CHRISTIAN SERVICE UNIVERSITY COLLEGE

ASSESSMENT OF BUSINESS RISKS AND RISK MANAGEMENT MEASURES AMONG SMALL AND MEDIUM ENTERPRISES (SMEs) IN KUMASI, GHANA

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STATEMENT OF AUTHENTICITY

We have read the university regulations relating to plagiarism and certify that this report is all our own work and does not contain any unacknowledged work from any other source. We also declare that we have been under supervision for this report herein submitted.

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SUPERVISOR'S DECLARATION

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ABSTRACT

Small and Medium Enterprises (SMEs) play an important role in income generation as well as employment creation around the globe. They however face various kinds of business risk which if not well managed could affect their profitability and sustainability. The study sought to understand the extent to which SMEs in Kumasi understand business risks, how they assess risks and the measures that they use to manage risks. The main method used for data collection was a survey. Questionnaires were administered to a total of 37 respondents sampled from five categories of SMEs in Kumasi: Financial institutions (FI), Food and beverages (FB), wholesalers and supermarkets (WS), saloons and tailors (ST) and Manufacturers (MN).

Results and conclusions from this study show average knowledge levels but rather high awareness levels of business risk among respondents from all categories of SMEs interviewed. Awareness on standard risk measurement methods was very high (more than 75% in most cases) accompanied with average usage of these methods. To measure severity, most SMEs combine frequency of occurrence of risks with the extent of loss. The commonest business risks facing SMEs in Kumasi were theft, changes in market prices and staff turnover. Some unique risks mentioned included “family interferences” which was linked to cultural and social ties. The most commonly occurring risks were also regarded as the most severe. The commonest impacts that were mentioned from the various risks such were loss of assets and related replacement costs, loss of creditworthiness and trust, disruptions of activities and loss of customers. Respondents listed a wide variety of measures to manage risks, but mostly basic and low-cost of the “loss-control” category such as safety locks and guards against theft and fire extinguishers against fire, while hardly was insurance mentioned.

We recommend training of owners and senior risk managers in SMEs in Kumasi to improve their overall understanding and implementation especially of management measures. Respondents also identified some needs that should be addressed key being reduction of interest rates, regulating price and quality of products. We also recommend further studies especially those linking awareness, knowledge, actual practices and their impacts on profitability and sustainability of SMEs.

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DEDICATION

This project work is dedicated to Almighty God and our beloved families.

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CHAPER ONE

INTRODUCTION

1.1 Background to the study

It is now increasingly recognized that the Small and Medium Enterprises (SMEs) play an important role in income generation as well as employment creation around the globe. Small and medium-sized enterprises (SMEs) are considered to be one of the principal driving forces in economic development. They stimulate private ownership and entrepreneurial skills, they are flexible and can adapt quickly to changing market demand and supply situations. They also generate employment, help in diversifying economic activities and make a significant contribution to exports and trade Szabo (1996). SME are the core or basis for the future of developing countries as well as developed countries in creating jobs and competitiveness.

In Africa, the SME sector accounts for almost 90% of all the enterprises, in which they are located in both the rural and urban areas, whereby they provide more equitable distribution of income in all areas of the countries. This means that the SMEs are the main source of providing employment to the people and stimulate the development of the countries by promoting the entrepreneurship and the business skills amongst communities and strengthen the local production sector as well as the industrial base. Therefore the SMEs in Africa have been considered to be a very important engine for obtaining national development goals, such as poverty alleviation and economic growth (Mokaddem 2006). For example, in South Africa, the SMEs accounting for about 46% of the total economic activities and 84% of private employment. It is also estimated that about 80% of the formal business sector and 95% of the total business sector are considered to be the SMEs (IISD Canada 2004)

In Ghana, SMEs are vital for economic growth and development because they encourage entrepreneurship, generate employment, and reduce poverty (Kayanula & Quartey 2000; Mead & Liedholm 1998; Fischer 1995). However, the sustainability of SMEs in Ghana is threatened by various business risks that SMEs are exposed to. These risks are both internal and external, as the business world becomes more and more unpredictable. Owing the importance of SMEs in Ghana, this study aims to find out the extent in which SMEs in Ghana understand business risks, assess risks and the risk measures that they use to reduce negative impacts of business risks on their business

