ENHANCING SUCCESS OF SMES THROUGH RISK ENTERPRISE MANAGEMENT: Evidence from a Developing Country

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Abstract

Owing to the lack of literature on risk management practice in Zimbabwe, the study sought to close the gap by investigating the impact of main dimensions of the enterprise risk management on Small and Medium Enterprises (SME) performance. A quantitative research study was carried out by sending the structured questionnaire to (randomly selected) 150 SMEs located in Harare. The data was analysed by correlation and regression analyses. The study provides evidence of positive relationship between risk management dimensions and the SME performance. The findings would provide invaluable insights into SME management on how to effectively manage the risk for their sustainability.

Key words: Risk Management, Risk Identification, Risk Assessment, Control Ativities, Performance.
JEL Classification: M2.

I. Introduction

All over the world, the SMEs continue to attract the attention of academicians, managers and policy makers; because of their sustained contribution to economic growth in developed, emerging and developing economies. It is now a widely held notion that support and promote the success of these enterprises which help to drive the economic growth. The sub-Saharan countries experiencing poor conditions like Zimbabwe are fostering the growth of SMEs, which has become imperative. What is more compelling to promote SME growth is the fact that Zimbabwean SMEs contribute more than 60 per cent to its GDP and employ more than 80 per cent of the working population [Fin Scope (2012)]. Although, these enterprises contribute significantly to socio-economic development but their failure rate is a cause of concern to policy makers, in many countries. It is believed that approximately 41 per cent of the exporting SMEs in developing economies do not succeed [Jansen (2014)]. An OECD analysis by Bartelsman, et al. (2003) indicates a failure rate of about 20 per cent within 2 years of entry of the UK and US firms. An estimate within 70 to 80 per cent of the South African SMEs prematurely

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fail [Scheers (2010)]. [Chichoni (2011)] as cited by Mbizi, et al. (2013) indicates that up to 75 per cent of new business, ultimately fail. Eurostat data of 2010 shows that in Europe the SMEs' survival rate ranged from an upper threshold of 80 per cent (for countries such as Finland and Italy) to lower thresholds of 30 per cent for countries such as Latvia and Estonia, [Marzocchi, et al. (2013)]. These statistics; generally indicate a high global attrition rate of SMEs. Policy interventions need to be put in place to address this problem. This study submits that high failure rate of the SMEs is attributed to various factors but raises the question - could risk enterprise management be an effective strategy to ensure SME sustainability? To address this, the current study aims to establish the impact of risk enterprise management on success of SMEs in Zimbabwe.

Despite the global acknowledgement efficacy of Enterprise Risk Management (ERM) towards business performance, very few studies have been undertaken to ascertain the extent to which ERM impacts on the performance of Zimbabwean SMEs. The existing literature contain various studies that have been carried out in the area of risk management, relating SMEs in various countries, including Zimbabwe [Iopev and Kwanum (2012), Mudiyanselage and Jayathilake (2012), Islam and Tedford (2012), Neneh and Zyl (2012), Ansong (2013), Samugwede and Masiyiwa (2014), Gwangwava, et al. (2014)]. There are however, insufficient evidence of studies that sought to investigate the risk management practices of SMEs in Zimbabwe; focusing on establishing relationship between adopting the ERM framework and business performance. In light of this gap, the study sought to establish the impact that adopting ERM framework will have on their business performance.

Findings of the study might assist the SMEs to adopt risk management initiatives that contribute positively to the success of their business operations. As a result of this study, recommendations to SMEs will transcend a single institution and be beneficial to the growth and development of Zimbabwe. The study is also beneficial to the academia as it presents a proposal for a theoretical model relating to the degree of organizational transformation to the benefits or demerits of risk management initiatives by Zimbabwean SMEs. Against this background, the study sought to establish the effect of enterprise risk management dimensions on SME success. It also focuses on the four main dimensions of ERM identified by Lundqvist's (2014).

To achieve the aim the following specific objectives were formulated:

- To establish the effect of General Internal Environment and Objective Setting on SME performance.
- To ascertain the effect of General Control Activities and Information and Communication on SME performance.
- To determine the impact of Holistic Organisation of Risk Management on SME performance.
- To identify the influence of Risk Identification and Risk Assessment Activities on SME performance.

