

Chakabva, Oscar; Tengeh, Robertson Khan; Dubihlela, Job

Article

Factors inhibiting effective risk management in emerging market SMEs

Journal of Risk and Financial Management

Provided in Cooperation with:

MDPI – Multidisciplinary Digital Publishing Institute, Basel

Suggested Citation: Chakabva, Oscar; Tengeh, Robertson Khan; Dubihlela, Job (2021) : Factors inhibiting effective risk management in emerging market SMEs, Journal of Risk and Financial Management, ISSN 1911-8074, MDPI, Basel, Vol. 14, Iss. 6, pp. 1-12, <https://doi.org/10.3390/jrfm14060231>

This Version is available at:

<https://hdl.handle.net/10419/239647>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<https://creativecommons.org/licenses/by/4.0/>

Article

Factors Inhibiting Effective Risk Management in Emerging Market SMEs

Oscar Chakabva, Robertson Tengeh  and Job Dubihlela * Faculty of Business and Management Sciences, Cape Peninsula University of Technology,
Cape Town 8000, South Africa; profjobd@gmail.com (O.C.); TengehR@cput.ac.za (R.T.)

* Correspondence: dubihlelaj@cput.ac.za

Abstract: Despite the anecdotal evidence that suggests that SMEs adopt inadequate and ineffective risk management practices, only a few studies have been conducted on the topic in the emerging market context. Besides, the existing studies on factors inhibiting effective risk management in emerging market SMEs are devoid of any theoretical grounding. This situation implies that there is still a knowledge gap on this area, and this gap is what the current paper seeks to close. In closing out the gap, this paper used the Resource Based View theory to interpret the results obtained, in order to help clarify the factors inhibiting effective risk management in emerging market SMEs, with a case of South Africa being used. In a first step, questionnaires were distributed to a sample of 320 FMCG SMEs in the Cape Metropolitan area. The results revealed the significance of both intangible and tangible resources in positively impacting the effectiveness of risk management within SMEs. This led to the conclusion that owner-managers must pay particular attention to their intangible and tangible resource structure, which will impact the positive response towards superior performance and competitive advantage by focusing more on coalescing resources that lead to effective risk management.



Citation: Chakabva, Oscar, Robertson Tengeh, and Job Dubihlela. 2021. Factors Inhibiting Effective Risk Management in Emerging Market SMEs. *Journal of Risk and Financial Management* 14: 231. <https://doi.org/10.3390/jrfm14060231>

Academic Editor: Wing-Keung Wong

Received: 24 March 2021

Accepted: 3 May 2021

Published: 21 May 2021

Publisher's Note: MDPI stays neutral with regard to jurisdictional claims in published maps and institutional affiliations.



Copyright: © 2021 by the authors. Licensee MDPI, Basel, Switzerland. This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (<https://creativecommons.org/licenses/by/4.0/>).

Keywords: risk management; emerging markets; FMCG SMEs; South Africa

1. Introduction

Being the most predominant enterprises in almost every emerging market, SMEs contribute a significant proportion of the Gross Domestic Product (GDP) through their combined output and value additions (Edinburgh Group 2012, p. 5). Besides, due to their labour-intensive nature, SMEs create employment opportunities for unskilled people who are now abundant, particularly in emerging markets (Ngeke 2014, p. 253). Without SMEs, most unskilled people would be wallowing in grinding poverty, since they have limited or no access to employment opportunities in the formal job market. SMEs, therefore, are one of the sustainable methods of alleviating poverty and improving the standards of living of households through wealth and employment creation (Mbuta 2007). Based on this evidence, many governments in the emerging markets around the world have embarked on a range of policies and programmes earmarked to support SMEs.

In South Africa, organisations helping SMEs with financial support include the Nations Trust and Micro Enterprises, and the Small Enterprise Finance Agency (SEFA). In Zambia, programmes such as the Private Enterprise Programme in Zambia (PEPZ), with its Nyamuka Business Plan competition, and the related Accelerator Fund commissioned by Kukula Capital, are crucial in reaching out to the Zambian SMEs (The British Chamber of Commerce 2016). Similarly, in Kenya, an initiative called the SheTradesKe was launched to assist SME owners with e-learning courses, trade workshops, and exhibitions to connect their businesses with international markets (Situma 2016).

Despite the direct and indirect government support, emerging market SMEs are still susceptible to a multitude of risks, which, in the worst case, could pose financial distress and lead to liquidation (Sharifi 2014, p. 82). Perhaps this is why the overall failure rate of

SMEs in emerging markets like South Africa is alarming, with 50% of the new SMEs failing within their first three years (Mungal and Garbharran 2014, p. 77; Sifumba et al. 2017, p. 387). Deploying effective risk management practices, therefore, reduces the uncertainty in the management of SMEs, ensures stability in production and trading in the market, decreases the risk of SME failure, and uplifts the SMEs' external and internal image (Godbole 2012; Leverty 2015). Cormican (2014), however, discovered that it is mostly large enterprises that implement effective risk management and SMEs do not actively engage in it.

Prior studies established that the implementation of risk management in SMEs is influenced by poor managerial skills, lack of knowledge, and insufficient training, among other factors (Smit and Watkins 2012; Agrawal 2016). A review of prior studies in this paper, however, suggests that very little work has been performed in establishing the factors inhibiting effective risk management in emerging market SMEs. A review of prior studies in emerging markets further discloses that the existing studies on this area are devoid of any theoretical grounding. This situation implies that there is still a knowledge gap regarding factors inhibiting effective risk management in emerging market SMEs, and this gap is what the current paper seeks to close. In closing out the gap, this paper uses the Resource Based View (RBV) theory to interpret the results obtained, in order to help clarify the factors inhibiting effective risk management in emerging market SMEs, with a case of South Africa being used.

