BUSINESS RISK MANAGEMENT AND ORGANISATIONAL PERFORMANCE: EMPIRICAL EVIDENCE FROM SMALL AND MEDIUM ENTERPRISES (SMEs) IN NIGERIA

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Abstract: Risks can have adverse consequence of business organizations particularly SMEs. This research therefore looked at the relationship between risk management practices and its effect on organizational performance of SMEs in the metropolis of Lagos. The survey design for this study was descriptive in nature. The research instrument for data gathering was interview schedule. The sample population is consisted of 58 respondents. The findings from the study thus revealed that there was no structured means for managing their risks and that the knowledge of individuals does not really apply in their risk management practice. The study recommends that Insurance companies should endeavour to increase insurance awareness among small and medium business operators; and also design packaged or combined policies that will cover a broad spectrum of losses that is suffered by SMEs such as fire, flood, and theft. Also, SMEs operators should endeavor to develop a culture of managing their risks.

Keywords: Risk, Risk management practice, SMEs Practice, Organizational Performance

1. Introduction
Recent studies show that small and medium enterprises development is closely linked with growth (Beck et al 2005) as well as jobs creation. This is so because of the numerous advantages which small and medium enterprises have over large establishments, advantages which include quick responsiveness to customer’s needs; flexibility; innovativeness; and the ability to adapt product offering to customers’ needs (Oya et al., 2011; Islam and Des, 2012; Gbandi and Amissah2014)

Several other reasons have being given for encouraging small and medium enterprises which include the need of government to urgently create employment opportunities for their citizens which is also to be treated as an important programme in the government’s policy. As well as the need to empower her citizens particularly in developing countries with some level of technology and entrepreneurial skill (Onugu,2005; Fashola, 2013); stem rural –urban migration (Onugu, 2005; Gulani and Aisha, 2013; Duru and Lawal, 2012; Duarte, 2004).

Studies by IFCshow that approximately 96% of Nigerian Businesses are SMEs compared to 53% in U.S.A. and 65% in Europe. This study also gave the number of manufacturing industrial sector that are SMEs at 90% and the contribution of SMEs to GDP at 1% compared to 40% in Asian Countries and 50% in the U.S.A and Europe (Oyeyinka, 2010). SMEs have being used as agent to foster a community’s economic development, enterprise development and locality development (Duarte, 2004)

Small and medium enterprises have not performed well in Nigeria and thus have not contributed much to the economic growth and development of Nigeria. A situation that
has been of great concern to individuals and the government because of the precarious employment situation in Nigeria. Another problem is that arising from the dwindling revenue base of the country, and a rising population that needs to be catered for; there is an urgent need to address the problem of how citizens can be engaged in meaningful employment so as to stem the various vices that are associated with unemployment.

The national bureau of statistics in Nigeria has put the number of SMEs in Nigeria at over 17 million employing various categories that include those who have passion for business, the retrenched, retirees and those who after search for white collar jobs without success decide to be owners of businesses and those who open these businesses as a source for making extra income to augment whatever they earn from other sources. For developing countries of which Nigeria is a part the integration into the global economy through economic liberalization, deregulation and democratization is seen as the best way to overcome poverty and inequality. Crucial to this process is the development of a vibrant private sector in which SMEs play a central part (Maynard and Maya, 2002). Various factors had been giving to determine whether a business should be classified as a small or a medium enterprise and these are; the number of employees that are employed and their turnover or balance sheet total.

The main objective of this study is to examine business risk management practices in small and medium enterprises in Nigeria. Other objectives are identifying the risks that small and medium enterprises face and which affect their ability to perform and contribute to the growth and development of the economy; find out how small and medium enterprises in Nigeria manage their risks; and if there are supports from any quarter as regards to managing business risks to improve SMEs’ performance.

Research Questions
1. Are there any risk assessment techniques used by SMEs?
2. Are there effective risk management strategy put in place for its implementation?
3. Are there a structured method for risk management practice by SMEs?
4. Are there knowledge management techniques to managing SMEs’ risks?
5. Are there risk identifying technique used by SMEs in Nigeria?
6. Are there risk review techniques adopted by SMEs after a loss?