1.2 Statement of the Problem

Long-term success rates of SMEs in Ghana are low. While many start, very few last for long. Businesses, especially SMEs are exposed to various risks that challenge their sustainability. Some of the risks that SMEs in Kumasi have been exposed to in the recent past include

- ***Loss of property through fire outbreaks:*** Recently, fire gutted the Kumasi Central Market, which costs many SMEs of different kinds. SMEs lost their property and as most were not insured, they haven't been able to return to normalcy due to losses. Fire also razed down a gas station (Engas in Asokwa) where property costing thousands of Ghana Cedis was destroyed.

- ***Flooding:*** Flooding has become more common in the city with increasing impacts of climate change. Some parts of the city, like Ahensan and Atonsu, where many factories in Kumasi are located (timber, manufacturing) has been hard hit in the recent past.
- ***Vandalism and Theft***: Security is becoming a real issue in Kumasi. Theft from banks, supermarkets, forex bureaus, petrol stations etc has been reported in the recent past in Kumasi. Other than direct losses, many SMEs now close early for fear of attacks from robbers, hence losing their evening sales. They are also forced to employ security services of their own, which is an extra expense.
- ***Poor access to loans****:* Unlike salaried workers, getting loans for SMEs is much harder as they are perceived bot trustworthy. Banks say that they achieve low-recovery rates from SMEs.

1.3 Research Objectives

The main objective of this study was to find out the extent in which SMEs in Kumasi understand business risks, how they assess risks and the measures that they use to manage risks. Specifically, the study was to:

1. Assess the extent of risk awareness and knowledge levels on business risk among SMEs
2. Assess SMEs understanding of various methods used to measure risk and how they measure severity of business risk
3. Find out various types of business risks that SMEs in Kumasi are exposed to and their severity
4. Find out impact of the risks on SMEs and measures that SMEs put in place to manage risks.

1.4. Research questions

The key research questions were:

- What types of risks are SMEs in Kumasi exposed to?
- What are the awareness levels among SMEs of these risks?
- How do SMEs in Kumasi assess risks, even before they start new investments?
- What is the impact of these risks on their businesses?
- What criteria do they use to measure risks?
- What measures do they employ to reduce the risks?

1.5 Significance of the study

This study will have a significant impact among SME's in Kumasi and in Ghana at large. This research will;

- Provide knowledge for SME's and reduce knowledge gaps about business risks.
- Enhance understanding of risks and risk management among SME's
- Improve risk management among SME's
- Enhance knowledge to the field of risk management measures in Ghana.

1.6 Scope of the Study

This study was limited only to enterprises with more than five employees and less than 100 employees, which in Ghana are classified under small and medium enterprises. Enterprises less than six employees were not included as they are classified as micro enterprises in Ghana (Mensah 2004). The study also considered only SMEs in Kumasi

Metropolitan Assembly (KMA). So, the scope was only limited to SMEs in urban areas in Kumasi

1.7 Limitations of the study

Despite choosing an appropriate research design and data collection methods, this study was limited on few aspects. First, the main method used was interviews with SMEs. If there was more time, more data collection methods such as focus group interviews and in-depth interviews could have been used to get detailed opinions and information on SMEs. In addition, few SMEs from only five categories were interviewed. There are other categories of SMEs like agricultural producers which couldn't be interviewed due to time limitations. While detailed information was collected from SMEs in the categories selected, a larger sample size could have increased representativeness of the study and collected more information.