2. Literature Review

2.1. Emerging Market SMEs

The criteria for defining SMEs are multiple and vary across the world. One chronic criterion that is constantly pointed out as probably the main criterion for defining SMEs, however, is the number of employees (OECD 2005). Despite this, the definitions of SMEs based on this criterion vary from country to country, depending on the contribution of the SMEs to the economy of that country. For example, the OECD (2005) defined SMEs in the European Union (EU) countries as a firm with less than 300 employees, whereas in South Africa, the South African Small Business Amendment Act No. 29 of 2003 has defined SMEs as firms with less than 200 employees. Despite variations in the definitions of SMEs, SMEs share a common characteristic that is integrally associated with the influence they have on the national economies particularly in emerging markets.

In all the emerging markets around the world, a significant proportion of the Gross Domestic Product (GDP) comes from SMEs (Edinburgh Group 2012, p. 5). For instance, SMEs account for about 93% of the Moroccan enterprises and contribute about 38% to production, 33% to total investments, and 30% to total exports (Etuk et al. 2014, p. 659). It is also estimated that SMEs constitute approximately 92% of the Ghanaian enterprises and contribute about 70% to the country's GDP (Frimpong 2013). Similarly, SMEs constitute about 91% of the South African enterprises and contribute between 51% and 57% to the country's GDP (Cant and Wiid 2013, p. 707).

Furthermore, the ever-increasing unemployment rate has for some time been one of the main problems in the emerging economies. For example, Africa is faced with significant economic issues because of the increasing unemployment rate, which is estimated to be between 30% and 41% (Rwigema and Venter 2008, p. 10). In this context, SMEs have become increasingly essential in offering alternative employment by contributing over 61% of all the South African employment opportunities, about 68% of the Zambian employment, and about 60% of all Kenyan formal employment (Abor and Quartey 2010, p. 218; Kagwathi et al. 2014, p. 2; Ong'wen 2017, p. 2; Phillips and Bhatia-Panthaki 2007, p. 795).

Despite their influence on the national economies around the world, SMEs in emerging markets are being bedevilled by several factors militating against their performance, resulting in a high SME failure rate. For example, 85% of SMEs in Zimbabwe fail within their first three years, one-third of new SMEs in Uganda do not go beyond their first year of operation, and between 50% and 95% of SMEs in South Africa fail within the first five years (Nyamwanza et al. 2016, p. 305; Mong 2012, pp. 33–34; Yeboah 2015, p. 4).

Given the importance of SMEs in creating the much-needed jobs, reducing poverty levels, and boosting economic growth, along with their high failure rate, it is imperative that a study like this one be conducted, in order to contribute to the survival and sustainability of emerging market SMEs by means of effective risk management.

2.2. Risk Management in Emerging Market SMEs

Risk management is a systematic approach to identify and evaluate risks along with mechanisms to minimise them (Berg 2010, p. 80; Dictionary.com 2019). The principal objective of risk management is to create business value, increasing business profits by reducing costs and ultimately allowing the business to achieve its mission (Verbano and Venturini 2013, p. 188). Large enterprises mostly incorporate risk management into operating process and systems design, and nearly all risk-taking units operate within approved limits (Goldberg and Palladini 2010, p. 3). However, previous studies revealed that risk management are not receiving the much-deserved attention within the SME sector particularly in the emerging markets (Asgary et al. 2020; Jayathilake 2012, p. 226; Smit 2012). Others suggest that emerging market SMEs risk management is largely limited to risk avoidance actions (Boubala 2010, p. 72; Smit and Watkins 2012). Some of these risk reduction actions could include bankruptcy and earnings management as a phenomenon (Kliestik et al. 2018). Additionally, Dvorsky et al. (2020) pursued research on the concept of business risk for small and medium-sized enterprises in the context of the Czech Republic. They found that identified market, financial activities, and personnel and operational risk have a positive effect on future business exposures of SMEs. This finding, along with others, provide an indication that achieving effective risk management in an emerging market SME set-up is problematic, hence the need to explore factors inhibiting effective risk management in such enterprises.

2.3. Factors Inhibiting Effective Risk Management in Emerging Market SMEs

Despite the anecdotal evidence that suggests that SMEs adopt inadequate and ineffective risk management practices, only a few studies have been conducted on the topic in the emerging market context in general. In one of the few studies, Agrawal (2016) conducted a desktop study involving a review of the relevant literature to understand how SMEs mitigate risk, and whether Enterprise Risk Management (ERM) is crucial for survival and sustainable development of SMEs. The findings indicated that SMEs generally face multiple risks, yet they have insufficient resources and limited knowledge to deal with such risks. The study also suggested the need for integrating an effective ERM system with planning and administration within SMEs, to circumvent fatal consequences. In yet another desktop study, Smit and Watkins (2012) conducted a literature review of SME risk management practices in South Africa. Their findings show that the impediments to effective SME risk management are plentiful and diverse, and include poor managerial skills, lack of education, and insufficient training, among others. Although relevant, the studies by Agrawal (2016), and Smit and Watkins (2012) were not empirical, therefore the veracity of their findings is questionable.

In an empirical study involving a questionnaire survey, Gwangwava et al. (2014) investigated the level of adoption of risk management practices by SMEs in Zimbabwe. The study used a sample of 380 SMEs operating in different sectors, and the results revealed a low level of adoption of risk management practices in SMEs, due to poor knowledge of the concept of risk and a lack of the required resources to outsource audit services. Although informative, the study by Gwangwava et al. (2014) is dated as it was conducted more than five years ago, hence its findings and recommendations may not be valid at the moment. Studies that looked at credit compliance risk (Dubihlela and Ezeonwuka 2018) and competition risk (Kliestik et al. 2020) also added to this discourse and were used to understand the variableness of management.