2. Literature Review
The concept risk has been widely discussed since it came into the field of management theory. Several authors have defined risk and given an idea of how best they think that risk should be defined and a common word that had been found in these numerous definitions is that of “uncertainty” about outcomes in given situations (Olsson, 2002; Fone and Young, 2001; Hopkins, 2010; Nyce, 2007; Trieschmann et al., 2005; Vaughan & Vaughan, 2008; Hillson, 2005; Atkins & Bates, 2008; Woods et al., 2008; Collier, 2009; Yusuf & Dansu, 2013). However, there have being a dearth of literature that concerns risk and the small and medium business operators with every form of support that is discussed being solely that of finance without minding the fact that finance without a proper frame work for how the various risks that the small and medium sized business owner face may end up being counterproductive. And an entrepreneur have been defined as one who have the ability to see and evaluate business opportunities using available and value resources to take advantage of them and taking appropriate action in the light of environment constraints so as to ensure success (Nwachukw, 1990). The key word in this definition is environment constraints and opportunity which are situations which risks presents to individuals and organizations. and the various
risks which may present itself to a small and medium enterprise business owner can be at the points of introducing new goods or a new methods of rendering a service, new methods of production or distribution, opening a new market, developing a new source of supply of raw material or carrying out a new organization of any industry. Issues relating to risk has always being treated as that which every entrepreneur must undertake as part of his decision to start a business with elementary economics stating the functions of an entrepreneur to include sourcing for capital, sourcing for land and other inputs and risk taking. With nothing being said about the fact that it is by taking risk that the organization can only talk about return (Olsson, 2002 and the achievement of its other objectives. SMEs in Nigeria are characterized by the following; mostly set up by people who would have preferred paid employment but are not finding it, retired people who want to invest their severance packages so as to be able to generate some income to meet their financial obligation, persons who have a passion for certain vocations, those who carry it out as a means of augmenting whatever income they earn from other sources, and professional practitioners like medical doctors, lawyers, accountants and professional who wish to leverage on the combined knowledge of others for their common good. They mostly come as owner -entrepreneur businesses, partnerships and private limited liability businesses. While there is no clear cut definition of what an SME should be, the explanation given by various authors is that it is dependent on their asset base, number of employees that are employed by them and their annual turnover (Beck et al. 2005; Onugu, 2005; Henschel, 2008; Smit and Watkins, 2012; Akinruwa et al., 2013; Azende, 2012; Iopev and Kwanum, 2012) However, according to the Central Bank of Nigeria(2005), a small enterprise is that with a labour size of 11-100 workers or a total cost of not more than ₦50million, including working capital but excluding cost of land. While a medium enterprise is that with a labour size of between 101-300 workers or a total cost of over ₦50 million but not more than ₦200million including working capital but excluding land. The National Bureau of Statistics of Nigeria in 2013 put the number at over 17 million because of the weak regulation that this sector is faced with and their dispersal over a wide area except for those that produce consumable beverages such as water and food where the possession of NAFDAC number is important to meet regulatory requirement and to form a perception in the mind of consumers about the safety of the product. Other sectors are weakly regulated. SMEs in Nigeria as described by Fashola 2013 are Organizations that routinely operate outside the normal structure of the economy, ignore extant laws and regulations and continue to be somewhat indifferent to changing trends both domestically and globally, coupled with lack of effective policies, appropriate legal framework, financial constraints, access to credit, poor infrastructure, unstable power supply, lack of skilled labour and poor ethical conduct it can be seen that the risks that are faced by small and medium enterprises are enormous (Dickinson, 2001). The concept of risk and its management have been variously discussed by several authors and seen as an important process in business organizations. Risk management has been defined as an ongoing process that can help improve operations and priorities. Henschel (2008) has stated that risk management is a challenge to SMEs in contrast to larger firms, Matthew and Scott (1995) in their own study found out that SMEs have no explicit picture of business risk and their management is often not well structured, nor systematic or standardized. A view that is also shared by Turpin (2002) and Henschel
(2008). can this also be said about SMEs in Nigeria. While practice has defined as what we make use of habitually or the methods, processes, generally accepted techniques and standards used by business in the pursuit of objectives to accomplish a set of outlined tasks. Neneh and Van Zyl(2012), Gamini de Alwis and Senathiraja (2003). Various risk management practices that can be adopted by SMEs has been given in the work of Neneh(2012) as follows, purchasing insurance, maintaining cash reserves, installing security systems, diversification, recruiting, safety training, policy and procedure development etc. which can be narrowed down to physical and financial measures. Ow (2007), also emphasized the importance of risk management practices toward enhancing an organisation’s performance by opining that risk management practices should be simplified and embedded into normal business operations, planning, budgeting processes and organizational culture.

