the respondents was distributed. Respondents were asked to indicate their marital status on the questionnaire. The results (Table 4.2) showed that married people constituted a significant proportion (64.1 percent) of the sample, whilst 29.3 percent indicated their status as single and never married, with the rest either divorced (1.2 percent), widowed (4.3 percent) or separated (1.2 percent). These percentages reflect that the majority (64.1 percent) of SMEs in Harare Metropolitan and Mashonaland Central provinces were owned by married people.

The finding suggests that people in the study area venture into SMEs to earn a living as married people, with extra responsibilities to take care of their spouses, children (where relevant) and their extended families. Marriage brings with it responsibilities of looking after the nuclear and extended family. Therefore, many married people seek self-employment as a source of livelihood and to supplement their income, as they have the responsibility of looking after the family. Single people do not have many responsibilities and hence, many sustain themselves through other people and may not seek self-employment as a source of livelihood. It is suggested that the GoZ should put policies in place that support married people to finance start-ups, as they have an extra burden to take care of.

The respondents were asked to specify their qualifications for the researcher to ascertain the distribution of the education level of respondents who participated in the study. The higher the educational standard of entrepreneurs, the higher the chance for the enterprise to be successful (Das and Teng 2001; Van den Boom 2019). Entrepreneurs with higher educational training standards were more likely to survive economically in a more turbulent business environment. In addition, more educated entrepreneurs tend to run their business establishments professionally (Van den Boom 2019).

The results presented (Table 4.2) illustrated that a significant proportion of respondents had attended secondary school (53.9 percent) and 12.5 percent of respondents possessed either a technical or professional qualification, whilst 21.5 percent were university graduates and 12.1 percent only had primary education. The absence of those who had not attended any formal education is testimony to the high literacy levels in Zimbabwe.

The large proportion of respondents who attained secondary education and are running businesses shows that secondary school graduates lack formal skills from tertiary institutions that make them employable and they have limited career choices, having to compete with college and university graduates. Therefore, most opt for self-employment in comparison to those with diplomas and degrees. Many families cannot afford to educate their children beyond secondary school due to factors such as poverty and cultural beliefs, hence only a few manage to engage in tertiary education. This finding conforms to the high literacy level of Zimbabwe.

Respondents were also asked to indicate their family size on the questionnaire. This variable was important in determining the influence of this factor on the RM practices of SMEs. According to the findings (Table 4.2), most respondents were found to be in the small family category (77.3 percent) and only 22.7 percent of respondents indicated their family size as big. Therefore, most respondents from SMEs in

Zimbabwe who responded had small families. The existence of a greater number of respondents having small families can be attributed to the harsh economic environment currently being experienced in Zimbabwe which has forced many people to have smaller families which they can sustain considering the few available resources.

The respondents were requested to divulge their income level per month. Results (Table 4.2) showed a significant number of respondents as low-income earners (67.1 percent), with 30.5 percent of respondents in the high-income earners category. A large number of low-income earners justified the existence of SMEs due to this sector catering for low and medium-income earners, based on sales levels. However, it is disheartening to note that many of these SMEs have been in existence for quite some time, yet did not show any signs of growth in terms of income. SMEs need to grow to become big businesses and contribute meaningfully to the Zimbabwean economy. The GoZ should therefore capacitate SMEs through training, resource allocation and availability, and by creating an enabling environment for business growth so that SMEs can grow into big businesses and increase their income.

Respondents were requested to indicate the number of people they employed in their businesses. This was done to ensure that respondents conformed to the definition of an SME highlighted in section 1.2, pp. 2. SMEs referred to business organisations employing between six and one hundred full-time employees. This definition was centred on the classification by the Zimbabwean SMEs Act Chapter 24:12 (Magaisa and Matipira 2017) and the definition by SEDCO (2010). From the results (Table 4.2), it could be seen that the majority of respondents had 6-50 employees (73 percent), whereas 27 percent of respondents indicated between 51 and 100 employees. As the analysis of the findings illustrated, the majority (73 percent) of the SMEs in Harare Metropolitan and Mashonaland Central provinces employed very few people and fell into the small business category. Similarly, Emezie (2017) established that African SMEs are characterised by fewer employees due to limited revenue and turnover. The

size of SMEs in terms of output and income justified the small number of employees. Thus, it is necessary to state that SMEs in emerging economies cannot employ many people in their businesses and they rely heavily on their own and family labour to keep operational costs to a minimum and to maximise profits. The GoZ should capacitate SMEs through training, resource availability and accessibility, as well as the creation of an enabling environment for business growth so that they may grow into big businesses, with the capacity to absorb the large pool of unemployed in Zimbabwe.

Table 4.2: Respondents' Demographic Characteristics

VARIABLE	CLASSIFICATION	FREQUENCY	PERCENTAGE
Age	20-24	6	2.3
	25-29	33	12.9
	30-34	47	18.4
	35-39	16	6.3
	40-44	1	.4
	45-49	38	14.8
	50-54	49	19.1
	55-59	35	13.7
	60-64	25	9.8
	65-69	3	1.2
	70+	3	1.2
	Total	**256**	**100.0**
Gender	Male	163	63.7
	Female	93	36.3
	Total	**256**	**100.0**
Race	White	84	32.8
	Black	172	67.2
	Total	**256**	**100.0**
Marital Status	Married	164	64.1
	Divorced	3	1.2
	Widowed	11	4.3
	Never been married	75	29.3
	Separated	3	1.2
	Total	**256**	**100.0**
Family size	Small	198	77.3
	Big	58	22.7
	Total	**256**	**100.0**

Educational Level	Primary Secondary Technical Professional University level **Total**	31 138 12 20 55 **256**	12.1 53.9 4.7 7.8 21.5 **100.0**
Income	US$500 and below US$501 - US$1000 US$1001 - US$1500 US$1501 - US$2000 US$2001 - US$2500 US$2501 - US$3000 More than US$3000 **Total**	102 70 3 3 3 32 43 **256**	39.8 27.3 1.2 1.2 1.4 12.3 16.8 **100.0**
Business Sector	Wholesale and Retail Manufacturing Transport Service Arts and Culture Agriculture Construction Tourism **Total**	112 53 22 29 1 27 1 1 **256**	43.8 20.7 8.6 15.2 .4 10.5 .4 .4 **100.0**
Number of employees	6-50 employees 51-100 employees **Total**	187 69 **256**	73 27 **100.0**

Respondents were also asked to indicate the type of business they were involved in. This was important to ascertain the main business focus amongst SMEs in Harare Metropolitan and Mashonaland Central provinces. The findings (Figure 4.1) revealed that the wholesale and retail sector dominated, with 43.87 percent of the respondents indicating their involvement in this sector, followed by the manufacturing sector (20.7 percent); service sector (15.2 percent); the agricultural sector (10.5 percent); and Transport (8.6 percent), with 1.2 percent of the respondents being in other sectors such as construction, tourism, arts and culture.

As the analysis of the findings (Figure 4.1) indicated, 43.87 percent of SMEs in Harare Metropolitan and Mashonaland Central provinces focused on Wholesale and Retail businesses. Similarly, Vandenberg, Chantapacdepong and Yoshino (2016)

determined that the majority of SMEs operate in the Wholesale and Retail sectors. Furthermore, Belás *et al*. (2014) indicated that the largest share of SMEs in the Czech Republic undertakes trade and manufacturing activities (64 percent). Additionally, Omar, Arokiasamy and Ismail (2009) found that the SME sector was comprised mainly (69.3 percent) of those operating in wholesale, retail and restaurants, followed by transportation and communication (6.2 percent), financial intermediaries (4.3 percent) and professional services (2.5 percent).

This suggests that many SMEs were involved in retail and wholesale, which might be attributed to this type of business requiring less initial capital outlay in comparison to other sectors, such as construction and manufacturing. The GoZ should assist SMEs with capital to venture into more productive sectors, such as manufacturing, mining and agriculture as these require a huge capital outlay. The production of goods and services contributes to reducing the budget deficit, with Zimbabwe mainly a consumptive economy without any meaningful production.

Zimbabwe, once the breadbasket of Africa, now relied heavily on neighbouring countries such as SA, Botswana and Zambia for the supply of goods. Therefore, a deliberate drive by the government to support production would make a significant contribution to positioning Zimbabwe as a producer, rather than a consumer of goods.

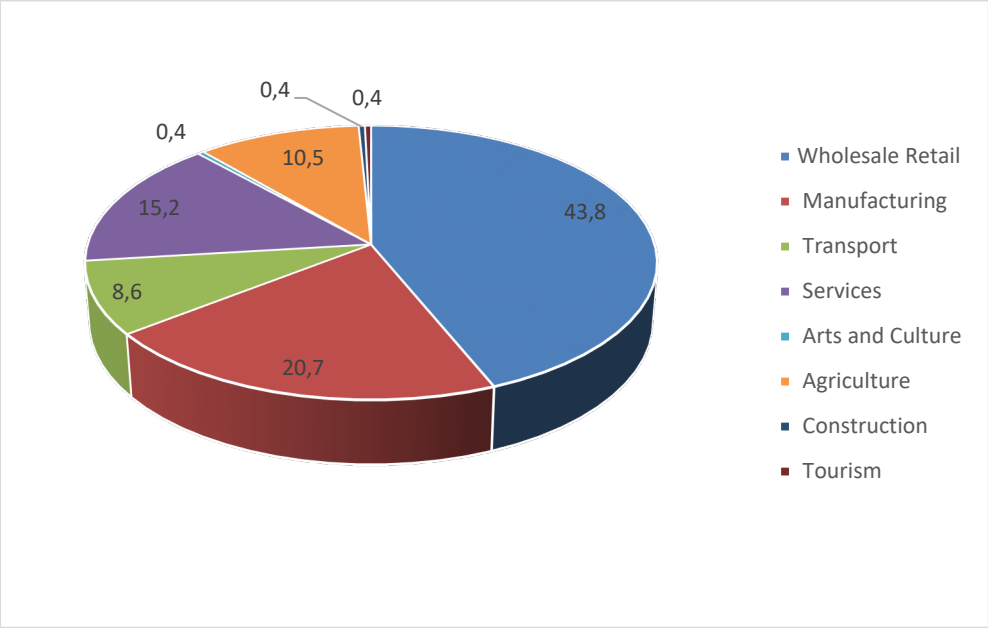

Figure 4.1: SME Sectors

4.3.2 Challenges facing SMEs and the risks associated with the challenges

Section B of the questionnaire intended to establish the challenges faced by SMEs in Harare Metropolitan and Mashonaland Central provinces, as well as the risks associated with these challenges. Eight items were used to determine the challenges SMEs encounter, while four items were used to determine the risks associated with these challenges. The results are presented in Tables 4.3 and 4.4 respectively.

Table 4.3: Challenges Faced by SMEs

CHALLENGES	N	PERCENT OF CASES
Lack of finance	252	98.4%
No easy access to markets	7	2.7%
Stiff Competition	164	64.1%
High cost of doing business	176	68.8%
Lack of managerial skills	127	49.6%
Lack of advanced technology	67	26.2%
Lack of infrastructure	68	26.6%
Bureaucratic business environment	14	5.5%

Considering the percentage of cases (number of respondents who selected the items), it was illustrated (Table 4.3) that 98.4 percent of respondents selected 'lack of finance'

as a challenge for SMEs; 2.7 percent selected ‘no easy access to markets’; 64.1 percent selected ‘stiff competition’; 68.8 percent selected ‘high cost of doing business’; 49.6 percent selected ‘lack of managerial skills’ and 26.2 percent selected ‘lack of advanced technology’, while 5.5 percent selected ‘bureaucratic business environment’. The remaining 26.6 percent selected ‘lack of infrastructure’ as a challenge.

As the analysis of the findings indicated (Table 4.3), the majority (98.4 percent) of SMEs in Harare Metropolitan and Mashonaland Central provinces faced the challenge of ‘lack of finance’ in doing business. These results concur with previous studies, such as by Belás *et al.* (2014), who found that SMEs face the challenges of limited capital. Furthermore, Musara and Fatoki (2011) determined access to financial resources as the main challenge impeding most SMEs’ survival.

Maas and Herrington (2006) asserted that one of the main causes of high SME failure rates in SA is that of access to financial resources by the SME sector. This is further reinforced by Mazanai and Fatoki (2012), who asserted that the major challenge hindering the growth and survival of start-up SMEs in SA is access to finance. Additionally, Canales and Nanda (2012) reiterated that small businesses have little internal cash flow to finance their operations. Accessibility to finance was also found to be a major factor affecting the growth and success of SMEs by Haron *et al.* (2013).

Sitharam and Hoque (2016) pointed out that most SME owners believe that access to finance is a major challenge affecting the growth of their businesses. Osotimehin *et al*. (2012) equally found that the majority of respondents lacked capital and it was viewed as a serious problem in establishing SMEs. Sharma *et al*. (2012) likewise established that women entrepreneurs in rural areas in India experienced financial problems owing to hold-ups in the availability of credit for women. Mazidah *et al*. (2016) further found financial matters to be a major challenge raised by micro-entrepreneurs.

This is a sure indication that a lack of finance was a universal challenge for SMEs, attributed to their lack of access to capital as most did not meet the minimum requirement of collateral expected by finance providers. Many financiers shunned financing SMEs and considered this sector as high risk due to the failure by most SMEs to pay back their loans, with some not keeping proper financial records. SMEs should be trained in financial management so that they can properly manage their finances, which would make it less risky to advance loans to those operating in the SME sector. The GoZ should also make capital available without stringent conditions to increase the availability of capital to the SME sector.

While 'lack of finance' was on the one hand indicated as a challenge, on the other hand, more than half (68.8 percent) of the respondents indicated a high cost of doing business as SMEs. The current economic crisis in Zimbabwe escalated the cost of doing business, with the prices of raw materials, rentals, labour costs and fuel escalating daily, which made the operating environment unfavourable for doing business. This is supported by Mahussin (2017), who established that SMEs have to deal with the increasing cost of doing business. The GoZ should therefore put in place favourable economic policies for operating a business and promote the production of goods and services locally to reduce the budget deficit.

A sizeable number of SMEs (64.1 percent) indicated that they faced stiff competition, largely due to cheaper goods from China, as well as second-hand clothes smuggled into the country. These findings echoed those by Sitharam and Hoque (2016), who also determined 'competition' to be one of the main challenges affecting SME performance. Over the years, competition amongst SMEs increased radically (Gunasekaran *et al.* 2011). Bowen *et al*. (2009) further pointed out that the main challenge amongst SMEs in Nairobi, Kenya, is competition. Mahussin (2017) found that competitors who imitated products caused businesses to lose customers, which affected their revenue. Additionally, Jamak *et al*. (2012) established that problems of

intense rivalry were one of the most discouraging problems faced by SMEs during start-up.

With Musara (2010) highlighting the competition faced by SMEs from big businesses due to operating in the same business environment, the GoZ should put policies in place that protect local business people from unfair competition. SMEs also faced competition from large, well-established businesses that enjoy economies of scale and can afford to price their products much cheaper than that which SMEs were charging. While SMEs should avoid head-on competition with big businesses, they could alternatively focus on niche markets where they target specific yet often ignored segments of the market, which are not well served by big businesses.

Approximately half (49.6 percent) of the SME respondents indicated a lack of managerial skills. This is a serious challenge that incapacitates SMEs in operating their businesses properly. The lack of managerial skills could be the reason that most SMEs did not place value and did not participate in RM, as they were not aware of its value to the business due to a lack of knowledge. This is in line with a study by Agyenim (2004), which pointed out that SMEs encountered the challenge of a lack of managerial skills in their endeavours to conduct business activities. Fatoki and Garwe (2010) further argued that a lack of education and training was one of the challenges that hamper the growth and sustainability of SMEs.

The lack of managerial competency was also found by Martin and Staines (2008) to be the main reason that SMEs fail. Furthermore, Osotimehin *et al*. (2012) asserted that a lack of management skills was one of the main challenges faced by small firms in Lagos State. Additionally, poor management skills were found by Rahman *et al.* (2016) to be a notable challenge for SMEs throughout various countries. Sharma *et al.* (2012) further reported that women entrepreneurs in India faced the challenges of a lack of technical knowledge and skills. This shows that SMEs did not possess managerial skills, which hampered the effective management of their businesses. Seminars and

workshops should therefore be arranged for SME owners by the Government of Zimbabwe to capacitate them to operate their businesses more professionally.

Other challenges that affected SMEs were ‘no easy access to markets’ (2.7 percent), ‘lack of advanced technology’ (26.2 percent), ‘bureaucratic business environment’ (5.5 percent) and ‘lack of infrastructure’ (26.6). These challenges affected SMEs, although to a limited extent, and these results were in line with previous studies. For example, Dumbu (2014) established that SME challenges included regulation and policy issues, technological, infrastructure unavailability and the intellectual property rights issue. SMEs found it costly to have state-of-the-art technology and hence did not adopt e-commerce. This was attributed to an unstable electricity supply and inadequate infrastructure, in particular buildings for doing their business.

Furthermore, Rahman *et al.* (2016) observed government policies, marketing complexity and low awareness of technology as some of the foremost challenges for SMEs throughout numerous countries. In addition, Sharma *et al.* (2012) reported that in India, the challenges that women entrepreneurs had to deal with included inadequate workplace facilities.

Additionally, Arinaitwe (2006) found that SMEs lacked technological capabilities. Small businesses lacked technological implementation, despite great technological advancements globally. Without technology, small businesses found it difficult to either compete or grow (Arinaitwe 2006). According to Sitharam and Hoque (2016), most SME owners believed that government bureaucracy had an impact on the growth of their businesses. Mensah *et al*. (2017) highlighted that a lack of competitiveness, technology innovation and the bureaucratic nature of licensing a new business were major challenges facing SMEs.

Fatai (2011) echoed that a lack of infrastructural facilities and unfavourable government policy inconsistencies were challenges encountered by SMEs. Okpara

and Kabongo (2009) stated that infrastructure factors, such as power supply and access to roads, were major challenges faced by SMEs. Furthermore, Sitharam and Hoque (2016) showed that SME managers and owners believed that a lack of or inadequate power supply and telecommunications infrastructure affected business performance.

Additionally, Schlogl (2004) determined that small-sized firms failed in developing rudimentary infrastructures, such as increasing broadband and secure servers. These factors impacted small-sized firms, negating the use of an e-business approach.

Table 4.4: Risks faced by SMEs

RISKS	N	PERCENT OF CASES
Operational risk	242	94.5%
Financial risk	256	100%
Hazard risk	196	76.6%
Strategic risk	93	36.3%

Concerning risks faced by SMEs (Table 4.4), the results showed that all (100 percent) respondents selected financial risk, 94.5 percent selected operational risk and 76.6 percent selected hazard risk. The remaining 36.3 percent selected strategic risk. As the analysis of the findings (Table 4.4) indicated, all (100 percent) SMEs in Harare Metropolitan and Mashonaland Central provinces face financial risk. Results from this study were similar to that of Jayathilake (2012), who found that financial risk was a dominant risk faced by SMEs in Sri Lanka. Additionally, Bocker (2008, cited in Mironescu *et al*. 2015) pointed out that economic/financial risk was a major risk affecting businesses.

This showed that finance was both a challenge and a risk to SMEs. The current state of the economy, coupled with severe cash shortages, exposed most SMEs to financial risk. The poor economic environment seriously reduced the financial power of SMEs. In Zimbabwe, there is no stable cash flow due to the limited cash in circulation and shortages of cash in banks, resulting in late payments. This risk leads to business

failure. The shortage of cash forced customers to abandon SMEs in favour of the formal market. Most SMEs did not accept electronic money, which is now the common payment method. In addition, according to SME owners, many suppliers of raw materials demanded cash upfront. This affected the production levels of firms, resulting in SMEs being encouraged to accept all forms of payment so that they do not lose potential sales to bigger businesses. Banks are also reluctant to advance loans to SMEs, as they are viewed as a high risk.

Furthermore, the findings (Table 4.4) indicated that the majority (94.5 percent) of SMEs were battling operational risk, which significantly impacted SMEs. The economic instability in the country made it difficult for business people to plan into the future due to high inflation rates, high-interest rates and regular changes in the prices of raw materials. This hindered SMEs in pricing their products as they risked selling their goods at a lower price than their suppliers were charging. SMEs were also finding it difficult to replenish their stocks due to suppliers increasing prices without warning.

SMEs were further recommended to peg their prices using stronger currencies, such as the US Dollar or the SA Rand, although they charge using the Zimbabwean dollar equivalent to avoid legal battles with the government. This ensured that their purchasing power is not eroded by inflation. The results from this study were similar to those of Jayathilake (2012), which found that operational risk is a dominant risk faced by SMEs in Sri Lanka. Additionally, Bocker (2008, cited in Mironescu *et al*. 2015) emphasised that operational risk was a major risk affecting businesses.

The findings (Table 4.4) indicated that more than three-quarters (76.6 percent) of SMEs faced a hazard risk due to different environmental factors, such as political and natural factors. The political environment in Zimbabwe resulted in many demonstrations, with a significant number of businesses losing their goods through looting and the destruction of property by demonstrators (Pigou 2019). Businesses were also interrupted by natural causes such as floods, for example, Cyclone Idai,

which struck Zimbabwe in March 2019, affecting 270 000 people and ravaging Chipinge, leaving a trail of disaster with many SMEs losing all their buildings and goods (Chatiza 2019). The most recent COVID-19 pandemic resulted in the closure of most non-essential service businesses (ZCTU 2020), which resulted in most SMEs losing their sources of income as they survived from hand-to-mouth. This is a serious risk that requires critical consideration by both SMEs and the government.

SMEs should ensure they have 'rainy day' funds so that in case of business interruptions, they can sustain themselves and pick up the pieces once things normalise. The Zimbabwean government should also set aside funds that assist SMEs in such times so that they do not lose their livelihoods and can continue business operations when the situation returns to normal. Results from this study were similar to those found by Jayathilake (2012), wherein hazard risk was determined as a dominant risk faced by SMEs in Sri Lanka. Additionally, Bocker (2008, cited in Mironescu *et al*. 2015) pointed out that businesses were adversely affected by hazard risk.

A meagre 36.3 percent of the SMEs indicated that they faced strategic risk. This was a sign that the risk had a minimal negative impact on SMEs. These risks were indicated as harsh competition in the SME sector; imitation of products leading to intellectual property infringement; the threat of loss of reputation due to the widespread use of social media by customers; and an unfriendly regulatory environment, as well as changes in technology and budget overruns. The results from this study were similar to the findings by Jayathilake (2012) that SMEs in Sri Lanka faced strategic risk.

Furthermore, Bocker (2008, cited in Mironescu *et al*. 2015) stressed that one of the risks that affected businesses was strategic risk. It can therefore be seen that SMEs in Zimbabwe were mainly exposed to financial risk, operational risk and hazard risk, which reinforced the need to manage risks for the continued survival of SMEs, as unmanaged risks could lead to the demise of SMEs.

4.3.3 Research Question 1: Measures of SME Risk Management Practice Level

This section discusses the findings concerning the above research question, based on the following statements from the main questionnaire:

- RM initiatives are considered important in SMEs;
- The general principles of RM are included in our operational policy;
- RM is clearly supported by management;
- The management personnel identify or analyses and adequately responds to risks affecting the organisation regularly;
- Adequate knowledge, proper training and advanced technology are considered in RM processes;
- RM tasks and roles are clearly assigned;
- RM is monitored and reported as part of our normal management reporting system;
- We use risk analysis methods that are recommended by specialists;
- When analysing significant risks, we use in-depth risk analysis methods and our methods of working are modified to minimise the level of risk;
- Employees have the skill to participate in the development of RM activities; and
- Employees participate in RM activities, both inside and outside the scope of their specific tasks.

4.3.3.1 Importance of Risk Management for SMEs

Respondents were asked to indicate the extent to which they agreed that RM initiatives were considered important in SMEs, with the results illustrated in Figure 4.2.

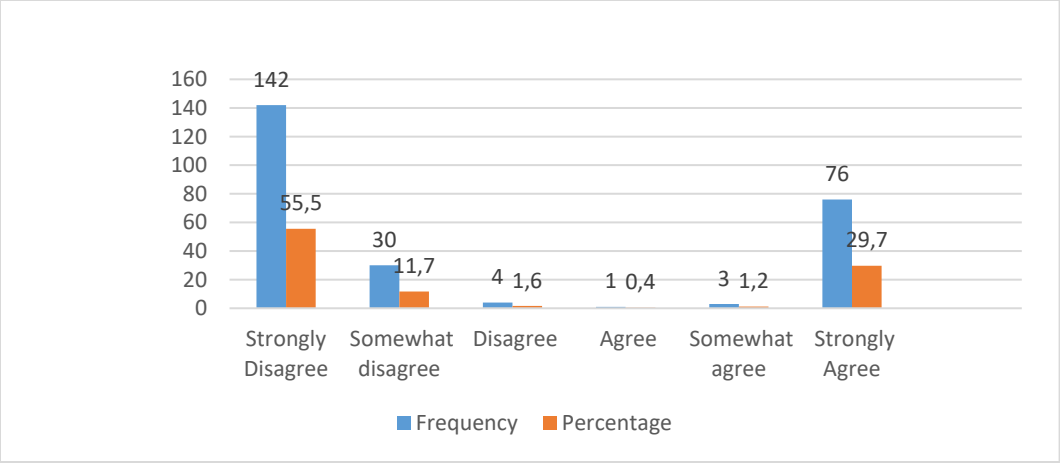

Figure 4.2: Risk Management initiatives were considered important in SMEs

Based on the data analysis, a large number of respondents, 142 (55.5 percent), 30 (11.7 percent) and 4 (1.6 percent) respectively strongly disagreed, somewhat disagreed and disagreed that RM initiatives were considered important in SMEs. A further 76 (29.7 percent), three (1.2 percent) and one (0.4 percent) of the respondents strongly agreed, somewhat agreed and agreed respectively. The results (Figure 4.2) showed that the majority (68.8 percent) of respondents disagreed that RM initiatives were considered important for SMEs. Given the distribution of results, it is clear that respondents disagreed with the assertion and pointed to low SME RM practice.

A one-sample t-test of the results was performed to determine whether RM initiatives were considered important for SMEs. The question was based on the hypothesis of uniformity of expected responses to questions. From the findings, the variable had a mean score of 3.0, which was below the test value of 3.5. The results were statistically significant (t =17.868 and a p= .000) for this variable. Therefore, the hypothesis on this variable was accepted. The observed findings differed significantly from expected frequencies, which meant that this result was statistically significant and was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 6.

This agreed with previous research findings, such as that of Hudáková *et al.* (2017), who found that the benefits of introducing a RM system in SMEs were not well interpreted and understood. The practical application of RM was insufficient in many enterprises in Slovakia and misunderstood by managers of businesses. Studies involving SME RM practice have confirmed that the majority of SMEs did not appreciate RM as one of the important tools of management (Hudáková and Lusková 2016; Hudáková *et al*. 2017). The findings of this study added to the current claims of other studies that several SMEs did not incorporate the RM process in their businesses because there was little knowledge with regards to its possible benefits (Verbano and Venturini 2013).

This view was supported by Deloitte (2009), which highlighted that fewer smaller organisations have RM programmes as they expected limited value to be derived from its implementation. Additionally, SMEs in their start-up stage often under-rated risks or even completely disregarded them (Fisayo and Nwankwo 2010). Thus, RM initiatives did not occupy a central position in SMEs, denoting a low RM practice in SMEs.

4.3.3.2 Inclusion of general principles of Risk Management in operational policies

Respondents were required to indicate the extent of their agreement with the statement that the general principles of RM were included in their operational policy. The results are shown (Figure 4.3) below.