CHAPTER TWO

LITERATURE REVIEW

2.1 Definition of SMEs

The abbreviation SME is commonly in the European Union (EU) and in international organizations, such as the World Bank, United Nations and the World Trade Organization to refer to small and medium enterprises. There are slight variations in abbreviations with USA for example using, small and medium businesses (SMBs), India using Micro and Small Enterprises (MSEs), South Africa using Small Medium and Micro Enterprises (SMMEs) and many other African countries, including Ghana using Micro, Small and Medium Enterprises (MSMEs) (Wikipedia 2010). Other than variations in abbreviations, the definition of SMEs also varies from country to country (Storey 1994).

The context of differentiation ranges from size, number of employees, annual turnover, ownership of business and value of fixed assets (Abor and Adjasi 2007). The EU, categorizes companies with fewer than 10 employees as "micro", those with fewer than 50 employees as "small", and those with fewer than 250 as "medium" (European Commission 2005). In the USA, businesses with fewer than 100 employees are termed as “small” while “medium-sized business “often refers to those with fewer than 500 employees. A number of researchers tend to define SME’s as having 0-250 employees and in Africa this number is set around the 200 employees (Kufuor 2008).

The definition by the British Department of Trade and Industry on a small firm as an "independent business, managed by owners and co-owners and having a small market share" is the most acceptable definition and forms a clear global framework for all the measures directed towards SME's (Department of Trade and Industry 2001). To be classed as an SME or a micro-enterprise, an enterprise has to satisfy the criteria for the number of employees and one of the two financial criteria, i.e. either the turnover total or the balance sheet total. In addition, it must be independent, which means less than 25% owned by one enterprise (or jointly by several enterprises) falling outside the definition of an SME or a micro-enterprise, whichever may apply.

The most commonly used criterion of defining SME's in Ghana is by the number of employees of the enterprise. In a regional project on enterprise development, SME's are defined as firms with employee size of less than one hundred (Teal 2002). The Ghana Statistical Service (GSS) considers firms with less than 10 employees as small scale enterprise whilst those with more than ten are categorized as medium and large enterprises. Another criterion for defining SME is the value of fixed assets in the organization. In Ghana the national board of small scale industries applies both of these criteria. Mensah (2004) classified SMEs in Ghana as;

Micro enterprises:	Those employing up to 5 employees with fixed assets (excluding realty) not exceeding the value of $10,000.
Small enterprises:	Employ between 6-29 employees with fixed assets of $100,000
Medium enterprises:	Employ between 30-99 employees with fixed assets of up to $1 million.

A typical profile of this target group is as follows,

- They are, dominated by one person, with the owner/manager taking all major decisions. The entrepreneur possesses limited formal education, access to and use of new technologies, market information, and access to credit from the banking sector is severely limited,
- Management skills are weak, thus inhibiting the development of a strategic plan for sustainable growth.
- This target group experiences extreme working capital volatility.
- The lack of technical know-how and inability to acquire skills and modern technology impede growth opportunities.

2.2. An overview of SMEs in Africa

The development of the private sector varies greatly throughout Africa. SMEs are flourishing in South Africa, Mauritius and North Africa, thanks to fairly modern financial systems and clear government policies in favor of private enterprise. Elsewhere the rise of a small-business class has been hindered by political instability or strong dependence on a few raw materials. In the Democratic Republic of Congo, for example, most SMEs went bankrupt in the 1990s – as a result of looting in 1993 and 1996 or during the civil war. In Congo, Equatorial Guinea, Gabon and Chad, the dominance of oil has slowed the emergence of non-oil businesses. Between these two extremes, Senegal and Kenya have created conditions for private-sector growth but are still held back by an inadequate financial system. In Nigeria, SMEs (about 95 per cent of formal manufacturing activity) are key to the economy but insecurity, corruption and poor infrastructure prevent them being motors of growth.

Africa's private sector costs of mostly informal micro-enterprises, operating alongside large firms. Most companies are small because the private sector is new and because of legal and financial obstacles to capital accumulation. Between these large and small firms, SMEs are very scarce and constitute a "missing middle." Even in South Africa, with its robust private sector, micro and very small enterprises provided more than 55 per cent of all jobs and 22 per cent of GDP in 2003, while big firms accounted for 64 per cent of GDP.

