The Impact of Risk Exposure and Management on the Survival of Small and Medium Enterprises in Nigeria.

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Abstract

In this paper, an attempt has been made to investigate the impact of risk exposure and its management on the survival of small and medium scale enterprises in Nigeria. Consequently, the specific focus of the study has been to examine the impact of operational risk on the survival of small and medium enterprises (SMEs), the effect of credit exposure on SMEs and the effect of market risk on SMEs in Nigeria. Primary data were used for this study sourced through the questionnaire administered on respondents and responses were analyzed using descriptive statistics of the KMO and Bartlett's test. It was found that return on assets and return on equity are inversely related risk and that market risk leads to liquidity crisis while operational risk impacts negatively on governance and labour turnover. It was observed that objective setting helped in enterprise risk management among SMEs. It was therefore recommended that to hedge risk, strategic management is imperative hence SMEs must go beyond conventional risk management approaches and use other approaches such as brand popularity, owning strategic assets, high volume production, customers support services and owning convertible financial instruments.

Introduction and background to the study

The notion about small and medium scale enterprises being veritable engines of growth has been accepted among scholars and researchers. Many nations of the world like countries in Asia, have acknowledged the strategic and critical roles small and medium scale enterprises (SMEs) play in the significant reduction in poverty level and its attendant enhancement of the quality and standard of living of citizens. According to Obademi (2013), the fact that SMEs are very important in making available raw materials for secondary outputs, they also have the potential of promoting income redistribution through cooperative efforts.

Within the context of this study, small-scale industry is defined as any enterprise with a total cost including working capital but excluding cost of land above ₦ 1.5 million but not exceeding ₦50 million, with a labour size of between 11 and 100 workers, while the medium-scale industry has a total cost including working capital but excluding cost of land above ₦50 million but not exceeding ₦200 million, with a labour size of between 101 and 300 workers.

It has been said that in Nigeria, most SMEs pack up within the first five years of their commencement due to several risk factors common to developing countries and as such if an SMEs is to succeed and possibly do better than existing successful business it has to overcome a combination of business and operational risk and this risk include: credit risk, market risk, interest rate risk and political risk etc. Risks emerge due to the presence of uncertainty. Risk can be defined as the measurable uncertainties inherent in any decision making process. Risk essentially has to do with potential return variability hence risk is also defined as the effect expressed in numeric or social terms associated with the probability that the actual result or returns from a course of action will deviate from the positive expectation. According to Gordy (2015) risk is any issue or matter that can affect the goal of a business entity either financial or commercial service. Risks are usually broadly classified into one that concerns internal resources and those that are associated with external the environment. Risks are not supposed to be essentially fatal to businesses if they are well managed as they can be transformed into potential benefits or left to become threats depending on the way the knowledge is utilized to convert information available about the risk exposure with the passage of time.

According to Greene (2014) the level of risk varies between businesses and it is a major factor in determining business value. Hence it is safe to say that business value and business growth is a reason for good risk management. Consequently, risk management can be defined as the process of planning, organizing, directing and controlling resources to achieve given objectives when good or bad events are possible. Operationally, risk management can be defined as the identification, and evaluation of the threats to the expectation of an organization and the development of means whereby the expectations will be fulfilled in a most efficient manner by removing or reducing those threats.

Risk management is the act of determining, minimizing and prevention of loss in business transactions by taking precautionary and safety measures which could be in diverse forms. .

Statement of the Problem.

Against the backdrop of increasing levels of unemployment in most developing countries including Nigeria, young men and women are encouraged to start small and medium businesses with little capital accessed from friends, family and credit giving institutions. However, real life experiences of these young entrepreneurs have shown that the survival of SMEs are threatened by unfavourable business environment as well as the unwillingness of banks to give this category of business needed credit facility

. There are a number of issues of macroeconomic, institutional and regulatory nature that may lead to the bias of the entire banking system against lending to SMEs among which is that SMEs are susceptible to risk exposures that mitigate their growth and these risks include the lack of access to credit, ineffective capacity and management, competition from large-scale industries, and the over -liberalization that characterise the economy and difficulty in accessing advisory services and research findings. It is pertinent to state however that the major inhibition to SMEs survival has to do with constraints pertaining to working capital and raw materials and a major concern to SMEs invetors. This stems from the fact that SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. It is believed that the particular problem of uncertainty relates to businesses with a low asset base. Therefore, this study intends to examine the impact of risk exposure and its management on SMEs survival in developing countries with evidence from Nigeria.