The paper is organized as follows. Section II provides the literature review and hypotheses developed in the study. Section III and IV narrates the research methodology and data analysis, respectively. Results of the study are presented in Section V and discussed in Section VI; while limitations of the study are expressed in Section VII, whereas, directions for future research are concluded in Section VIII.

II. Literature Review and Hypotheses Development

1. *Enterprise Risk Management*

The Enterprise Risk Management (ERM) is a strategic process of treating organisational risk holistically as opposed to isolated silos as is the case with the old risk management paradigm [Deloach (2000), Letete and Wallis (2014)]. For Mikes (2009), it is critical to note that there is a host of varied ways in which ERM is applied. Different organisations and countries apply ERM in different ways; for instance in Brazil, Di Serio, et al. (2011) pointed out that Brazilian quality award prize winning companies used different levels of implementing ERM. Using evidence from the Italian organizations, Arena, et al. (2010) also demonstrated that ERM is applied differently in different organisations. In terms of forms of ownership, Paape and Spekle (2012) have observed that owner-managed firms are less prone to invest in ERM. However, despite diversity in implementation of ERM, the perceived benefits associated with its implementation are nevertheless, similar across different national contexts [Paape and Spekle (2012)]. There is a general consensus among risk management practitioners that ERM implementation improves firms' performance. For instance, Liu, et al. (2013) indicate that ERM can improve ability and performance by controlling risk at enterprise level, supported by risk management departments, risk management procedures, external services, and the corporate culture. Likewise, Nocco, et al. (2006) notes that ERM practice create value by enabling senior management to measure and manage the risk-return trade-off that faces the entire firm. Furthermore, Smith and Watkins (2012) notes that embedding a structured approach to enterprise risk management within SMEs could yield possible benefits including organisational alignment towards its vision.

2. *Risk Reporting*

Risk reporting is so vital that the Bank of International Settlement (2013) tales that weak reporting practice is the main reason as to why some banks fail to manage their risk appropriately, leading serious consequences to banks, as well as, to stability of the entire financial system. COSO (2004) also noted that ERM help to ensure effective reporting and compliance with laws and regulations; thus, it helps to avoid damage to the entity's reputation and the associated costs. The institution in-

dicate that ERM framework is thus geared to achieve the firm's objectives for re-
liability of reporting which is within its control. Risk reporting is done internally,
i.e., to different levels within the organisation, as well as, externally to its outside
stakeholder [The Institute of Risk Management (2002)].

3. Internal Reporting

Harvey (2008) notes the importance of risk reporting for internal decision- mak-
ers as it enables them to incorporate risk assessments into operational capital in-
vestment, performance review, and the compensation decisions. In addition, the
author notes that internal analysis of risk response effectiveness and likely alterna-
tive management choices are enabled by residual risk reporting. In line with this,
Karagiorgos, et al. (2009) mention that internal reporting include measures to proper
level of management for reporting instantaneously, any significant control weak-
nesses together with particulars of corrective action. The lines of internal risk man-
agement reporting vary widely from one organisation to another. Ballou and Heitger
(2008) notes that this variation is determined by the extent to which the organisa-
tions have linked risk management to their organisation's mission and strategies;
and those that have linked strategy and risk management are more likely to have
corporate governance practices in place to provide sufficient risk management,
oversight. In addition, the Bank of International Settement (2013) specifies that
risk data and reports should provide the management with ability to monitor and
track risk in relation to the organisation's risk tolerance/appetite.

4. External Reporting

Managers make voluntary disclosures to external stakeholders on risk manage-
ment and the internal control through annual repots, in order to reduce the efficiency
loss of agency problems due to information asymmetry [Deumes and Knechel
(2008), and Harvey (2008)]. This opinion is corroborated by Deumes (2008) views
that providing investors with information about risk associated with pursuing com-
pany's strategic goals, assist managers to increase transparency. This is in line with
Adamu (2013) who found that apart from enhancing the corporate transparency, as
well as facilitating effective risk management; corporate risk disclosure to minimizes
the problem of over/under stock valuation and also help the analysts to make earning
forecast with reasonable accuracy.