Performance can be described as the achievement of an earlier on stated objective and for the small and medium size business owner, the rendering of a service or manufacture of product which is acceptable to its customer and for which a price is paid which translates into survival, development, growth and profit for the business owner. Performance measurement is a strategy that relates to every activity of the organisation and its implementation depends on the organisation, industry, and the context. The essence of carrying out a performance measurement according to Cokins (2004) is that it helps the manager to sense uncertain situations earlier and react to them more quickly. While the view of Aguinis (2007) is important as he believed that there is a positive relationship between performance measurement and better business performance. Serving also as a means by which the SME business owner can assess and monitor their own performance as an entrepreneur and defining their expectations to particularly employees. Aslam and Sarwar (2010)said that performance measurement practices provide evidence of whether anticipated results has been achieved. Several authors have developed methods by which organizational performance can be measured which included financial, sales, operating performance through the dimensions of time, quality and flexibility, customer perspective, internal process perspective and learning and growth perspective Kaplan and Norton, (1998) Carton and Hofer, 2006; Lebas and Euske, 2002), both authors emphasized the importance of measuring organizational performance as an important variable in business research.

3. Methodology

In a bid to gather data for this study, a total of 58 SMEs were randomly selected around three Local Government areas of Lagos State; specifically Alimosho, Ojo and Badagry. These serve as the sample population of the study. The main source instrument of gathering the data was an interview schedule adapted from Henschel (2009) study. Babbie (2005) opined that an interview schedule is advantageous because of its ability to achieve higher completion rates than self-administered questionnaires. The interview schedule is consisted of three parts; Part A, B, and C. while part A comprised of questions relating to organizational structure, part B composed of questions relating to risk management practices of SMEs; then, part C consisted of questions relating to organizational performance. The choice of Lagos State was because it served as the main business centre in Nigeria, and the Local Government because of their size and number of SMEs that are domiciled there.

A descriptive survey technique was adopted in this study. The reason for this was because it gives an exact detail of persons or events and also to show mutual relationship between variables (Saunder et al., 2009). For the genuiness of the research
instrument, a content validity was employed. The content validity was established by giving a set of the draft interview schedule to few selected SMEs’ owners and managers, risk management experts, and members of the academia in the field of business management and insurance. These experts, having checked thoroughly through the items in the instrument, made relevant suggestions which enabled the researchers to present the items within the understanding of the research participants. On reliability, a pilot study was done to test the reliability of measures. The Cronbach alpha on the administration of the interview schedule was 0.811, which showed that the alpha level was above the required 0.70.

**ANALYSIS, RESULTS and DISCUSSION**

For the purpose of analyzing the research questions put forward to the respective respondents, a simple frequency percentage table is employed to reporting their responses. The chosen research questions for this study were as follows.

**4.1. Analysis of Research Questions**

**4.1.1. Risk Assessment Techniques by SMEs**

Respondents to the study were asked to respond if there are risk assessment techniques usable by SMEs in assessing their various risks exposures. The analyzed responses in Table 1 below shows that no identifiable risk assessment techniques usable by the SMEs owners in determining the frequency and severity of loss event that could occur.

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Responses</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>14</td>
<td>24.1</td>
</tr>
<tr>
<td>No</td>
<td>44</td>
<td>75.9</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Survey Report, 2015*

**4.2. Strategies Implementable by SMEs for Effective Risk Management**

The table 2 below shows the respondents’ view with respect to the above. From their responses, it was discovered that SMEs’ owners were adopting strategies such as avoidance of risky activities and managing their risks themselves. Their responses also show that many of the SMEs do not transfer their risks to insurance companies neither do they have risk management team in place for effective risk management.