SMEs are weak in Africa because of small local markets, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure, dubious legal systems, inadequate financial systems and unattractive tax regimes. Many firms stay small and informal and use simple technology that does not require great use of national infrastructure. Their smallness also protects them from legal proceedings (since they have few assets to seize on bankruptcy) so they can be more flexible in uncertain business conditions. Large firms have the means to overcome legal and financial obstacles, since they have more negotiating power and often good contacts to help them get preferential treatment. They depend less on the local economy because they have access to foreign finance, technology and markets, especially if they are subsidiaries of bigger companies. They can also more easily make up for inadequate public services.

Small enterprises and most of the poor population in sub-Saharan Africa have very limited access to deposit and credit facilities and other financial services provided by formal financial institutions. For example, in Ghana and Tanzania, only about 5–6 percent of the population has access to the banking sector. This lack of access to financial services from the formal financial system is quite striking, when one considers that in many African countries the poor represent the largest share of the population and that the informal sector is an important part of the economy

To meet unsatisfied demand for financial services, a variety of microfinance institutions (MFIs) has emerged over time in Africa. Some of these institutions concentrate only on providing credit, others are engaged in providing both deposit and credit facilities, and some are involved only in deposit collection. Throughout the paper, the term "microfinance institutions" is used as commonly defined, that is, to designate financial institutions dedicated to assisting small enterprises, the poor, and households who have no access to the more institutionalized financial system, in mobilizing savings, and obtaining access to financial services. Institutions offering microfinance services are very diverse, including commercial banks, state-owned development banks, and postal offices.

2.3 Main industries in the SME sector

In Africa, a study of 18 International Network of Alternative Financial Institutions (INAFI) member institutions was undertaken by Mwaniki (2006) to identify and catalogue the types of small and micro enterprises that the poor in their respective locations are engaged in and for which they seek for financial services from the respective institutions. Table 2.1 shows the results.

Table 2.1. Catalogue of Micro enterprises

Sector	Responses	Types
Trade	18	Retail & whole sale shops; hawkers,
Services	18	Salons, battery charging; small hotels; photocopying
Food processing	9	Small hotels, food and drink packaging,
Manufacturing	8	Carpentry, shoes and clothes production,
Agro business	10	Cereal, milk, farming inputs and machinery,
Small-holder farming	10	Vegetable & fruit (horticulture) & cash crop farming,
Dairy/Poultry farming	11	Poultry keeping, piggery, dairy cows rearing;

Source: Mwaniki (2006)

2.4 Potential contributions of SMEs to Ghana's economy

SME's have been one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. In Ghana, the accelerating the growth of SME's are seen as a key strategy to increasing employment and production to reduce poverty (GPRS II 2005). According to the sector ministry, SME's are perceived to have a significant contribution to make to Ghana's socioeconomic development and growth, and the attainment of its middle income status of $1,000 per capita per annum by the year 2015 (Kyrematen 2007).

In Ghana, SME's form a huge chunk of businesses in both the formal and the informal sector. Whilst SME's in developed countries make a significant contribution to GDP and national employment (Culkin and Smith 2000), there is no sufficient data to say the same about SME's in Ghana. Nevertheless, data from the Registrar General indicates that 90% of companies registered are micro, small and medium enterprises. The Ghana Business Development Services Fund (BDSF) estimates that the MSME sector in Ghana represents abound 30% of the workforce but contributes to abound only 6% of the GDP. The Government of Ghana realizes that the development of this sector is imperative to realizing its growth and poverty reduction goals. In addition, estimates from the Ministry of Trade and Industry show that 70% of all industrial establishments are in the Small and Medium Enterprises Sector. It is also estimated that 85% of manufacturing employment and to a larger extent overall employment growth in the country comes from the Sector. The sector contributes significantly to overall export earnings from the non-traditional exports sector and creates jobs at relatively low capital cost.