In a recent study, Sifumba et al. (2017) investigated the risk management practices of 74 SMEs operating in the manufacturing Sector of Cape Town, South Africa. The analysis

of their results showed that only 50% of SME owner-managers communicate risk and controls to their subordinates, an aspect that undermines effective risk management. Their results further revealed that no suitable training is provided to subordinates concerning risk management activities. According to [Sifumba et al. \(2017\)](#), these results explain why the failure rate of SMEs is alarming. Although enlightening, the study by [Sifumba et al. \(2017\)](#) adopted a small sample size, an aspect that challenges the generalisability of its findings.

In a more recent study based on a sizeable sample, [Crick et al. \(2018\)](#) investigated to what extent and how SMEs in emerging markets are adapting to climate risks, using a questionnaire survey that sampled 325 respondents. Their findings revealed that financial barriers are a key reason why SMEs resort to unstructured risk management approaches. In a similar study carried out in Ghana, [Abotsi et al. \(2014\)](#) investigated the risk management decisions in 447 SMEs, with the aim of determining the factors that preclude SME owners from making effective risk management decisions. Their findings revealed that about 25% rated the extent of their risk management knowledge as high, about 5% rated it at the lowest possible level and the remainder did not rate it at all, which implies no knowledge of risk management. These findings are an indication that there is still a huge gap in the knowledge base of SME owner-managers regarding risk management. Despite not being dated, the studies by [Crick et al. \(2018\)](#); [Abotsi et al. \(2014\)](#), are devoid of any theoretical grounding.

None of the previous studies reviewed in this section adopted a theory. Employing a theory, such as the RBV theory, to interpret the findings obtained, would have provided a deeper understanding of barriers to effective risk management in the sampled emerging market SMEs. It is, therefore, imperative that a research on risk management in emerging market SMEs be conducted that adopts a theory, such as the RBV theory.

2.4. Resource Based View Theory

The RBV is a renowned concept that has been applied to several examples of strategic management research ([Hitt et al. 2016](#)). It is centred on the argument that a business's superior performance emanates from its resources that are rare, valuable, impossible to replicate, and hard to replace ([Bromiley and Rau 2016](#)). For that reason, resources play a crucial role in the overall business's performance ([Barney 1991](#)).

According to RBV theory, resources are generally divided into tangible and intangible resources ([Galbreath 2005](#)). Tangible resources include physical assets like land, buildings, machinery, and equipment. While tangible resources are common in every business, intangible resources such as knowledge, skills education, innovation, and experience also contribute immensely to a business's performance ([Pal et al. 2014](#); [Sirmon et al. 2007](#)). Previous studies using the RBV have unpacked the relationship between business resources and performance. First, [Hall \(1992\)](#) investigates the relative significance of intangible resources to business success and proposes the significance of intangible resources in contributing to business success. Despite acting as a practical guide for future studies, the study by [Hall \(1992\)](#) is void of theoretical grounding and statistical rigor, for example, through tests of significance. In another study, [Powell and Dent-Micallef \(1997\)](#) investigate three resources constructs which include information technology, and the complementarity of human and business resources. The findings show that for overall business performance, human resources have a positive correlation, business resources have a moderate correlation, and technology resources have a negative correlation. The findings of this study appear to point to the significance of intangible resources in positively impacting business success. In addition to that, [Fahy \(2002\)](#) also tests the influence of resources on low-performing versus high-performing businesses by means of discriminant analysis. Top-performing businesses ascribe greater levels of significance to intangible resources than low-performing businesses.

Following the concept established by the RBV and its proponents, this study posits that for a sustainable competitive advantage, SMEs should develop resources and capabilities to manage business risks. These resources and capabilities, in line with the RBV,

are approaches in managing business risks which must be a collection of unique skills, knowledge, and other resources that are commensurate with both the size and the supply chain setting of the SME. However, usually emerging market SMEs have greater difficulties than their large counterparts in accessing resources and capabilities. Thus, SMEs face several barriers to effective risk management, given the type of environment which they operate in—financial constraints, lack of technology, and lack of knowledge. The exact nature of the business resources that influence risk management systems within SMEs, however, remains largely unexplored in emerging markets like South Africa. In exploring this area, this paper uses the RBV to interpret the results obtained, in order to help clarify the potential obstacles to risk management within SMEs.

3. Research Design and Data Collection

Drawing upon studies such as [Khaldi \(2017\)](#), and [Bachman and Schutt \(2017\)](#), this paper adopted a quantitative approach to obtain and analyse data.

3.1. Research Population, Sampling Technique, and Sample Size

[Denscombe \(2014, p. 2\)](#) defines a research population as a collection of elements from which a certain researcher wishes to make conclusions. The research population for this study comprised all SMEs that operated in the Cape Metropolitan area at the time of the study. Due to the absence of a database of all SMEs within the Cape Metropolitan area, the population size for this paper is unknown. Given this, a purposive sampling technique was adopted to select the respondents for this study. Since this technique comprises a sample drawn from a population that has characteristics of the researcher's interest ([De Vos et al. 2011, p. 232](#)), it ensured that the respondents who were selected had sufficient and relevant work experience on the area of risk management and thus ensured the validity and reliability of the information for policy direction.

The research sample consisted of 320 SMEs that were still operating in the Cape Metropole, South Africa. Given that the sample size exceeded the recommended minimum size of 30 for a quantitative approach, it is fair to conclude that the sample size was a representation of the target population ([Eichler et al. 2018](#)).