Research Objectives

The major objective of this study is to investigate the impact of risk exposure and its management on SMEs survival in developing countries while the specific objectives are:

i. To access the impact of operational risk on SMEs survival in developing countries.
ii. To determine the effect of credit risk exposure on SMEs survival in developing countries.
iii. To determine the effect of market risk exposure on SMEs survival in developing countries.

Research Questions

i. What is the impact of operational risk on SMEs survival in Nigeria?
ii. What is the effect of credit risk exposure on SMEs survival in Nigeria?
iii. What is the effect of market risk exposure on SMEs survival in Nigeria?

Research Hypotheses

Ho: There is no significant relationship between operational risk and SMEs survival in Nigeria.

Ho: There is no significant relationship between credit risk exposure and SMEs survival in Nigeria.

Ho: There is no significant relationship between market risk exposure and SMEs survival in Nigeria.

Literature Review

Several studies have been conducted on SMEs in respect of their contribution to economic growth and poverty reduction however, only few studies have centered on the risk dimension of SMEs survival and their performance. The work of Inang and Ukpong (2002) highlighted the different strategies of the delivery of credit to small scale enterprises in Nigeria. Evidently, the embrace of economic reforms by successive governments in Nigeria has directly and indirectly necessitated a drift towards small and medium scale enterprises because of the relatively low funds needed to operate in that sub-sector even if it is in an informal manner. There is no doubt about the fact that many of the operators in the SMEs fold anticipate funding support however, the funding to the SME sector has not been encouraging despite the different consolidation exercises that have been embarked upon by the players in the financial system. This trajectory is not unrelated to the fact that the SME sector is seen as a high risk sector with the possibility of high loan diversion, and subsequent default in loan repayment.

The weakness associated with SMEs is often a result of weak management hence making it a risk prone sector for which financial institutions might be reluctant to advance credit to.

Suh (2010) stated that SMEs are most affected by the business environment and gets more impacted by externally induced shocks hence are not often favourites in the lending quest of financial institutions.

In the study by Helbok and Wagner (2016) they found out that SMEs exposure to risk is negatively related to their output value. This makes it necessary for managers or investors to compute their risk exposure. According to Rouse (2013) the need for calculating risk exposure of a business is to determine the entire risk of the organization and evaluate the associated cost-benefits.

Felix and Claudine (2008) in their study on SME's performance found that the return on equity and return on assets were inversely related to the ratio of the amount of risk the SMEs were exposed to hence leading to a reduction in productivity.

Ahmed, Takeda and Shawn (2018) in their own study found that high risk exposure has a significant influence on non performing loans.

Methodology

The descriptive and survey design approach was used for this study and conclusions were drawn based on the data generated through the survey result from the questionnaire used as research instrument.

Population of the Study

The target population for this study were employees of SMEs in the emerging technology industry namely Direct Impact, Kiote Services and Ekoconnect in Lagos Nigeria. Various criteria were used in selecting the SMEs for this study. It was predetermined that it would be god to choose SMEs in Nigeria that are considered to be among most competitive in their operating sphere. The aforementioned SMEs were selected as the case companies to study.

In order to facilitate the collection of relevant data from these groups of respondents, a simple random sampling technique was used to draw 136 staff of the selected SMEs companies (Direct Impact, Kiote Services and Ekoconnect). The number of staff selected for the study include: forty-five staff and customers of Direct Impact, forty-five staffs and customers of Kiote Services and forty-six staffs and customers of Ekoconnect.

A structured questionnaire was developed with the key variables of the study and divided into two parts, namely: section A and B. Section A comprises of items relating to respondents socio-demographic data such as sex, age etc. while section B consist of Likert scale statements that explains the key variables of the study.

Data Analysis

Data obtained were analyzed by using descriptive and inferential statistics. Descriptive statistics involve the use of frequencies, mean, and percentages. Inferential statistics was used to measure the relationship between variables while Pearson correlation analysis was be used to examine the inter-correlations among the study variables with a view to determining the degree of association between the study variable.

Presentation and analysis of data

We seek to examine how risk exposure and management affect SMEs survival in developing countries. In this section, we make use of descriptive statistics as presented below.