5. Business Performance Dimensions

Most researchers tends to agree that both the objectives and subject measures
are mostly used by organizations to assess their success [Chow and Van der Stede

(2006); Panigyrakis and Theodoridis (2009)]. Objectives assessment involves evaluating business performance, typically with orientation to financial measures while subjective measures are based on personal opinion about business performance [Reijonen (2008)]. Traditionally, assessment of business performance has been based on financial measures, such as return on investment, return on assets, return on sales, revenue growth, profitability, as well as the market share or the number of employees [Juson, et al. (2008), Reijonen (2008)]. Pun and White (2005) agree with this argument and points that financial methods are easy to measure and manage; hence they are popular with organisations. The other advocates of financial measures are Verbeeten and Boons (2009) who argued that financial measures are subject to internal controls, thereby making them reliable and comparatively easy to comprehend. However, other researchers criticise the financial measures for their lack of accessibility to researchers and the public; and for their reliance on historical data [Panigyrakis and Theodoridis (2009), Verbeeten and Boons (2009)]. Some scholars therefore recommend the use of non-financial business performance measures; like Verbeeten and Boons (2009) who state that non-financial measures of business performance are those that provide information in the non-monetary terms; for example, market share, customer satisfaction, employees turnover and the new product development. Similarly, Juson and Parnell (2008) suggested the varied subjective measures, such as ethical behaviour, customer satisfaction and retention, employee motivation and retention, volume of sales, market share, quality of products/service, business image, delivery performance, process improvement, throughput time, quality, machine flexibility and inventory levels. Robinson, et al. (2005) state that non-financial performance assessments have become essential, because of the demand for variations in business reporting, due to failure of business which exclusively relied on financial measures. Chow and Van (2006) argued for non-financial performance measures citing that they cover several business performance aspects and activities that are not easily quantifiable. Verbeeten and Boons (2009) also suggested that non-financial performance measures provide better information on scope that are not perfectly apprehended by traditional financial measures.

The evidence shows that now business combines the financial and perceptual measures to evaluate their performance. Verbeeten and Boons (2009) explain that non-financial and financial indicators need to supplement each other in appraising business performance. Similarly, from their study of Malaysian manufactures, Juson, et al. (2008) notes that some organisations are equally employing financial and non-financial business assessment methods. Further, Robinson, et al. (2005) shows that in UK a significant number of organizations use varied measures of both the financial and non-financial methods to assess business performance. Juson, et al. (2008) also believes that the integrated measurement system helps business to evaluate its performance, wholesomely. As indicated earlier the study focused on the main components of ERM identified by Lundqvist's (2014).

Based on the foregoing discussion, the following hypotheses are formulated:

H1: The general internal environment and objective setting positively influence SME performance.

H2: General Control Activities and, Information and Communication have a positive impact on SME performance.

H3: There is a positive relationship between Holistic Organisations of Risk Management and SME performance.

H4: Risk Identification and Risk Assessment Activities have a positive effect on SME performance.

III. Research Methodology

The study employs a cross-sectional survey design to investigate the influence of ERM on SME performance. The quantitative research design was used as an effective way of assessing the impact of ERM practices on SMEs' performance [Bryman and Bell (2007)]. The population for this study was comprised of all SMEs corporations in Harare, operating in any sector of the economy. Owners/ managers (150) who were identified through random sampling were invited to participate in the study.

1. Data Collection Procedures

A structured questionnaire which included the closed ended questions was used. Total number of questionnaires distributed to respondents were 150, accompanied by a letter which detailed the purpose of the study; as well as, the instructions to respond the questions. The overall response rate was 79.33 per cent (n=119).

2. Instrumentation

The survey items were uniformly structured on a 5-point Likert-type scale [from (1) strongly disagree to (5) strongly agree]. The independent variable items were largely driven from Lundqvist's (2014) exploratory study which identify the four main dimensions of ERM (general internal environment and objectives, general control activities, holistic organization of risk management, and specific risk identification and risk assessment). These four dimensions were used as independent variables. Table 1 provides detail information about the measures for the four dimensions of ERM.

Of these four constructs, two relate to the general internal environment and control activities of firms, one to identifying risk management activities of firms and the one for defining attributes of the ERM implementation [Lundqvist (2014)].