3.2. Data collection and Analysis of Data

A questionnaire-tool containing mostly pre-populated questions was used for soliciting quantitative data from 320 SMEs that were operating in the Cape Metropole. The main author disseminated the questionnaires to individual owners and managers of SMEs. The data which the questionnaires obtained was analysed by means of Excel and the Statistical Package for the Social Sciences (SPSS) software, and then the results were shown in the form of descriptive statistics. Also, the data analysis made use of Phi, Contingency Coefficient, and Pearson's R.

4. Results and Discussion

Out of the 320 questionnaires administered, 289 were collected and deemed valid for analysis. Table 1 shows the number of employees in the SMEs that participated in this study.

Table 1. Number of employees.

How Many Employees Does Your Business Have?				
	Frequency	Percent	Valid Percent	Cumulative Percent
5–19 employees	187	64.7	64.7	64.7
20–49 employees	83	28.7	28.7	93.4
50–199 employees	19	6.6	6.6	100.0
Total	289	100.0	100.0	

Table 1 indicate that 64.7% of the SMEs had 5 to 19 employees, while 28.7% had 20 to 49 employees. Only 6.6% of the respondents revealed that their enterprises had 50 to 199 employees. These results imply that 100% of the sampled businesses can be classified as SMEs (total number of employees not greater than 200), and hence were the right participants for this study.

4.1. Risk Management Practices that Exist in SMEs

Campion (2000), Tsiouras (2015), the Association of Insurance and Risk Managers (AIRMIC), the public sector risk management association (Alarm), and the Institute of Risk Management (IRM) (AIRMIC et al. 2010, p. 3) emphasise that a successful risk management initiative is underpinned by a set of critical elements, which are summarised in Table 2. Accordingly, Table 2 provides a summary of the number of SMEs that have critical elements of effective risk management in place.

Table 2. Critical elements of effective risk management that exist in SMEs.

	Yes	No		Mean	Remark
A risk appetite exists	51 17.60%	238 82.40%	289 100.00%	1.8235	No
A credit risk policy exists	31 10.70%	258 89.30%	289 100.00%	1.8927	No
Employee development programs and continuing education exist	60 20.80%	229 79.20%	289 100.00%	1.7923	No
A system of budgeting and cost control exists	38 13.10%	251 86.90%	289 100.00%	1.8685	No
A contingency fund exists	38 13.10%	251 86.90%	289 100.00%	1.8685	No
A risk management plan exists	56 19.40%	233 80.60%	289 100.00%	1.8062	No
A risk response strategy exists	67 23.20%	222 76.80%	289 100.00%	1.7681	No
All employees participate in the risk management process	47 16.30%	242 83.70%	289 100.00%	1.8373	No
A risk management framework exists	80 27.70%	209 72.30%	289 100.00%	1.7231	No
An effective internal control system exists	72 24.90%	217 75.10%	289 100.00%	1.7508	No
Risk management is implanted into daily activities	160 55.40%	129 44.60%	289 100.00%	1.4463	Yes
The risk management process is often monitored and reviewed	166 57.40%	123 42.60%	289 100.00%	1.4256	Yes
Risks are vigorously identified, classified, ranked and recorded prior to risk treatment	194 67.10%	95 32.90%	289 100.00%	1.3287	Yes
Total	1060 28.20%	2697 71.80%	3757 100.00%	1.7178	No

As indicated in Table 2, elements of effective risk management that were present in most of the sampled SMEs included risks that are vigorously identified, classified, ranked, and recorded prior to risk treatment (67.1%), followed by the risk management process often being monitored and reviewed (57.4%), and then risk management being implanted into daily activities (55.4%). Other elements of effective risk management were only used by a minority of the sampled SMEs. These included the availability of a risk management framework (27.7%), an effective internal control system (24.9%), a risk response strategy (23.2%), and employee development programs and continuing education (20.8%). The remainder of the elements of effective risk management were used by an even smaller percentage of the sampled SMEs and these included a risk management plan (19.4%), a risk appetite (17.6%), the participation of all employees in the risk management process (16.3%), a system of budgeting and cost control (13.1%), a contingency fund (13.1%), and a credit risk policy (10.7%). The results imply that the crucial elements of effective risk management are largely absent in SMEs. This is in line with Asgary et al. (2020), Dvorsky et al. (2020), Jayathilake (2012, p. 226), Boubala (2010, p. 72), Smit and Watkins

(2012), and Smit (2012), who found that risk management was not receiving the much-deserved attention within the SMEs, particularly in the emerging markets.

For further analysis, independence tests for the differences in the elements of effective risk management adopted by SMEs were performed using a Chi-square test. The results are shown below.

The Chi-square results in Table 3 confirm a statistically significant difference in deployment levels of 13 identified risk management elements among SMEs operating in the Cape Metropole. This implies that there was limited adoption of elements of effective risk management by SMEs. The results suggest that inadequate elements of effective risk management existed in the operational systems of SMEs, as more than 70% neither develop nor adopt/implement a risk management framework, an effective internal control system, a risk response strategy, or other employee development programs and continuing education. More than 80% did not have an existing risk management plan nor set a risk appetite. More than 83% did not involve all employees in the risk management process (meaning there was a lack of cooperate governance in risk management). More than 86% said 'No' to having a system of budgeting and cost control, and 'No' to maintaining a contingency fund which could be set aside for responding to identified risks. Finally, close to 90% did not have a developed or implemented credit risk policy. This provides a comprehensive reason why more than 50% of SMEs in emerging markets fail in their first five years of existence (Manzoor et al. 2021; Sifumba et al. 2017; Nyamwanza et al. 2016, p. 305; Mong 2012, pp. 33–34; Yeboah 2015, p. 4). The implication is that policy direction should be towards a comprehensive review of elements of effective risk management present among SMEs operating in the Cape Metropole. Otherwise, a threat is posed to the survival of SMEs and many obstacles (Dvorsky et al. 2020) will stand against the growth of these enterprises in the Cape Metropole (A detailed analysis of those obstacles is provided in Section 4.2).