Table 1: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.869
Bartlett's Test of Sphericity	Approx. Chi-Square	5009.174
	Df	435
	Sig.	.000

Source: SPSS 20.0 Computation

From the table above, it can be seen that the Bartlett's Test of Sphericity sig is 0.000 and the KMO is 0.869. We can therefore conclude that the KMO result supports a factor analysis and also the Bartlett's test shows that the correlation among variables is strong and therefore suitable for further analysis.

Item by Item Analysis.

Table 1: Operational risk leads to liquidity problems for SMEs.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	63	46.3	46.3	46.3
	Agree	51	37.5	37.5	83.8
	Undecided	9	6.6	6.6	90.4
	Disagree	7	5.1	5.1	95.6
	Strongly Disagree	6	4.4	4.4	100.0
	Total	**136**	**100.0**	**100.0**	

Source: Field Survey, 2019

Considering table 1 above, 63(46%) of the respondents strongly agreed, 51(38%) of the respondents agreed, 9(7%) of the respondents were neutral, 7(5%) disagreed and 6(4%) of the respondents strongly disagreed that operational risks lead to liquidity problems for SMEs. We can therefore conclude that most of the respondents are of the opinion that operational risk leads to liquidity problems for SMEs.

Table 2: Operational risk leads to corporate governance issues for SMEs.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	3	2.2	2.2	2.2
	Agree	27	19.9	19.9	22.1
	Undecided	9	6.6	6.6	28.7
	Disagree	25	18.4	18.4	47.1
	Strongly Disagree	72	52.9	52.9	100.0
	Total	**136**	**100.0**	**100.0**	

Source: Field Survey, 2019

Considering table 2 above, 3(2.2%) of the respondents strongly agreed, 27(20%) of the respondents agreed, 9(7%) of the respondents were indecisive, 25(18%) disagreed and 72(53%) of the respondents strongly disagreed that operational risk leads to corporate governance issues for SMEs. We can therefore conclude that most of the respondents are not of the opinion that operational risk leads to corporate governance issues for SMEs.

Table 3: Credit risk leads to liquidity crisis for the SMEs.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	30	22.1	22.1	22.1
	Agree	70	51.5	51.5	73.5
	Undecided	17	12.5	12.5	86.0
	Disagree	9	6.6	6.6	92.6
	Strongly Disagree	10	7.4	7.4	100.0
	Total	**136**	**100.0**	**100.0**	

Source: Field Survey, 2019

Considering table 3 above, 30(22%) of the respondents strongly agreed, 70(52%) of the respondents agreed, 17(13%) of the respondents were indecisive, 9(7%) disagreed and 10(7%) of the respondents strongly disagreed that credit risk leads to liquidity crisis for the SMEs. We can therefore conclude that most of the respondents are of the opinion that credit risk leads to liquidity crisis for the SMEs.

Table 4: Market risk leads to liquidity crisis for SMEs.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	53	39.0	39.0	39.0
	Agree	61	44.8	44.8	83.8
	Undecided	9	6.6	6.6	90.4
	Disagree	7	5.1	5.1	95.6
	Strongly Disagree	6	4.4	4.4	100.0
	Total	**136**	**100.0**	**100.0**	

Source: Field Survey, 2019

Also, considering table 4 above, 53(39%) of the respondents strongly agreed, 61(45%) of the respondents agreed, 9(7%) of the respondents were indecisive, 7(5%) disagreed and 6(4%) of the respondents strongly disagreed that Market risk leads to liquidity crisis for SMEs. We can therefore conclude that most of the respondents are of the opinion that market risk leads to liquidity crisis for SMEs.

Table 5: **Market risk leads to loss of confidence of investors for the SMEs.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	29	21.3	21.3	21.3
	Agree	51	37.5	37.5	58.8
	Undecided	32	23.5	23.5	82.4
	Disagree	18	13.2	13.2	95.6
	Strongly Disagree	6	4.4	4.4	100.0
	Total	**136**	**100.0**	**100.0**	

Source: Field Survey, 2019

Considering table 6 above, 29(21%) of the respondents strongly agreed, 51(38%) of the respondents agreed, 32(24%) of the respondents were indecisive, 18(13%) disagreed and 6(4%) of the respondents strongly disagreed that market risk leads to loss of confidence of investors for the SMEs. We can therefore conclude that most of the respondents are of the opinion that market risk leads to loss of confidence of investors for the SMEs.