TABLE 1

Measurement of Constructs

Items	Construct
• Our company regularly trains all employees on ethical values. • Our company has formally defined policies for hiring and firing executives. • Responsibilities are formally defined for executive management. • Responsibilities are formally defined for audit committee. • Continuing education programs are available to employees of all levels. • Performance targets are set for individuals of all levels. • The role, structure and responsibility of the board is well documented. • The organisation has a formal strategy to pursue its mission. • Performance measures are well defined in the strategic plan. • Systems to ensure that policies and procedures in place to manage the achievement of our firm's objectives/plan are functioning and effective. • There is consideration of the likelihood of strategic risk events affecting our company's ability to achieve its objectives.	General Internal Environment and Objective Setting.
• Our organisation has authorisation procedures in place to ensure that appropriate individuals review of the use of policies and procedures. • There are independent verification procedures to ensure the use policies and procedures. • There is documentation and records to verify the use of policies and procedures. • There are defined channels of communication with customers, vendors and other external parties. • There are defined channels of communication to report suspected breaches of laws, regulations and other improprieties. • Our company's internal environment, processes and control activities are monitored.	General Control Activities and Information and Communication.
• The organisation has a formal statement of risk appetite. • There is senior manager with the responsibility to oversee risk and risk management. • There is a centralised department or staff function dedicated to risk management. • Our company has an internal risk assessment or internal risk audit function. • The impact risks may have on key performance indicators is determined. • Formal risk assessment reports are produced at least annually. • Centralised technology is used to obtain risk related information. • Risk response plan for all the significant events the firm has identified is available. • There is an alternative risk response for each significant event. • The importance of risk is communicated to all internal and external stakeholders. • Assessment of the firm's risk management function is done by an external party. • The firm verifies the completeness, accuracy and validity of risk-related information. • Reliance is on key risk indicators or emerging risks (not historical performance). • There are frequent and structured updates of risk-related information.	Holistic Organisation of Risk Management.
• We consider financial events. • We consider strategic risk events. • We consider compliance events. • We consider technology events • We consider economic events.	Specific Risk Identification and Risk Assessment Activities.

The dependent variable of interest was business performance measured in terms of both the financial measures (profitability, productivity, market share, revenues and business growth) and the non-financial measures (innovation and product development, employee satisfaction, and business reputation). The use of an integrated measurement system gives a holistic picture of firms' performance [Robinson, et al. (2005); Juson, et al. (2008) and Verbeeten and Boons (2009)].

All survey items were closed ended and uniformly structured on a 5-point Likert-type scale anchored on 1=strongly disagree, 2=disagree, 3=moderately agree, 4=agree and 5=strongly agree.

IV. Data Analysis

The SPSS statistical package version 21 was used for data analysis. Descriptive statistics were used to analyse the distribution of sample; while correlation and regression analyses were used to establish relationship between business performance (dependent variable) and the ERM implementation pillars (independent variables) which included the general internal environment and objective setting, general control activities and information, communication, holistic organisation of risk management and specific risk identification, and risk assessment activities.

1. *Reliability Analysis*

To validate or nullify the reliability of research instrument which the researchers used, the Cronbach Alpha was computed. Literature validated the Cronbach's Alpha as being standard measure of reliability and the minimum prescribed alpha statistic for reliability as being 0.7 [Nunally (1978)]. From computation of the Chronbach's Alpha, a significantly notable overall statistic of 0.839 was observed for the questionnaire, whilst the alpha statistics for the other factors was significantly higher than the minimum 0.7. As depicted in Table 2, these very high alpha values signals, that the research instruments used was undoubtedly reliable.

TABLE 2

Reliability Analysis

	Cronbach's Alpha
General Internal Environment and Objective Setting.	0.785
General Control Activities and Information and Communication.	0.806
Holistic Organisation of Risk Management.	0.751
Risk Identification and Risk Assessment Activities.	0.815
Business Performance.	0.858
Overall Reliability.	0.839

V. Results of the Study

1. Sample Composition

In terms of gender of respondents, 27.73 per cent were females and 72.27 per cent were males. A majority of respondents (58.8 per cent) were in the age 30-39, 19.3 per cent were between 40 and 49 years, 12.6 per cent were 20-29 years and 9.2 per cent were 50 years and above. Majority of the respondents (37.3 per cent) had their highest level of education (master's degree) while 35.6 per cent had an undergraduate degree. The third significant category constituted 18.6 per cent who were diploma holders. Merely, 5.9 per cent of the respondents had a certificate, while 1.7 per cent had a doctorate degree, with an insubstantial 0.9 per cent, who had secondary education as their highest level of education.