Table 3. Critical elements of effective risk management that exist in SMEs Chi-Square Tests.

	Value	df	Asymptotic Significance (2-Sided)
Pearson Chi-Square	612.118 ^a	12	0.000
Likelihood Ratio	582.304	12	0.000
Linear-by-Linear Association	417.807	1	0.000
N of Valid Cases	3757		

^a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 81.54.

Furthermore, the statistically significant effect was confirmed in the SMEs operating in the Cape Metropole with Chi-square value: $\chi^2(12, n = 3757) = 612.118, p = 0.000$, and Cramer's V = 0.404 (see Table 3; Table 4). The Cramer's V result in Table 4 below as recommended by Gravetter and Wallnau (2004) and Pallant (2011) confirms a very large effect.

Table 4. Critical elements of effective risk management that exist in SME Symmetric measures.

		Value	Asymptotic Standard Error ^a	Approximate T ^b	Approximate Significance
Nominal by Nominal	Phi	0.404			0.000
	Cramer's V	0.404			0.000
	Contingency Coefficient	0.374			0.000
Interval by Interval	Pearson's R	−0.334	0.016	−21.679	0.000 ^c
Ordinal by Ordinal	Spearman Correlation	−0.334	0.016	−21.679	0.000 ^c
	N of Valid Cases	3757			

^a. Not assuming the null hypothesis; ^b. Using the asymptotic standard error assuming the null hypothesis; ^c. Based on normal approximation.

4.2. *ient n Emerging Market SMEs*

As revealed in Table 5, most of the sampled respondents indicated that poor risk knowledge (60.8%) was a very relevant barrier to their effective risk management, and that costs exceeding benefits was also very relevant to them (60.1%). A majority of the respondents also indicated that poor knowledge of measuring the performance of risk management (59.4%) was a very relevant barrier to their effective risk management, followed by an absence of risk management frameworks relevant to the SMEs (56.6%), and then a lack of cash resources (51.0%). Inadequate record keeping turned-out to be a very relevant barrier to a minority of the respondents (46.4%). Then refusal from employees was also considered very relevant but to a lesser extent (only 28.7%). The results imply that factors inhibiting effective risk management in emerging market SMEs are numerous and varied. The current study results are consistent with those of [Dvorsky et al. \(2020\)](#) as well as [Smit and Watkins \(2012\)](#), who found that the impediments to effective SME risk management are plentiful and diverse.

Table 5. Factors inhibiting effective risk management in emerging market SMEs.

	Not at ll Relevant	Slightly Relevant	Relevant	Fairly Relevant	Very Relevant	Total
Poor risk knowledge	26 9.00%	12 4.20%	27 9.40%	48 16.70%	175 60.80%	288 100.00%
Lack of cash resources	12 4.20%	25 8.70%	46 16.00%	58 20.10%	147 51.00%	288 100.00%
Cost exceeding benefits of risk management	47 16.30%	6 2.10%	20 6.90%	42 14.60%	173 60.10%	288 100.00%
Absence of risk management frameworks relevant to the SMEs	24 8.30%	26 9.00%	29 10.10%	46 16.00%	163 56.60%	288 100.00%
Poor knowledge of measuring the performance of risk management	26 9.00%	16 5.60%	30 10.40%	45 15.60%	171 59.40%	288 100.00%
Inadequate record keeping	42 14.50%	27 9.30%	23 8.00%	63 21.80%	134 46.40%	289 100.00%
Refusal from employees	61 21.10%	68 23.50%	27 9.30%	50 17.30%	83 28.70%	289 100.00%
Other	14 4.80%	30 10.40%	41 14.20%	56 19.40%	148 51.20%	289 100.00%
Total	252 10.90%	210 9.10%	243 10.50%	408 17.70%	1194 51.80%	2307 100.00%

The preceding findings of the current study also support the RBV theory, which postulates that resources are important drivers of performance. These include both intangible (knowledge in the context of this study) and tangible (cash resources in the context of this study) resources. Based on the RBV theory, the sampled SMEs operating in the Cape Metropole face obstacles when attempting to implement effective risk management, as they lacked these factors.

For further analysis, independence tests for the effect of different barriers to effective risk management practices adopted by SMEs were performed using a Chi-square test. The results are shown below.

The Chi-square results in Table 6 confirm a lack of independence of the barriers faced by the respondents to risk management practices being adopted. This implies that the barriers faced by owner-managers had a statistically significant effect on risk management practices adopted by the respondents in their businesses, with Chi-square value: $\chi^2(28, n = 2307) = 227.240, p = 0.000$, and Cramer's V = 0.157. The Cramer's V result

in Table 7 below as recommended by Gravetter and Wallnau (2004) and Pallant (2011) confirms a very large effect of these barriers to effective risk management in SMEs.

Table 6. Factors inhibiting effective risk management in emerging market SMEs.

	Chi-Square Tests		Asymptotic Significance (2-Sided)
	Value	df	
Pearson Chi-Square	227.240 ^a	28	0.000
Likelihood Ratio	220.309	28	0.000
Linear-by-Linear Association	36.452	1	0.000
N of Valid Cases	2307		

^a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 26.22.

Table 7. Factors inhibiting effective risk management in emerging market SMEs.

		Symmetric Measures		Approximate T ^b	Approximate Significance
		Value	Asymptotic Standard Error ^a		
Nominal by Nominal	Phi	0.314			0.000
	Cramer's V	0.157			0.000
Interval by Interval	Pearson's R	−0.126	0.020	−6.085	0.000 ^c
Ordinal by Ordinal	Spearman Correlation	−0.129	0.020	−6.227	0.000 ^c
	N of Valid Cases	2307			

^a. Not assuming the null hypothesis. ^b. Using the asymptotic standard error assuming the null hypothesis. ^c. Based on normal approximation.