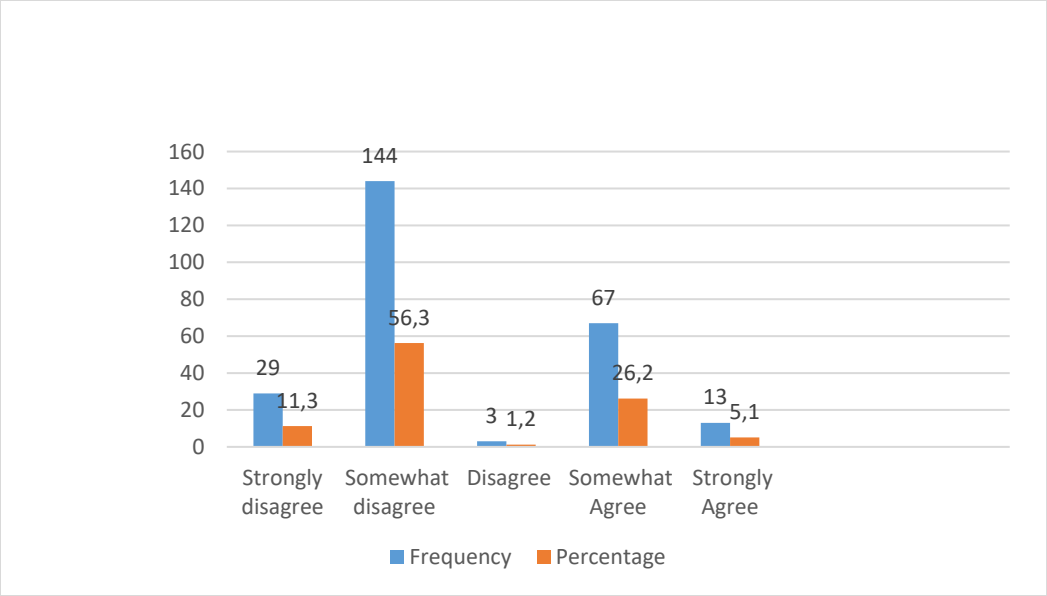

Figure 4.3: General Principles of Risk Management are included in our operational policy

Based on the data analysis, a large number of respondents, 29 (11.3 percent), 144 (56.3 percent) and three (1.2 percent) respectively strongly disagreed, somewhat disagreed and disagreed that the general principles of RM were included in their operational policy. Strong agreement was indicated by 13 (5.1 percent) of the respondents, while 67 (26.2 percent) somewhat agreed (Figure 4.3). The results showed that the majority (68.8 percent) of respondents disagreed that the general principles of RM were included in their operational policy. This means that SMEs did not take RM into account in their day-to-day activities. Given the distribution of results (Figure 4.3), it was clear that respondents disagreed with the above assertion, which denoted that the SMEs' level of RM practice was low.

To determine whether general principles of RM were included in their operational policies, a one-sample t-test of the results was performed, with the question based on the hypothesis of uniformity of expected responses to questions. From the findings (Figure 4.3), the variable had a mean score of 3.20, which was below the test value of 3.5. The results were statistically significant ($t = 25.096$; $p = .000$) for this variable.

Therefore, the hypothesis on this variable was accepted, with observed findings significantly different from expected frequencies. This meant that the result was statistically significant and not due to chance. The variable's scientific statistical analysis is presented in Appendix 6.

The findings of this study augmented the existing claims of other studies that the RM process in an SME was not appreciated as a strategic tool (Enterprise Risk Management Initiative 2017; AICPA 2017; CGMA 2017). This was in accord with other studies, which found that a greater number of SMEs did not have systematic RM strategies put in place (Yusuf and Dansu 2013). Furthermore, previous studies argued that in many cases, risk-based thinking was not combined with everyday business undertakings and corporate strategies (Servaes *et al.* 2009).

The link between RM and business planning was not well-established in most enterprises, whether large or small. Nunes *et al*. (2012) asserted that a lack of RM strategies continued to be common with SMEs although they faced many risks, and can be a link to their failure rate being so high. Hence, the general principles of RM were rarely included in SMEs' operational policies, pointing to low RM practice in SMEs.

4.3.3.3 Support of Risk Management by management

Respondents were requested to select the extent of their agreement with the statement that RM was supported by management. The results (Figure 4.4) are illustrated below.

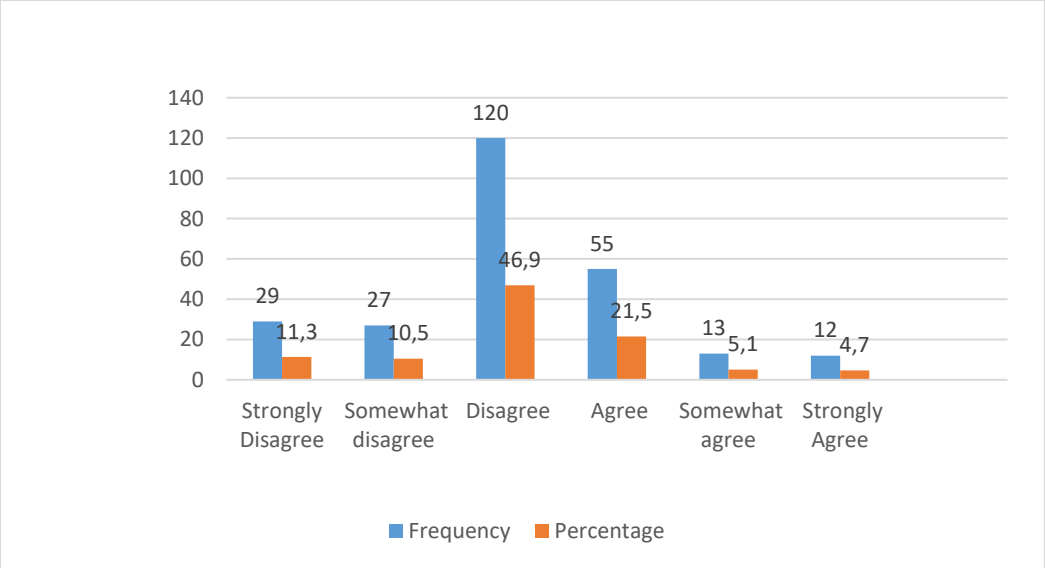

Figure 4.4: Risk management is clearly supported by management

According to the research findings, a large number of respondents, 29 (11.3 percent), 27 (10.5 percent) and 120 (46.9 percent) respectively strongly disagreed, somewhat disagreed and disagreed that RM was clearly supported by management. Only 12 (4.7 percent), 13 (5.1 percent) and 55 (21.5 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.4).

The results showed that the majority (68.7 percent) of respondents disagreed that RM was clearly supported by management. This purported that SME managers did not view RM as important and did not render their full support, thus limiting its implementation and leading to low RM practice. RM initiatives required the support of management as they are the custodians of resources, which are critical for the successful implementation of RM initiatives. Given the distribution of results, it is clear that respondents disagreed with the assertion, signifying that the level of SMEs' RM practices was low.

A one-sample t-test of the results was performed to determine whether RM was clearly supported by management. The question was based on the hypothesis of

uniformity of expected responses to questions. From the findings, the variable had a mean score of 3.44, which was below the test value of 3.5. The results were statistically significant (t = 35.188; p= .000) for this variable, meaning that the hypothesis on this variable was accepted. The observed findings were significantly different from the expected frequencies. Thus, this result was statistically significant and not due to chance. The scientific statistical analysis for this variable is presented in Appendix 6.

Aziz and Yazid (2015) and Grant *et al*. (2014) indicated that the commitment of the decision-maker towards the implementation of RM was crucial. The above view corresponded with that of Burnaby and Hass (2009) that the mandate from top management is needed to ensure that organisational goals are achieved. This fact is supported by Belás *et al.* (2014), who found it inevitable that the management of significant risks in the business environment depended on the top managers in the company.

According to Yegon, Mouni and Wanjau (2014), directors played a key role in RM. The success of RM for the listed firms in Kenya was attributed to the directors of the firms. This observation was supported by the view presented by Yegon *et al*. (2014) that support from top management, resource endowment and risk attitude were the main factors that influenced the effectiveness of RM. Therefore, it can be argued that minimal support was rendered by management on RM, pointing to low RM practice by SMEs.

4.3.3.4 Regular identification, analysis and response to risks affecting the organisation

Respondents indicated their level of agreement with the statement that the management regularly identified, analysed and adequately responded to risks affecting the organisation, with results (Figure 4.5) shown below.

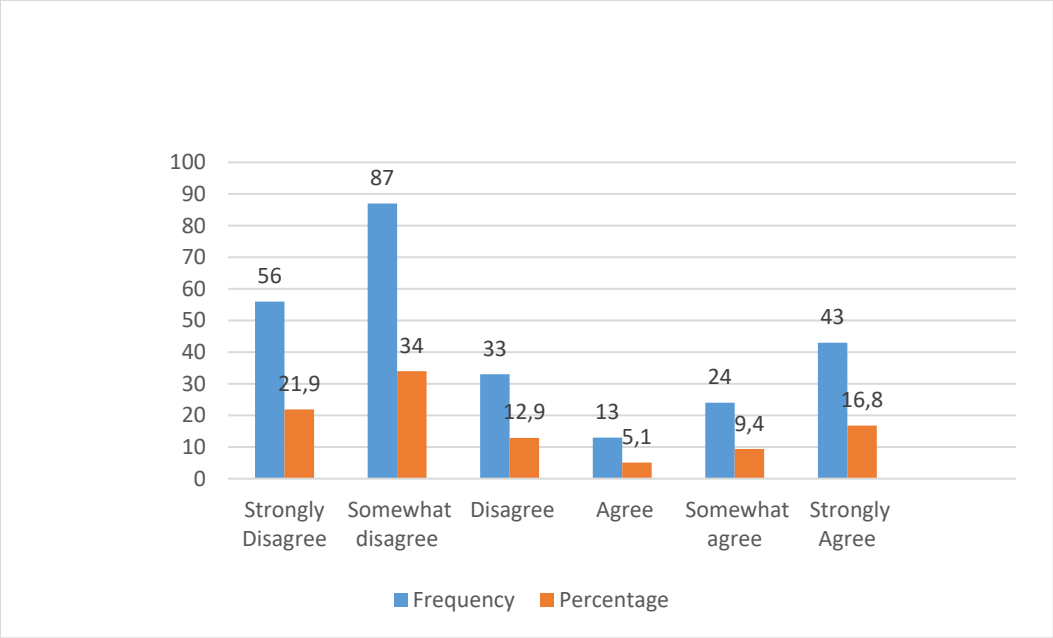

Figure 4.5: Management personnel regularly identify or analyse and adequately responded to risks affecting the organisation

A large number of respondents, 56 (21.9 percent), 87 (34 percent) and 33 (12.9 percent) respectively strongly disagreed, somewhat disagreed and disagreed that management personnel regularly identified or analysed and adequately responded to risks affecting the organisation. Only 43 (16.8 percent), 24 (9.4 percent) and 13 (5.1 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.5). The results showed that the majority (68.8 percent) of respondents disagreed that the management personnel regularly identified, analysed and adequately responded to risks affecting the organisation. This denoted that RM was occasionally undertaken and was not a regular or day-to-day activity. Hence, SMEs were less likely to implement RM in their businesses. Given the distribution of results (Figure 4.5), it was clear that respondents disagreed with the assertion, which denoted that the level of SMEs' RM practices was low.

A one-sample t-test of the results was performed to determine whether management regularly identified, analysed and adequately responded to the risks affecting the

organisation. The question was based on the hypothesis of uniformity of expected responses to questions. The findings illustrated that the variable had a mean score of 3.28, which was below the test value of 3.5. As the results were statistically significant ($t = 23.710$; $p = .000$) for this variable, the hypothesis on this variable was accepted. The observed findings were notably different from expected frequencies, which meant that this result was statistically significant and was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 6.

The current research findings agreed with Smit and Watkins (2012) who illustrated SMEs' inability to identify the risk components impacting their business activities. Similarly, Prinsloo *et al*. (2015) pointed out that leaders of business did not identify imminent risks in small businesses due to the absence of suitable internal controls and assurance activities. The findings of this study added to the other studies' existing claims regarding risk analysis and assessment, as SMEs rarely analysed and evaluated their business risks (Zhao and Zeng 2014). Additionally, SMEs did not practice the identification of risk determinants, root causes and their related origins (Islam and Tedford 2012).

This was in line with a previous study by Enterprise Risk Management Initiative (2017) that found a possibility of absence of support for the early identification of risks in enterprises. Findings also indicated that approximately 40 percent of the studied companies did not identify their business risks and 64 percent did not properly evaluate their risks (Henschel 2008a). The above view corresponded with that of Zoghi (2017), who confirmed that SMEs from different industrial sectors mostly reported that they sporadically identified and assessed risks jeopardising their companies.

Likewise, Samugwede and Masiyiwa (2014) established that there were no formal risk identification and assessment tools being used in managing risks in SMEs. Brustbauer (2016) additionally found that SMEs followed a passive approach to RM

and put minimal effort into identifying, assessing and monitoring risks. The view that SMEs did not identify the risks facing their organisations is supported by Hassan and Ali (2013). This indicated that Zimbabwean SMEs had no regular system for identifying and assessing risks. Thus, the RM practice of identifying, analysing and responding to risk is low.

4.3.3.5 Consideration of adequate knowledge, proper training and advanced technology in Risk Management processes

Respondents selected the measure of their agreement with the statement that there is consideration of adequate knowledge, proper training and advanced technology in RM processes. Results are illustrated in Figure 4.6 below.

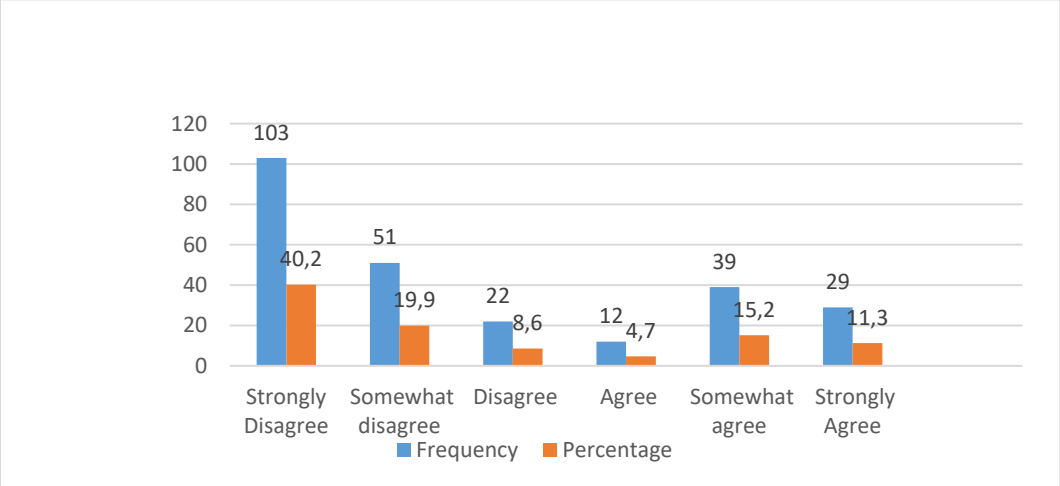

Figure 4.6: Adequate knowledge, proper training and advanced technology are considered in Risk Management processes

As indicated by the results (Figure 4.6), a large number of respondents, 103 (40.2 percent), 51 (19.9 percent) and 22 (8.6 percent) respectively, strongly disagreed, somewhat disagreed and disagreed that adequate knowledge, proper training and advanced technology are considered in RM processes. Only 29 (11.3 percent), 39 (15.2 percent) and 12 (4.7 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.6).

The results showed that the majority (68.7 percent) of respondents disagreed that there was a consideration of adequate knowledge, proper training and advanced technology in RM processes. This denoted that SME manager-owners and staff were less knowledgeable and did not seek knowledge through training on RM or make use of technology in their RM. Given the distribution of results, it was clear that respondents disagreed with the assertion, demonstrating that the level of SMEs' RM practices was low.

A one-sample t-test of the results was done to establish whether proper training, adequate knowledge and advanced technology were taken into consideration in RM processes. The question was based on the hypothesis of uniformity of expected responses to questions. The findings revealed the variables' mean score at 3. 0, which was below the test value of 3.5, indicating statistically significant (*t = 21.049; p= .000*) results for this variable. Thus, the hypothesis on this variable was accepted. The observed findings were meaningfully different from the expected frequencies, thus showing that the results were statistically significant and not due to chance. The scientific statistical analysis for this variable is presented in Appendix 6.

This aligns with findings from previous research studies involving SME RM practices, which have demonstrated that no sufficient training was provided on RM initiatives (Sifumba *et al.* 2017). This might explain why the rate of failure of SMEs was very high. According to literature, factors affecting SMEs include low levels of training and education and poor business efficiencies and poor business skills (Yanta 2001). Findings from the literature indicated that SMEs lack RM skills and knowledge and eventually RM capability (Yaacob 2016).

Additionally, Sukumar *et al*. (2011) confirmed that formal learning programmes and continuous education to employees were rarely offered in SMEs. Hence, Mironescu *et al.* (2015) recommended the introduction of integrated future investment in information systems for RM, along with training employees in the integration of RM to enhance

their work efficiency. This was due to SMEs being less knowledgeable in RM and they neither sought after knowledge through training on RM nor made use of technology in their RM, indicating low RM practice in SMEs.

4.3.3.6 Assignment of Risk Management tasks and roles

Respondents indicated the extent to which they agreed with the statement that RM tasks and roles were clearly assigned. The results are shown in Figure 4.7 below.

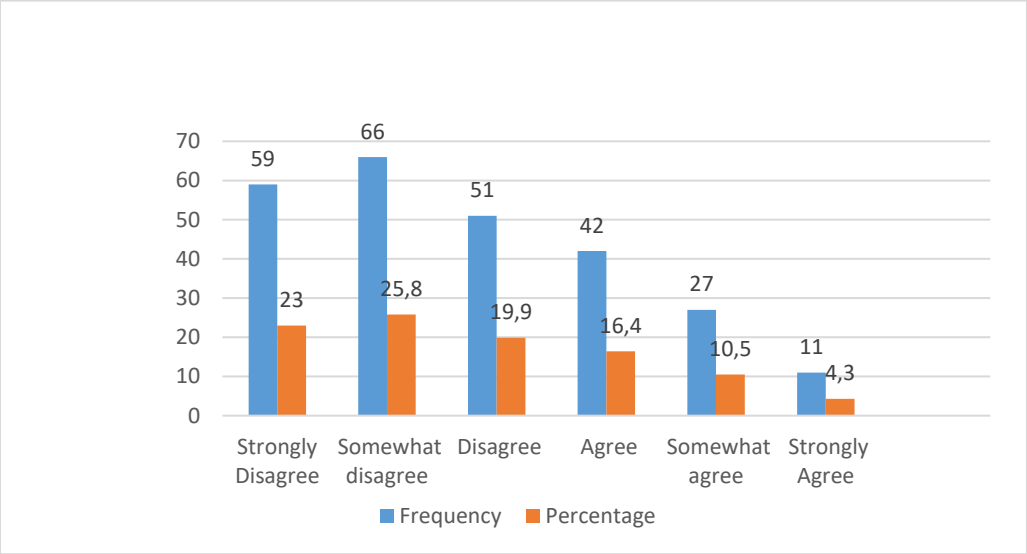

Figure 4.7: Risk Management tasks and roles were clearly assigned

The results (Figure 4.7) showed that a substantial number of respondents, 59 (23 percent), 66 (25.8 percent) and 51 (19.9 percent) respectively strongly disagreed, somewhat disagreed and disagreed that RM tasks and roles were clearly assigned. Only 11 (4.3 percent), 27 (10.5 percent) and 42 (16.4 percent) of the respondents strongly agreed, somewhat agreed and agreed respectively (Figure 4.7). The results showed that the majority (68.7 percent) of respondents disagreed that RM tasks and roles were clearly assigned.

This purported that SMEs did not clearly assign RM tasks, which limited its implementation as people were not aware of what they were expected to do in executing their tasks related to managing risk. Given the distribution of results, it was clear that respondents disagreed with the assertion and signified that the level of SMEs' RM practices was low.

A one-sample t-test of the results was done to establish whether RM tasks and roles were clearly assigned. The question was based on the hypothesis of uniformity of expected responses to questions. The findings illustrated that the variable had a mean score of 3.10, which was below the test value of 3.5. The results were statistically significant (*t = 26.581; p= .000*) for this variable, indicating acceptance of the hypothesis on this variable. The observed findings differed notably from expected frequencies, which meant that this result was statistically significant and not due to chance. The scientific statistical analysis for this variable is presented in Appendix 6.

Findings from reviewed literature indicated that most SMEs recognised the assignment of roles as one of the factors that resulted in a good RM (Sifumba *et al.* 2017). Also noted from the literature was the majority of SMEs did not have a sanctioned risk strategy owing to difficulties with entrusting RM competencies to employees (Turpin 2002). Therefore, RM tasks were not clearly assigned, demonstrating low RM practice in SMEs.

4.3.3.7 Monitoring and reporting of Risk Management

Respondents were requested to indicate how much they agreed with the statement that RM was monitored and reported as part of normal management reporting systems. The results are shown in Figure 4.8 below.

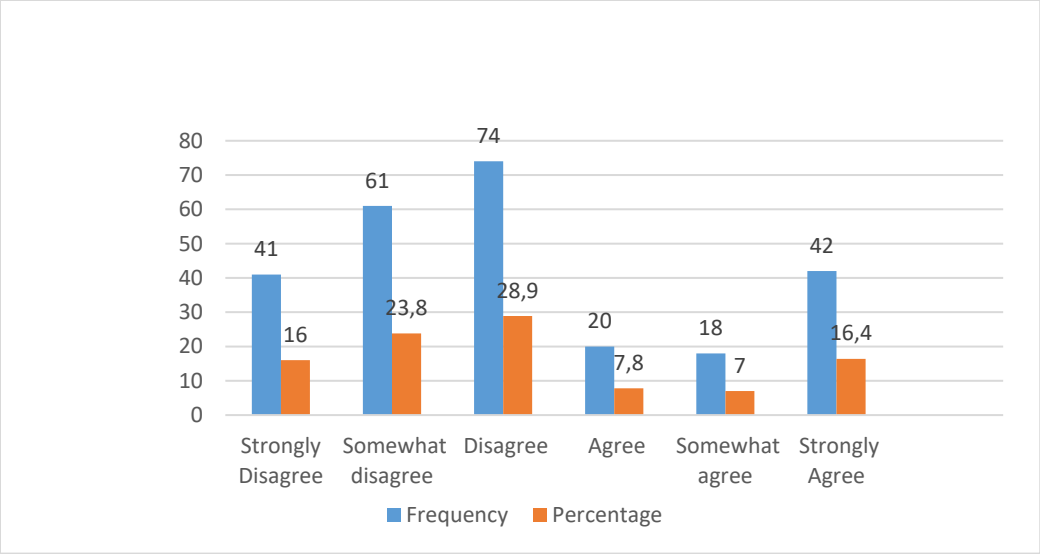

Figure 4.8: Risk Management was monitored and reported as part of our normal management reporting system

As illustrated by the results (Figure 4.8), a considerable number of respondents, 41 (16 percent), 61 (23.8 percent) and 74 (28.9 percent) respectively strongly disagreed, somewhat disagreed and disagreed that RM was monitored and reported as part of their normal management reporting system. Only 42 (16.4 percent), 18 (7 percent) and 20 (7.8 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.8). In this study, it has emerged that the majority of respondents (68.7 percent) disagreed that RM was monitored and reported as part of their normal management reporting system. This implied that the monitoring and reporting of RM were done to a lesser extent. This resulted in SMEs' failure to check and ensure the continuation of effective implementation of RM and to take corrective action where necessary. Given the distribution of results, it was clear that respondents disagreed with the statement, which signified a low level of SMEs' RM practices.

A one-sample t-test of the results was done to determine the monitoring of RM and whether it was reported as part of a normal management reporting system. The question was based on the hypothesis of uniformity of expected responses to

questions. As seen from the findings, the variable had a mean score of 3.46, which was below the test value of 3.5. The results were statistically significant (*t = 26.892; p= .000*) for this variable and the hypothesis on this variable was therefore accepted. The observed findings were significantly different from expected frequencies, with this result thus being statistically significant and not due to chance. The scientific statistical analysis for this variable is presented in Appendix 6.

The research findings agreed with various studies on RM and SMEs that noted no established systematic and effective reporting of the greatest risks to business enterprises (Enterprise Risk Management Initiative 2017; AICPA 2017; CGMA 2017). The above view corresponded with that of Brustbauer (2016), who found that SMEs followed a passive approach to RM, with minimal efforts to identify, assess and monitor risks. This showed RM by SMEs as low (Dumitrescu *et al.* 2015). Therefore, it can be reasoned that the monitoring and reporting of RM were done to a lesser extent, thus signifying low RM practice in SMEs.

4.3.3.8 Use of risk analysis methods recommended by specialists

Respondents were asked to indicate the degree to which they agreed with the statement that they used the RM methods recommended by specialists. Results are shown in Figure 4.9 below.

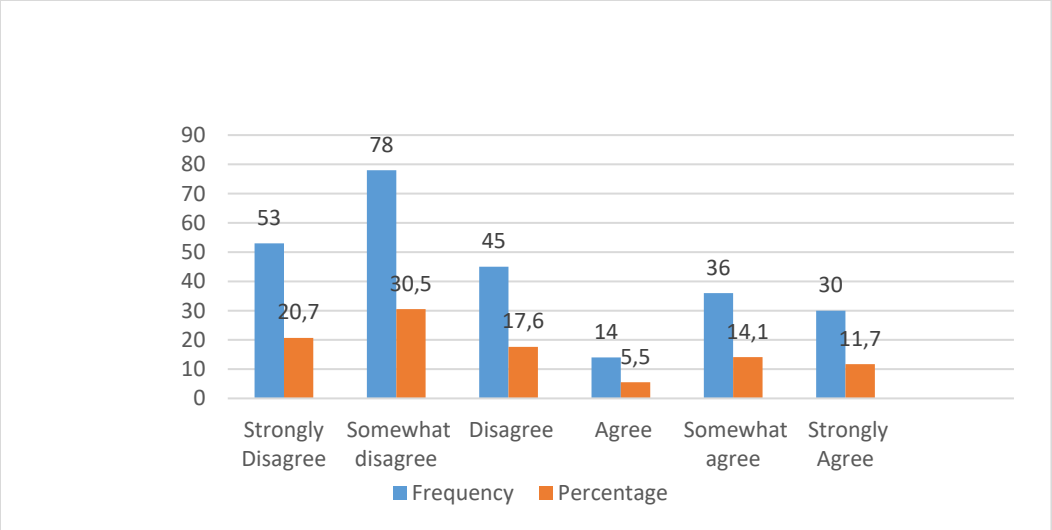

Figure 4.9: We use risk analysis methods that are recommended by specialists

A large number of respondents, 53 (20.7 percent), 78 (30.5 percent) and 45 (17.6 percent) respectively strongly disagreed, somewhat disagreed and disagreed that they used RM methods that were recommended by specialists. Only 30 (11.7 percent), 36 (14.1 percent) and 14 (5.5 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.9). The results showed that the majority (68.8 percent) of respondents disagreed that they used RM methods recommended by specialists. This denoted that SMEs did not consult specialised people to assist and guide them in the effective implementation of RM, which resulted in SMEs managing risk unsystematically due to a lack of proper direction. Given the distribution of results, it was clear that respondents disagreed with the assertion, which indicated a low level of SME RM practices.

A one-sample t-test of the results was done to establish whether SMEs used RM methods recommended by specialists. The question was based on the hypothesis of uniformity of expected responses to questions. From the findings, it was illustrated that the variable had a mean score of 3.28, which was below the test value of 3.5. Results were statistically significant ($t = 24.942$; $p = .000$) for this variable. Therefore, the hypothesis on this variable was accepted. The observed findings were significantly

different from the expected frequencies. In other words, the result was statistically significant and was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 6.

The research findings were in agreement with Nyakang'o and Kalio (2013), who echoed that the RM specialists' services were not prevalent amongst SMEs. This might be a result of their lack of confidence in the RM consultants and also the exorbitant price charged for the RM consultants' services. Furthermore, previous studies reinforced the study findings and reiterated that a significant proportion of Turkish SMEs did not benefit from any guidelines to implement a RM system in their companies (Zoghi 2017).

