AN ANALYSIS OF THE CURRENT RISK MANAGEMENT PRACTICES AND THEIR EFFECTS ON THE SUCCESS AND GROWTH OF SMES IN THE MANUFACTURING SECTOR OF GWERU, ZIMBABWE

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ABSTRACT

This study analyzed the current risk management practices and their effects on the success and growth of SMEs in the manufacturing sector of Gweru, Zimbabwe. The objective of the study was to evaluate if the risk management practices that are currently being employed by SMEs had any effect on their success and growth and also to identify possible reasons for their failure. The study revealed that SMEs in Gweru are practicing intuitive risk management that affects their success and growth. The study also revealed that lack of managerial skills was the major reason why SMEs are failing. SMEs are also failing to access loans form financial institutions due to their poor management practices. The study recommends that the government through the relevant ministries and the Zimbabwe National of Chamber of Commerce should provide basic risk management training to owner-manager of SMEs. This will go a long way in improving accessibility to much needed finance which is a necessary ingredient to their growth and success.

Key Words

Risk management, SMEs, growth, success

INTRODUCTION

Small to medium enterprises (SMEs) are a vital component of every country's economy. Due to the economic meltdown Zimbabwe has been experiencing since 2000, SMEs have become increasingly important in offering alternative employment to workers who are been laid off as more and more companies close. However, for SMEs to be successful and grow into big companies they need to properly manage all forms of risk that they are exposed to especially during the startup phase. Properly managed risk fuels growth and opportunity (Towers Perrin, 2008).

BACKGROUND

According to Foster (2009) risk management highlights the fact that the survival of a business entity depends heavily on its capabilities to anticipate and prepare for the change rather than waiting for changes and then react to it. The practice of risk management utilizes many tools and techniques, which includes proper accounting records keeping and insurance, to identify and manage a wide variety of risks an organization is exposed to (Azende 2012). Risk management is even more critical in SMEs as they often had limited capital to buffer them from unforeseen losses. Azande (2012) further notes that losses and liabilities (theft, fire disaster, legal liability, injury and disability) can affect day to day operations, reduce profits and can cause financial hardship severe enough to cripple or bankrupt a small business, and prevent it from contributing to the economic development of a nation. The CIA World Factbook (2013) estimates that 95% of the labour force in Zimbabwe is unemployed and 68% of the population is living below the poverty datum line. This is largely due to economic meltdown which has besieged the country since 2000 and has seen many companies closing with resultant job losses. The meltdown is largely attributed to illegal sanctions imposed on the country by the West after the country embarked on its ambitious and controversial land reform programme. SMEs have thus become increasingly important to the country, since, they can be a mechanism to stimulate economic growth and create the much needed jobs.

Fan (2003) notes that the SME sector is the largest provider of employment in many countries, especially the provision of new jobs. For example, In China, 99.9% of the total firms are SMEs, 84% of total employees are from the SMEs and 71% of the country's total sales come from

SMEs. In Japan, SMEs constitute 98% of the enterprises and accommodates 70% of employees in the country. Ndoro (2012) notes that in Zimbabwe, SMEs account for approximately 90% of the jobs in the country. SMEs were introduced to alleviate poverty and improve the standards of living through job creation. They are regarded as the seed-bed for development of large companies and are the life-blood of commerce and industry (Storey and Westhead, (1994). Cognizant of SMEs important role to economic development, the government of Zimbabwe has put in place the Ministry of Small and Medium Enterprises Cooperative Development to coordinate their activities and render them any necessary support.

LITERATURE REVIEW

The geographical placement of SMEs as well as country specific legislation influences the numerous SME definitions (Leopoulos2 006). For example, in South Africa, the National Small Business Act 102 of 1996 (South Africa (1996) amended by Act 29 of 2004 categorise small organisations into four categories namely micro enterprises, including survivalist enterprises; very small enterprises; small enterprises; and medium enterprises. The differentiating factor between these categories, excluding micro enterprises, is the number of employees. For micro enterprises, the criterion is turnover level (Broembsen 2003).

Zimbabwean government agencies use different criteria to define SMEs. The main criteria used are, the number of employees, the size of fixed investment, the nature of the business and the sector. However, the most widely used definition of an SME is that of a firm with
1-250 employees. In Zimbabwe SMEs are grouped into micro enterprises, small enterprises and medium-sized enterprises, as shown in Table 2.1 below.

Table 1: Groups of SMEs

Micro enterprises	have fewer than 10 employees
Small enterprises	have between 10 and 49 employees
Medium enterprises	have fewer than 250 employees

Source: Adapted from Ministry of Small to Medium Enterprises Development (2002)

According to Goriwondo (2011), SMEs play a crucial role in the revitalization process of the economy. Thus, SMEs serve as effective instruments of employment creation as well as economic growth, which eventually lead to alleviation of poverty to the entrepreneurs and employees.

Their contribution helps in addressing the economic hardships in the country and many people will experience a better way of living. However, it has long been debated that SMEs are pivotal to employment creation and economic growth particularly in countries such as Zimbabwe that has the highest unemployment rate of 95% as estimated in 2009 in the CIA World Factbook 2013.