5. Research Implications

In this section, the results are discussed in relation to theoretical, managerial, and policy implications.

5.1. Theoretical Implications

This paper uniquely adopts the RBV theory to interpret the results obtained, which provides a better insight into the factors inhibiting effective risk management in emerging market SMEs, unlike the previous emerging market studies on the same topic.

5.2. Managerial Implications

The findings of this paper appear to indicate the significance of both intangible and tangible resources in positively impacting the effectiveness of risk management within emerging market SMEs. This leads the present study to conclude that owner-managers must pay particular attention to their intangible and tangible resource structure, which impacts the positive response towards superior performance and competitive advantage by focusing more on coalescing resources that lead to effective risk management.

5.3. Policy Implications

The findings of this paper could also be of great importance to the policy makers in the emerging markets, with a case of South Africa being used. In South Africa, the Department of Small Business Development, which provides financial and non-financial support services, aims to create an enabling environment for SMEs to flourish. Drawing upon the RBV, the results of this paper have revealed that effective risk management is rooted in an intangible (in our case, knowledge) and tangible (in our case, cash) resource structure. This insight may be used to inform future attempts of the Department of Small Business Development when designing interventions intended to boost the survival rate of SMEs.

Regarding intangible resources like knowledge, the Department of Small Business Development, in collaboration with universities, could offer short courses or workshops

based on risk management to help SME owner-managers understand risks faced by their businesses and how they can effectively manage such risks.

Concerning tangible resources like cash, the Department of Small Business Development in collaboration with commercial banks may consider revising the current credit policies accordingly to match with the individual conditions of SMEs, and not solely evaluating the creditworthiness of these firms on the basis of credit history or collateral security. They may consider placing more weight on other factors like the growth potential of the enterprise or feasibility of the enterprise's future business plan.

6. Conclusions

This section provides concluding remarks and projects possible future research pathways. The study was motivated by the scant research on the factors inhibiting effective risk management in emerging market SMEs. This study attempted to bridge this knowledge gap by using the RBV to interpret the findings obtained, in order to provide a deeper understanding of the factors inhibiting effective risk management in emerging market SMEs, with a case of South Africa being used. The results of this paper have revealed that factors inhibiting effective risk management in emerging market SMEs are numerous and diverse, and include a lack of intangible resources like knowledge; a lack of tangible resources like cash; and other obstacles such as a costs exceeding benefits mentality, an absence of risk management frameworks relevant to SMEs, insufficient record keeping and refusal from employees. The results also support the RBV theory, which suggests that resources are key drivers of performance. In the context of this study, intangible resources include knowledge and tangible resources include cash. Based on our results, the sampled emerging market SMEs face obstacles when attempting to implement effective risk management as they lacked these factors. This finding represents therefore an avenue for future research. In particular, future research studies have to make efforts to explore more intangible and tangible resources, in order to help emerging market SMEs focus more on coalescing resources that lead to effective risk management. In addition, the findings of this paper are based on a sample of 320 SMEs. The future studies should integrate a bigger sample size for the survey of SME owner-managers, to produce substantial data and for improved generalisation of the results. It is further suggested that rural-based SMEs be involved, to defeat the provincial imbalance of this paper. Thus, another prolific area for future studies might be a comparative study between SMEs in urban and rural areas of an emerging market economy. A bigger and varied structure of the sample size is likely to provide more in-depth data concerning the risk management of SMEs in an emerging market economy.

Author Contributions: The conceptualization of the paper was done by O.C. and R.T.; methodology R.T.; software, O.C.; validation, J.D. and R.T.; formal analysis, O.C.; investigation and writing—original draft preparation, O.C.; writing—review and editing, J.D. All authors have read and agreed to the published version of the manuscript.

Funding: This research received no external funding.

Institutional Review Board Statement: This study was consistent with the guidelines of the Cape Peninsula University of Technology, and cleared by the Faculty Research Ethics Committee. Ordinarily the ethical review was not restrictive for this study because the study did not involve humans or animals.

Conflicts of Interest: The authors declare no conflict of interest in the research processes, analysis and publication of this paper.

References

- Abor, Joshua, and Peter Quartey. 2010. Issues in SMMEs development in Ghana and South Africa. *International Research Journal of Finance and Economics* 39: 218–28.
- Abotsi, Anselm Komla, Gershon Yawo Dake, and Richard Abankwa Agyepong. 2014. Factors influencing risk management decision of small and medium scale enterprises in Ghana. *Contemporary Economics* 8: 397–414. [[CrossRef](#)]