In addition, the fragility of various RM methodologies and standards was observed. In other words, there was no comparison of advantages in the use of tools and methods for particular industries that takes place, and there is the non-existence of guidelines in SMEs concerning the appropriateness of methods and tools (Hudáková and Lusková 2016; Hudáková *et al*. 2017). Therefore, the services of RM specialists were not popular amongst SMEs, which showed low RM practice in SMEs.

4.3.3.9 Use of in-depth risk analysis methods when analysing significant risk

Respondents indicated the level of their agreement with the statement that there is the use of in-depth risk analysis methods when analysing significant risks. The results are shown in Figure 4.10 below.

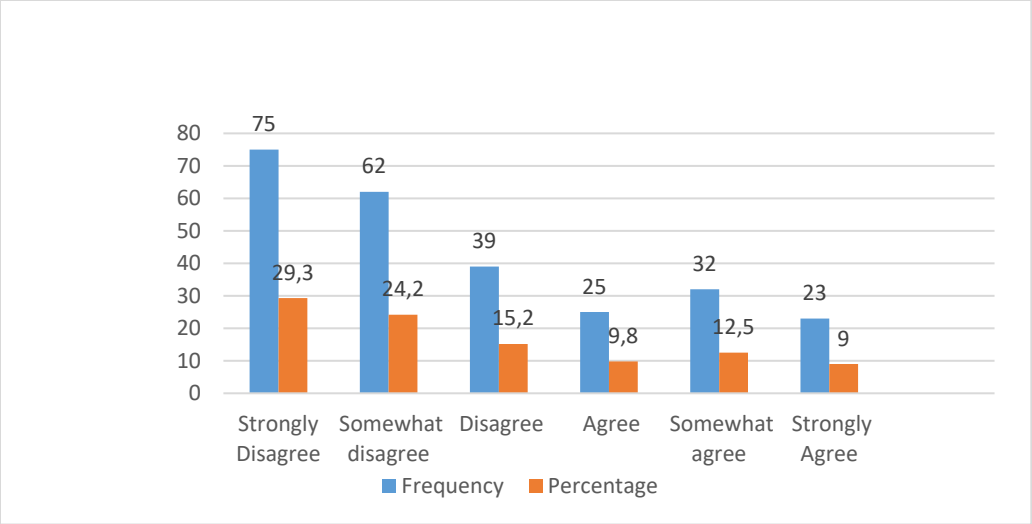

Figure 4.10: When analysing significant risks, we use in-depth risk analysis methods and our methods of working are modified to minimise the level of risk

The results (Figure 4.10) indicated that a sizable number of respondents, 75 (29.3 percent), 62 (24.2 percent) and 39 (15.2 percent) respectively strongly disagreed, somewhat disagreed and disagreed that when analysing significant risks, they used in-depth risk analysis methods and their methods of working were modified to minimise the level of risk. Only 23 (9 percent), 32 (12.5 percent) and 25 (9.8 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.10). The results showed that the majority (68.7 percent) of respondents disagreed that 'when analysing significant risks, they used in-depth risk analysis methods and the methods of working were modified to minimise the level of risk'.

This confirmed SMEs not taking comprehensive risk analysis into account, with no deliberate effort to adjust or revise methods to meet changing situations. Moreover, this pointed to a lack of thoroughness and commitment to RM. From the result distribution, it was evident that respondents disagreed with the above assertion and denoted the level of SMEs' RM practices as low.

A one-sample t-test of the results was done to establish whether there was the use of in-depth risk analysis methods when analysing significant risks. The question was based on the hypothesis of uniformity of expected responses to questions. From the findings, it was seen that the variable had a mean score of 3.10, which was below the test value of 3.5. The results were statistically significant (*t = 23.728; p= .000*) for this variable, which meant that the hypothesis on this variable was accepted. The observed findings differed significantly from the expected frequencies. In other words, this result was statistically significant and was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 6.

The research findings were in agreement with Zhao and Zeng (2014), who confirmed that in terms of risk analysis and assessment, SMEs rarely analysed and evaluated their business risks. Furthermore, they did not have risk maps and risk analysis plans. This fact was supported by previous researchers who confirmed that the majority of SMEs had no systematic RM strategies in place (Dorresteijn 2017; Napp 2011; Perusahaan *et al.* 2013). As explained by Matthews and Scott (1995), several SMEs did not have a clear image of what company danger involved, resulting in their RM not being well organised or systematic. Thus, the use of in-depth risk analysis methods to minimise the level of risk was not popular amongst SMEs, indicating low RM practice in SMEs.

4.3.3.10 Employee skills to participate in the development of Risk Management activities

Respondents indicated how much they agreed with the statement that employees were skilled to participate in the development of RM activities. The results are shown in Figure 4.11 below.

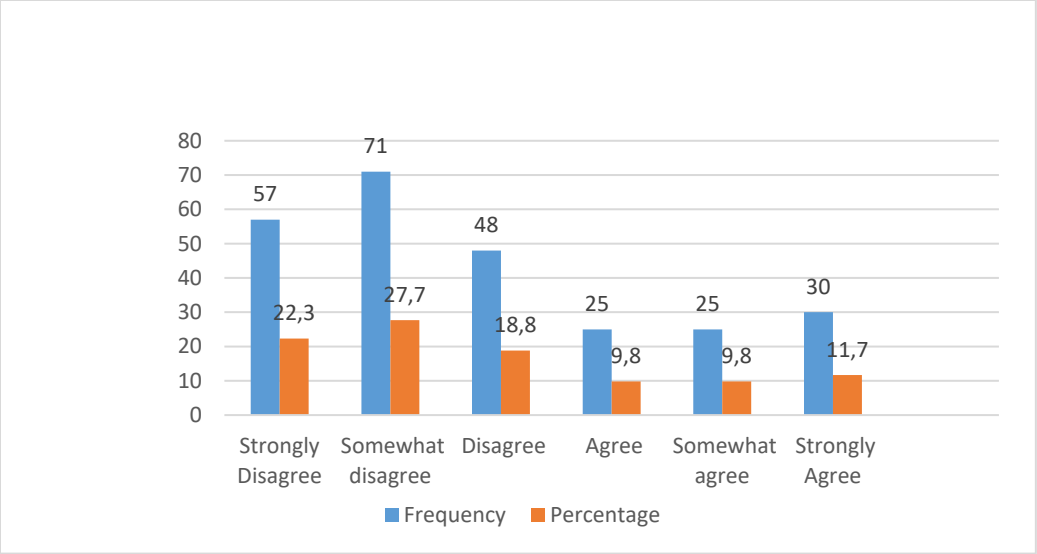

Figure 4.11: Employees have the skill to participate in the development of risk management activities

A large number of respondents, 57 (22.3 percent), 71 (27.7 percent) and 48 (18.8 percent) respectively strongly disagreed, somewhat disagreed and disagreed that employees had the skill to participate in the development of RM activities. Only 30 (11.7 percent), 25 (9.8 percent) and 25 (9.8 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.11). The results (Figure 4.11) showed disagreement by the majority (68.8 percent) of respondents with the fact that employees were adequately skilled to participate in the development of RM activities. This illustrated that employees could not effectively participate in RM development. Employee incapacitation resulted in less or non-implementation of RM. The distribution of results made it clear that respondents disagreed with the assertion and reflected low RM practice.

A one-sample t-test of the results was performed to find out whether employees were skilled to play a part in the development of RM activities. The question was based on the hypothesis of uniformity of expected responses to questions. It was illustrated by the findings that the variable had a mean score of 3.23, which was below the test

value of 3.5. The results were statistically significant (*t = 25.031; p= .000*) for this variable. The hypothesis on this variable was therefore accepted. As the observed findings were considerably different from expected frequencies, this result was found to be statistically significant and not due to chance. The scientific statistical analysis for this variable is presented in Appendix 6.

The research findings agreed with various researchers. According to Lopez and Hiebl (2015) and Burgstaller and Wagner (2015), there was a lack of well-supported staff needed for sound RM in SMEs. The lack of entrepreneurial knowledge and business management skills was also regularly attributed to as one of the main causes of failure in SMEs, which was a concern to the researchers (Scarborough and Zimmerer 1996).

Furthermore, the findings of this study complemented existing claims of other studies that the absence of adequate skills and business knowledge amongst SMEs was one of the causes of business failure (Fatoki and Garwe 2010). The findings further agreed with previous studies that SMEs had critical shortages of RM skills and knowledge, and eventually, RM capability (Yaacob 2016). It was noted that many enterprises neither provided training nor advice on RM (Enterprise Risk Management Initiative 2017; CGMA 2017). Therefore, it can be argued that employees lacked the necessary skills to execute RM, hence SMEs' RM practice was low.

4.3.3.11 Participation of employees in Risk Management activities

Respondents indicated the extent to which they agreed with the statement that employees participated in RM activities, both inside and outside the scope of their own specific tasks. Results are shown in Figure 4.12 below.

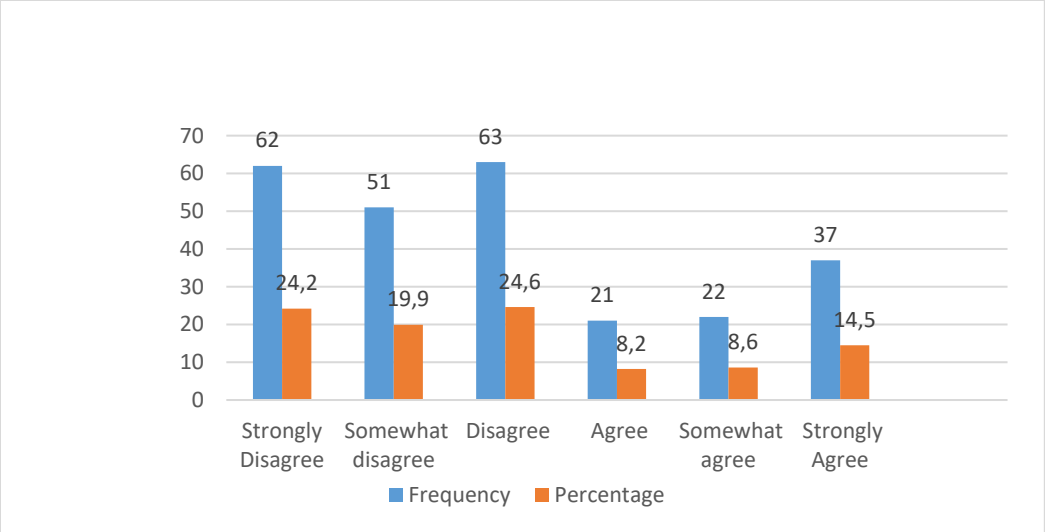

Figure 4.12: Employees participate in Risk Management activities, both inside and outside the scope of their specific tasks

A large number of respondents, 62 (24.2 percent), 51 (19.9 percent) and 63 (24.6 percent) respectively strongly disagreed, somewhat disagreed and disagreed that employees participated in RM activities both inside and outside the scope of their own specific tasks. Only 37 (14.5 percent), 22 (8.6 percent) and 21 (8.2 percent) of the respondents strongly agreed, somewhat agreed and agreed respectively (Figure 4.12). The results (Figure 4.12) showed that the majority (68.7 percent) of respondents disagreed that employees participated in RM activities both inside and outside the scope of their own specific tasks. By implication, employee involvement in RM activities was limited. The result distribution clarified respondents' disagreement with the assertion and denoted low RM practice in SMEs.

A one-sample t-test of the results was performed to establish whether employees participated in RM activities both inside and outside the scope of their specific tasks. The question was based on the hypothesis of uniformity of expected responses to questions. From the findings, the variable is seen to have a mean score of 3.32, which was below the test value of 3.5, with statistically significant results (*t = 25.015; p= .000*) for this variable. Therefore, the hypothesis on this variable was accepted, while

observed findings differed considerably from expected frequencies. Therefore, because this result was statistically significant, it was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 6.

The research findings concurred with Turpin (2002), who found that most SMEs lacked an official risk strategy because of a lack of communication with or delegating/ assigning RM competencies to employees. This, therefore, pointed to less participation by employees in RM. Thus, employee participation in RM activities was limited, denoting low RM practice in SMEs.

4.3.3.12 Summary/ Conclusion to Research Question 1

It was found that the level of SME RM practices was low, even while RM initiatives were considered important in SMEs, allowing the general principles of RM to be included in their operational policies to a limited extent. Furthermore, RM was supported by management as management personnel adequately identified, analysed and responded to risks affecting the organisation regularly; considered adequate knowledge, proper training and advanced technology in RM processes; and RM tasks and roles were clearly assigned, but to a lesser extent. Additionally, RM was shown to be monitored and reported as part of a normal management reporting system, along with the existing use of risk analysis methods recommended by specialists, reflecting methods of working that are modified to minimise the level of risk, along with employees having the skill to participate in the development of RM activities in addition to their participation in RM activities both inside and outside the scope of their own specific tasks, but to a limited extent.

The above findings were in tandem with literature that also pointed to low levels of RM by SMEs around the world. Luper and Kwanum (2012) found that RM in SMEs was low, which was confirmed by Dumitrescu *et al.* (2015). Sifumba *et al.* (2017) further highlighted that RM was still not prevalent amongst SMEs, while Gunasekaran

et al. (2011) pointed to the lack of adoption and implementation of risk mitigation strategies in SMEs.

Chihuri and Pretorious (2010) postulated that in SA, RM was also not widely used amongst both small and large firms, and a lack of actual adoption and implementation of RM practices existed. While SME owners in Slovakia were aware of the risks facing the organisation, they were found to be reluctant to apply RM, unlike in other developed countries (Haviernikova and Okreglicka 2019). Furthermore, Aziz and Yazid (2015) indicated that SME involvement in RM was not encouraging.

This fact was supported by Yusuf and Dansu (2013), who stated that the majority of Nigerian SMEs did not measure and control risks. Furthermore, Dumitrescu *et al.* (2015) postulated that the majority of SMEs did not protect their business against risk. Additionally, Haviernikova and Okreglicka (2019) showed that SMEs in Slovak and Poland recognised risk in their activities and the responsibility of RM was carried out by owners of SMEs, but only in a few cases. Zoghi (2017) revealed that Turkish SMEs were managing risks at a very basic level, with Sarkodie-Poku (2019) also showing that the application of RM practices was still at reduced concentrations in SMEs in Ghana.

Moreover, Masama *et al.* (2012) concluded that SMEs did not have formally implemented enterprise risk processes in place. In the same vein, SMEs were hesitant to implement a formal RM strategy. Amidst many risks, a common trend amongst SMEs was the lack of RM strategies in place, which could account for their high failure rate (Nunes *et al.* 2012). Islam and Tedford (2012) also discovered that the majority of SMEs did not have systematic RM strategies in place in New Zealand, which agreed with the results of the study by Luper and Kwanum (2012), that SMEs did not keep proper accounting records. They can subsequently not distinguish, evaluate and plan the management of their business risk adequately.

Yusuf and Dansu (2013) established that the majority of SMEs had no clear picture of business risk and their RM strategies were often neither systematic nor well-structured or standardised. Poba-Nzaou *et al.* (2014) concurred with the study, showing that SMEs' RM practices were unstructured, informal and instinctive.

Based on the above findings and the literature reviewed, it was evident that SMEs had not understood the application of RM initiatives to a great extent, thus exposing their businesses to risk in the accomplishment of their long-term objectives. This situation might be attributed to their lack of proper training, adequate knowledge and advanced technology in RM processes. Another contributing factor was that employees had no skills to take part in the development of RM activities. Hence they did not participate in RM activities.

Thus, in order to deal with uncertainties and survive in the business environment, SMEs needed to be knowledgeable in RM practice or they may suffer disastrous consequences should they not be prepared to overcome likely risks (Verbano and Venturini 2013). This meant that managing risks to minimise loss exposure was necessary for SMEs.

Howard and Jawahar (2002) observed that RM assumed an essential role in small businesses and that inadequately managed risk could undermine their survival. RM was acknowledged as a fundamental practice in SMEs (Cienfuegos 2013; Dorresteijn 2017; Yusuf and Dansu 2013). Therefore, to some extent, the high failure rate of these entities could be attributed to the absence of RM practice. RM further assisted SMEs to recognise risks that could jeopardise the achievement of goals or the existence of organisations (Brustbauer 2016).

In addition, RM was vital in safeguarding business capital and other assets (Chavali and Mohanraj 2016). RM has been acknowledged as a fundamental practice in SMEs (Cienfuegos 2013; Dorresteijn 2017; Yusuf and Dansu 2013). Previous studies

(Chihuri and Pretorious 2010; Luper and Kwanum 2012; Islam and Tedford 2012; Masama *et al.* 2012; Yusuf and Dansu 2013; Gwangwava *et al.* 2014; Dumitrescu *et al.* 2015; Madembu *et al.* 2017; Sira *et al.* 2016; Mironescu *et al.* 2015; Zoghi 2017; Sifumba *et al.* 2017; Olowokudejo and Nwankwo 2016; Sarkodie-Poku 2019; Haviernikova and Okreglicka 2019 and Ibiwoye *et al.* 2020) found that SME RM practice was low, with this study also demonstrating this fact, which implied that SMEs did practice RM, albeit to a limited extent.

4.3.4 Research Question 2: Measures of SME Perceptions of Risk Management Relevance in the Success of their Businesses

This section discussed the findings concerning the above research question, based on the following statements from the main questionnaire:

- I am familiar with Risk Management in my business;
- I consider Risk Management to be useful in my company;
- I manage risk proactively;
- Risks facing the organisation are logged and filed;
- Controls to identify risk proactively are budgeted for;
- Controls to identify risk reactively are expensed;
- Risk and controls are communicated to all employees;
- Risk is part of the agenda in leadership meetings;
- Risks are addressed within a reasonable time after identification;
- There are effective risk communication channels from the bottom level up for emerging risks;
- The cost of employing Risk Management initiatives is justified compared to the benefit;
- I know where to get information about Risk Management and which specialist to contact.

4.3.4.1 Familiarity with Risk Management in their businesses

Respondents had to indicate how much they agreed with the statement that they were familiar with Risk Management in their businesses. Results are shown in Figure 4.13 below.

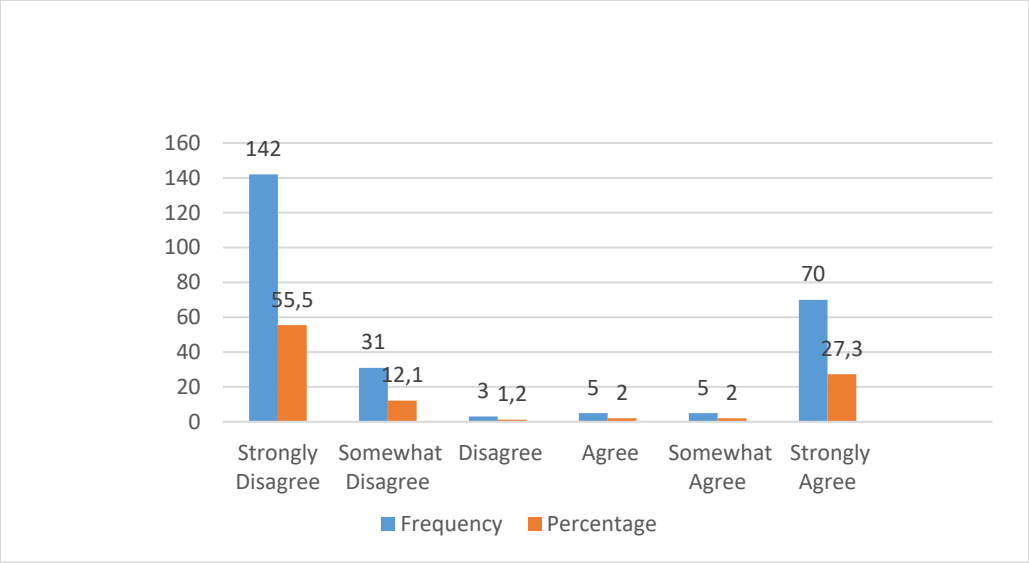

Figure 4.13: I am familiar with Risk Management in my business

A large number of respondents, 142 (55.5 percent), 31 (12.1 percent) and 3 (1.2 percent) respectively strongly disagreed, somewhat disagreed and disagreed that they were familiar with risk management in their businesses. Only 70 (27.3 percent), 25 (2 percent) and 25 (2 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.13). The results illustrated that the majority (68.8 percent) of respondents disagreed that they were familiar with RM in their businesses. This denoted that SMEs' familiarity with RM was limited, possibly due to a lack of knowledge and exposure to RM. From the distribution of results, respondents disagreed with the assertion, which denoted a negative perception of the relevance of RM to the success of their businesses.

A one-sample t-test of the results was done to determine if SMEs were familiar with RM, with the question based on the hypothesis of uniformity of expected responses to questions. The findings indicated that the variable had a mean score of 2.96, which was below the test value of 3.5. With the results being statistically significant (*t = 17.913; p= .000*) for this variable, the hypothesis on this variable was therefore accepted. Observed findings significantly differed from expected frequencies. This means that the result was statistically significant and not due to chance. This variable's scientific statistical analysis is presented in Appendix 7.

This fact was supported by Yaacob (2016), who stated that SMEs had critical shortages of RM skills and knowledge and RM capability. The view correlated with Gao *et al.'s* (2013) findings, which indicated that knowledge regarding RM may be mostly informal in SMEs. In addition, knowledge on RM strategies applied by SMEs remained scanty, especially in less developed economies (Hudáková *et al.* 2018). Furthermore, previous studies argued that these enterprises did not know the finer points of the opportunities and risks of processes, nor the target key risk indicators' actual statistics (Hudáková *et al.* 2018). Additionally, SMEs lacked knowledge and practical experience with RM application.

The findings of this study added to other studies' existing claims that a lack of expertise and knowledge regarding RM was observed in SMEs (Henschel 2008a). This result was similar to what was found by Smit and Watkins (2012), who pointed out that SME owners or managers were ignorant in so far as the risks faced by their enterprises were concerned. Smit and Watkins (2012) further highlighted that most SME owners in SA were unaware of risks and methods of assessing risks in the business environment.

Findings by Mogire *et al.* (2011) noted that SMEs in Kumasi in Ghana had relatively high knowledge and awareness levels on business risk, but there was no practical implementation of business RM. The present findings of a negative perception

amongst SMEs were thus affirmed, which in most cases led to the non-implementation of RM. Furthermore, Sifumba *et al.* (2017) highlighted that the majority of respondents are aware of RM in their business. SMEs need to be conversant with the identification and analysis of risk in order to effectively manage risks emanating from various sources. Thus, SMEs had a negative perception of the relevance of RM to the success of their businesses.

4.3.4.2 Usefulness of Risk Management in SMEs

Respondents indicated their level of agreement with the statement that they considered RM to be useful in their company. Results are illustrated in Figure 4.14 below.

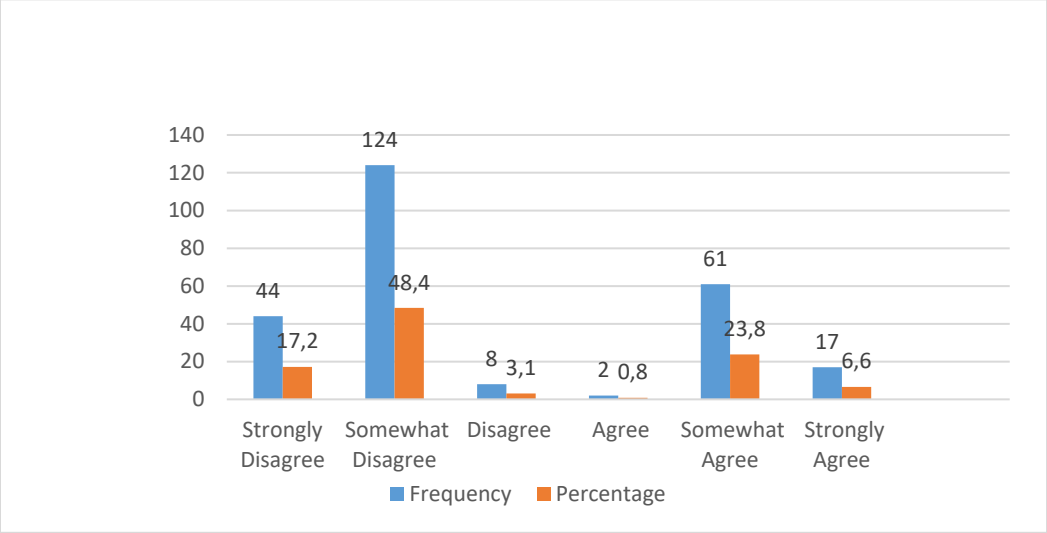

Figure 4.14: I consider Risk Management to be useful in my company

A large number of respondents, 44 (17.2 percent), 124 (48.4 percent) and 8 (3.1 percent) respectively strongly disagreed, somewhat disagreed and disagreed that they considered risk management to be useful in their company. Only two (0.8 percent), 61 (23.8 percent) and 17 (6.6 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.14). The results showed that the majority of SMEs (68.7 percent) disagreed that RM was useful in their companies. This implied

limited appreciation by SMEs of the usefulness of RM in their businesses. Given the distribution of results, it was clear that respondents disagreed with the assertion, which denoted a negative perception of the relevance of RM to their businesses.

A one-sample t-test of the results was conducted to determine the usefulness of RM in SMEs, with the question based on the hypothesis of uniformity of expected responses to questions. The findings showed the variable with a mean score of 3.17, which was below the test value of 3.5. Hence, the results were statistically significant (*t = 24.167; p= .000*) for this variable, which indicated the acceptance of the hypothesis on this variable. Observed findings were appreciably different from expected frequencies. In other words, this result was statistically significant and was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 7.

This fact was supported by previous literature, which advocated that some shortcomings remain in the application of RM, as managers did not appreciate RM as one of the essential management tools (Hudáková and Lusková 2016; Hudáková *et al*. 2017). According to Hudáková *et al.* (2017), there was no proper interpretation and understanding of the benefits of introducing a RM system in enterprises. Thus, SMEs had a negative perception of the relevance of RM to the success of their businesses.

4.3.4.3 Proactive Risk Management

Respondents indicated how much they agreed with the statement that they managed risk proactively. The results are shown in Figure 4.15 below.

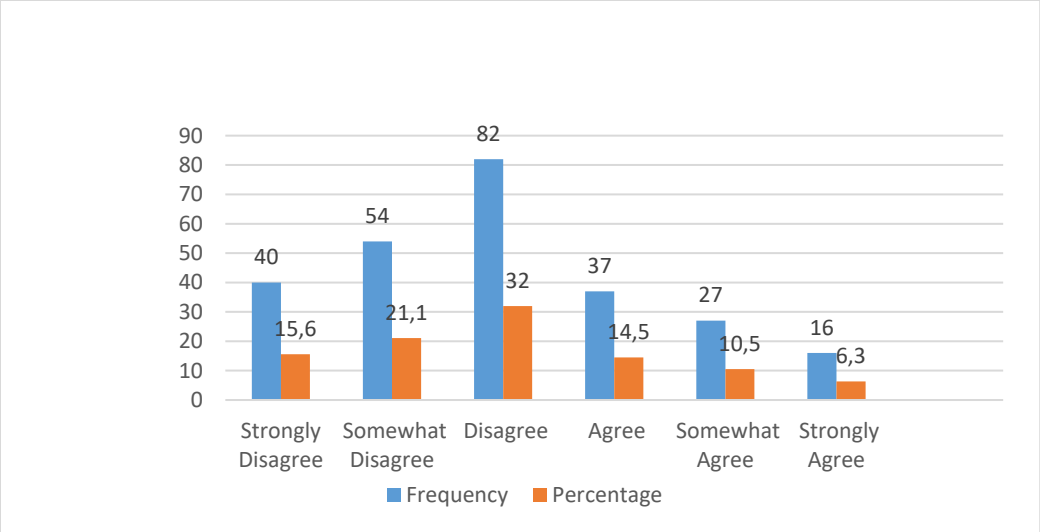

Figure 4.15: I manage risk proactively

A considerable number of respondents, 40 (15.6 percent), 54 (21.1 percent) and 82 (32 percent) respectively strongly disagreed, somewhat disagreed and disagreed that they managed risk proactively. Only 16 (6.3 percent), 27 (10.5 percent) and 37 (14.5 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.15). The results indicated that the majority (68.7 percent) of respondents disagreed that they managed risk proactively. This purported that SMEs did not take a proactive approach to RM. Given the distribution of results, it was clear that respondents disagreed with the assertion and it denoted a negative perception of the relevance of RM to their businesses.