2.5 Major constraints facing SME's in Africa

2.5.1 Ghana Perspectives

During the launch of MSME project in Ghana, the then sector minister outlined some challenges faced by SMEs in Ghana (Kyeremanten 2007). These were lack of access to finance, lack of markets and market information, inadequate infrastructure, obsolete technology, weak managerial capacity and low productivity and regulatory burdens. In a study focusing on SME's in the manufacturing, garment and textile industry in Ghana. Kufuor (2008) identified a number of constraints that hinder the development and growth of the garment and textile manufacturing sector and tend to constrain SME entrepreneurs performance in Ghana. The constraints identified were lack of managerial competencies, lack of basic services and infrastructure, lack of marketing knowledge, poor access to formal sources of external finance, poor business locations and gender discrimination. But, the greatest hindrance seems to be financing. Many SME's are perceived as risky enterprises; so many financial institutions find it more difficult to finance SMEs. However, there are now some funding schemes for SME's in Ghana including GRATIS, FUSMED, NBSSI BAF and MASLOC (Asiama and Osei 2007). Several microfinance institutions such as Pro Credit, Sinapi Aba Trust now also fund SMEs.

2.5.2 Kenya's perspectives

(i) ***Lack of Managerial Training and Experience*****:** Many SMEs owners or managers lack managerial training and experience. The typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept (Hill 1987). Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. A consequence of poor managerial ability is that SME owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology. Majority of those who run SMEs are ordinary lot whose educational background is lacking. Hence they may not be well equipped to carry out managerial routines for their enterprises (King and McGrath 2002).

(ii) Inadequate Education and Skills: Education and skills are needed to run micro and small enterprises. Research shows that majority of the lot carrying out micro and small enterprises in Kenya are not quite well equipped in terms of education and skills. Studies suggest that those with more education and training are more likely to be successful in the SME sector (King and McGrath 2002). As such, for small businesses to do well in Kenya, people need to be well informed in terms of skills and management. SMEs in ICT appear to be doing well with the sprouting of many commercial colleges offering various computer applications. Further, studies show that most of those running SMEs in this sector have at least attained college level education (Wanjohi and Mugure 2008).

(iii) Lack of Credit: Many SMEs may use an inappropriate technology because it is the only one they can afford. In some cases, even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan. Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance. There are various other financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees. Financial constraint remains a major challenge facing SMEs in Kenya (Wanjohi and Mugure 2008).

(iv) National Policy and Regulatory Environment: The national policy and regulatory environment have an important impact on technology decisions at the enterprise level. The structural adjustment programs (SAPs) implemented in many African countries are aimed at removing heavy policy distortions, which have been viewed as detrimental to the growth of the private sector. SAPs tend to severely affect vulnerable groups in the short run and have been associated with the worsening living conditions in many African countries (USAID 1991).

(v) Technological Change: Change of technology has posed a great challenge to small businesses. Since the mid-1990s there has been a growing concern about the impact of technological change on the work of micro and small enterprises. In most of the African nations, Kenya inclusive, the challenge of connecting indigenous small enterprises with foreign investors and speeding up technological upgrading still persists (Muteti 2005). There is digital divide between the rural and urban Kenya. With no power supply in most of the rural areas, it is next to impossible to have Internet connectivity and access to information and networks that are core in any enterprise. Thus technological change, though meant to bring about economic change even among the rural lot, does not appear to answer to the plight of the rural entrepreneurs.

(vi) Poor Infrastructure: Poor infrastructures pose a major challenge to small enterprises in Kenya. In Kenya, the provision of better infrastructures has lagged behind over years. There are poor roads, inadequate electricity supply. According to the proceedings of the National Investment Conference, November 2003, Kenya still stands in need of better infrastructures. It has been the pledge NARC government (when it took over from KANU in 2002) to improve the infrastructures, but there is yet much to be done.

(vii) Scanty Markets Information: Lack of sufficient market information poses a great challenge to small enterprises. Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even physical contacts for market related information. This is due to inability to interpret the statistical data (Muteti 2005) and poor connectivity especially in rural areas. Since there is vast amount of information and only lack of statistical knowledge to interpret and Internet connectivity, small enterprises entrepreneurs need to be supported. With connectivity being enhanced (by connecting Kenya globally through Fiber Optic Cable project) there is renewed hope for the SMEs.