2. Correlation Analysis

In order to ascertain the degree of association between constructs under investigation, the Pearson correlation was computed. The results are shown in Table 3. From the correlation matrix, it is also evident that there was a moderate/weak positive relationship between SME performance and the ERM dimensions. The low and moderate correlation coefficients also demonstrated that there was no problem of muilti-collinearity among the independent variables.

3. Regression Analysis

To examine the predictive relationship between independent and dependent variables, regression analysis was conducted; and due to the existence of significant

TABLE 3

Correlations between Constructs

	GIEOS	GCAIC	HORM	RIRAA	SME PERF
GIEOS	1.000				
2	0.460**	1.000			
3	0.330**	0.426**	1.000		
4	0.473**	0.422**	0.215**	1.000	
5	0.546**	0.418**	0.461**	0.333**	1.000

**Correlation is significant at 0.01 level (2-tailed), GIEOS = General Internal Environment and Objective Setting, GCAIC = General Control Activities and Information and Communication, HORM = Holistic Organization of Risk Management, RIRAA = Risk Identification and Risk Assessment Activities, SME PERF = SME Performance.

association amongst variables, it was deemed to be an appropriate statistical approach. The results are presented in the Table 3. From the analysis, the adjusted r-square statistic is 0.682; therefore, it follows that 68.2 per cent of the variation in business performance could be explained from the perspective of ERM. Furthermore, the ANOVA analysis shows a significant F-statistic with p=0.000, indicating that the model is more reliable. The analysis of the regression coefficients is presented in Table 4 below.

As shown in Table 3 the model produced R2 of 0.697 implying that about 70 per cent of SME performance could be explained by independent variables. Further, the F-statistic with p=0.000, indicate that the model is reliable predicting SME performance.

VI. Discussion of Results

The first hypothesis (H1) predicts a positive relationship between the general internal environment and objective setting, and the SME performance which is measured by both the financial (profitability, productivity, market share, revenue and business growth) and non-financial measures (innovation and product development, employee satisfaction, and business reputation). This hypothesis is confirmed (β=0.420, t-value=3.301, p<0.01), the results of which are supported by positive correlation (r=0.546, p<0.01). From these results, it can be inferred that as SMEs establish a risk conscious internal environment, they are likely to have a system that minimizes risk, and hence reduces losses. As a result

TABLE 4

Regression Coefficients of ERM Dimensions

Model	Unstandardised Coefficients		Standardised Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1. (Constant).	2.964	0.259	-	11.439	0	-	-
2. General Internal Environment and Objective Setting.	0.436	0.12	0.420	3.301	0.017	0.762	1.062
3. General Control Activities and Information and Communication.	0.378	0.074	0.442	3.046	0.029	0.838	0.86
4. Holistic Organisation of Risk Management.	0.199	0.092	0.326	2.157	0.033	0.711	1.217
5. Risk Identification and Risk Assessment Activities.	0.106	0.061	0.111	1.195	0.025	0.892	0.821

Dependent Variable: SME performance, Adjusted R-squared = 0.697, F=6.738, p< 0.00.

they benefit financially from profits earned through risk minimization. Findings of this study are consistent with a number of findings by different scholars. Convincing evidence is found from the results that general internal environment and objective setting positively impact the firms' performance. This finding is in line with a study by Kearns (2007) which finds that a positive internal environment escalate the prospect of organizational success. Mokaya (2012), states that a supportive environment encourages corporate entrepreneurship and improved firm performance through growth and profitability.

The second hypothesis (H2) predicts a positive relationship between General Control Activities, Information and Communication. The SME performance is measured by the financial indicators (profitability, productivity, market share, revenue and business growth); and non-financial indicators (innovation and product development, employee satisfaction, and business reputation). The results support the hypothesis and predicts the positive predictive effect of General Control Activities and Information, and Communication (β=0.442, t-value=3.046, $p<0.01$) - the result is supported by positive correlation (r=0.418, $p<0.01$). The outcome reveals that as SMEs set up control activities and share information about risks that may affect the enterprise, people become aware of risks and take action to minimize it; and consequently produce better results for their enterprises. This outcome is supported by results obtained by Harvey (2008) who notes the importance of risk communication to internal decision makers, indicating that apart from enabling performance review it also facilitate internal appraisal of risk response effectiveness and the likely alternative management options. On the same note, Adamu (2013) established that risk disclosure by corporate improve their transparency, risk management as well as enable analysts to make better earnings predictions.