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Responses</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk transfer techniques</td>
<td>----</td>
<td>----</td>
</tr>
<tr>
<td>Risk avoidance</td>
<td>27</td>
<td>46.5</td>
</tr>
<tr>
<td>Managing risk in-house</td>
<td>31</td>
<td>53.5</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Survey Report, 2015*

**4.3. Structured Method for Risk Management Practices by SMEs**

The table 3 shows if there is a structured method for risk management practices by smes’ owners. The result shows that most SMEs do not have a standard techniques or methods for risk management practices in their businesses.
Table 3 Standard method for risk management practices

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Responses</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>----</td>
<td>----</td>
</tr>
<tr>
<td>No</td>
<td>27</td>
<td>46.5</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey Report, 2015

4.4. Knowledge Management techniques to managing SMEs’ risks

This table 4 reveals the responses of the SMEs owners/managers on the usage of knowledge management techniques in managing their various risk exposures. The results from this report show that majority of SMEs were not aware of the knowledge management techniques in being able to managing their risks.

Table 4 Knowledge Management Techniques in managing SMEs risks

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Responses</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>09</td>
<td>15.5</td>
</tr>
<tr>
<td>No</td>
<td>49</td>
<td>84.5</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey Report, 2015

4.5. Risk identifying technique used by SMEs in Nigeria

The table below explains the risk identifying techniques used by MEs in Nigeria. The risk identifying techniques adopted, to be responded to by the respondents, were that of the study of Henschel (2009), which included flowchat, checklists, accounting, managerial cadres and individual employees. The result of the study sees that SMEs owners/operators have not been adequately adopted these various techniques.

Table 5 Risk Identifying Techniques used by SMEs

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Responses</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>13</td>
<td>22.41</td>
</tr>
<tr>
<td>No</td>
<td>45</td>
<td>77.59</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey Report, 2015

4.6. Risk review techniques adopted by SMEs

The table below shows the responses of the various SMEs owners/operators interviewed with respect to examining if they have risk review techniques adopted in the running of their respective business. The results from their responses, as shown, indicated that no risk review techniques are usually embarked upon by SME owners/operators whenever there are incidences of loss situations.

Table 6 Risk review techniques adopted by SMEs

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Responses</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>10</td>
<td>17.2</td>
</tr>
<tr>
<td>No</td>
<td>48</td>
<td>82.8</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey Report, 2015

5. Conclusion and Recommendations

This study is being able to confirm the effects of risk management practices on the organizational performance of SMEs. The findings from this study further bring to fore the importance of risk management practices in the organizational performance of small
and medium scale enterprise in Nigeria. It has also been revealed that most operators of SMEs considered risk management as important and should be incorporated in and integrated with their operations so as to sharpen the directional course of their business plan. The study of Ow (2007) proposed that risk management practices should be made simple and incorporated in the operational plan and organizational culture of small and medium scale enterprise in a bid to improve business performance. Based on the responses from the study, however, it was found out that there was no structured means for managing their risks and that the knowledge of individuals does not really apply in their risk management practice. The reasons adduced to the above among others include: capital to fund risk management activities, non-availability of insurance tailored to meet the needs of SMEs and low awareness level about insurance by the SMEs operators. To this end, efforts should be made by SMEs operators to imbibe risk management culture and the insurance companies to increase the awareness of the benefit of managing risks through insurance. 

On recommendation, SMEs operators should endeavor to develop a culture of managing their risks in a bid to enhancing their business performance. SMEs’ operators should incorporate risk management at the planning stage of their businesses. Insurance companies should endeavour to increase awareness among small and medium business operators. Insurance companies should design packaged or combined policies that will cover a broad spectrum of losses that is suffered by SMEs such as fire, flood, theft etc. There should be an interface between insurance companies and SMEs operators on risk management practices for the benefit of the SMEs and insurance companies.

References