Testing Hypothesis

Testing Hypothesis One

Ho: There is no significant relationship between operational risks and SME's survival in developing countries.

Correlations

		operational risks	**SME's survival**
operational risks	Pearson Correlation	1	.925**
	Sig. (2-tailed)		.000
	N	136	136
SME's survival	Pearson Correlation	.925**	1
	Sig. (2-tailed)	.000	
	N	136	136

**. Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS 20.0 Computation

The table above reveals that the Pearson correlation coefficient of .925 is highly positive. This shows that there is a significant relationship between operational risks on SME's survival in developing countries hence the null hypothesis was rejected and the alternative hypothesis was accepted. It was concluded that there is a strong relationship between market risk and SME's survival in developing countries.

Testing Hypothesis Two

Ho: There is no significant relationship between credit risk exposure and SME's survival in developing countries.

Table 28: Correlations

		credit risk exposure	**SME's survival**
credit risk exposure	Pearson Correlation	1	.697**
	Sig. (2-tailed)		.000
	N	136	136
SME's survival	Pearson Correlation	.697**	1
	Sig. (2-tailed)	.000	
	N	136	136

**. Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS 20.0 Computation

The Pearson correlation coefficient from the above table is 0.697, while the chi square **Asymp. Sig (2-Sided) is 0.000** which is less than the level of significance of 0.05 so therefore we reject the null hypothesis and we accept the alternative and we conclude that there is a significant relationship between credit risk exposure and SME's survival in developing countries.

Hypothesis Three:

Ho: There is no significant relationship between market risk exposure and SME's survival in developing countries.

Table 29: Correlations

		Market risk exposure	**SME's survival**
Market risk exposure	Pearson Correlation	1	.811**
	Sig. (2-tailed)		.000
	N	136	136
SME's survival	Pearson Correlation	.811**	1
	Sig. (2-tailed)	.000	
	N	136	136

**. Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS 20.0 Computation

The Pearson correlation coefficient from the above table is 0.811, while the chi square **Asymp. Sig (2-Sided) is 0.000** which is less than the level of significance of 0.05 so therefore we reject the null hypothesis and we accept the alternative and we conclude that there is a significant relationship between market risk exposure and SME's survival in developing countries.

Discussion of Findings

Market risk leads to liquidity crisis for SMEs and also to loss of key investment opportunities for SMEs. It was also discovered that market risk leads to distrust among SMEs employees as market risk leads to loss of confidence of investors for the SMEs and also to liquidity crisis for SMEs.

In addition, findings showed that operational risk leads to corporate governance issues for SMEs and also management issues for SMEs. Operational risk also leads to distrust among key staffs and may also lead to loss of key staffs for the SMEs by way of high labour turnover.

Majority of the respondents were of the opinion that credit risk leads to liquidity crisis for the SMEs and also, management crisis for the SMEs. Credit risk also leads to loss of confidence of investors for the SMEs and loss of key managerial staffs for the SMEs.

Majority of the respondents were of the opinion that objective settings assist enterprises in Nigeria to focus on specific objectives for a period of time and that objective settings help Nigeria enterprise implement enterprise risk management framework. The findings is that return on equity (ROE) and return on assets (ROA) both measuring profitability were inversely related to the ratio of the amount of risk the SMEs were exposed to thereby leading to a decline in profitability.

This is also in line with the extant literatures on the key determinants of SME risk exposure and the management of such risk by companies in emerging economies compared with the developed economies and signifying that regulation is important for SMEs that offer multi-products and services. Management quality is critical in the case of management of risk exposures in emerging economies. The study further highlighted that SMES in developing economies are exposed to a high level of risk which needs concerted efforts to tackle on a consistent basis..

Conclusion and Recommendations

Positive business strategies determine the competitive strength of any business in delivering shareholder's value and sustainability. SMEs with concrete business strategic plans often strive to hedge their risk exposure. It is imperative that for SMEs survival in this clime much has to be done as it concern strategic management. It is thus recommended that beyond the conventional risk management approaches, other strategic approaches such as brand popularity, owning strategic assets, high volume production, creating barrier to entry, offering superior products and services as well as customer support, ownership of capital equipment, owning easily convertible financial instruments should be embraced.

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