A one-sample t-test of the results was performed to determine whether SMEs managed risk proactively. The question was based on the hypothesis of uniformity of expected responses to questions. From the findings, the variable was shown to have a mean score of 3.33, which was below the test value of 3.5, making the results statistically significant ($t = 29.501$; $p = .000$) for this variable. Therefore, the hypothesis on this variable was accepted. The observed findings differed substantially from expected frequencies, meaning that this result was statistically significant and was not

due to chance. The scientific statistical analysis for this variable is presented in Appendix 7.

This fact was supported by previous literature, where it was noted that the management of the risks that arise was prioritised over systemic preventive or proactive solutions (Hudáková *et al.* 2017). Furthermore, it was highlighted by Hudáková *et al.* (2018) that enterprises often applied RM initiatives too late, when problems were already experienced, and then have to deal with consequences as opposed to prevention. Previous research established that the majority of the SMEs had not put in place systematic RM strategies (Dorresteijn 2017; Napp 2011; Perusahaan *et al.* 2013). Thus, SMEs have a negative perception of the relevance of RM in the success of their businesses.

4.3.4.4 Logging and filing of risks facing SMEs

Respondents indicated how much they agreed with the statement that the risks facing the organisation were logged and filed. The results were shown in Figure 4.16 below.

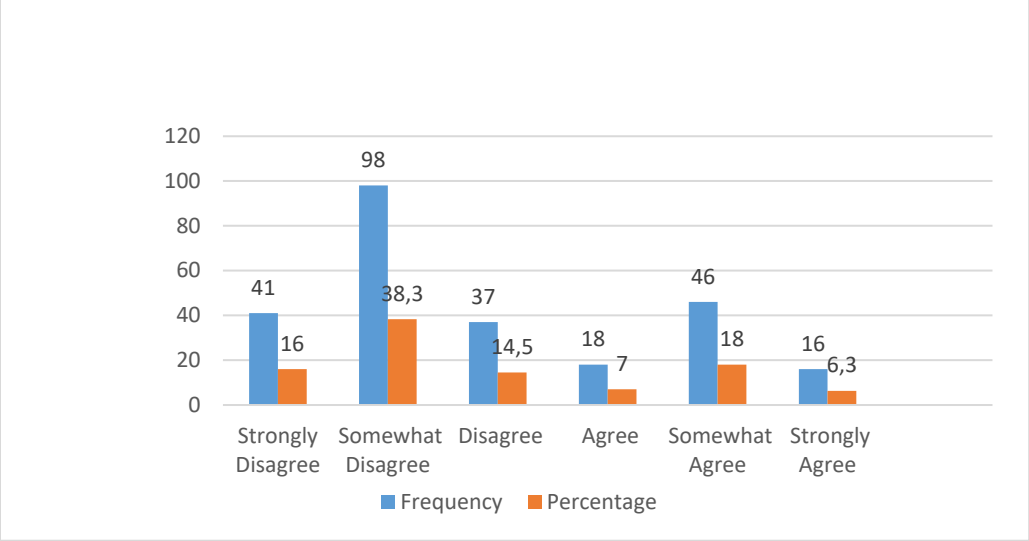

Figure 4.16: Risks facing the organisation were logged and filed

An extensive number of respondents, 41 (16 percent), 98 (38.3 percent) and 37 (14.5 percent) respectively strongly disagreed, somewhat disagreed and disagreed that the risks facing the organisation were logged and filed. Only 16 (6.3 percent), 46 (18 percent) and 18 (7 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.16). The results showed that the majority (68.8 percent) of respondents disagreed that the risks facing the organisation were logged and filed. This was a clear sign that the record-keeping of SMEs was compromised, which limits the effectiveness of RM, as there was no record of previous risks that have affected the organisation, complicating the prediction of future risks that may affect the organisation. This is critical during risk identification. Given the distribution of results, it was clear that respondents disagreed with the assertion and denoted a negative perception of the relevance of RM in their businesses.

A one-sample t-test of the results was performed to determine whether risks faced by SMEs were logged and filed. The question was based on the hypothesis of uniformity of expected responses to questions. The variable was shown, from the findings, to have a mean score of 3.23, which was below the test value of 3.5 and made the results statistically significant ($t = 26.189; p= .000$) for this variable. Therefore, the hypothesis on this variable was accepted. However, the observed findings were considerably different from expected frequencies, which indicated that this result was statistically significant and was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 7.

The findings were in agreement with Gupta (2011), who noted that managers were uncertain on how to document RM activities within their organisations. The lack of record-keeping was a major issue of concern considering the SMEs' lifespan. Therefore, SMEs have a negative perception of the relevance of RM to the success of their businesses.

4.3.4.5 Budgeting for controls to identify risks proactively

It was required of respondents to select their level of agreement with the statement that controls to identify risks proactively were budgeted for by SMEs. The results are shown in Figure 4.17 below.

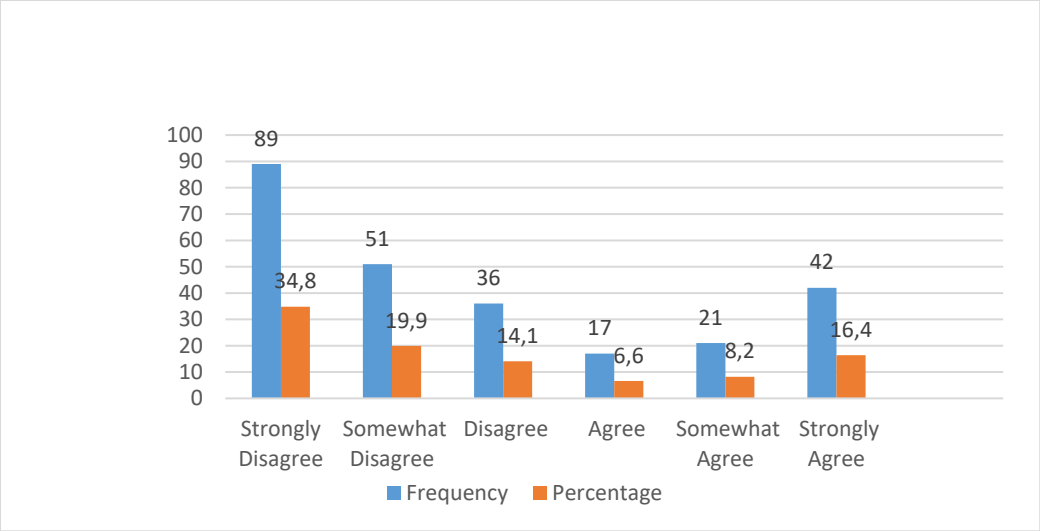

Figure 4.17: Controls to identify risk proactively were budgeted for

The results (Figure 4.17) illustrated that a large number of respondents, 89 (34.8 percent), 51 (19.9 percent) and 36 (14.1 percent) respectively strongly disagreed, somewhat disagreed and disagreed that controls to identify risks proactively were budgeted for. Only 42 (16.4 percent), 21 (8.2 percent) and 17 (6.6 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.17). The results showed that the majority of SMEs (68.8 percent) were in disagreement that controls to identify risks proactively were budgeted for. This denoted that SMEs did not fully commit their resources to RM, which is a sure sign of a lack of commitment in its implementation. From the distribution of results, it was clear that respondents disagreed with the statement and thus qualified a negative perception of the relevance of RM to their businesses.

A one-sample t-test of the results was performed to determine whether controls to identify risks proactively were budgeted for by SMEs, where the question was based on the hypothesis of uniformity of expected responses to questions. The findings showed a mean score of 3.14 for the variable, which was below the test value of 3.5. The results were thus statistically significant (*t = 21.995; p= .000*) for this variable, meaning that the hypothesis on this variable was accepted. The observed findings notably differed from expected frequencies. In other words, this result was statistically significant and not due to chance. The scientific statistical analysis for this variable is presented in Appendix 7.

These findings were in tandem with several researchers who highlighted insufficient resources to introduce a RM system in an enterprise (Enterprise Risk Management Initiative 2017; AICPA 2017; CGMA 2017). According to Zhao and Zeng (2014), the expenditure for the RM of SMEs was considerably less than larger businesses. Furthermore, expenditure for the RM of smaller businesses was shown to be much less than that of larger businesses. SMEs usually allocated monies from their budgets to insurance and internal and external audits (Virdi 2005).

A study by Marcelino-Sádaba *et al*. (2014) reported that many SMEs did not sufficiently apply RM practices, in most cases because they could not afford to re-direct resources owing to their constraints. Additionally, Jayathilake (2012) noted that SME owner-managers with their responsibility for RM did not invest sufficient resources and time to developing and implementing a RM strategy.

SMEs did not implement a favourable strategy for risk leadership, as observed by Janney and Dess (2006), which was attributed to limitations such as a lack of internal systems, limited knowledge of an organisational and technical nature and insufficient monetary and intellectual resources. In addition, a lack of resources for sound RM was found in SMEs (Lopez and Hiebl 2015; Burgstaller and Wagner 2015). Furthermore, Sifumba *et al.* (2017) indicated that few SMEs budgeted for controls for

risk identification and mitigation. Accordingly, SMEs had a negative perception regarding the relevance of RM to the success of their businesses.

4.3.4.6 Expensing of controls to identify risk reactively

Respondents were required to indicate the extent to which they agreed with the statement that controls to identify risk reactively were expensed. Results were shown in Figure 4.18 below.

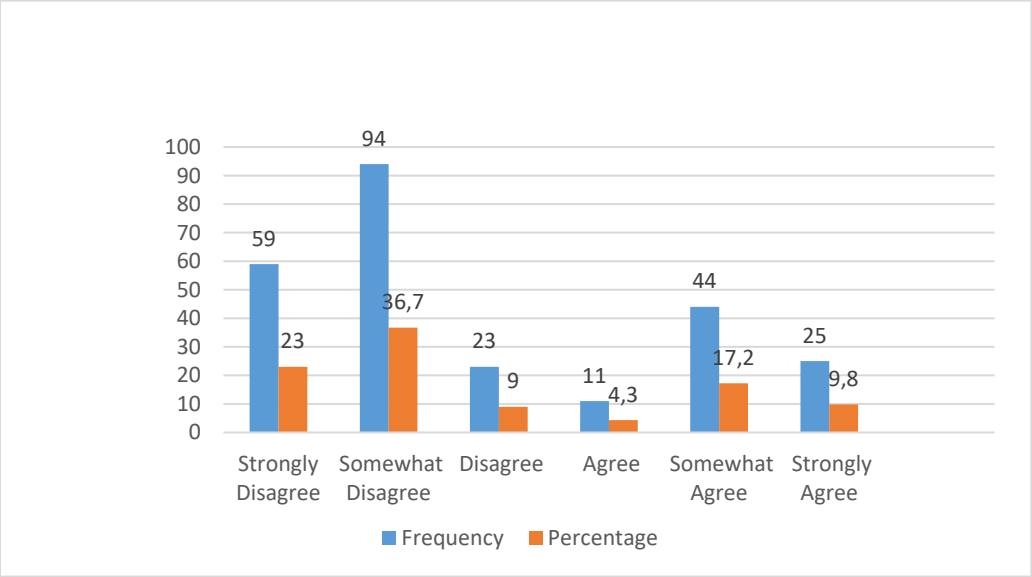

Figure 4.18: Controls to identify risk reactively are expensed

As shown by the results (Figure 4.18), a large number of respondents, 62 (24.2 percent), 51 (19.9 percent) and 63 (24.6 percent) respectively strongly disagreed, somewhat disagreed and disagreed that controls to identify risk reactively were expensed. Only 37 (14.5 percent), 22 (8.6 percent) and 21 (8.2 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.18). The results showed that the majority (68.7 percent) of SMEs disagreed that controls to identify risk reactively were expensed. This purported that SMEs were not responsive to RM as they restricted expenditures or outflows related to RM controls. Resources are critical to the successful implementation of RM. Given the distribution

of results, it was clear that respondents disagreed with the assertion, thereby validating a negative perception of the relevance of RM to their businesses.

A one-sample t-test of the results was performed to determine whether controls to identify risk reactively were expensed. The question was based on the hypothesis of uniformity of expected responses to questions. The variable was illustrated by the findings to have a mean score of 3.16, which was below the test value of 3.5. The results were statistically significant (*t = 23.704; p= .000*) for this variable. Thus, the hypothesis on this variable was accepted. The observed findings differed significantly from expected frequencies. In other words, this result was statistically significant and was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 7.

These research findings were in congruence with Marcelino-Sádaba *et al.* (2014), who pointed out that SMEs did not satisfactorily apply RM practices for the most part since they could not afford to redirect assets, considering their limitations. Furthermore, Hudáková *et al.* (2018) argued that enterprises applied RM initiatives rather late when they are already experiencing problems and they would be dealing with consequences instead of prevention. Additionally, Sifumba *et al.* (2017) highlighted that few SMEs indicated that controls to identify risk reactively were expensed, while the majority claimed they were not. Hence, SMEs had a negative perception of the relevance of RM to the success of their businesses.

4.3.4.7 Communication of risk and controls to all employees

Respondents indicated the extent of their agreement with the statement that, risk and controls were communicated to all employees, with results shown (Figure 4.19) below.

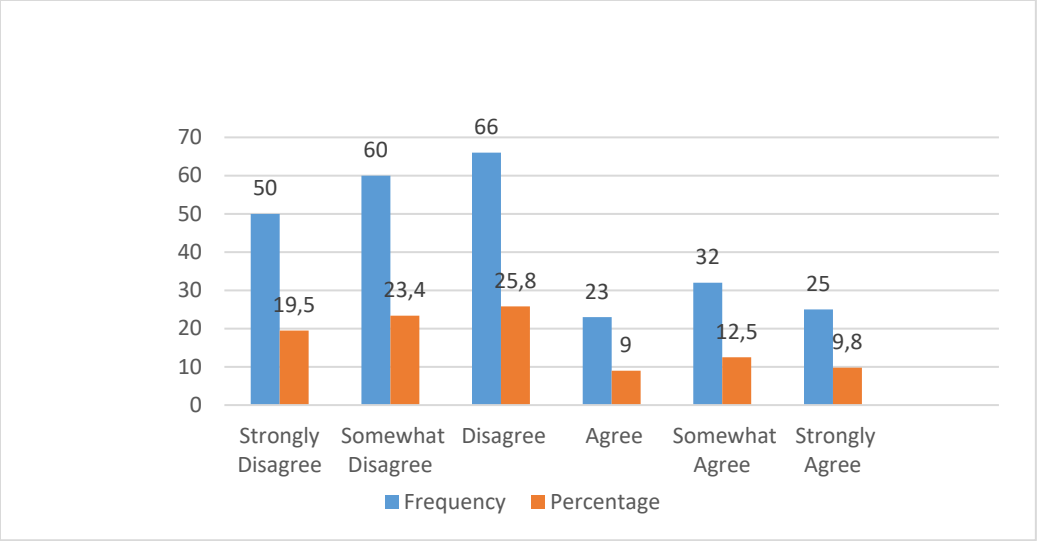

Figure 4.19: Risk and controls are communicated to all employees

It could be seen from the results (Figure 4.19) that a large number of respondents, 50 (19.5 percent), 60 (23.4 percent) and 66 (25.8 percent) respectively strongly disagreed, somewhat disagreed and disagreed that risk and controls were communicated to all employees. Only 25 (9.8 percent), 32 (12.5 percent) and 23 (9 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.19). The results showed that the majority (68.7 percent) of respondents disagreed that risk and controls were communicated to all employees. This indicated that SME communication on RM was done to a limited extent, which suggested limited involvement of employees in RM execution. The distribution of results clearly showed that respondents did not agree with the assertion, thereby endorsing a negative perception of the relevance of RM to their businesses.

A one-sample t-test of the results was performed to determine whether risk and controls were communicated to all employees. The question was based on the hypothesis of uniformity of expected responses to questions. The findings showed a mean score of 3.32 for the variable, which was below the test value of 3.5. The results were statistically significant (*t = 26.644; p= .000*) for this variable, which meant that the hypothesis on this variable was accepted. The observed findings were significantly

different from expected frequencies, which meant that this result was statistically significant and not due to chance. The scientific statistical analysis for this variable is presented in Appendix 7.

These findings agreed with Gao *et al*. (2013), who showed that an understanding of RM was informal in SMEs in most cases and that this complicated the effective building of RM capacity amongst SME employees. Furthermore, Yusuf and Dansu (2013) argued that most SMEs had no official risk strategy due to problems with delegating RM competencies or problems of communication with employees.

In SMEs where RM was practiced, the flow of information tended to miss several important personnel (Islam and Tedford 2012). The extent and quality of RM in SMEs usually depended on the owner-managers and the amount of time they put into the development and application of an official risk strategy and is how respective employees are communicated with regarding this. Turpin (2002) mentioned that most SMEs did not have an official risk strategy due to problems of communication or delegating RM skills to employees. The RM system in the enterprise is in terms of its terminology, and understanding was inadequately elaborated on and not shared or further communicated (Hudáková and Lusková 2016; Hudáková *et al*. 2017).

Sifumba *et al.* (2017) stated that only half of managers or owners communicated risk and controls to their employees. The other half (50 percent) of the respondents showed that RM initiatives were not communicated to employees and employees did not receive sufficient training, which might be the reason for poor RM in SMEs. However, skills upgrades should be prioritised amongst SMEs, necessitating RM training. Therefore, SMEs have a negative perception of the relevance of RM to the success of their businesses.

4.3.4.8 Risk agenda in leadership meetings

Respondents were asked to indicate how much they agreed with the statement that risk formed part of the agenda in leadership meetings. The results are shown in Figure 4.20 below.

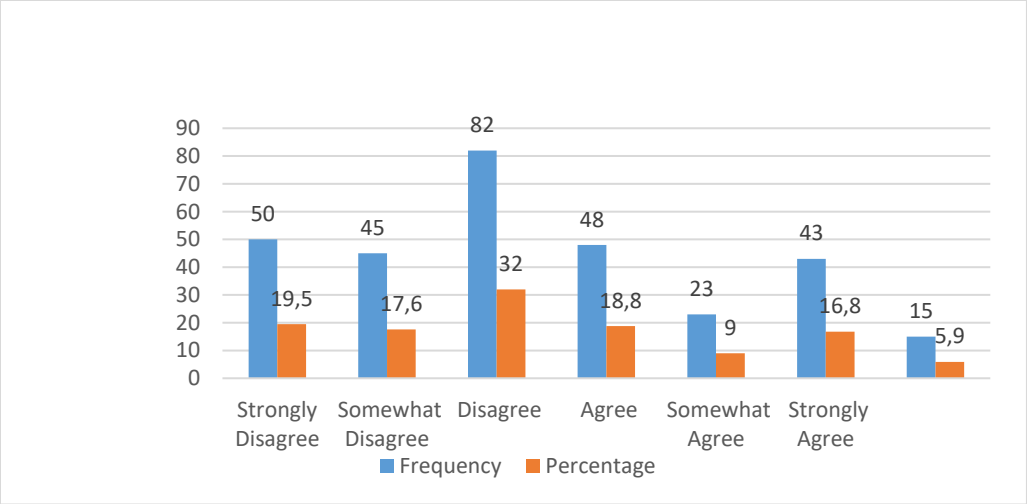

Figure 4.20: Risk formed part of the agenda in leadership meetings

A large number of respondents, 50 (19.4 percent), 45 (17.6 percent) and 82 (32 percent) respectively strongly disagreed, somewhat disagreed and disagreed that risk formed part of the agenda in leadership meetings. Only 15 (5.9 percent), 43 (16.8 percent) and 23 (9 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.20). The results illustrated that the majority (69.1 percent) of respondents disagreed that risk formed part of the agenda in leadership meetings, which indicated that SMEs did not prioritise RM issues in their meetings. Given the distribution of results, it was clear that respondents disagreed with the statement, thereby confirming a negative perception concerning the relevance of RM in their businesses.

A one-sample t-test of the results was performed to determine whether risk formed part of the agenda in leadership meetings. The question was based on the hypothesis

of uniformity of expected responses to questions. The findings showed that the variable had a mean score of 3.25, which was below the test value of 3.5, making the results statistically significant (*t = 26.692; p= .000*) for this variable. Therefore, the hypothesis on this variable was accepted. However, the observed findings were substantially different from the expected frequencies. In other words, this result was statistically significant and was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 7.

The research findings were in agreement with CGMA (2017), where it was argued that there are still some shortcomings in the RM application, as enterprises did not provide room for the discussion of significant risks at regular meetings. To become more efficient and competitive, SMEs needed to formalise their internal systems and structures. Accordingly, SMEs had a negative perception where the relevance of RM to the success of their businesses is concerned.

4.3.4.9 Addressing risks within a reasonable time after identification

Respondents were asked to select their level of agreement with the statement that risks were addressed within a reasonable time after identification. Results are illustrated in Figure 4.21 below.

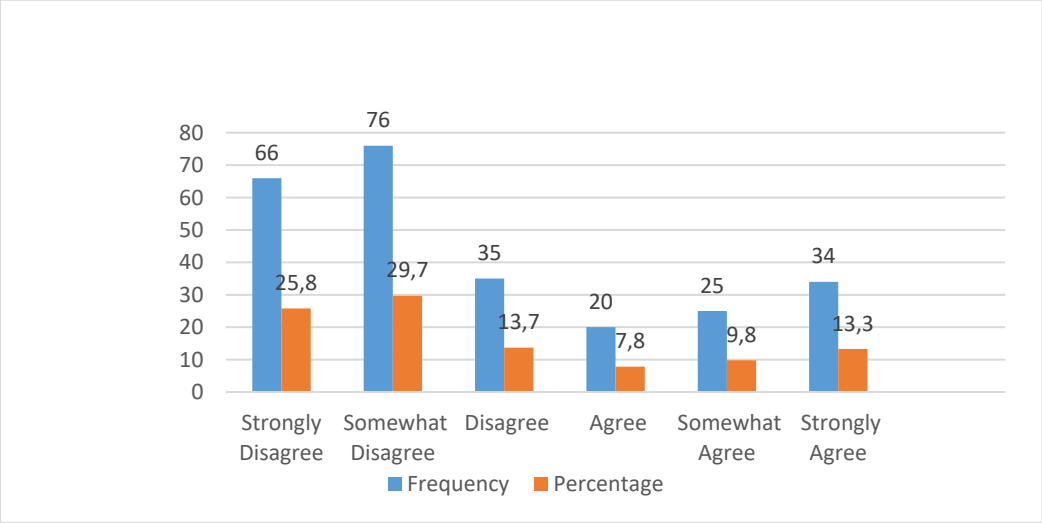

Figure 4.21: Risks are addressed within a reasonable time after identification

As illustrated by the results (Figure 4.21), a considerable number of respondents, 66 (25.8 percent), 76 (29.7 percent) and 35 (13.7 percent) respectively strongly disagreed, somewhat disagreed and disagreed that risks were addressed within a reasonable time after identification. Only 34 (13.3 percent), 25 (9.8 percent) and 20 (7.8 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.21). The results showed that the majority (69.2 percent) of respondents disagreed that risks were addressed within a reasonable time after identification. This meant that SMEs had no sense of urgency in addressing the risks facing their organisations and risks could be left unattended, posing a threat to their existence. Given the distribution of results, respondents clearly disagreed with the assertion, validating a negative perception of the relevance of RM to their businesses.

A one-sample t-test of the results was performed to determine whether risks were addressed within a reasonable time after identification. The question was based on the hypothesis of uniformity of expected responses to questions. The findings indicated that the variable had a mean score of 3.17, which was below the test value of 3.5. The results were thus statistically significant ($t = 23.545, p = .000$) for this variable, meaning that the hypothesis on this variable was accepted. The observed findings differed significantly from expected frequencies. In other words, this result was statistically significant and was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 7.

These findings concurred with previous research studies that claimed that enterprise risks represent a major problem in their application, particularly in the area of planning suitable prevention methods to counteract or eradicate identified risks (Hudáková and Lusková 2016; Hudáková *et al*. 2017). Verbano and Venturini (2013) revealed that RM development in SMEs is still in an early phase and is somewhat fragmented. SMEs should promptly evaluate the risks associated with their organisations due to their escalating failure rate (Terungwa 2012). Therefore, SMEs were shown to have a negative perception of the relevance of RM to the success of their businesses.

4.3.4.10 Effective risk communication channels

Respondents were asked to select the extent to which they agreed with the statement that there are effective risk communication channels from the bottom level up for emerging risks. Results are illustrated in Figure 4.22 below.

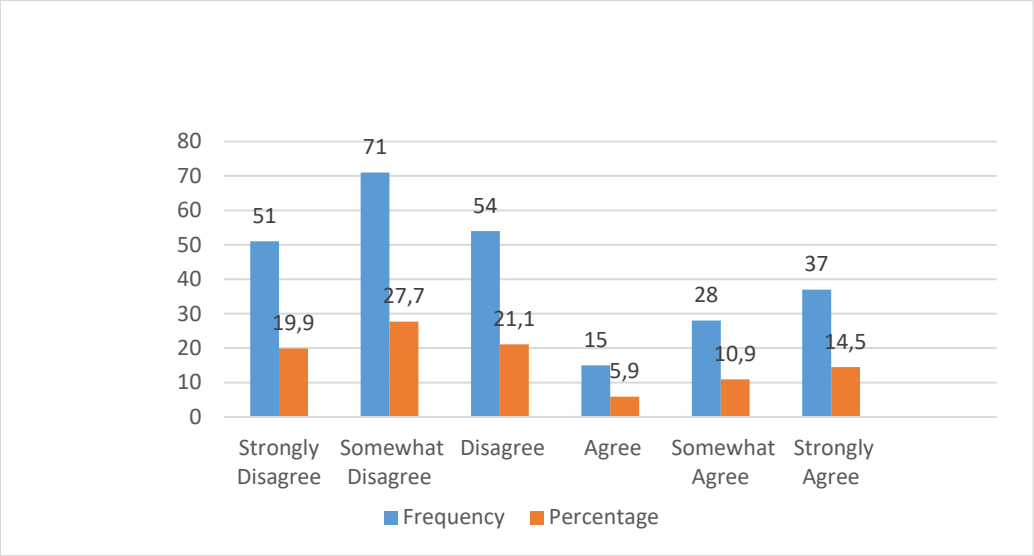

Figure 4.22: There are effective risk communication channels from the bottom level up for emerging risks

As demonstrated by the results (Figure 4.22), a substantial number of respondents, 51 (19.9 percent), 71 (27.7 percent) and 54 (21.1 percent) respectively strongly disagreed, somewhat disagreed and disagreed that there are effective risk communication channels from the bottom level up for emerging risks. Only 37 (14.5 percent), 28 (10.9 percent) and 15 (5.9 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.22). The results showed that the majority (68.7 percent) of respondents were in disagreement that there were effective risk communication channels from the bottom level up for emerging risks. This signified that SME communication on RM was rather ineffective. Given the distribution

of results, it was clear that respondents disagreed with the assertion, thus demonstrating a negative perception of the relevance of RM to their businesses.

A one-sample t-test of the results was performed to determine whether there were effective risk communication channels from the bottom level up for emerging risks. The question was based on the hypothesis of uniformity of expected responses to questions. From the findings, it could be seen that the variable had a mean score of 3.35, which was below the test value of 3.5. The results were statistically significant (*t = 25.243; p= .000*) for this variable. Therefore, the hypothesis on this variable was accepted. The observed findings were however significantly different from expected frequencies. In other words, this result was statistically significant and was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 7.