The third hypothesis (H3) predicts a positive relationship between Holistic Organisation of Risk Management and SME financial performance (profitability, productivity, market share, revenue and business growth) and the non-financial performance (innovation and product development, employees' satisfaction, and business reputation). This hypothesis is supported (β=326, t-value=2.157, $p<0.01$) and the result is corroborated by a positive correlation (r=0.461, $p<0.01$) which may be attributed to better understanding of benefits of a holistic risk management system. It reduces loses and therefore leads to better firm performance. The finding obtained by researchers in this study resonates with Berg's (2010) who noted that an integrated risk management system does not only focus on minimizing risks but also relate to firms' performance as it backs activities that foster innovation; thereby enabling attainment of greatest returns with acceptable costs and risks.

The fourth hypothesis (H4) predicts a positive relationship between Risk Identification and Risk Assessment Activities percentage shareholding and the firms' performance (financial performance = profitability, productivity, market share, revenue and business growth and non-financial performance = innovation and product development, employee satisfaction, and business reputation). This hypothesis is confirmed (β=1.111, t-value = 1.195, $p<0.01$) and the result is supported by positive correlation (r=0.333, $p<0.01$). The result implies that if SMEs implement a risk management system that ensures risk iden-

tification and assessment, they are able to enhance both their financial and non-financial performance. The outcome predicts that risk identification and assessment activities would improve the way in which the SMEs perform. The finding is in line with Berg (2010) which reveals that risk identification, assessment and management throughout an organization help to reveal significance of the whole, the entirety of risk as well as the interdependency of the parts.

1. *Managerial and Policy Implications*

One of the strongest conclusions that come out of the ERM and SME performance is that there is a solid evidence of ERM having a positive effect on both the SME financial and non-financial performance. As a result of this effect it is also reasonable to believe that ERM increase the performance of SMEs. From the findings of this study, it is deduced that implementation of ERM has an effect of improving SME performance which is measured by innovation and product development, business growth, ease of business funding, enhanced reputation, and the improved productivity. This study has some vital implications for management and policy, in the SME sector. It signifies the need for SME sector to exhibit high level of commitments to introduction of ERM in order to enhance their performance. In other words, an effective implementation of ERM by SMEs is a possible approach for increasing firms' performance in competitive markets engulfed with volatility, uncertainty and complexity. If the SME sector of Zimbabwe has to grow and be competitive, its owners/managers should encourage the increased implementation of ERM in their enterprises. For such reasons ERM implementation does positively affect firms' performance (but keeping in mind that there are other ways of improving firm performance). When SME owners/managers start putting a risk management system in place, it may lead to improved firms' performance through innovation and product development, business growth, ease of business funding, enhanced reputation, and improved productivity. Therefore, the researchers recommends that SME management fully embrace the idea of ERM in firms as it benefits out-perform, the cost and disadvantages of implementing it.

VII.   Limitations of the Study

The major obstacle encountered in this study was the challenge in persuading invitees to actually participate in the research. The study was also limited by the amount of time involved, misperception or suspicion to the nature of the study or simply commitment levels that participants had during the time of the study. These aforementioned reasons may have contributed to lack of participation - the response rate of which resulted in 79.33 per cent. However, even though the respondents were suspicious of the purpose of the study, the researchers took time to explain and guarantee their confidentiality. This resulted positive response of some respondents to participate in the study.

VIII.   Direction for Future Research

Future research may consider the analysis of differences to implement ERM in terms of firms' size, the age, and their affiliation. Further studies should also consider the analysing effects of ERM on other performance indicators (not only limited to innovation and product development, business growth, ease of business funding, enhanced reputation, and the improved productivity). These might be helpful to make future policy decisions for the firms. Lastly, in future studies, the research design and tools used to conduct this study, might be modified to better develop the insights into impact of ERM on SME performance. The amendments might include ways to conduct the same or similar research more effectively which may also contain ways to explore additional aspects of Enterprise Risk Management.

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