- Agrawal, Reena. 2016. 'Enterprise risk management' essential for survival and sustainable development of micro, small and medium enterprises. *International Review* 1: 117–24. [CrossRef]
- AIRMIC, Alarm, and IRM. 2010. *Structured Approach to Enterprise Risk Management (ERM) and the Requirements of ISO 31000*. London: The Public Risk Management Association.
- Asgary, Ali, Ali Ihsan Ozdemir, and Hale Ozyurek. 2020. Small and Medium Enterprises and Global Risks: Evidence from Manufacturing SMEs in Turkey. *International Journal of Disaster Risk Science* 11: 59–73. [CrossRef]
- Bachman, Ronet D., and Russell K. Schutt. 2017. *Fundamentals of Research in Criminology and Criminal Justice*. New York: Sage Publications, Available online: <https://www.amazon.com/Fundamentals-Research-Criminology-Criminal-Justice/dp/1506359574> (accessed on 4 May 2021).
- Barney, Jay. 1991. Resource and Sustained Competitive Advantage. *Journal of Management* 17: 99–120. [CrossRef]
- Berg, Heinz-Peter. 2010. Risk management: Procedures, methods and experiences. *Reliability and Risk Analysis: Theory and Applications* 1: 79–95.
- Boubala, Helene Gesika Oumbahouin. 2010. Risk Management of SMMes. Master's thesis, Internal Auditing in the Faculty of Business at the Cape Peninsula University of Technology, Cape Town, South Africa.
- Bromiley, Philip, and Devaki Rau. 2016. Operations management and the resource-based view: Another view. *Journal of Operations Management* 41: 95–106. [CrossRef]
- Campion, Anita. 2000. *Improving Internal Controls: A Practical Guide for Microfinance Institutions*. Washington, DC: MicroFinance Network.
- Cant, Michael C., and Johannes A. Wiid. 2013. Establishing the challenges affecting South African SMEs. *International Business & Economics Research Journal* 12: 707–16.
- Cormican, Kathryn. 2014. Integrated Enterprise Risk Management: From Process to Best Practice. *Modern Economy* 5: 401–13. [CrossRef]
- Crick, Florence, Shaikh M. S. U. Eskande, Sam Fankhauser, and Mamadou Diop. 2018. How do African SMEs respond to climate risks? Evidence from Kenya And Senegal. *World Development* 108: 157–68. [CrossRef]
- De Vos, Alta, Hermanus Strydom, Christa B. Fouché, and Cameron S. L. Delpont. 2011. *Research at Grass Roots: For the Social Sciences and Human Service Professions*, 4th ed. Pretoria: Van Schaik Publishers.
- Denscombe, Martyn. 2014. *The Good Research Guide: For Small-Scale Social Research Projects*. Maidenhead: Open University Press.
- Dictionary.com. 2019. Risk Management. Available online: <https://www.dictionary.com/browse/Risk-management> (accessed on 2 May 2018).
- Dubihlela, Job, and Anthony Ezeonwuka. 2018. Compliance Risks and Business Performance of Selected South African Retail Stores, Case of Emerging Markets. *Studia Universitatis Babeş-Bolyai. Oeconomica* 14: 156–67.
- Dvorsky, Jan, Jaroslav Belas, Beata Gavurova, and Tomas Brabenec. 2020. Business risk management in the context of small and medium-sized enterprises. *Economic Research-Ekonomska Istraživanja*, 1–19. [CrossRef]
- Edinburgh Group (EG). 2012. Growing the Global Economy Through SMEs. Available online: http://www.edinburghgroup.org/media/2776/edinburgh_group_research_growing_the_global_economy_through_smes.pdf (accessed on 10 February 2017).
- Eichler, Clara M., Yaoxing Wu, Steven S. Cox, Stephanie Klaus, and Gregory D. Boardman. 2018. Evaluation of sampling techniques for gas-phase siloxanes in biogas. *Biomass and Bioenergy* 108: 1–6. [CrossRef]
- Etuk, Reuben Ufot, Grace Reuben Etuk, and Baghebo Michael. 2014. Small and medium scale enterprises (SMEs) and Nigeria's economic development. *Mediterranean Journal of Social Sciences* 5: 656–61. [CrossRef]
- Fahy, John. 2002. A resource-based analysis of sustainable competitive advantage in a global environment. *International Business Review* 11: 57–77. [CrossRef]
- Frimpong, C. Y. 2013. SMEs as an Engine of Social and Economic Development in Africa. Available online: <https://www.modernghana.com/news/478225/1/smes-as-an-engine-of-social-and-economic-developme.html> (accessed on 13 February 2017).
- Galbreath, Jeremy. 2005. The intangible economy and firm superior performance: Evidence from Australia. *Journal of Management and Organization* 11: 28–40.
- Godbole, P. 2012. Effective Risk Management is Crucial for Small Businesses: Mritunjay Kapur. *Business Standard*. January 17. Available online: http://www.business-standard.com/article/sme/effective-risk-management-is-crucial-for-small-businesses-mritunjay-kapur-112011700102_1.html (accessed on 10 February 2017).
- Goldberg, Mike, and Eric Palladini. 2010. *Managing Risk and Creating Value with Microfinance*. Washington, DC: World Bank Publications.
- Gravetter, Frederick J., and Larry B. Wallnau. 2004. *Statistics for the Behavioral Sciences*, 6th ed. Belmont: Wadsworth.
- Gwangwava, Edson, Faitira Manuere, Gutu Kudakwashe, Chinoda Tough, and Frank Rangarirai. 2014. An assessment of risk management practices in SMEs in Zimbabwe: A review and synthesis. *IOSR Journal of Humanities and Social Sciences* 19: 6–14. [CrossRef]
- Hall, Richard. 1992. The strategic analysis of intangible resources. *Strategic Management Journal* 13: 135–144. [CrossRef]
- Hitt, Michael A., Christina Matz Carnes, and Kai Xu. 2016. A current view of resource based theory in operations management: A response to Bromiley and Rau. *Journal of Operations Management* 41: 107–9. [CrossRef]
- Jayathilake, Pradana Mudiyansele Bandula. 2012. Risk Management Practices in Small and Medium Enterprises: Evidence from Sri Lanka. *International Journal of Multidisciplinary Research* 2: 226–34.
- Kagwathi, Githii Stephen, John Njau Kamau, Mary Muthoni Njau, and Stephen Maina Kamau. 2014. Risks Faced and Mitigation Strategies Employed by Small and Medium Enterprises in Nairobi, Kenya. *Journal of Business and Management* 16: 1–11. [CrossRef]