The views from this research correlated with those of Hudáková and Lusková (2016) and Hudáková *et al*. (2017) that the RM system in the enterprise was inadequately elaborated upon and not shared or communicated further (Hudáková and Lusková 2016; Hudáková *et al.* 2017). The above view corresponded with the argument by Gao *et al.* (2013) that knowledge about RM in SMEs was mostly informal, which further complicated the building of effective RM capacity amongst SME employees.

The findings of this study added to existing claims by Yusuf and Dansu (2013) and Turpin (2002) that most SMEs' risk strategy was not official as a result of problems in communicating with or delegating RM competencies to employees. Where RM was practiced in SMEs in limited ways, the information flow would not reach many of the personnel relevant to the process (Islam and Tedford 2012). It should be noted that the degree and quality of RM in SMEs is contingent upon the time the owner-manager invests in an official risk strategy's development and implementation, as well as how this is shared with the respective employees. SMEs needed to improve communication to build the risk appetite across all organisational levels (Gupta 2011). Accordingly,

SME owners had a negative perception concerning the relevance of RM to the success of their businesses.

4.3.4.11 Justification of the cost of employing Risk Management initiatives as compared to the benefit

Respondents were asked to indicate how much they agreed with the statement that the cost of employing RM initiatives was justified compared to the benefit. Results are shown in Figure 4.23 below.

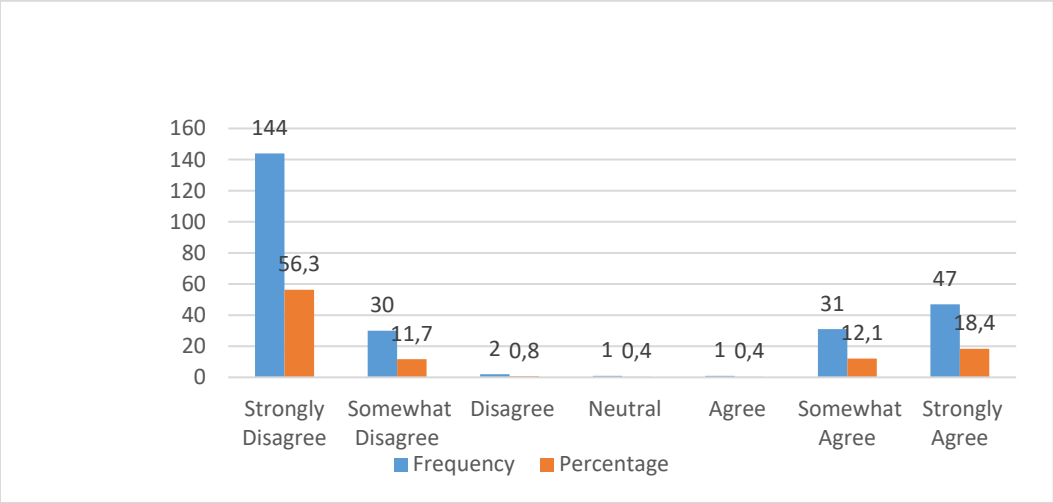

Figure 4.23: The cost of employing Risk Management initiatives was justified compared to the benefit

As seen from the results (Figure 4.23), a substantial number of respondents, 144 (56.3 percent), 30 (11.7 percent) and 2 (0.8 percent) respectively strongly disagreed, somewhat disagreed and disagreed that 'the cost of employing RM initiatives was justified compared to the benefit'. Only 47 (18.4 percent), 31 (12.1 percent) and one (0.4 percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.23). The results showed that the majority (68.8 percent) of respondents disagreed that the cost of employing RM initiatives was justified compared to the benefit. Given the distribution of results, it was clear that respondents

disagreed with the statement, exhibiting a negative perception of the relevance of RM to their businesses.

A one-sample t-test of the results was performed to determine whether the cost of implementing RM initiatives was justified compared to the benefits. The question was based on the hypothesis of uniformity of expected responses to questions. From the findings, it was shown that the variable had a mean score of 2.87, which was below the test value of 3.5. The results were statistically significant (*t = 18.103; p= .000*) for this variable. Thus, the hypothesis on this variable was accepted. The observed findings significantly differed from expected frequencies. In other words, this result was statistically significant and was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 7.

These findings are in agreement with the study by Sifumba *et al.* (2017), where the majority of the SMEs were of the opinion that the cost of employing RM initiatives is greater than the benefits, ultimately affecting their profitability negatively. Abotsi *et al*. (2014) argued that SMEs were prepared to accept the possibility of significant losses when the likelihood of gains was equally substantial. Hence, SMEs had a negative perception of the relevance of RM to the success of their businesses.

4.3.4.12 Knowledge of where to get information about Risk Management

Respondents indicated the extent to which they agreed with the statement that they knew where to get information about RM and which specialists to contact. The results are shown in Figure 4.24 below.

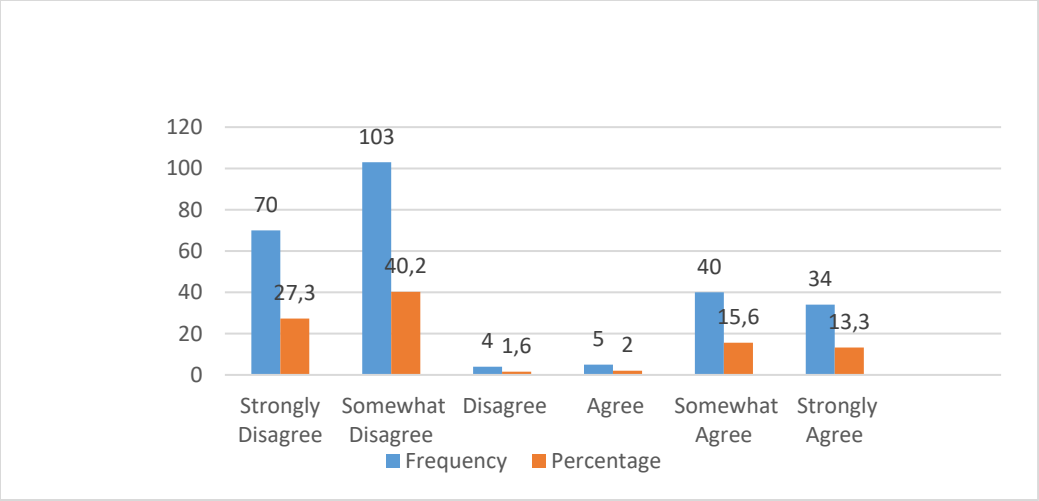

Figure 4.24: I know where to get information about Risk Management and which specialist to contact

As the results (Figure 4.24) showed, a large number of respondents, 70 (27.3 percent), 103 (40.2 percent) and 4 (1.6 percent) respectively strongly disagreed, somewhat disagreed and disagreed that they knew where to get information about RM and which specialists to contact. Only 34 (13.3 percent), 40 (15.6 percent) and five (two percent) of the respondents strongly agreed, somewhat agreed and agreed, respectively (Figure 4.24). The results showed that the majority (69.1 percent) of respondents disagreed that they knew where to get information about RM and which specialists to contact. Given the distribution of results, it was obvious that respondents disagreed with the statement and had a negative perception of the relevance of RM to their businesses.

A one-sample t-test of the results was performed to determine whether SMEs knew where to obtain information concerning RM. The question was based on the hypothesis of uniformity of expected responses to questions. From the findings, the variable had a mean score of 3.09, which was below the test value of 3.5. The results were statistically significant ($t = 21.854$; $p = .000$) for this variable, which indicated that the hypothesis on this variable was accepted. The observed findings were significantly

different from the expected frequencies. Therefore, this result was statistically significant and was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 7.

These findings agreed with ICAEW (2002) that minimal direction was available to SMEs on how to best oversee risk. Advice and directions ought to be dependable and where to turn to for counsel should be spelled out. This observation was supported by the view presented by Nyakang'o and Kalio (2013), that the use of the services of RM specialists was not prevalent amongst SMEs. This was a result of a lack of confidence in consultants and the high cost of their services. Additionally, Zhao and Zeng (2014) highlighted that SMEs mainly relied on consulting friends and colleagues who had experienced more and they did not utilise specialists in the area of RM. Thus, SMEs had a negative perception of the relevance of RM to the success of their businesses.

4.3.4.13 Summary/ Conclusion on Research Question two

SMEs had a negative perception of the relevance of RM to their businesses because SMEs are familiar with RM in their businesses yet consider RM to be useful in their companies to only a limited extent. They managed risk proactively and risks facing the organisation were logged and filed to a lesser extent. Furthermore, it was also noted that budgets for RM exist and RM communication channels exist at all levels of management. Risk was also found to form part of the agenda in leadership meetings and risks were addressed within a reasonable time after identification, albeit marginally. Additionally, SMEs felt that the cost of employing RM initiatives was justified compared to the benefits and they appeared aware of where to obtain information about RM, albeit in a limited scope.

Many authors believed that SMEs have quite a way to go before adopting a positive approach towards RM. This was due to limitations such as limited managerial and technical expertise; inadequate infrastructure; lack of intellectual and financial

resources to generate significant developments in technology; weak information networks to recognise information particularly pertinent to them; and little investment in research and development (Ekwere 2016; Islam and Tedford 2012; Sunjka and Emwanu 2015; Smit and Watkins 2012).

According to several experts (Sira *et al*. 2016; Klucka and Grunbichler 2016; Masar and Kelísek 2017; Hudáková *et al.* 2017; Leskaj 2017), SME managers tended to be over-confident, believing that when challenges happen, they will be fixed in time and without much loss. This tendency was founded on their success in establishing and leading the business. Hence, it might be common for owners of small businesses to place RM plans low on their priority list.

Knox (2012) highlighted that many small businesses believed that RM was only relevant for implementation in large organisations. This statement corresponds with the view of almost 10 percent of SMEs insofar as RM only being realistic in bigger businesses (Rautenstrauch and Wurm 2008). Similarly, findings by Winks (2008) highlighted that only large firms practiced RM, which was not the case with SMEs. According to Baker (2011), ERM was under-utilised by SMEs as it was perceived to be complex and reserved for specialised experts and had a connection to large organisations. Furthermore, Patsis (2007) argued that many SME owners assumed that because of the size of their businesses, they were not at risk. To enhance the adoption of risk management strategies by SMEs, the perceptions of owners and managers must be transformed about the probability of occurrence, the possibility of impact and the severity of the impact of a risk event.

Previous studies (Patsis 2007; Rautenstrauch and Wurm 2008; Fisayo and Nwankwo 2010; Baker 2011; Mogire *et al.* 2011; Knox 2012; Islam and Tedford 2012; and Smit and Watkins 2012; Anil and Cakir 2015; Sunjka and Emwanu 2015; Sira *et al.* 2016; Ekwere 2016; Klucka and Grunbichler 2016; Hudáková *et al.* 2017; Leskaj 2017;

Masar and Kelísek 2017) found that SMEs had a negative perception of the relevance of RM to the success of their businesses, which this study also demonstrated, implying that SMEs have a negative perception where the relevance of RM is concerned to the success of their businesses.

4.3.5 Research Question 3: Influence of Demographics on SMEs' Risk Management Practices

The study determined the influence of demographic factors on SME RM practices. The relationship between SME RM practices and seven demographic factors, namely age, gender, race and marital status, as well as family size, level of education and level of income was tested using Independent sample t-tests and Pearson correlation, as follows:

4.3.5.1 Research Question 3(a): Influence of Age on SMEs' Risk Management Practices

To ascertain the influence of age on the RM practices of SMEs, the participating respondents in the study were asked to indicate their age and RM practices. An independent sample t-test indicated a difference between RM practices based on age (t= 23.381, p= .000). This showed that it was statistically significant as a *p*-value below 0.1 with a *t* value equal to 2 or higher was acceptable. It was found that there was a difference between the RM practices of young people (mean=5.2184) and old people (mean=1.8995).

The Pearson correlation analysis results indicated (X^2 = .826; P = .000) for this variable. These results meant that this variable had a significant impact on the RM practices of SMEs in Zimbabwe. Therefore, the hypothesis on this variable was accepted. The observed findings were considerably different from the expected frequencies. In other words, this result was statistically significant and not due to chance. The scientific statistical analysis for this variable is presented in Appendix 8 and Appendix 9.

The general belief was that older investors had less recovery time from possible losses and therefore, were inclined to make less risky investments (Cienfuegos 2013; Smit and Watkins 2012). Several authors found results to be in line with this argument (Misiura 2015; Nyakang'o and Kalio 2013; Sunjka and Emwanu 2015). These authors argued that risk tolerance first increased with age but decreased after reaching a certain age, thus risk tolerance was a concave function of age.

Kourtidis *et al.* (2011) indicated that age influenced RM practices. Kourtidis *et al.* (2011) showed that risk tolerance increased with the increase in age. Furthermore, Das and Teng (2001) argued that the characteristics of decision-makers, such as demographic variables including age, also affected RM practices in companies. Acar and Goc (2011) exhibited proof that more youthful SME administrators had higher risk cravings than those who were older. When exploring the strength of the age effect, it appeared that age only influenced risk tolerance marginally (Dorresteijn 2017). Many research studies transmitted age into a categorical variable (Nyakang'o and Kalio 2013; Vasvári 2015; Verbano and Venturini 2013). A more appropriate explanation for this small coefficient might be the concave function that characterises age. When this is not measured, the coefficient of age could seem smaller than what it is. Previous studies (Kourtidis *et al.* 2011; Misiura 2015; Nyakang'o and Kalio 2013 and Sunjka and Emwanu 2015) found a correlation that this study also demonstrated, which implied that age influenced how SMEs managed risk.

4.3.5.2 Research Question 3(b): Influence of Gender on SMEs' Risk Management Practices

The study ascertained the influence of gender on the RM practices of SMEs and the respondents indicated their gender and RM practices. An independent samples test indicated that there was a difference between RM practices based on gender (t= -28.826, p= .000). This showed that it was statistically significant, as a p-value below

0.1 and a t-value equal to two or higher was acceptable. A difference was also found between the RM practices of men (mean=1.9180) and women (mean=5.5005).

The Pearson correlation analysis results indicated (X2 = .875; P = .000) for this variable, which meant that the results for this variable had a significant impact on the RM practices of SMEs in Zimbabwe. Therefore, the hypothesis on this variable was accepted. The observed findings differed significantly from expected frequencies. In other words, this result was statistically significant and not due to chance. The scientific statistical analysis for this variable is presented in Appendix 8 and Appendix 9.

Gorzeń-Mitka (2015) raised the question of whether the rising risk in the company environment differentiated entrepreneurs based on their demographic characteristics, such as gender. The interest was mainly motivated by the well-documented importance of risk-taking for the creation and subsequent performance of firms (Cagliano *et al.* 2015). According to Dorresteijn (2017), gender was one of the most common factors used for differentiating SMEs in RM. The link between gender and risk-taking was studied through many approaches, such as entrepreneurial orientation and leadership-related literature, but more so from a managerial perspective (Dorresteijn 2017; Bula 2012). Likewise, Das and Teng (2001) argued that the characteristics of decision-makers, such as demographic variables including gender, also affected RM practices in companies.

Anbar and Eker (2010) reported men as more risk-tolerant than women. Thus, women were more risk-averse when compared to men (Fellner and Maciejovsky 2007). Watson and Robinson (2003) stated that organisations that were female-controlled seemingly had profits that were significantly lower and reduced profit variation (risk), as opposed to male-controlled organisations. Consequently, it was confirmed that women had lower risk inclinations than men (Hallahan *et al.* 2004), as well as a lower recurrence of risky conduct than men (Harris *et al.* 2006) and were less inclined to

attempt risky decision-making conduct in the area of business and finance than men (Bernasek and Shwiff 2001; Zinkhan and Karande 2002).

Approaches for clarifying gender differences in risk recognition focused on natural elements, socialisation and social experiences (Abeyrathna and Kalainathan 2016). Islam and Tedford (2012) also showed that women may have lower risk inclinations than men because of societal convictions wherein risk-taking was seen as an exceedingly esteemed masculine tendency, as well as contrasts in social roles.

Female business people may encounter less accomplishment in their past risk conduct than male business people because of their relative lack of resources. Thus, the popular view amongst scholars is that women are more risk-averse than men (Charness and Gneezy 2012; Dohmen *et al.* 2011; Farrell 2014). Previous studies (Abeyrathna and Kalainathan 2016; Islam and Tedford 2012; Dorresteijn 2017; Bula 2012; Das and Teng 2001) found a positive correlation and this study also demonstrated the correlation, which implied that gender influenced the way which SMEs managed risk.

4.3.5.3 Research Question 3(c): Influence of Race on SMEs' Risk Management Practices

The study determined the influence of race on the RM practices of SMEs and respondents were asked to indicate their race and RM practices. An independent sample t-test indicated a difference between RM practices based on race (t= 31.267, p= .000). This showed its statistical significance as a p-value below 0.1, with a t-value equal to two or higher, was acceptable. It was established that a difference existed between the RM practices of white people (mean=5.7294) and black people (mean=1.9937).

The Pearson correlation analysis results indicated (X^2 = -.891**; P = .000) for this variable. These results showed a significant impact by this variable on the RM

practices of SMEs in Zimbabwe. Therefore, the hypothesis on this variable was accepted. The observed findings were appreciably different from the expected frequencies. In other words, this result was statistically significant and was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 8 and Appendix 9.

These findings were similar to those reported in related literature. Literature reported that race was often claimed to influence investor risk tolerance (Dorresteijn 2017). The 'white male effect' was the most common example of race influencing risk-taking and it presumed that white males were most willing to take risks. Farrell (2014), also investigated the 'white male effect' and discovered that white males were the most risk-seeking investors. His results also showed that African-American women were the most risk-averse subgroup. The 'white male' stereotyping, therefore, seemed to hold and white males were recognised as the most risk-tolerant sub-group.

Farrell (2014) argued that race itself was not what mattered, but it was the racial differences that indicated cultural issues, mainly education and financial knowledge. Wealthy and educated people were more risk-tolerant. The differences in the race were often argued to be a result of differences in education or class. To correct this, Brown (2007) measured the proportion of risky assets by income and educational level. The analysis showed that even when correlated for education or income, white people were the most risk-tolerant group.

When college-educated individuals were probed, 85 percent of white people were shown to own risky assets, compared to 50 percent of black people (Brown 2007). For the least educated sub-group, this difference was smaller, where the indication was that 35 percent of white people owned risky assets in comparison to 10 percent of black people (Brown 2007). The result suggested that an increase in education resulted in a more rapid increase in risky assets amongst white people than black people (Brown 2007).

The difference in risk tolerance was minor when results were correlated with income. Amongst the highest income group, 56 percent of white people were considered risk-seeking as compared to 21 percent of Hispanic people and 26 percent of black people. Still, the results showed that even when correlated with education or income, white people were the most risk-tolerant group. Previous studies (Brown 2007; Farrell 2014 and Dorresteijn 2017) found a correlation and this study also demonstrated the correlation, that implied race influenced the way SMEs managed risk.

4.3.5.4 Research Question 3(d): Influence of Marital Status on SMEs' Risk Management Practices

The study ascertained the influence of marital status on the RM practices of SMEs. Respondents were asked to indicate their marital status and RM practices. An independent sample t-test showed a difference between RM practices based on marital status (t= 8.240, p= .000). This indicated it as statistically significant, with a p-value below 0.1 and a t-value equal to two or higher was acceptable. A difference between the RM practices of married people (mean=3.9368) and single people (mean=1.9055) was determined.

The Pearson correlation analysis results indicated (x^2 = -.479**; p = .000) for this variable, showing that this variable had a significant impact on the RM practices of SMEs in Zimbabwe. Therefore, the hypothesis on this variable was accepted. However, the observed findings differed significantly from expected frequencies, signifying this result as statistically significant and not due to chance. The scientific statistical analysis for this variable is presented in Appendix 6 and Appendix 7.

This finding is consistent with previous research. Married individuals were assumed to be more sensitive to social risk which is the loss of self-esteem in the eyes of peers and colleagues, which causes them to have a lower risk tolerance (Henschel 2008b). Another view suggested that married people took more risks because of their greater

ability to absorb undesirable outcomes (Chavali and Mohanraj 2016). In line with this argument, some scholars found that married people took more risks (Gorzeń-Mitka 2015; Yusuf and Dansu 2013; Vesković 2014).

The findings were also consistent with other scholars who asserted that single people took more risks than married people and singles were more risk-seeking (Dohmen *et al*. 2011; Roussanov and Savor 2014). This, therefore, reinforced the influence of marital status on SMEs' risk management practices. Singles being more risk-seeking was attributed to them having fewer responsibilities and they could, therefore, afford to experiment and put their resources at stake. Previous studies (Dohmen *et al*. 2011; Yusuf and Dansu 2013; Roussanov and Savor 2014; Gorzeń-Mitka 2015; Vesković 2014 and Chavali and Mohanraj 2016) found a correlation and this study also demonstrated the correlation, which implied that marital status influenced the way SMEs managed risk.

4.3.5.5 Research Question 3(e): Influence of Family size on SMEs' Risk Management Practices

The study also determined the influence of family size on the RM practices of SMEs. The respondents specified their family size and RM practices. An independent sample t-test showed no difference between RM practices based on family size (t= -.026, p= .975). This illustrated that it was not statistically significant as a p-value below 0.1 and a t-value equal to two or higher was acceptable. No difference was found between the RM practices of people with small family size (mean=3.2205) and people with big family size (mean=3.2102).

Furthermore, the Pearson correlation analysis results indicated (X^2 = .095; P = .984) for this variable, which meant that this variable had no significant impact on the RM practices of SMEs in Zimbabwe. Therefore, the hypothesis on this variable was rejected, which meant that this result was not statistically significant. The scientific statistical analysis for this variable is presented in Appendix 8 and Appendix 9.

The findings of this research element did not conform to previous research. Dorresteijn (2017) established that the number of dependents or size of the family influence investor risk-taking. Furthermore, Jianakoplos and Bernasek (2006) argued that individuals with fewer dependents or a smaller family size were more risk-taking than individuals with bigger families. This was caused by the increased responsibilities that came with increased family size. Chakreeyarat (2015) found that people with no other dependents invested more in risky assets than people with one or more dependents. The results of Perusahaan *et al*. (2013) showed that the number of dependents was one of the major explaining demographic variables for risk tolerance. Hence, this study found different results indicating no difference in RM based on family size, providing a unique contribution to the existing body of knowledge as far as family size and RM are concerned.

4.3.5.6 Research Question 3(f): Influence of Educational level on SMEs' Risk Management Practices

The study established the effect of educational level on the RM practices of SMEs and participating respondents indicated their educational level and RM practices. An independent sample t-test showed a difference between RM practices based on educational level (t= -42.952 p= .000). This illustrated that it was statistically significant as a p-value below 0.1 and a t-value equal to two or higher was acceptable. It was determined that a difference existed between the RM practices of people with a low educational level (mean=1.8951) and people with a high educational level (mean=5.7921).

The Pearson correlation analysis results indicated (X^2 = .938**; P = .000) for this variable. This variable was thus indicated as having a significant impact on the RM practices of SMEs in Zimbabwe. Therefore, the hypothesis on this variable was accepted. The observed findings were notably different from the expected frequencies. In other words, this result was statistically significant and not due to chance. The

scientific statistical analysis for this variable is presented in Appendix 8 and Appendix 9.

This finding confirmed that the level of education affected how SMEs managed their risk. It can thus be argued that education influenced RM in SMEs. Educated people had a proclivity to understand RM and hence, they applied it in their business. Education influenced investor risk tolerance. Therefore, educated people were more likely to understand RM as a business concept and implement it to the firm's best advantage. This finding concurs with previous research.

Kim and Vonortas (2014) demonstrated that elevated SME proprietor education was emphatically identified with receiving risk mitigation procedures. This indicated that educational level influenced RM practices. In addition, Das and Teng (2001) argued that decision-makers' characteristics, such as demographic variables including education level, also affected RM practices in companies. Additionally, Van den Boom (2019) analysed probable determining factors of financial RM levels in Dutch SMEs and established one of the determinants as the level of education.

Literature also revealed that researchers have linked an increased educational level with better information processing competencies, forbearance for uncertainty, original inventiveness and calculated variation. The general belief concerning education was that more investment risks were taken by people who obtained higher levels of education (Dohmen *et al.* 2011; Farrell 2014). Highly educated individuals were better able to carefully assess risks and benefits and were exposed to more investment options (Chavali and Mohanraj 2016).

Furthermore, Dorresteijn (2017) argued that managers with higher educational levels were more likely to participate in all-inclusive information search, resulting in richer information for strategic decision-making. The level of education was also perceived as an indicator of the individual's predilection to recognise and evaluate new

alternatives and opportunities, innovative extent and strategic change (Ng'ang'a *et al.* 2015). Most authors found that the result of a higher educational level was increased risk tolerance (Dohmen *et al.* 2011; Farrell 2014; Guiso and Paiella 2008).

Multiple authors considered education as the most influential variable for risk tolerance (Chavali and Mohanraj 2016; Dorresteijn 2017; Wijekoon *et al*. 2016). Thus, highly educated SMEs were most likely to embrace RM than those SMEs who were less educated. Previous studies (Dohmen *et al.* 2011; Farrell 2014; Kim and Vonortas 2014; Ng'ang'a *et al*. 2015; Chavali and Mohanraj 2016; Dorresteijn 2017; Wijekoon *et al*. 2016 and Van den Boom 2019) found a correlation, which this study also demonstrated, implying that educational level influenced how SMEs managed risk.

4.3.5.7 Research Question 3(g): Influence of Income level on SMEs' Risk Management Practices

Respondents indicated their income level and RM practices to determine the influence of income level on the RM practices of SMEs. A difference between RM practices based on income level (t= -41.235 p= .000) was indicated by an independent sample t-test. This showed its statistical significance as a p-value below 0.1, with a t-value equal to two or higher were acceptable. A difference was established between the RM practices of people with a low-income level (mean=2.0596) and people with a high-income level (mean=6.1270).

For this variable, the Pearson correlation analysis results indicated (X^2 = .933**; P = .000). These results signified a significant impact of this variable on the RM practices of SMEs in Zimbabwe. Therefore, the hypothesis on this variable was accepted. Due to the observed findings being meaningfully different from expected frequencies, this result was statistically significant and was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 8 and Appendix 9.

These findings were similar to what was reported from related literature, which showed that people with a low level of income were less likely to bother themselves with practicing RM. Previous studies revealed that high-income-earning SMEs are most likely to embrace RM than those that are low-income earners. Similarly, Cienfuegos (2013) found a positive relationship between relative risk tolerance and income by studying individual investors. Ng'ang'a *et al.* (2015) also found a similar conclusion using household data, while Pashkova (2016) also established a positive effect between risk tolerance and income.

Jayathilake (2012) discovered a U-shaped distribution in which risk tolerance at first decreased with income and increased again after a specific point. An explanation of this was the fact that wealthy individuals could incur more losses, while poor individuals perceived a lottery ticket as a risky opportunity (Marcelino-Sádaba *et al.* 2014). Whereas previous studies (Jayathilake 2012; Cienfuegos 2013 and Pashkova 2016) found a correlation, this study concurred with previous studies, which implied that the level of education influenced the way SMEs managed risk.

4.3.6 Research Question 4: Measures of the influence of Culture on SMEs' Risk Management Practices

To verify the influence of culture on the RM practices of SMEs, respondents in the study indicated their cultural beliefs and RM practices based on the cultural beliefs and RM practice scales. The relationship between SME RM practices and five cultural factors, namely social cynicism, reward for application, social complexity and fate control, as well as religiosity, was tested. This was done by testing the hypothesis using Regression analysis.