According to SIRDC (2001), SMEs represent an important sector of the economy, which has the capacity to absorb the bulk of the unemployed if they produce both for the domestic and export markets, thus contributing to sustainable development dimension The SME sector offers employment opportunities to a large section of the labour market. It supports a bigger part of the Zimbabwean population and contributes largely to country's gross domestic product. The SME sector therefore plays a significant role in economic growth and improving the standard of living of the people of Zimbabwe. If the people's standard of living is improved, then poverty levels will be significantly be reduced. Risk management and the success of SMEs is an important area which should be addressed if the full potential of SMEs as a vehicle for economic growth, improvement of standards of living and employment creation is to be realized as argued by Mawadza (2006).

The primary importance of the SME sector in Zimbabwe is the creation of employment which contributes to an individual's disposable income. This implies that if people have disposable income they will spend more on goods and services. The consumption of goods and services contributes significantly to economic growth in Zimbabwe. Mawadza (2006) asserts that the Zimbabwean government and corporate institutions have since the attainment of the country's independence in 1980 assigned funds to develop and empower communities through entrepreneurship.

Against the above background it is imperative that a systematic enquiry be made on risk management practices of SMEs in Zimbabwe if they are to continue transforming the lives of the communities from which they operate by either offering employment or goods and services.

According to Lodobova (2004), risk management is useful process that SMEs can adopt to improve their chances of sustained and successful longevity. Fatemi and Glaum (2000) asserts that the primary goal of risk management is to ensure the survival of the organisation. Risk and risk management are a major concern for all companies, especially small and medium-sized enterprises, which are particularly sensitive to business risk and competition (Blanc Alquier *et al* 2006)).

In a research conducted by Henschel (2006) on risk management practices in German SMEs, it was observed that risk management responsibilities in German SMEs were clearly oriented towards the owner-manager; they had no structured policies and procedures in place. In another study conducted by Ntlhane (1995) and Dupre (2009) in South African SMEs, it was confirmed that owner-managers of SMEs are largely ignorant regarding the type of business to operate, the type of product to produce, the location of their operations, etc. These factors, i.e. sources of risk, along with others, hold a myriad of risks to the enterprise, and provide an indication of owner managers' ignorance regarding risks that face their enterprises. Dupre (2009) also observed that very few SME owner-managers are risk-aware and they focus risk actions on 'loss control' programmes pertaining to fire, safety, security, health and quality assurance. These programmes are controlled by owner-managers along with their other duties. Thus, the chances of mismanagement are increased, as little or inadequate time is spent on the risk function. Rao and Marie (2007) argue that the mismanagement of risks can lead to financial loss, reputational loss, decreased shareholder value and destruction of the organisation.

A substantial number of larger organisations have developed a risk management culture consisting of complex procedures and executed by teams of experts. In smaller organisations such as SMEs, such integrated risk management processes do not exist (Ntlhane 1995) and Dupre 2009). Small businesses believe that integrated risk management strategies are only relevant and implementable in large organizations (Knox 2002).

Watson (2004) acknowledges that a lack of managerial skills and training is an important cause of enterprise failure and also influence owners perceptions concerning their business. The characteristics of owner-managers can also act as a barrier to growth in that the personality, managerial skills and style including the owner's and/or management's negative attitude towards change can negatively influence an enterprise. Managerial skills pertains to where the enterprise leader has to plan, lead, organise and control they relate to the critical elements of risk management. These critical elements are described by Deloach (2012) as identification of risk (plan), sourcing and measurement (lead), evaluating and mitigating (organise), and monitoring of risk (control).

METHODOLOGY

For the achievement of the desired objectives, a qualitative research design was used in this study. Data was collected from randomly selected owner – managers of 60 manufacturing SMEs in Gweru through questionnaires and semi-structured interviews. The number of employees was not considered as most SMEs in the manufacturing sector are almost of the same size

RESULTS AND DISCUSION

The study revealed that owner – managers of SMEs are aware that their organization are exposed to risks which negatively impact on the success and growth of their organisations. However, no formal risk identification and assessment tools are being to manage those risks. All the organisations surveyed had no risk management policies and procedures and effectiveness of their risk response were not being checked. For the few organisations who indicated that risks were proactively managed it was compartmentalized mostly in the finance department. Insurance was being used in all such cases to transfer risks to insurers. However, the insurance was mostly on third party motor,public liability and employer's liability risks with very little assets all coverages for the plant and machinery.

The study also revealed that financial institutions were reluctant to support the SMEs due their perceived poor risk management practices. Owner – managers in Gweru have limited resources and as a result cannot higher experienced and professional personnel to manage the business and attendant risks. As a result financial institutions usually require substantial collateral which most owner – managers of SMEs do not have. Lack of financial support is hampering their success and growth. This confirms findings from studies by Lieholm et al (1994) and Paul (2001) which concluded that large number of small enterprises fail because of non-financial reasons such as lack of forecasting or planning skills, lack of skilled human resources and poor management practices.

CONCLUDING REMARKS

The role played by SMEs in economic growth and development is well recognized. As more and more companies close shop in Zimbabwe, SMEs are the only beacon of hope for the prospective new employees and the retrenched. It is befitting that they should be given the necessary financial and technical support. Basic risk management training will definitely go a long way in fostering SMEs development in Zimbabwe and ultimately the economic growth for the nation.

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