- Khalidi, Kamel. 2017. Quantitative, Qualitative or Mixed Research: Which Research Paradigm to Use? *Journal of Educational and Social Research* 7: 15. [CrossRef]
- Kliestik, Tomas, Maria Misankova, Katarina Valaskova, and Lucia Svabova. 2018. Bankruptcy prevention: New effort to reflect on legal and social changes. *Science and Engineering Ethics* 24: 791–803. [CrossRef] [PubMed]
- Kliestik, Tomas, Katarina Valaskova, Elvira Nica, Maria Kovacova, and George Lazaroiu. 2020. Advanced methods of earnings management: Monotonic trends and change-points under spotlight in the Visegrad countries. *Oeconomia Copernicana* 11: 371–400. [CrossRef]
- Leverty, T. 2015. How Successful Companies Manage Risk. Available online: <https://bus.wisc.edu/knowledge-expertise/faculty-research/forward-thinking-blog/2015/07/17/how-successful-companies-manage-risk> (accessed on 23 February 2017).
- Manzoor, Faiza, Longbao Wei, and Noman Sahito. 2021. The role of SMEs in rural development: Access of SMEs to finance as a mediator. *PLoS ONE* 16: e0247598. [CrossRef] [PubMed]
- Mbuta, W. 2007. *Small and Medium Enterprises Survey, 2003–2004*. Lusaka: MCTI.
- Mong, Donald. 2012. Follow the cash: Lessons for Capstone business courses. *Journal of Business & Economics Research* 9: 33–44.
- Mungal, Avika, and Hari Lall Garbharran. 2014. The perceptions of small businesses in the implementation of cash management techniques. *Journal of Economics and Behavioral Studies* 6: 75–83. [CrossRef]
- Ngek, Neneh Brownhilder. 2014. Determining high quality SMEs that significantly contribute to SME growth: Regional evidence from South Africa. *Problems and Perspectives in Management* 12: 253–64.
- Nyamwanza, L., L. Paketh, F. Makaza, and N. Moyo. 2016. An evaluation of the policies instituted by the government of Zimbabwe in promoting survival and growth of SMEs: The case of Glenview area 8 SMEs. *International Journal of Information, Business and Management* 8: 304–16.
- OECD. 2005. Small and Medium-Sized Enterprises (SMEs). Available online: <https://stats.oecd.org/glossary/detail.asp?ID=3123> (accessed on 8 January 2017).
- Ong'wen, Asu Owino. 2017. Factors Affecting the Success of SMEs (A Case of Tailoring SMEs, Uhuru Market Nairobi). Doctoral dissertation, United States International University-Africa, Nairobi, Kenya.
- Pal, Rudrajeet, Håkan Torstensson, and Heikki Mattila. 2014. Antecedents of organizational resilience in economic crises—An empirical study of Swedish textile and clothing SMEs. *International Journal of Prod Econ* 147: 410–28. [CrossRef]
- Pallant, J. 2011. *Survival Manual. A Step by Step Guide to Data Analysis Using SPSS*. Nest Crows: Allen & Unwin.
- Phillips, Christine, and Seema Bhatia-Panthaki. 2007. Enterprise development in Zambia: Reflections on the missing middle. *The Journal of the Development Studies Association* 19: 793–804. [CrossRef]
- Powell, Thomas C., and Anne Dent-Micallef. 1997. Information technology as competitive advantage: The role of human, business, and technology resources. *Strategic Management Journal* 18: 375–405. [CrossRef]
- Rwigema, H., and R. Venter. 2008. *Advanced Entrepreneurship*. Cape Town: Oxford University.
- Sharifi, Omid. 2014. Financial risk management for small and medium sized enterprises (SMEs). *International Journal of Information, Business and Management* 6: 82–94.
- Sifumba, Clinton Mbuyiselo, Kevin Boitshoko Mothibi, Anthony Ezeonwuka, Siphesande Qeke, and Mamorena Lucia Matsoso. 2017. The risk management practices in the manufacturing SMEs in Cape Town. *Problems and Perspectives in Management* 15: 386–403. [CrossRef]
- Sirmon, David G., Michael A. Hitt, and R. Duane Ireland. 2007. Managing Firm Resources in Dynamic Environments to Create Value: Looking inside the Black Box. *The Academy of Management Review* 32: 273–92. [CrossRef]
- Situma, Susan. 2016. *SMEs: The Golden Key to a Flourishing Kenyan Economy*. Available online: <https://www.standardmedia.co.ke/business/article/2000225102/smes-the-golden-key-to-a-flourishing-kenyan-economy> (accessed on 19 May 2018).
- Smit, Yolande. 2012. A Structured Approach to Risk Management for South African SMMEs. Ph.D. thesis, Cape Peninsula University of Technology, Cape Town, South Africa.
- Smit, Yolande, and Joseph A. Watkins. 2012. A literature review of small and medium enterprises (SME) risk management practices in South Africa. *African Journal of Business Management* 6: 6324–30.
- The British Chamber of Commerce. 2016. The State of SMEs and Entrepreneurship in Zambia. Available online: <http://www.britishchamberzambia.org/british-chamber-event-state-smes-entrepreneurship-zambia/> (accessed on 8 May 2017).
- Tsiouras, I. 2015. The Risk Management According to the Standard ISO 31000. Available online: <https://www.legimi.pl/ebook-ioannis-tsiouras-the-risk-management-according-to-the-standard-iso-31000-ioannis-tsiouras,b247490.html> (accessed on 30 July 2018).
- Verbano, Chiara, and Karen Venturini. 2013. Managing risks in SMEs: A literature review and research agenda. *Journal of Technology, Management and Innovation* 8: 1–17. [CrossRef]
- Yeboah, Moses Ahomka. 2015. Determinants of SME growth: An empirical perspective of SMEs in the Cape Coast Metropolis, Ghana. *The Journal of Business in Developing Nations* 14: 2–31.