From the results, it was found that 98, 7 percent of the variation in SME RM practices was caused by cultural factors, such as Social Complexity, Fate Control and Religiosity. The model was very strong, as only a one percent variation in RM practices was due to other factors. Cultural factors that had a significant effect on RM practices

were found to be social complexity (t = 8.233, p = .000), fate control (t = -12.772, p = .000) and religiosity (t = -4.640, p = .000). However, it was revealed that cultural factors such as social cynicism (t = -1.661, p = .098) and reward for application (t = 1.008, p = .314) had no significant effect on SME RM practices.

The Pearson correlation analysis results indicated (X^2 = -.857**; P = .000) for this variable, proposing that culture had a significant impact on the RM practices of SMEs in Zimbabwe. Therefore, the hypothesis on this variable was accepted. Observed findings were significantly different from expected frequencies. Therefore, this result was statistically significant and was not due to chance. The scientific statistical analysis for this variable is presented in Appendix 9 and Appendix 10.

These findings were in line with previous literature. Angeline and Teng (2016) and Virdi (2005) determined that RM was not as advanced in those SMEs where the culture discouraged the management of risks in a structured and professional manner. Previous research further established that a strong culture was significant to the accomplishment of ERM endeavours (Brooks 2010). Risk-taking in various areas changed with the cultural orientation of people. When contrasted with directors from developing nations, Western administrators took risks. Along these lines, risk voracity differed with individual culture (Acar and Goc 2011).

Cultural values determined the extent to which society considered entrepreneurial behaviours as desirable, such as independent thinking and risk-taking (Hayton *et al.* 2002). The evaluation of uncertainty and thus, risk-taking was also affected by cultural background and social effects. This was because culture formed the attitudes and belief systems of individuals. The attitudes of SME owner-managers and their knowledge concerning risks played an important role in how they systematically dealt with risks (Bayaga and Flowerday 2010).

It was also found that the beliefs and attitudes of founding entrepreneurs who initially brought enterprises to life influenced RM practices in SMEs (Verbano and Venturini 2013; Jayathilake 2012). Sarkodie-Poku (2019) stated that RM in SMEs in Ghana was primarily focused on the beliefs of owners/managers, which seriously hampered sustainable business development. Whereas previous studies (Bayaga and Flowerday 2010; Jayathilake 2012; Verbano and Venturini 2013; Angeline and Teng 2016; Sarkodie-Poku 2019) found a correlation, this study demonstrated an existing correlation that implied that culture influenced the way in which SMEs managed risk.

4.4 QUALITATIVE DATA ANALYSIS

Interviews were carried out to complement responses from the questionnaire administered to the SME owners.

4.4.1 Research Question 1: Level of SMEs' Risk Management Practices

A very interesting finding in this study was the admission by respondents that their organisations had very low RM practices, as evidenced by the low mean. However, the findings from the interviews showed that respondents had mixed feelings about their RM practices. While only a few participants indicated that they practiced formal RM, others indicated that RM in their firms was informal, with the majority pointing out that RM was non-existent in their businesses. Responses were presented below.

4.4.1.1 Risk management was informal

One respondent opined that:

> *Risk management is done informally in this business. There is nothing that is written down.*

Another participant in the research stated that:

> *Risk management is done haphazardly here. I just bump into solutions to the risks that I face and life goes on.*

A different respondent in the research added that:

> *I just wait and see risks as they arise and I solve them. Otherwise, I don't have any risk management plan in place.*

The above interview responses pointed to the lack of a formalised RM plan in SMEs, which reflected the absence of clearly defined SME RM procedures. This could be due to a lack of skills on how RM is performed, showing a lack of or no knowledge on the tools for formal RM.

4.4.1.2 Risk management was non-existent

Other participants in this study pointed out that:

> *No approach to risk management is used as I do not understand it.*

> *I just watch the risks and do nothing. I just pray and expect them to go away by the grace of God.*

These views indicated the non-existence of RM in some SMEs that could be attributed to ignorance. Hence they did not know how to perform RM.

4.4.1.3 Risk Management was formal

Very few SMEs were able to show the existence of a formal RM plan in their organisations. One of the participants in this study opined that:

> *I take insurance hence transferring risk to third parties.*

Another participant lamented that:

> *I lost everything due to a fire outbreak and since then I don't take chances. I have insured my business so that I can have peace of mind.*

4.4.1.4 Conclusion to Research Question 1

Even when the majority of SMEs did not practice RM, some had formalised RM systems in place. These may be those who had been exposed to RM through formal education. It may also be those who had seen the value of RM through previous exposure to risk that negatively affected their businesses. The absence of a formalised RM system and the non-existence of RM was not a good indicator at all for SMEs in Zimbabwe, as they exposed their organisations to the negative consequences of risk. This was due to being ill-prepared to manage when risks arise, which could lead to the total collapse of organisations.

The interview responses, therefore, reinforced the quantitative results indicating the level of SME RM practices as low. The majority of SME owners did not practice RM and those who did practice RM did so mainly informally, which might not assist SMEs to reap the optimum benefits of RM. These findings were in line with survey results and previous literature, which also pointed to low levels of RM by SMEs around the world.

4.4.2 Research Question 2: SMEs' Perception of the Relevance of Risk Management to the Success of their Businesses

Another very interesting finding in this study was the negative perception by respondents of the relevance of RM, evidenced by the low mean. However, in follow-up interviews on the same issue, the interview data revealed some divergent views on the perception of SMEs on RM relevance in SME success within the study context. The findings showed that RM was only important to firms that practiced it. Consequently, this showed that the role of RM was only pragmatic to those who practice it. During the interviews, few participants indicated that RM was relevant in their businesses, while many echoed its irrelevance in small businesses. This was shown below:

4.4.2.1 Risk Management was relevant for SMEs

A few of the respondents had this to say:

Risk management is relevant in my business.

The fact that I don't practice risk management doesn't make it less relevant.

From the above statements, it was concluded that RM was viewed to be relevant for SMEs, even though some SMEs admitted to not practicing RM. The owners of these firms believed that RM was critical for SME success.

4.4.2.2 Risk management was not relevant for SMEs

During the interviews, respondents mentioned that:

I don't see the relevance of risk management because I have survived for 10 years without using it.

Risk management is not relevant for SMEs.

Risk management does not play any role in my business as I am operating without it.

I don't see risk management as very relevant as my business has survived without it for many years.

Risk management is not very relevant in my business.

From the statements above it was concluded that RM was viewed to be of no relevance to SMEs. The owners of these firms believed that having survived for many years without practicing RM they could still survive without it in the future.

4.4.2.3 Risk Management was a waste of time

Some respondents had this to say:

Sitting down and managing risk is mere waste of time in the unpredictable business environment. One has to think fast and act promptly.

It is cumbersome for me to take the risk management activity into my hands because it is time-consuming. There are so many things that need to be done out there which make the business go on.

It was concluded from the above statements that RM was not considered relevant in SMEs. Owners of these small and medium enterprises believed there was a need to be up-to-date with other more relevant activities, rather than wasting time managing risk.

4.4.2.4 Risk Management was an unnecessary expense

One respondent opined that:

Risk management is a cost that one has to bear hence is avoided at all costs as SMEs don't have the resources.

I am an African by birth and as Africans, we do not value things like insurance as it is viewed as a waste of money that could be used for other important things.

From the above statements, it was concluded that RM was not relevant to SMEs. The owners of these firms believed that it was better to invest in other important activities than to waste money on RM.

4.4.2.5 Risk management was meant for big businesses

Respondents put it this way:

We cannot afford to manage risk because of the size of our businesses.

I don't have many resources at stake. I live from hand to mouth. So, I feel I should not worry about risk management. Let those with large assets worry about keeping their assets safe because if they lose them, it's a huge blow.

Risk management is for big businesses as they have the resources. As for small businesses like ours, it's a waste of meagre resources.

Risk management is meant for big sharks as they have a lot to lose. Small businesses like ours don't lose much in case of a disaster.

Big businesses have a lot at stake and they are the ones who should manage risk, not us who have smaller 'nyana' resources.

It was concluded from the statements above that RM was relevant for big businesses and was not considered to be of relevance in SMEs. The owners of these firms believed that SMEs did not have much to lose in terms of assets. Hence they did not believe they suffered when they lost as much as big businesses.

4.4.2.6 Conclusion to Research Question 2

It is noteworthy that SMEs in Zimbabwe were not prioritising RM in their business. Even though RM played an important role in SMEs, some participants did not see the relevance of RM for SMEs. Interview responses reiterated that the issue of RM for SMEs was of no relevance as it was perceived to waste valuable time and resources. They also felt that RM was meant for big businesses that had a lot at stake, rather than SMEs that mostly survived from hand to mouth.

Respondents claimed that they had survived for many years without practicing RM. It became clear from these findings that respondents disputed the fact that RM benefited their organisations through the success of their enterprises. However, it appeared that they were not informed on the relevance of RM to SMEs, considering it was not given

priority. This was not a good indicator for SMEs in Zimbabwe, as it exposed their organisations to the negative effects of risk facing businesses. The interview responses, therefore, reinforced the survey results and previous literature that points to a negative perception of the relevance of RM by SMEs.

4.4.3 Research Question 3(A): Influence of Age on SMEs' Risk Management Practices

In terms of whether the age of a person affects RM, the interview data indicated that participants felt that age had an effect. The confirmation of the influence of age on SME RM practices was echoed by respondents who made the following observations:

4.4.3.1 Young people managed risk more than old people

> *Young people understand many things including risk management than older people and are more likely to manage risk. If you look at me, I am now old I don't want complicated things, I just want to buy and sell that is all. Too much paperwork confuses me.*

> *My age affects the way I manage risk because being a young person makes me adventurous and willing to try new things, being open-minded and hence being receptive to risk management.*

> *Yes, my age affects the way I manage risk because as you grow older it is difficult to incorporate new ways of doing business unlike when you are young.*

From the above statements, it was concluded that SME owners/managers believed that age had a bearing on SMEs' RM practices. The reasons cited included the fact that young people were more willing to try new things and were more adventurous, as well as more open-minded than old people.

4.4.3.2 Old people managed risk more than young people

Age has an impact on the way I manage risk. Risk management is a matter of choice and older people choose to manage risk as they have acquired more assets than younger people.

I think age affects the way I manage risk. My old age has affected the way I manage risk.

I now have a different perspective towards risk management than I had when I was young.

It was concluded from the above statements that SME owners/managers believed that age had a bearing on SME RM practices. The reasons cited included that old people were more willing to manage risk as they had much at stake, unlike young people who were still acquiring assets and might not have much at stake.

4.4.3.3 Conclusion to Research Question 3(A)

It is of great interest to note that most SME owners/managers who participated in the interview believed that young people managed risk more than old people. However, other interview responses reiterated that old people managed risk more than young people. The interview responses, therefore, reinforced the survey data and previous literature that confirmed the influence of age on SME RM practices.

4.4.4 Research Question 3(B): Influence of Gender on SMEs' Risk Management Practices

In the questionnaire survey, gender was found to influence how individuals managed risk. During the interviews, the following statements from respondents supported the above finding and shed light on the issue:

4.4.4.1 Males managed risk more than Females

Gender has an effect on the management of risk. Men are more likely to manage risk than women.

Females are more conservative hence they are not willing to venture into new things like risk management.

4.4.4.2 Females managed risk more than males

Women are more future-oriented and are prone to manage risk more than men who are in most cases short-sighted.

Females by nature fear losing more than males and would want to secure their belongings so that if anything happens, they won't feel the negative effects as it affects them and their children.

4.4.4.3 Conclusion to Research Question 3(B)

The findings from the interview data, as well as from the questionnaire survey, showed that respondents were in agreement that gender affects how SMEs managed risks in their businesses. On the one hand, some participants were of the opinion that men were better than women at RM while, on the other hand, other respondents thought that women were better risk managers than men. Therefore, the interview responses reinforced the survey results and previous literature that confirmed the influence of gender on SME RM practices.

4.4.5 Research Question 3(C): Influence of Race on SMEs' Risk Management Practices

In the questionnaire survey, race was found to influence how individuals managed risk. During the interviews, the following statements from respondents supported the above finding and shed light on the issue:

4.4.5.1 White people manage risk more than black people

Race affects risk management. White people generally have an in-depth understanding of risk management hence they insure their businesses, unlike black people who believe in crisis management.

Race has an impact on risk management. White people embrace risk management better than black people who believe in dealing with problems as they arise.

White and black people are different in their understanding of risk management. It is indisputable that whites are always ahead of us blacks and it's not surprising that they might have more exposure to risk management.

4.4.5.2 Conclusion to Research Question 3(C)

The findings from the interview data, as well as from the questionnaire survey, showed that participants agreed that race affected how SMEs managed risks in their businesses. Hence, there was a difference between white and black people when it came to RM. According to the interview data, white people were more risk-oriented than black people. Black people were oriented towards crisis management. This also transcended their RM practice. Therefore, the interview responses reinforced the survey results and previous research findings that confirmed the influence of race on SME RM practices.

4.4.6 Research Question 3(D): Influence of Marital Status on SMEs' Risk Management Practices

In the questionnaire survey, marital status influenced how individuals managed risk. During the interviews the following statements from respondents supported the above finding and shed light on the issue:

4.4.6.1 Married people managed risk more than single people

Being married means more responsibilities and you don't take chances but simply manage risk so that you are not caught unaware.

My marital status affects how I manage risk. That is a very significant factor as far as I am concerned. If you are still single you are free-spirited and do not worry about what happens in the future. But when you get married your mindset changes and you value such things as risk management because you now know that many people suffer in case of a disaster happening in the business as that might be your only source of livelihood.

My marital status has significance on how I manage risk. I am still single and I don't worry much about the future and would not possibly manage risk. However, married people worry much about the future and are more likely to manage risk.

4.4.6.2 Conclusion to Research Question 3(D)

The findings from the interview data, as well as from the questionnaire survey, showed that participants agreed that marital status affected how SMEs managed risks in their businesses. Hence, there was a difference between married people and single people when it came to RM. Married people managed risk more than single people because any negative consequence of risk did not only affect them but their families as well. Single people were therefore perceived as individualists and in most cases thinking only about themselves. Hence, the interview responses reinforced the survey results and previous research findings that confirmed the influence of marital status on SME RM practices.

4.4.7 Research Question 3(E): Influence of Family size on SMEs' Risk Management Practices

In the questionnaire survey, the family size was not found to influence how SMEs managed risk. Follow-up questions in interviews on the same issue showed that the following statements from participants concurred with the above finding and shed light on the issue:

4.4.7.1 There was no difference in Risk Management based on family size

Family size does not affect how I manage risk. Whether I have a big family or a small family there is no difference.

There is no way family size can impact how I manage risk. I believe it does not matter whether I have a big or small family.

It is a myth and not a reality that family size affects how people behave. In reality, family size has no influence whatsoever on how people manage risk.

4.4.7.2 Conclusion to Research Question 3(E)

Responses from the interview data indicated that respondents had the same view on the influence of family size on SME RM practices. Most of the respondents did not see family size influencing SME owners' RM practices. Therefore, the general view is that family size did not influence SME RM practices. Interview responses thus reinforced the survey results but did not reinforce previous research findings that confirmed the influence of family size on SME RM practices. Hence, this study provided a unique contribution to the existing body of knowledge as far as family size and RM are concerned.

4.4.8 Research Question 3(F): Influence of Educational Level on SMEs' Risk Management Practices

The questionnaire survey revealed that the level of education of an individual affected how risks were dealt with. During the interviews, follow-up questions revealed that participants had the same view on the issue. They had this to say:

4.4.8.1 Better educated people managed risk more than those who were less educated

Education affects the way I manage risk because if I was educated, I would have more understanding of risk management hence apply it in my business.

Education indeed affects the way I manage risk. Educated people understand risk management and hence apply it in their business. I only reached secondary education and don't know much about risk management and how to apply it in my business.

The level of education affects the way you understand and apply risk management. More educated people understand these concepts that appear like Greek to uneducated people.

Education affects the way I manage risk because it enhances my understanding of risk management. Therefore, if you understand a concept, you are more likely to apply it in your business.

4.4.8.2 Conclusion to Research Question 3(F)

The responses indicated that respondents felt that higher levels of education led to a better understanding of concepts, which then makes RM implementation easier. Hence, better-educated people were more likely to understand RM as a business concept and implement it to the best advantage of the firm than less educated people. Therefore, the interview responses reinforced the survey results and previous

research findings that confirmed the influence of educational levels on SME RM practices.

4.4.9 Research Question 3(G): Influence of Income Level on SMEs' Risk Management Practices

The questionnaire survey revealed that the level of income of an individual determined RM practice. Furthermore, during the interviews, follow-up questions revealed that participants had the same view on the issue. They had this to say:

4.4.9.1 High-Income earners managed risk better than low-income earners

Yes, the level of income affects risk management because if my money is too little then I won't bother myself in managing risk but if I have too much money, I am most likely to manage risk because if my business fails, I will lose a lot of money.

The level of income affects risk management. My income level is very low and I cannot bother myself in managing risk.

To some extent, the level of income affects risk management. If you have low levels of income, you can take chances but if your income is high, you can't take chances to lose.

To some extent, the level of income might affect the way you manage risk. Low-income earners are more carefree than high-income earners and may not protect their businesses from internal or external threats.

To a larger extent, the level of income affects risk management. If your levels of income are low you can afford to lose your money and not feel the impact but if your income levels are high you cannot afford to lose out because the loss will be huge.

4.4.9.2 Conclusion to Research Question 3(G)

The findings from the interview data thus showed that people with low levels of income were less likely to bother themselves with practicing RM, as they felt that they had nothing significant to lose when compared to high-income earners. Hence the notion that RM was only meant for high-income earners. The interview responses, therefore, reinforced the survey results and previous research findings that confirmed the influence of income level on SME RM practices.

4.4.10 Research Question 4: Influence of Culture on SMEs' Risk Management Practices

The questionnaire survey revealed that culture influenced the RM practices of SMEs. Furthermore, during the interviews, follow-up questions showed agreement by respondents on the issue. They had this to say:

4.4.10.1 Culture influenced Risk Management

Risk management is not important in my culture and that affects the way I view and manage risk management.

Culture affects behavior because it determines norms, values, ideals. Risk management is not part of my culture and because I was not nurtured to value it then I am not likely to apply it in my business.

Culture significantly affects the management of risk. Culture is societal norms and values and these are translated into business norms and values.

4.4.10.2 Belief in fate influenced Risk Management

I believe that our lives are predestined by fate. So even if you make plans to safeguard your business what was meant to happen will always happen.

In my culture, I don't plan for future eventualities as I believe that fate will take care of what happens in the future.

4.4.10.3 Religious beliefs influenced Risk Management practices

In my culture, I believe that God has the final say in everything. No matter what I do to protect my business it is God's will that prevails.

You cannot go against God's plan. His plans for our lives and our businesses are what will take place and not through our efforts like doing risk management.

There are numerous solutions to problems facing the business. I have used other means to keep my business afloat and it worked and it did not involve risk management.

There are several ways of attaining a given outcome. So, everyone should do what works for him in his business.

The world is complex and uncertain and human behaviour may vary across different situations. Individuals must therefore adjust their behaviours to changing circumstances.

People will always depend on methods that worked for them before. So, if things worked out without using risk management, then I will stick to what worked for me and not test new things.

4.4.10.4 Conclusion to Research Question 4

From the above statements, it was concluded that culture was viewed as influencing RM. The owners of these enterprises believed that culture influenced behaviour such as RM. Cultural beliefs translated to business norms and values. Those who were

nurtured in a culture that believed in fate were not likely to implement RM in their businesses, as they believed fate is the great determinant of future eventualities.

Additionally, people raised in a religious setting believe in the existence of a supreme being controlling the universe and are also not likely to implement RM in their businesses. This is because they believed that only God determined what happened and efforts to manage risk faced by the business might be a waste of time. It can be noted from the interview results that culture influences RM practices. These findings, therefore, reinforced the survey results and previous literature that culture influences RM practices.

4.5 CHAPTER SUMMARY

This chapter presented the results from the questionnaire and interviews. It was shown that the challenges faced by SMEs included a lack of finance, no easy access to markets, stiff competition and high costs of doing business, as well as a lack of managerial skills. A bureaucratic business environment and lack of infrastructure as well as lack of advanced technology were also challenges encountered by SMEs. Risks faced by SMEs included strategic, financial and operational, as well as hazard risks. The RM practice in SMEs was at a low level. Thus, RM in SMEs was not well-developed to address the risks associated with these businesses. The study found that the main risks facing SMEs included financial, operational and hazard risks, while strategic risk also affected SMEs. The lack of finance exposed SMEs to financial risk and the unstable economic environment in Zimbabwe exposed SMEs to operational risk.

With regard to RM practices of SMEs, it was found that this was very low and that RM in SMEs was not well-developed to address the risks associated with these businesses. A clearly defined RM procedure was absent in SMEs, with the result that RM in SMEs was generally not procedural. Where the perception of SMEs of the relevance of RM to the success of their businesses was concerned, it was determined

that most respondents had a negative perception about RM's relevance to SMEs. Respondents indicated that RM was not important for SMEs due to their size and revenue levels, but was more relevant to big businesses.

Demographic variables such as age, gender, race and marital status, as well as the level of education and level of income, were found to influence RM practices in SMEs, whilst family size was found not to influence RM practices in SMEs. Furthermore, culture was established as influencing SME decisions to manage risk. Cultural factors such as fate control, social complexity and religiosity were found to affect SME RM practices, whilst social cynicism and reward for application were found not to influence SME RM practices.

In the next chapter, the researcher will summarise the study and make conclusions and recommendations.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The previous chapter provided a discussion on the research findings in comparison to the findings from the literature review. This chapter will focus on a summary and evaluation of the study, as well as reflections, contributions, limitations and recommendations, along with its conclusion.

5.2 SUMMARY OF THE STUDY

This study sought to identify the level of RM practices of SMEs; establish the perception of SME owners of the relevance of RM to the success of their businesses; examine the influence of demographic factors on SMEs' RM practices and explore the influence of culture on SMEs' RM practices in order to propose a framework to effectively manage risk in Zimbabwe's SME sector.

For the purpose of the study, the following research questions were formulated:

- What is the level of RM practices of SMEs?
- What is the perception of SMEs of the relevance of RM in the success of their businesses?
- What is the influence of demographic factors on the RM practices of SMEs?
- What is the influence of culture on the RM practices of SMEs?
- What are the features of the proposed framework to be adopted by SMEs in Zimbabwe for effective RM?

The study tested the following hypotheses:

H1: SME owners have a negative perception of the relevance of risk management to the success of their businesses;

H2: There is a relationship between the age of SME owners and their risk management practices;
H3: There is a relationship between the gender of SME owners and their risk management practices;
H4: There is a relationship between the race of SME owners and their risk management practices;
H5: There is a relationship between the marital status of SME owners and their risk management practices;
H6: There is a relationship between the family size of SME owners and their risk management practices;
H7: There is a relationship between the educational level of SME owners and their risk management practices;
H8: There is a relationship between the level of income of SME owners and their risk management practices; and
H9: There is a relationship between the culture of SME owners and their risk management practices.

The theoretical propositions underpinning this study were discussed in chapter two. The chapter deliberated related literature on entrepreneurship and SMEs in Zimbabwe. This provided the researcher with a global, regional and national view of entrepreneurship and SMEs. In addition, economic theories of entrepreneurship were discussed and these were categorised into classical theory, neo-classical theory, Schumpeterian synthesis, and post-Schumpeterian developments. The theories in this study were treated as models that work in the SME setting.

Through the review of literature, the researcher examined entrepreneurship development, as well as the importance of entrepreneurship to the economy. This revealed the significant number of SME contributions that included higher growth of employment, promotion of exports, fostering entrepreneurship, along with innovation, social progress and the achievement of economic growth. Furthermore, the literature

also focused on challenges faced by SMEs that included a lack of finance, a lack of managerial skills, competition and a lack of infrastructure and technological advancements. In addition, the researcher investigated the risks faced by SMEs and it was discovered that SMEs are exposed to operational, strategic, financial and hazard risks.

Furthermore, chapter two focused on the role of RM in business management. Additionally, the level of RM practices was discussed and it was discovered that generally, SME RM practice was low. The perceptions of SME managers and owners of the relevance of RM were also discussed, which was further highlighted by various literature that showed that most SMEs had a general perception that RM is relevant to big businesses, unlike SMEs that do not have much at stake. This is an indication of a negative perception of the relevance of RM to the success of SMEs.

RM theories, namely the MPT together with Contingency Theory and the CAPM, were discussed. An understanding of these fundamental theories was necessary to appreciate the current state of research, as well as the practices of organisations that implement ERM. Contingency Theory proposed that there was no single best approach to managing and organising. It recognised that a suitable ERM system differed from firm to firm and essentially recommended a contingency perspective towards a suitable ERM system for a specific organisation. Therefore, there was no perfect or ideal ERM system. The study was grounded on the Contingency theory.

The MPT emphasised that ERM should generalise RM beyond financial risks to deal with all types of risk (portfolios) an organisation faces. The principle has created growing recognition that risks must be managed with the total organisation in mind. The CAPM extended the MPT by quantifying how the risk of an investment or a firm affects the projected return of investors. This theory advocated that organisations using their resources to improve management control systems such as RM to mitigate firm-specific risk were rewarded only based on market returns. This implied that any

expenditure to alleviate firm-specific risks reduced shareholder value and represented a negative net present value project.

The demographic factors and culture that influenced RM practices were also highlighted. Included as demographic factors are age, gender, marital status, and race, as well as educational level, income level and family size. Culture comprised social complexity, social cynicism, religiosity and fate control, along with reward for application.

The methodology applied in this research was discussed in Chapter Three. The research study adopted a positivist approach, which assumed that the item under study is free from researcher bias, with information acquired through measurements of phenomena or observation. The positivist approach involved deductive reasoning/ logical thinking and postulated theories that may be tested. Deductive reasoning held that the investigator started by learning the known facts, then moved to the unknown facts about a phenomenon through hypothesis development that is tested, after which conclusions can be derived.

This study used a mixed-methods approach involving conducting research by combining quantitative and qualitative research methods in a single study. The quantitative approach was used to collect numerical data using a questionnaire to test the associations of the variables under study. A qualitative approach was employed using interviews, due to its strength in collecting in-depth information based on the beliefs, experiences, behaviour and feelings of SME owners and managers.

The target population of the study included SMEs from Harare and Mashonaland Central provinces. The study's target population was around 35 700 and the sample of 276 respondents was drawn from the two provinces. The study used a combination of simple random sampling and cluster sampling methods to select the sample. Data was collected using a semi-structured interview and a structured questionnaire.

Quantitative data were analysed using SPSS version 26.0, while qualitative data were analysed using a 7-point Likert scale and thematic coding.

Chapter Four presented the findings based on the research questions, with the findings being discussed relative to previous studies and the theoretical framework. The study found that the main challenge amongst SMEs was a lack of finance. Other challenges faced by SMEs were determined, which included stiff competition; high costs of doing business; a lack of managerial skills and training, a bureaucratic business environment, lack of infrastructure, a lack of advanced technology and no easy access to markets.

This challenge of insufficient finance hampered SMEs from acquiring the necessary resources, for instance engaging qualified personnel to perform critical business activities such as RM. A lack of managerial skills also impeded SMEs from engaging in RM as they were not knowledgeable and lacked the skills to undertake RM. The study found that the main risks facing SMEs included financial, operational and hazard risks, while strategic risk also affected SMEs. The lack of finance exposed SMEs to financial risk and the unstable economic environment in Zimbabwe exposed SMEs to operational risk.

With regard to RM practices of SMEs, it was found that this was very low and that RM in SMEs was not well-developed to address the risks associated with these businesses. A clearly defined RM procedure was absent in SMEs, with the result that RM in SMEs was generally not procedural. Where the perception of SMEs of the relevance of RM to the success of their businesses was concerned, it was determined that most respondents had a negative perception about RM's relevance to SMEs. Respondents indicated that RM was not important for SMEs due to their size and revenue levels, but was more relevant to big businesses.

Regarding the influence of demographic variables on SME RM practices, it was established that demographic variables influenced RM practice in SMEs. Age, gender, race and marital status, as well as the level of education and the level of income, were found to influence RM practices in SMEs, whilst family size did not influence RM practices in SMEs.

In respect of the influence of culture on SME RM practices, it was ascertained that culture influenced RM practices in SMEs. Cultural variables such as social complexity, fate control and religiosity were found to influence SME RM practices, whilst social cynicism and reward for application were found not to influence SME RM practices.

The key findings are summarised in Table 5.1 below:

Table 5.1: Key study findings

THEME	KEY FINDINGS
Risk management practices of SMEs	Risk management practice in SMEs was very low. Risk management in SMEs was not well-developed to address risks associated with these businesses. A clearly defined risk management procedure was absent in SMEs, and risk management in SMEs was generally not procedural.
SME perception of the relevance of risk management to the success of their businesses	SMEs had a negative perception of risk management's relevance to the success of their businesses. SMEs perceive risk management not to be relevant for their businesses and see it as more relevant to big businesses.
Influence of demographic factors on SME risk management practices	Demographic variables influenced risk management practices in SMEs. Age, gender, race and marital status, as well as educational level and income level, influenced risk management practices in SMEs, whilst family size was found not to influence risk management practices in SMEs.
Influence of culture on SME risk management practices	Culture influenced the decision to manage risk. Fate control, social complexity and religiosity were found to influence SMEs' risk management practices, whilst social cynicism and reward for application were found not to influence SMEs' risk management practices.

5.3 CONCLUSIONS

5.3.1 Conclusions based on research objectives

The conclusions reached for each of the research objectives are presented in the subsequent sections based on a scientific statistical analysis of the empirical findings and interview data analysis. The discussions on the conclusions of these objectives cover variables included in the questionnaire.

A comprehensive review of the literature was undertaken and used as a source of information to develop the research instruments. A questionnaire was distributed to targeted respondents to obtain primary data. Variables incorporated in this research instrument were identified from the literature review. A follow-up interview was also used to gain additional in-depth information based on the questionnaire. It was therefore concluded that SME RM practices were low and SMEs have a negative perception of RM's relevance to the success of their businesses.

Different demographic and cultural variables influencing SMEs' RM practices were identified and found to be significant. These variables suggested that a RM framework indicating all relevant factors influencing RM practices with reference to SMEs could be recommended, adapted and encouraged to be used, based on these research findings. This suggested RM framework is presented in the following section.

Sub-objective 1: The level of SMEs Risk Management practices

In so far as the level of SME RM practices was concerned, it was concluded that this level was low.

Sub-objective 2: Perception of SME owners of risk management's relevance to the success of their businesses

Concerning the perception of SME owners of RM's relevance to the success of their businesses, it was concluded that SME owners perceived the relevance of RM negatively to the success of their businesses.

Sub-objective 3: Influence of demographic factors on SMEs risk management practices

Regarding the influence of demographic variables on SME RM practices, the conclusion drawn was that age, gender, race and marital status, in addition to educational level and income level, affected SME RM practices, whilst family size did not.

Sub-objective 4: Influence of culture on SMEs' Risk Management practices

Concerning the influence of culture on SME RM practices, the inference was that social complexity, fate control and religiosity influenced the RM practices of SMEs, whilst social cynicism and reward for application did not.

5.3.2 Conclusions about Research Hypotheses

This section covered the deductions in terms of the hypotheses set in Chapter One, as addressed below:

H1: SME owners have a negative perception of the relevance of Risk Management to the success of their businesses

SME perceptions of RM relevance were negative (mean value = 3.18). The results (Table 5.2) are statistically significant at a *t*-value of 24.318 and a *p*-value of .000. Results showed that SMEs perceived RM as not relevant. The hypothesis that SMEs have a negative perception of RM relevance to the success of their businesses was therefore supported and accepted. Consequently, the researcher concluded that SMEs in Zimbabwe have a negative perception regarding RM's relevance to the success of their businesses.

Table 5.2: Risk Management Perception

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Risk_Management_Perception	256	3.1885	2.09786	.13112

One-Sample Test

	Test Value = 3.5					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Risk_Management_Perception	24.318	255	.000	3.18848	2.9303	3.4467

Regarding the influence of demographic factors on RM practices of SMEs, the study concluded that:

H2: There is a relationship between the age of SME owners and their Risk Management practices

A significantly negative and very strong relationship between the variables at the 95 percent level of significance ($p<0.05$) was reflected (Table 5.3). The hypothesis was accepted and it was concluded that age and the RM practices of SMEs were related.

Table 5.3: Age and Risk Management Practices

			Age	Risk_Management_Practices
Spearman's rho	Age	Correlation Coefficient	1.000	-.567**
		Sig. (2-tailed)	.	.000
		N	256	256
	Risk_Management_Practices	Correlation Coefficient	-.567**	1.000
		Sig. (2-tailed)	.000	.
		N	256	256

H3: There is a relationship between the gender of SME owners and their Risk Management practices

It was revealed (Table 5.4) that a significantly positive and very strong relationship existed between the variables at the 95 percent level of significance ($p<0.05$). The

hypothesis was accepted and the conclusion was drawn that gender and the RM practices of SMEs were related.

Table 5.4: Gender and Risk Management Practices

			Risk_Management_Practices	Gender
Spearman's rho	Risk_Management_Practices	Correlation Coefficient	1.000	.724**
		Sig. (2-tailed)	.	.000
		N	256	256
	Gender	Correlation Coefficient	.724**	1.000
		Sig. (2-tailed)	.000	.
		N	256	256

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

H4: There is a relationship between the race of SME owners and their Risk Management practices

As reflected (Table 5.5), a significantly negative and very strong relationship was found between the variables at the 95 percent level of significance ($p<0.05$). The hypothesis was accepted and it was concluded that a relationship existed between race and RM practices of SMEs.

Table 5.5: Race and Risk Management Practices

			Risk_Management_Practices	Race
Spearman's rho	Risk_Management_Practices	Correlation Coefficient	1.000	-.725**
		Sig. (2-tailed)	.	.000
		N	256	256
	Race	Correlation Coefficient	-.725**	1.000
		Sig. (2-tailed)	.000	.
		N	256	256

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

H5: There is a relationship between the marital status of SME owners and their Risk Management practices

As reflected (Table 5.6), a significantly negative, though moderately strong relationship was found between the variables at the 95 percent level of significance ($p<0.05$). The hypothesis was accepted and the conclusion drawn was that marital status and RM practices of SMEs were related.

Table 5.6: Marital status and Risk Management Practices

			Risk_Management_Practices	Marital Status
Spearman's rho	Risk_Management_Practices	Correlation Coefficient	1.000	-.372**
		Sig. (2-tailed)	.	.000
		N	256	256
	Marital Status	Correlation Coefficient	-.372**	1.000
		Sig. (2-tailed)	.000	.
		N	256	256

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

H6: There is a relationship between the family size of SME owners and their Risk Management practices

No relationship between the variables was reflected (Table 5.7). The hypothesis was rejected and it was concluded that family size and the RM practices of SMEs were unrelated.

Table 5.7: Family size and Risk Management Practices

			Risk_Management_Practices	FAMILY SIZE
Spearman's rho	Risk_Management_Practices	Correlation Coefficient	1.000	.025
		Sig. (2-tailed)	.	.842
		N	256	256
	Family Size	Correlation Coefficient	.025	1.000
		Sig. (2-tailed)	.842	.
		N	256	256

H7: There is a relationship between the level of education of SME owners and their Risk Management practices

It was shown (Table 5.8) that a significantly positive and very strong relationship was found between the variables at the 95 percent level of significance ($p<0.05$). The hypothesis was therefore accepted and it was concluded that the educational level and RM practices of SMEs were related.

Table 5.8: Educational level and Risk Management Practices

			Risk_Management_Practices	EDUCATION
Spearman's rho	Risk_Management_Practices	Correlation Coefficient	1.000	.689**
		Sig. (2-tailed)	.	.000
		N	256	256
	EDUCATION	Correlation Coefficient	.689**	1.000
		Sig. (2-tailed)	.000	.
		N	256	256

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

H8: There is a relationship between the level of income of SME owners and their Risk Management practices

There was a significantly positive and very strong relationship shown (Table 5.9) between the variables at the 95 percent level of significance ($p<0.05$). The hypothesis was accepted and the conclusion reached was that the level of income and RM practices of SMEs were related.

Table 5.9: Level of income and Risk Management Practices

			Risk_Management_Practices	INCOME
Spearman's rho	Risk_Management_Practices	Correlation Coefficient	1.000	.699**
		Sig. (2-tailed)	.	.000

		N	256	256
	INCOME	Correlation Coefficient	.699**	1.000
		Sig. (2-tailed)	.000	.
		N	256	256

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

H9: *There is a relationship between the culture of SME owners and their Risk Management practices*

As illustrated (Table 5.10), a significantly negative and very strong relationship existed between the variables at the 95 percent level of significance ($p<0.05$). The hypothesis was accepted and the conclusion was drawn that culture and the RM practices of SMEs were related.

Table 5.10: Culture and Risk Management Practices

			Risk_Management_Practices	CULTURE
Spearman's rho	Risk_Management_Practices	Correlation Coefficient	1.000	-.636**
		Sig. (2-tailed)	.	.000
		N	256	255
	CULTURE	Correlation Coefficient	-.636**	1.000
		Sig. (2-tailed)	.000	.
		N	255	255

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

5.4 CONTRIBUTION OF THE STUDY

5.4.1 Theoretical contributions

The findings of this study made a significant contribution to the body knowledge, given the lack of research on the influence of demographic factors and culture on the RM practices of SMEs in Zimbabwe. Thus, the findings from the present study complemented extant literature and provided an additional understanding of SME RM practices from the perspective of a developing country, Zimbabwe.

The current study found no relationship between family size and RM practice. Previous studies reported that the number of dependents or size of the family influenced investor risk-taking (Dorresteijn 2017). Jianakoplos and Bernasek (2006) argued that individuals with fewer dependents or a smaller family size were more risk-taking than individuals with bigger families. Furthermore, Chakreeyarat (2015) found that people with no other dependents invested more in risky assets than people with one or more dependents. The results of Perusahaan *et al*. (2013) showed that dependents are one of the only significant explanatory demographic variables for risk tolerance. Thus, previous research claimed that family size influenced risk management practices. However, this study found different results, indicating no difference in RM based on family size, providing a unique contribution to the existing body of knowledge as far as family size and RM are concerned.

The use of social axioms as a measure of culture was a novel contribution to RM studies, with no researcher having to date employed social axioms to measure the cultural beliefs of SME owners in relation to RM practices.

Ultimately, the study contributed a research framework (Figure 5.1) for the demographic factors and culture affecting RM practices of SME owners, which can be used as a reference framework for further research. The research framework is outlined in sub-section 5.8.1 in this chapter.

5.4.2 Practical contributions

This study contributed to the body of knowledge in several ways. Firstly, a thorough review of the literature illustrated the increasing importance of RM in operating and sustaining a business. The rationale for carrying out this study was its potential to add to the literature on SME RM as there was limited literature available and the area was under-researched, particularly in the context of developing countries such as Zimbabwe. The scarcity of similar research in developing economies was acknowledged, particularly in Zimbabwe. The study, therefore, contributed to the

literature by documenting the RM practices of SMEs of a selected population group. SMEs were identified as the key driver of economic growth and the pillar of the achievement of economic goals spelled out in Zimbabwe's economic blueprint, ZIMASSET (Nyamwanza 2014; RBZ 2014).

Secondly, despite the immense contribution of SMEs to the economy, the majority fail within the first five years of operation. One of the major contributors to the failure of SMEs was their inability to manage risk. The research findings could thus assist in saving the remaining SMEs in Zimbabwe from failing. When SMEs succeed, Zimbabwe will likely attain economic growth, resulting in increased employment levels and GDP.

Thirdly, gaps identified in the literature assisted in the development of numerous hypotheses to reveal relationships between demographic factors and culture and the RM practices of SMEs. Whilst previous studies sought to determine the RM practices of SMEs, the current study went further by establishing the existence of associations between demographic factors and culture with the RM practices of SMEs.

Finally, this study focused on SMEs because a vibrant SME sector was seen as the cornerstone of economic recovery (Fjose *et al.* 2010) in Zimbabwe. SMEs are considered the backbone of the economy (Gangata and Matavire 2013; Peprah *et al*. 2016) as they represent most enterprises and a means to achieve accelerated growth in Zimbabwe's economy. In fact, the economic blueprint for Zimbabwe, ZIMASSET, recognised this sector's importance in achieving the economic agenda (Nyamwanza 2014; RBZ 2014). Therefore, the researcher hoped that the findings of the study will be valuable to various stakeholders, in particular, policy-makers. The study will also assist SMEs to address their shortcomings so that they may reach their full potential in job creation, poverty alleviation and consequently, economic growth.

5.5 PERSONAL REFLECTIONS

The researcher was enlightened by this study to cross-examine any data that comes her way, as opposed to merely accepting it at face value. She now searches for global perspectives. The researcher therefore now strives to discover whether the subject area is supported anywhere and peruses other researchers' views in this regard.

The research process has not only endowed this researcher with skills to employ a holistic approach to issues but has also empowered and emancipated her to become a RM and SME champion since she can now articulate these issues from an informed perspective. Furthermore, the research process has capacitated the researcher with interpersonal skills as she needed to persuade respondents to participate in the study. The researcher was also socialised to be patient as the entire process was lengthy and exhausting and while it would have been easy to give up, the researcher soldiered on with patience against all odds.

5.6 LIMITATIONS OF THE STUDY

The research limitations were as follows:

- The findings of the research were limited by the study's objectives, as set out in Chapter One.
- In some targeted research areas, finding the right participants proved to be problematic as some SMEs were reluctant to participate in the study, mainly due to fear of risking their image and reputation. However, the researcher explained that the research was mainly for academic purposes.
- The nature of this research affected SMEs nationally. Nonetheless, the population for the study sample was limited to 35 700 SME owners/managers who employed 6-100 employees, in line with the study definition outlined in section 1.2, pp 2, but only in Harare and Mashonaland Central Provinces. This study excluded SMEs with similar characteristics but situated in other provinces of Zimbabwe due to constraints. The researcher opted for sampling techniques to identify participants for the study.

- The cluster sampling technique used may have compromised the results since the samples chosen conveyed the idea that a sample of a population will sufficiently represent the whole population. However, this may not be the case as in some instances, samples are not easily justifiable as being representative of populations due to possible researcher bias. Consequently, the sample used in this research may not essentially be sufficiently representative of the total population. This certainty is never guaranteed as cluster samples can in some cases give very misleading views of entire populations since only small samples would have been consulted, as was the case in this study.
- The researcher was further limited by the unwillingness of some respondents to complete the questionnaire promptly and those who did not complete them at all. This resulted in a limited number of respondents involved in the study, despite the researcher's efforts in explaining the potential benefits of the study to them.

5.7 RECOMMENDATIONS FOR FURTHER RESEARCH

The study recommended that the findings presented in this study can be strengthened by using a larger sample of the population, which should include other SMEs in other provinces. Furthermore, the study recommends the use of focus group discussions, to buttress qualitative and quantitative data. Focus group discussions can be conducted with selected SMEs to gain a more in-depth understanding of how demographic factors and culture affect the RM practices of SMEs. It is also recommended that future research should investigate organisational factors that may affect SMEs in their quest to manage risk.

5.8 RECOMMENDATIONS FOR PRACTICE

The recommendations for this study are based on the empirical findings of the study to assist in the management of risk in SMEs and are discussed in the following section:

5.8.1 Framework to effectively manage risk in Zimbabwe's SME sector

This study suggested that SMEs needed new RM theories and frameworks. Therefore, it recommended the framework (Figure 5.1) based on the empirical findings of this study. This section presents the framework for managing risk in Zimbabwe's SMEs and the related components. The purpose of the framework is to enable SMEs in Zimbabwe to address the challenges and risks identified in the previous chapter.

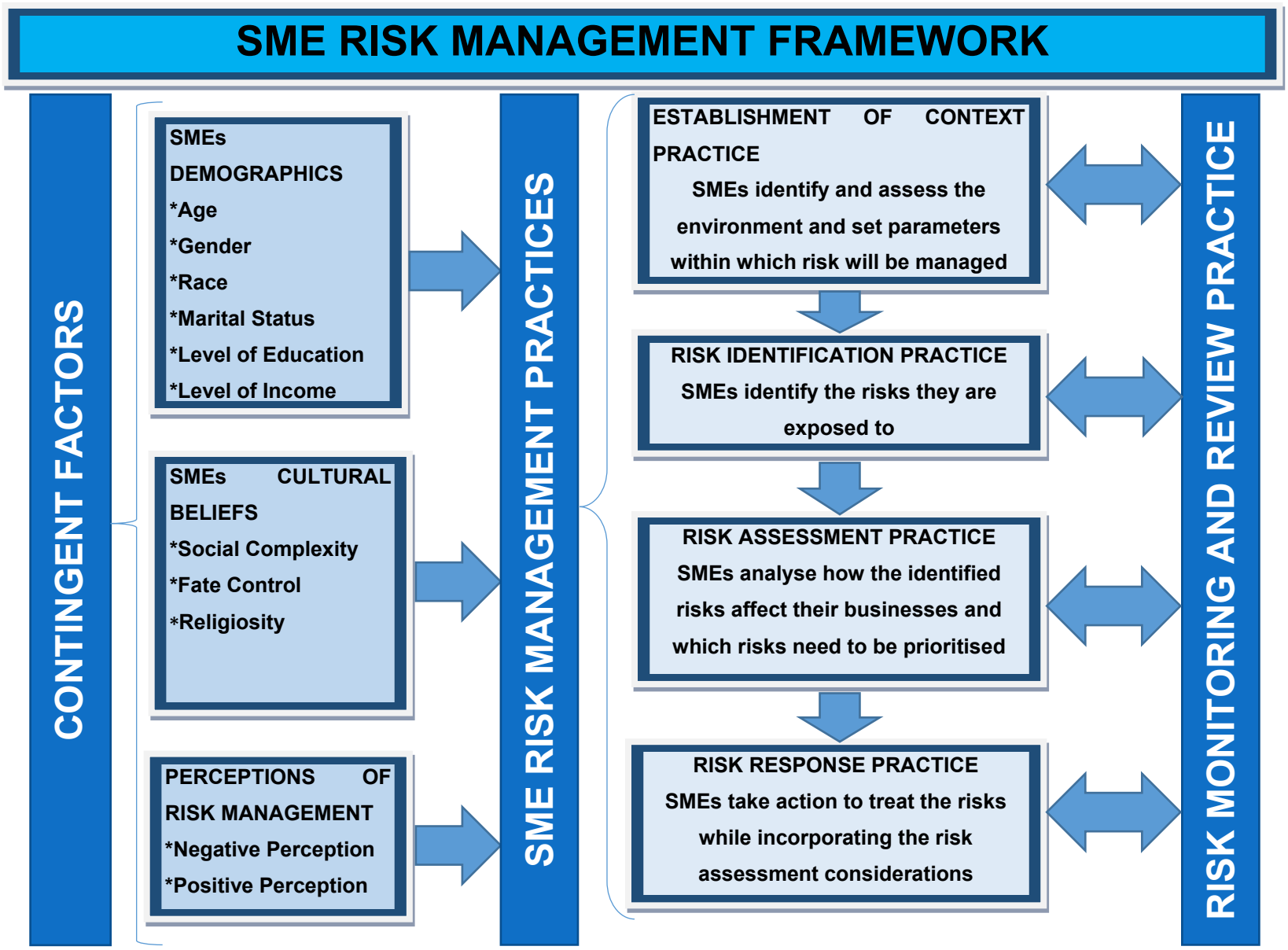

Figure 5.1: SME Risk Management Framework

5.8.1.1 Practical guidelines for implementing the framework

This section sets out practical guidelines for the implementation of the proposed RM framework (Figure 5.1).

5.8.1.1.1 Contingent factors

Various contingent factors affected the RM decision-making in SMEs, of which demographic variables, cultural variables and perceptions are amongst the most important. Contingent factors included SME demographic factors, cultural beliefs and perceptions. SME demographics comprised the age, race, gender and marital status, as well as level of education and level of income of SME owners. Demographics is one of the most common factors used for purposes of differentiation in SME RM.

Culture is the way of life that conveys certain values and meanings of people and is the ultimate way of doing things (Ashby *et al.* 2013). Culture influences SME owners' personal decisions to manage risk in their organisations (George and Zahra 2002). Cultural beliefs or values included fate control, social complexity and religiosity (Leung and Bond 2004, 2009). Cultural values were also likely to determine the extent to which SMEs consider RM behaviours to be desirable (Hayton *et al*. 2002).

Perceptions refer to how something is thought about, or the impression of it. It is an awareness, comprehension or an understanding of something. SMEs' RM practices are greatly affected by the owners' perceptions of risk and attitudes towards RM. The attitudes or perceptions of the SME owner-managers and their knowledge of risks play a key role in how risks are systematically handled (Tshikovhi and Shambare 2015). SMEs must therefore consider their demographics, cultural beliefs and perceptions towards RM, as these can positively or negatively influence their RM practices.

5.8.1.1.2 Establishment of the context

Establishing the context refers to the gathering, use and monitoring of the company's environment, internally and externally, to detect potential threats towards its future plans.

Thus, it is a crucial aspect of RM for SMEs. When SMEs establish the context, a broad range of factors are considered that can affect future operations. These include the internal and external environments (Ekwere 2016; Shoki *et al.* 2014). The following steps will assist in establishing the context within which risk will be identified.

a) Establishment of the internal context

SMEs should, in establishing the internal context, consider:

- Internal culture: for example, are employees resistant to change?
- The professional culture may create unnecessary risks for the business.
- Capabilities of the business: in terms of systems, people, equipment and processes, as well as other resources.

b) Establishment of the external context

In establishing the external context, SMEs should consider:

- An understanding of client or customer perceptions of the business.
- The analysis of Strengths, Weaknesses, Opportunities and Threats (SWOT) to the business in the external environment.
- Regulations, legislation and any other requirements with which the business must comply.
- The market within which the business operates.
- Competitors.
- Cultural, social or political issues.
- Relationships of the business with external stakeholders for risk and opportunity.

c) Establishment of the Risk Management context:

It is important to define the limits, objectives and scope of the activity under examination. Establishing the boundaries and parameters of the activity involves determining the time-frame, required resources, roles and responsibilities, as well as the necessary expertise (Ekwere 2016).

Establishing the context assists in identifying threats and opportunities to help avoid unpleasant surprises; gain a competitive advantage over other enterprises; and create more effective long- and short-term planning. Identifying opportunities and threats is the very core of RM as this enables SMEs to formulate important strategies and plans of action while minimising threats and taking advantage of opportunities that arise. SMEs can assess environmental risks involved in executing their plans, which allows them to make wise business decisions regarding future operations (Ekwere 2016).

SMEs can use the following tools and techniques to establish the context:

- SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis;
- PESTEL (Political, Economic, Social, Technological, Environmental and Legal) analysis;
- Brainstorming; and
- Expert judgement.

5.8.1.1.3 Risk identification

Risk cannot be managed unless it is first identified. Risk identification aims to identify potential risks that may affect, either positively or negatively, the objectives of the business and the activity under analysis (Ekwere 2016). Identified risks can have a negative impact on the financial situation of the company, as well as on its development (Hobohm 2001). The identification process is critical since only identified risks can be successfully handled (Marcelino-Sádaba 2014; Napp 2011).

Many approaches are used in identifying risks. SMEs can use the regressive and progressive approaches. The regressive approach starts with the company's main goals and attempts to discover probable reasons from the risk factors that may lead to a departure from the set objectives (Baranoff and Brockett 2012). The progressive approach is applied to discover potential departures from plans and the accompanying losses, based on distinctive risk factors. These risk factors might stem from singular sources of origin, such as legal aspects, financial factors or market changes (Jayathilake 2012).

SMEs can also identify risks retrospectively and prospectively. Retrospective risks are those that have previously occurred, such as incidents or accidents. It is often the most common and easiest way to identify risk, whilst also being undemanding in requiring belief in something when it has happened before and more straightforward to quantify its impact and see the damage it has caused (Kessels-Habrakken and Van der Schaaff 2009).

Prospective risks are incidents that have not yet happened but might happen sometime in the future. Prospective risks are often more difficult to identify than retrospective risks, with risk identification comprised of all risks, whether they are presently being managed or not. The justification here is to record all significant risks and monitor or review the effectiveness of their control (Kessels-Habrakken and Van der Schaaff 2009).

SMEs can use the following tools and techniques to identify risks:

- Brainstorming with staff or external stakeholders;
- Researching the economic, political, legislative and operating environments;
- Conducting interviews with relevant people and/or organisations;
- Undertaking surveys of staff or clients to identify anticipated issues or problems;
- Flow charts;
- Reviewing system design or preparing system analysis techniques;
- Hazard or incident logs or registers;
- Audit reports;
- Customer complaints;
- Accreditation documents and reports;
- Past employee or customer surveys,
- Professional media or newspapers; and
- Journals or websites.

5.8.1.1.4 Risk assessment

Risk assessment is the process by which a businessperson determines the effect of identified risks on the business and which risks need to be given priority (Enterprise Risk

Management Initiative 2017; CGMA 2017). Risk assessment includes risk analysis and risk evaluation.

The risk analysis step sets up RM needs and gives a beginning point to selecting fitting RM strategies for every risk (Sunjka and Emwanu 2015). During the risk identification stage, a business owner might have identified many risks which are often not possible to try to address (Terungwa 2012). Risk analysis assists in determining which risks have a greater impact than others. This assists in providing an improved understanding of the likelihood of the risk occurring or the potential impact of the risk and decisions can be made about committing resources to control the risk.

The purpose of risk analysis is to avail information to SME business owners to make decisions concerning priorities, treatment options, or balancing benefits and costs (Geesink 2012). The impact of the various risks and their likely damage to the company should be assessed. This requires an identification of the costs to the company in case the risk happens, as well as the likelihood of its occurrence. Risk analysis aims to establish the degree of the identified risks and enumerate their financial impact on the company. Consequently, it is necessary to analyse how the risk could affect the business (Ekwere 2016).

Risk evaluation involves comparing the level of risk found during the analysis process with formerly established risk criteria, and determining whether these risks need treatment (Ekwere 2016). It is important to determine how severe the risks facing the business are. The SME owner must determine the risk level that is acceptable to the business. The outcome of a risk evaluation is a ranked list of risks that require further action.

Risk evaluation is about deciding whether risks are acceptable or need to be treated (Vasvári 2015). SMEs may accept low or bearable risks, which means that the business chooses to ‘accept’ that the risk exists, either because there is no reasonable treatment that can be implemented, or the risk is at a low level that the cost of treating the risk will outweigh the benefit so that acceptance is the only option (Shoki *et al.* 2014). The level of

the risk may also be so low that specific treatment is not appropriate with the available resources. Risks may also be accepted because the opportunities presented far outweigh the threats.

SMEs can use the following risk assessment tools and techniques:

- Bow tie Analysis;
- Expert judgement;
- Process flow charts;
- Fishbone diagrams;
- Risk matrix;
- Risk maps; and
- Risk Breakdown Structure.

5.8.1.1.5 Risk response

Risk response entails identifying alternatives for treating or controlling risk, to either reduce the likelihood of an adverse occurrence or to reduce or eliminate negative consequences. Risk response should also aim to enhance positive outcomes. It is either not possible or cost-effective to implement all treatment strategies and a business owner should aim to choose, prioritise and implement the most suitable combination of risk treatments (Islam and Tedford 2012). SMEs need to understand whether the cost of any specific method of treating a potential risk is justifiable.

Considerations should be made of the required number of treatments; benefits to be derived from risk treatment; available alternative treatment options; and justification for the treatment method chosen. Considerations should also be given to the effectiveness of the risk treatment, the timeframe, the total cost of the treatment option and the total reduction in residual risk. The measures to deal with risk range from risk prevention or avoidance to transfer of risks, acceptance of the risk and risk reduction (Henschel 2008b).

SMEs can use the following tools and techniques to treat risks:

- Insurance, and
- Diversification of the portfolio.

5.8.1.1.6 Risk monitoring and review

Risk monitoring and evaluation is an important and integral stage in the RM process. A business owner needs to monitor risks and review the effectiveness of the risk treatment strategy; a management system that has been set up to effectively manage risk. Risks require to be periodically monitored to ensure that changing conditions do not vary the risk priorities (Duong 2013; Falkner and Hiebl 2015; Panigrahi 2012). Very limited risks will remain stagnant. Therefore, the RM process needs to be repeated regularly so that new risks are recognised in the process and managed effectively. A RM plan at a business level should therefore be reviewed frequently (Raghavan 2005).

SMEs can use the following tools and techniques to monitor and evaluate risks:

- Direct Supervision;
- Budgetary Control;
- Break-Even Analysis;
- Return on Investment (ROI);
- Management by Objectives (MBO);
- Management Audit; and
- Management Information System (MIS).

5.8.1.2 Framework validation using SWOT analysis

Validation is the process of checking whether the specification captures customer needs, expectations and requirements, in this case, SMEs (Mingers and Standing 2016). Conducted during the development of a framework, validation's ultimate goal lies in producing an accurate and credible framework. As an iterative process, validation takes place throughout the development of a framework, which ensures that the framework has been built correctly. It is vital to ensure that the framework is clean, correct and useful. This is crucial because the validated framework is then something that can be trusted and used to make informed decisions and decisive actions (Mingers and Standing 2016).

Amongst the many tools used for the validation of the proposed framework, SMEs may use the SWOT analysis method. According to Hill and Westbrook (1997), a good framework must have a good fit in the area or domain of application. The researcher suggests that the four elements of the SWOT analysis can be directly used for validating the usability of an effective SME RM framework. Intrinsically, the researcher opines that every SWOT aspect gives direction to the development of a coherent RM framework, as presented (Table 5.11) below:

Table 5.11: SWOT Analysis of the SME risk management framework

Strength of the framework	**Weaknesses of the framework**
• It is a holistic approach to risk management • It is clear and concise • It improves SME performance	• Benefits are poorly understood by SMEs • Over-simplification • Substantial resources needed to apply the framework
Opportunities of the framework	**Threats of the framework**
• Future potential development in the risk management framework • Alignment with national policies and strategies • Increasing awareness among SMEs	• Resistance to change by SMEs • Insufficient funding

5.8.2 SME capacity building

There is a clear need for RM education. Campaigns to increase the awareness of RM are also recommended so that SMEs can become more aware and participate in the management of the risk they are confronted with daily. These courses should cover financial management and RM. This would enhance RM literacy amongst SMEs.

5.8.3 Networking

SMEs should network with other business partners to obtain RM skills and knowledge. This will help them to build networks with other business owners around their areas so that they may know and understand RM better. Furthermore, SMEs should form business forums in their respective areas to help them assist each other with the

knowledge and skills required for their businesses, such as RM. Moreover, SMEs could also facilitate workshops amongst themselves.

5.8.4 Change of business norms

SMEs should, in addition, change their business norms to allow actions that may lead to new business methods, such as RM.

5.8.5 SME policy reform

Policy-makers at local, provincial and national levels should review the SME policy framework to include an SME monitoring policy that will permit the government to monitor and follow-up on SMEs in terms of RM.

The Zimbabwean government should reconsider the education policy to introduce entrepreneurship education and training as a part of the curriculum at primary school and high school levels. Further to this, Zimbabwe's education policy should incorporate training and development, which will transform Zimbabwean citizens' entrepreneurial skills. This will assist SMEs to acquire the business skills and knowledge required by the business to survive and grow at an early stage in its life-cycle.

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APPENDICES

APPENDIX 1: COVER LETTER FOR QUESTIONNAIRE

LETTER OF INFORMATION AND CONSENT FOR RESEARCH INSTRUMENTS

Dear Participant

My name is Fungai Ngoma Mauchi and I am currently a PhD student at the Durban University of Technology. My research topic is "The influence of demographic factors and culture on the risk management practices of SMEs in Zimbabwe" My supervisor is Professor Veena Rawjee. The overall aim of the study is to determine the level of SMEs risk management practices, determine the SMEs perception of the relevance of risk management in the success of their businesses, the influence of demographic factors such as age, gender, race, marital status, family size, level of education, income and culture on the risk management practices of SMEs.

The letter, therefore, serves as an invitation for you to consider participating in this study by completing the attached questionnaire and/or responding to the interview questions. Participation is voluntary and you are free to withdraw from the study at any time without giving reasons and without prejudice or any adverse consequences. You may also be withdrawn from the study in cases of non-compliance, illness and adverse reactions. Participants will not receive any monetary or other types of remuneration or cover any costs towards the study. The information you will give will be used only for research purposes and will be aggregated with other responses and only the overall information will be used. Your identity and individual answers will be kept confidential. Should you have any queries or experience any problems or wish to discuss this further please feel free to contact the researcher on Cell phone number +263777684025 or the Project Supervisor Professor V. Rawjee, Telephone number 27(31)3735130 or the Institutional Research Ethics administrator on 031 373 2900.

Your cooperation will be greatly appreciated.

Yours faithfully

Fungai Ngoma Mauchi
Student number: 21557631
Cell number: +263777 684 025
Email: ffmauchi@gmail.com

DECLARATION OF CONSENT

Please complete the following as confirmation of your willingness to participate in this research project:

I……., have adequately discussed the study with the researcher, understand that I may withdraw from it at any time without giving reasons, and I voluntarily agree to participate in the interview.

_____	_____	_____
Full Name of Participant	**Date**	**Signature**

_____	_____	_____
Full Name of Researcher	**Date**	**Signature**

APPENDIX 2: QUESTIONNAIRE

For Official Use Only

Questionnaire No._____

Province _____

Please answer all questions by ticking on your response in the last column.

	SECTION A: DEMOGRAPHICS			
Q1	Indicate in which age group you belong to	1	18-19	
		2	20-24	
		3	25-29	
		4	30-34	
		5	35-39	
		6	40-44	
		7	45-49	
		8	50-54	
		9	55-59	
		10	60-64	
		11	65-69	
		12	70+	
Q2	Indicate your gender	1	Male	
		2	Female	
Q3	Indicate your race	1	White	
		2	Black	
		3	Yellow	
Q4	Marital status	1	Married	
		2	Divorced	
		3	Widowed	
		4	Never been married	

		5	Separated	
Q5	Indicate your family size	1	Small	
		2	Large	
		3	No family	
Q6	Indicate your highest level of education	1	Primary	
		2	Secondary	
		3	Technical/Vocational	
		4	Professional	
		5	University	
		6	No formal education	
		7	Other (specify) ……	
Q7	Indicate your levels of income per month	1	US$500 and below	
		2	US$501 - US$1000	
		3	US$1001 - US$1500	
		4	US$1501 - US$2000	
		5	US$2001 - US$2500	
		6	US$2501 - US$3000	
		7	More than US$3000	
Q8	Indicate the sector in which your business falls under	1	Wholesale and Retail	
		2	Manufacturing	
		3	Transport	
		4	Service	
		5	Arts and Culture	
		6	Agriculture	
		7	Construction	
		8	Tourism	
		9	Other (specify) …… ……	

			……	
Q9	How many employees do you have?	1	Below 6 employees	
		2	6-50 employees	
		3	51-75 employees	
		4	76-100 employees	
		5	More than 100 employees	
Q10	What are the challenges facing SMEs? *Multiple responses are allowed*	1	Lack of finance	
		2	Lack of access to markets	
		3	Competition	
		4	Debtors delaying payments	
		5	High cost of doing business	
		6	Lack of managerial skills	
		7	Lack of advanced technology	
		8	Lack of infrastructure	
		9	Bureaucratic business environment	
		10	Other challenges …… …… …… ……..	
Q11	What are the risks facing SMEs? *Multiple responses are allowed*	1	Operational risk	
		2	Financial risk	
		3	Hazard risk	
		4	Strategic risk	
		5	Other risks(specify) …… ……	

Q12. LEVEL OF RISK MANAGEMENT PRACTICES

The following statements relate to the level of risk management practices by SMEs. Please indicate how strongly you agree or disagree with each statement by circling the number on the scale where 1 is strongly disagree and 7 is strongly agree

1=strongly disagree 2= somewhat disagree 3=disagree 4=neutral 5= agree 6= somewhat agree 7= strongly agree

1. Risk management initiatives are considered important in SMEs.	1	2	3	4	5	6	7
2. The general principles of risk management are included in our operational policy	1	2	3	4	5	6	7
3. Risk management is clearly supported by management	1	2	3	4	5	6	7
4. The management personnel identify/ analyses and adequately responds to risks affecting the organization on a regular basis	1	2	3	4	5	6	7
5. Adequate knowledge, proper training and advanced technology are considered in risk management processes	1	2	3	4	5	6	7
6. Risk management tasks and roles are clearly assigned.	1	2	3	4	5	6	7
7. Risk management is monitored and reported as part of our normal management reporting system.	1	2	3	4	5	6	7
8. We use risk analysis methods that are recommended by specialists.	1	2	3	4	5	6	7
9. When analysing significant risks, we use in-depth risk analysis methods and our methods of working are modified to minimize the level of risk.	1	2	3	4	5	6	7
10. Employees have the skill to participate in the development of risk management activities.	1	2	3	4	5	6	7
11. Employees participate in risk management activities, both inside and outside the scope of their own specific tasks.	1	2	3	4	5	6	7

Q13. SMEs PERCEPTION ON THE RELEVANCE OF RISK MANAGEMENT IN THE SUCCESS OF THEIR BUSINESSES

The following statements relates to perception of SMEs owners on the relevance of risk management in the success of their businesses. Please indicate how strongly you agree or disagree with each statement by circling the number on the scale where 1 is strongly disagree and 7 is strongly agree

1=strongly disagree 2= somewhat disagree 3=disagree 4=neutral 5= agree 6= somewhat agree 7= strongly agree

1. I am familiar with risk management in my business	1	2	3	4	5	6	7

2. I consider risk management to be useful in my company	1	2	3	4	5	6	7
3. I manage risk proactively	1	2	3	4	5	6	7
4. Risks facing the organization are logged and filed	1	2	3	4	5	6	7
5. Controls to identify risk proactively are budgeted for	1	2	3	4	5	6	7
6. Controls to identify risk reactively are expensed	1	2	3	4	5	6	7
7. Risk and controls are communicated to all employees	1	2	3	4	5	6	7
8. Risk form part of the agenda in leadership meetings	1	2	3	4	5	6	7
9. Risks are addressed within a reasonable time after identification	1	2	3	4	5	6	7
10. There are effective risk communication channels from the bottom level up for emerging risks	1	2	3	4	5	6	7
11. The cost of employing risk management initiatives is justified compared to the benefit	1	2	3	4	5	6	7
12. I know where to get information about risk management and which specialist to contact	1	2	3	4	5	6	7

Q14. CULTURE MEASUREMENT SCALE

The following are statements related to cultural beliefs. Please read each statement carefully and indicate how strongly you agree or disagree with each statement by circling the number on the scale where 1 is strongly disagree and 7 is strongly agree.

1=strongly disagree 2= somewhat disagree 3=disagree 4=neutral 5= agree 6= somewhat agree 7= strongly agree

1. Kind hearted people usually suffer losses	1	2	3	4	5	6	7
2. Powerful people tend to exploit others	1	2	3	4	5	6	7
3. Power and status make people arrogant.	1	2	3	4	5	6	7
4. Kind-hearted people are easily bullied.	1	2	3	4	5	6	7
5. People will stop working hard after they secure a comfortable life.	1	2	3	4	5	6	7
6. Hard working people will achieve more in the end	1	2	3	4	5	6	7
7. One will succeed if he/she really tries	1	2	3	4	5	6	7

8. Every problem has a solution.	1	2	3	4	5	6	7
9. Adversity can be overcome by effort.	1	2	3	4	5	6	7
10. One who does not know how to plan his future will eventually fail.	1	2	3	4	5	6	7
11. There is usually only one way to solve a problem.	1	2	3	4	5	6	7
12. People may have opposite behaviours on different occasions	1	2	3	4	5	6	7
13. Human behavior changes with the social context.	1	2	3	4	5	6	7
14. One's behaviours may be contrary to his or her true feelings.	1	2	3	4	5	6	7
15. Current losses are not necessarily bad for one's long-term future.	1	2	3	4	5	6	7
16. Fate determines one's successes and failures.	1	2	3	4	5	6	7
17. There are many ways for people to predict what will happen in the future.	1	2	3	4	5	6	7
18. There are certain ways to help us improve our luck and avoid unlucky things.	1	2	3	4	5	6	7
19. Good luck follows if one survives a disaster.	1	2	3	4	5	6	7
20. Individual characteristics such as appearance and birthday, affect one's fate.	1	2	3	4	5	6	7
21. Religious faith contributed to good mental health.	1	2	3	4	5	6	7
22. Religion makes people escape from reality.	1	2	3	4	5	6	7
23. Beliefs in a religion helps one understand the meaning of life.	1	2	3	4	5	6	7
24. There is a supreme being controlling the universe.	1	2	3	4	5	6	7
25. Belief in religion makes people good citizens.	1	2	3	4	5	6	7

Q15. What recommendations can you give to ensure successful risk management in SMEs?

……

……

Thank you for taking your time to answer these questions

APPENDIX 3: COVER LETTER FOR INTERVIEW GUIDE

LETTER OF INFORMATION AND CONSENT FOR RESEARCH INSTRUMENT

Dear Participant

My name is Fungai Ngoma Mauchi and I am currently a PhD student at the Durban University of Technology. My research topic is “The influence of demographic factors and culture on the risk management practices of SMEs in Zimbabwe”. My supervisor is Professor Veena Rawjee. The overall aim of the study is to determine the level of SMEs risk management practices, determine the SMEs perception of the relevance of risk management in the success of their businesses, determine the influence of demographic factors such as age, gender, race, marital status, family size, level of education, level of income and culture, on the risk management practices of SMEs.

The letter, therefore, serves as an invitation for you to consider participating in this study by answering the interview questions. The **interview** will take approximately 30 minutes to complete. Participation is voluntary and you are free to withdraw from the study at any time without giving reasons and without prejudice or any adverse consequences. You may also be withdrawn from the study in cases of non-compliance, illness and adverse reactions. Participants will not receive any monetary or other types of remuneration or cover any costs towards the study. The information you will give will be used only for research purposes and will be aggregated with other responses and only the overall information will be used. Your identity and individual answers will be kept confidential. Should you have any queries or experience any problems or wish to discuss this further please feel free to contact the researcher on Cell phone number +263777684025 or the Project Supervisor Professor V. Rawjee, Telephone number 27(31)3735130 or the Institutional Research Ethics administrator on 031 373 2900.

Your cooperation will be greatly appreciated.

Yours faithfully

Fungai Ngoma Mauchi

Student number: 21557631

Cell number: +263777 684 025

Email: ffmauchi@gmail.com

DECLARATION OF CONSENT

Please complete the following as confirmation of your willingness to participate in this research project:

I……, have adequately discussed the study with the researcher, understand that I may withdraw from it at any time without giving reasons, and I voluntarily agree to participate in the interview.

_____	_____	_____
Full Name of Participant	**Date**	**Signature**

_____	_____	_____
Full Name of Researcher	**Date**	**Signature**

APPENDIX 4: INTERVIEW GUIDE

1. How is risk managed in your organisation?
2. In your analysis, is risk management important for SMEs like yours?
3. Would you say that gender affects the way you manage risk in your organisation?
4. Would you say that your age affects the way you manage risk in your organisation?
5. From your analysis, would you say that your level of education affects the way you manage risk in your organisation?
6. Would you say that your income affects the way you manage risk in your organisation?
7. Would you say that your marital status affects the way you manage risk in your organisation?
8. From your analysis, would you say that your level of education affects the way you manage risk in your organisation?
9. Would you say that your family size affects the way you manage risk in your organisation?
10. From your analysis, would you say that your culture affects the way you manage risk in your organisation?

APPENDIX 5: GATEKEEPERS CLEARANCE LETTER

Correspondence should not be addressed to individuals

Reference:

Telephone No's (0271)6792
(0271)7478

FaxNo
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ZIMBABWE

Ministry of Small and Medium Enterprises Development
G.G Building
Robert Mugabe Way
Private Bag 906
Bindura
Mashonaland Central Province

TO WHOM IT MAY CONCERN

RE:GRANT OF PERMISSION TO CARRY OUT RESEARCH ON MSMEs IN MASHONALAND CENTRAL FROM MARCH 2018 TO JULY 2018.

The above matter refers.

The bearer ,Fungai Ngoma Mauchi is a student with Durban University of Technology in South Africa and her student number is 21557631 .The research topic is: **The influence of demographic and cultural factors on risk management practices of SMEs in Zimbabwe.**

Please assist her without any reservations

Provincial Office (MASH CENTRAL)
Ministry of Small and Medium
Enterprises & Cooperative Dev.
21 MAR 2018
P. BAG 906, BINDURA
ZIMBABWE

Yours faithfully

Acting Deputy Director(Mash-Central

APPENDIX 6: ONE SAMPLE TEST FOR SMEs RISK MANAGEMENT PRACTICES

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Risk_Management_Practices	256	3.2195	1.97264	.12329

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Risk_Management_Practices	26.113	255	.000	3.21946	2.9767	3.4623

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMP1	256	3.00	2.690	.168

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
RMP1	17.868	255	.000	3.004	2.67	3.33

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMP2	256	3.20	2.040	.127

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
RMP2	25.096	255	.000	3.199	2.95	3.45

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMP3	256	3.44	1.563	.098

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
RMP3	35.188	255	.000	3.438	3.25	3.63

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean

RMP4	256	3.28	2.212	.138

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
RMP4	23.710	255	.000	3.277	3.01	3.55

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMP5	256	3.00	2.280	.143

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
RMP5	21.049	255	.000	3.000	2.72	3.28

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMP6	256	3.10	1.865	.117

One-Sample Test

Test Value = 0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
RMP6	26.581	255	.000	3.098	2.87	3.33

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMP7	256	3.46	2.061	.129

One-Sample Test

Test Value = 0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
RMP7	26.892	255	.000	3.465	3.21	3.72

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMP8	256	3.28	2.105	.132

One-Sample Test

Test Value = 0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
RMP8	24.942	255	.000	3.281	3.02	3.54

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMP9	256	3.10	2.091	.131

One-Sample Test

Test Value = 0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
RMP9	23.728	255	.000	3.102	2.84	3.36

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMP10	256	3.23	2.067	.129

One-Sample Test

Test Value = 0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
RMP10	25.031	255	.000	3.234	2.98	3.49

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMP11	256	3.32	2.121	.133

One-Sample Test

Test Value = 0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
RMP11	25.015	255	.000	3.316	3.06	3.58

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMA1	256	2.96	2.645	.165

APPENDIX 7: ONE SAMPLE TEST FOR PERCEPTION OF SMEs ON THE RELEVANCE OF RISK MANAGEMENT IN THE SUCCESS OF THEIR BUSINESSES

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Risk_Management_Perception	256	3.1885	2.09786	.13112

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	T	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Risk_Management_Perception	24.318	255	.000	3.18848	2.9303	3.4467

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
RMA1	17.913	255	.000	2.961	2.64	3.29

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMA2	256	3.17	2.097	.131

One-Sample Test

Test Value = 0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
RMA2	24.167	255	.000	3.168	2.91	3.43

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMA3	256	3.33	1.807	.113

One-Sample Test

Test Value = 0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
RMA3	29.501	255	.000	3.332	3.11	3.55

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMA4	256	3.23	1.971	.123

One-Sample Test

Test Value = 0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
RMA4	26.189	255	.000	3.227	2.98	3.47

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMA5	256	3.14	2.285	.143

One-Sample Test

Test Value = 0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
RMA5	21.995	255	.000	3.141	2.86	3.42

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean

RMA6	256	3.16	2.136	.133

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
RMA6	23.704	255	.000	3.164	2.90	3.43

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMA7	256	3.32	1.994	.125

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
RMA7	26.644	255	.000	3.320	3.07	3.57

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMA8	256	3.25	1.946	.122

One-Sample Test

Test Value = 0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
RMA8	26.692	255	.000	3.246	3.01	3.49

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMA9	256	3.17	2.153	.135

One-Sample Test

Test Value = 0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
RMA9	23.545	255	.000	3.168	2.90	3.43

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMA10	256	3.35	2.122	.133

One-Sample Test

Test Value = 0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
RMA10	25.243	255	.000	3.348	3.09	3.61

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMA11	256	2.87	2.534	.158

One-Sample Test

Test Value = 0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
RMA11	18.103	255	.000	2.867	2.56	3.18

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RMA12	256	3.09	2.262	.141

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
RMA12	21.854	255	.000	3.090	2.81	3.37

APPENDIX 8: INDEPENDENT SAMPLES T-TEST

Group Statistics

	AGE 2	N	Mean	Std. Deviation	Std. Error Mean
Risk_Management_Practices	Young	102	5.2184	1.75858	.17412
	Old	154	1.8955	.12635	.01018

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for			
		F	Sig.	t	df	Sig. (2-tailed)	Mean Diffe
Risk_Management_Practices	Equal variances assumed	271.541	.000	23.381	254	.000	3
	Equal variances not assumed			19.051	101.691	.000	3

Group Statistics

	GENDER	N	Mean	Std. Deviation	Std. Error Mean
Risk_Management_Practices	MALE	163	1.9180	.33838	.02650
	FEMALE	93	5.5005	1.52430	.15806

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for			
		F	Sig.	t	df	Sig. (2-tailed)	Mean Diffe
Risk_Management_Practices	Equal variances assumed	114.820	.000	-28.826	254	.000	-3

	Equal variances not assumed			-22.353	97.202	.000	-3

Group Statistics

	RACE	N	Mean	Std. Deviation	Std. Error Mean
Risk_Management_Practices	WHITE	84	5.7294	1.25595	.13704
	BLACK	172	1.9937	.65656	.05006

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Me				
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	S D
Risk_Management_Practices	Equal variances assumed	25.046	.000	31.267	254	.000	3.73578	
	Equal variances not assumed			25.606	105.719	.000	3.73578	

Group Statistics

	MARITAL STATUS	N	Mean	Std. Deviation	Std. Error Mean
Risk_Management_Practices	MARRIED	164	3.9368	2.13140	.16643
	SINGLE	92	1.9055	.10614	.01226

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for			
		F	Sig.	t	df	Sig. (2-tailed)	Mean Diffe
Risk_Management_Practices	Equal variances assumed	12605.469	.000	8.240	237	.000	2
	Equal variances not assumed			12.172	164.762	.000	2

Group Statistics

	FAMILY SIZE	N	Mean	Std. Deviation	Std. Error Mean
Risk_Management_Practice	BIG	58	3.2102	2.00093	.45904
s	SMALL	198	3.2205	1.97464	.12827

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for			
		F	Sig.	t	df	Sig. (2-tailed)	Mean Diffe
Risk_Management_Practices	Equal variances assumed	.005	.942	-.026	254	.975	
	Equal variances not assumed			-.026	20.911	.975	

Group Statistics

	EDUCATION	N	Mean	Std. Deviation	Std. Error Mean
Risk_Management_Practices	LOW EDUCATIONAL LEVEL	169	1.8951	.12309	.00947
	HIGH EDUCATIONAL LEVEL	87	5.7921	1.16906	.12534

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for			
		F	Sig.	t	df	Sig. (2-tailed)	Mean Diffe
Risk_Management_Practices	Equal variances assumed	49.669	.000	-42.952	254	.000	-3
	Equal variances not assumed			-31.004	86.983	.000	-3

Group Statistics

	INCOME	N	Mean	Std. Deviation	Std. Error Mean
Risk_Management_Practice s	LOW INCOME	183	2.0596	.83877	.06200
	HIGH INCOME	73	6.1270	.11312	.01324

Independent Samples Test

Levene's Test for Equality of Variances		t-test for Equality of Means				
F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Differ

Risk_Management_Practices	Equal variances assumed	6.665	.010	-41.235	254	.000	-4.06741	
	Equal variances not assumed			-64.153	197.935	.000	-4.06741	

APPENDIX 9: PEARSON CORRELATION MATRIX

Correlations

		AGE	GENDER	RACE	MARITAL STATUS	FAMILY SIZE	EDUCATION	INCOME	CULTURE	Risk_Management _Practices
AGE	Pearson Correlation	1	-.895**	.842**	.224**	.015	-.882**	-.776**	.727**	-.826**
	Sig. (2-tailed)		.000	.000	.000	.835	.000	.000	.000	.000
	N	256	256	256	256	256	256	256	255	256
GENDER	Pearson Correlation	-.895**	1	-.908**	-.326**	.029	.933**	.818**	-.765**	.875**
	Sig. (2-tailed)	.000		.000	.000	.656	.000	.000	.000	.000
	N	256	256	256	256	256	256	256	255	256
RACE	Pearson Correlation	.842**	-.908**	1	.386**	-.009	-.956**	-.848**	.769**	-.891**
	Sig. (2-tailed)	.000	.000		.000	.906	.000	.000	.000	.000
	N	256	256	256	256	256	256	256	255	256
MARITAL STATUS	Pearson Correlation	.224**	-.326**	.386**	1	-.019	-.407**	-.449**	.408**	-.479**
	Sig. (2-tailed)	.000	.000	.000		.792	.000	.000	.000	.000
	N	256	256	256	256	256	256	256	255	256
FAMILY SIZE	Pearson Correlation	.015	.029	-.009	-.019	1	.017	-.022	-.035	.095
	Sig. (2-tailed)	.835	.656	.906	.792		.819	.760	.630	.984
	N	256	256	256	256	256	256	256	255	256
EDUCATION	Pearson Correlation	-.882**	.933**	-.956**	-.407**	.017	1	.880**	-.814**	.938**

	Sig. (2-tailed)	.000	.000	.000	.000	.819		.000	.000	.000
	N	256	256	256	256	256	256	256	255	256
INCOME	Pearson Correlation	-.776**	.818**	-.848**	-.449**	-.022	.880**	1	-.804**	.933**
	Sig. (2-tailed)	.000	.000	.000	.000	.760	.000		.000	.000
	N	256	256	256	256	256	256	256	255	256
CULTURE	Pearson Correlation	.727**	-.765**	.769**	.408**	-.035	-.814**	-.804**	1	-.857**
	Sig. (2-tailed)	.000	.000	.000	.000	.630	.000	.000		.000
	N	255	255	255	255	255	255	255	255	255
Risk_Management_Practices	Pearson Correlation	-.826**	.875**	-.891**	-.479**	.095	.938**	.933**	-.857**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.984	.000	.000	.000	
	N	256	256	256	256	256	256	256	255	256

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

APPENDIX 10: REGRESSION ANALYSIS (CULTURE)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.994[a]	.987	.987	.22663

a. Predictors: (Constant), Religiosity, Social_Cynicism, Reward_For_Application, Social_Complexity, Fate_Control

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	977.769	5	195.554	3807.367	.000[b]
	Residual	12.789	249	.051		
	Total	990.558	254			

a. Dependent Variable: Risk_Management_Practices

b. Predictors: (Constant), Religiosity, Social_Cynicism, Reward_For_Application, Social_Complexity, Fate_Control

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	5.402	.301		17.954	.000
	Social_Cynicism	-.031	.019	-.033	-1.661	.098
	Reward_For_Application	.027	.027	.027	1.008	.314

	Social_Complexity	.314	.038	.308	8.233	.000
	Fate_Control	-.501	.039	-.497	-12.772	.000
	Religiosity	-.142	.031	-.141	-4.640	.000

APPENDIX 11: EDITING LETTER

EDITING LETTER

696 Clare Road
Clare Estate
Durban
4091

20 October 2021

To: Whom it may concern

Editing of PhD: FN Mauchi (21557631)

The Influence of Demographic Factors and Culture on the Risk Management Practices of SMEs in Zimbabwe

This letter serves as confirmation that the aforementioned thesis has been language edited.

Any queries may be directed to the author of this letter.

Regards

MP MATHEWS
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