2.6. Different meanings of risk

The term risk has a variety of meanings as in business and everyday life. At its most general level, risk is used to describe any situation where there is uncertainty about what outcome will occur. Life is obviously very risky. Even the short term future is often very uncertain. In probability and statistics financial management and investment management, risk is often used in more specific sense to indicate possible variability in outcomes around some expected value. In other situations the term risk refers to the expected losses associated with a situation. In insurance markets, for example it is common to refer to high risk policyholders. The meaning of risk in this context is that the expected value of losses to be paid by the insurer (the expected lose) is high. As another example California is often described as having a high risk of earthquake. While this statement might encompass the notion of variability around the expected value, it usually simply means that California's expected lose earthquake is high relative to other states (Adarkwah 2010)

2.7 Types of risks facing businesses

Broadly defined, business risk management is concerned with possible reductions in business value from any source. Business value to share holders, as reflected in the value firm's common stock, depends fundamentally on the expected size, timing and risk associated firm's future net cash flows (cash inflows-cash outflows). Unexpected changes in expected future net cash flows are a major source of fluctuations in business value. In particular, unexpected reductions in cash inflows or increases in cash outflow can significantly reduce business value. The major business that gives variations in cash flows and business values *are price risk, credit risk and pure risk.*

2.7.1 Price Risk

This refers to uncertainty over the magnitude of cash flows due to possible changes in output and input prices. Output price risk refers to the risk of changes in the price that a firm can demand for its goods and services. Input price risk refers to the risk of changes in the price that a firm must pay for labor, materials and other inputs to its production process. There are three (3) specific types of price risk namely *commodity price risk, exchange rate risk, interest rate risk.*

Commodity price risk arises from fluctuations in the prices of commodities, such as coal, copper, oil, gas and electricity that are inputs for some firms and output for others. Given the globalization of economic activity, output and input prices for many firms also are affected by fluctuations in foreign exchange rate. Output and input prices also can fluctuate due to changes in interest rate .Change in interest rates also affect the firm's cost of borrowing funds to finance it's operations.

2.7.2 Credit risk

The risk that a firm's customers and the parties to which it has learnt money would delay or fail to make promise payments is known as *credit risk.* Most firms face some credit risk for account receivables. The exposure to credit risk is particularly large for the financial institutions, such as commercial banks that routinely make loans that are subject to risk or defaults by the borrower. When firm's borrow money, they in tend expose lenders to credit risk. As a consequence, borrowing exposes the firm's owner to the risk, that the firm will be unable to pay its debt and thus to be forced into bankruptcy, and the firm generally will have to pay more to borrow money as credit risk increases.

2.7.3 Pure risk

This is the risk of reduction in value of business assets due to physical damage, expropriation (i.e. seizure of assets by foreign governments).It is also the risk of legal liability for damages for harm to customers, suppliers, shareholders, and other parties. Again, it is associated with paying benefits to injured workers under workers' compensation law and the risk of legal liability for injuries or other harm to employees that are not governed by worker's compensation laws. Furthermore, it involves the risk of death, illness and disability to employees for which businesses have agreed to make payments under employee benefit plans, including obligations to employees under pension and other retirement saving plans.

2.8. Risk Management – Focus on Enterprise Risk Management

Enterprise risk management is, in essence, the latest name for an overall risk management approach to business risks. Precursors to this term include corporate risk management, business risk management, holistic risk management, and integrated risk management. Although each of these terms has a slightly different focus, in part fostered by the risk elements that were of primary concern to organizations when each term first emerged, the general concepts are quite similar. Enterprise risk management is defined as*: "The process by which organizations in all industries assess, control, exploit, finance and monitor risks from all sources for the purpose of increasing the organization's short and long term value to its stakeholders."*

The types of risk subject to enterprise risk management are enumerated as hazard, financial, operational and strategic. Hazard risks are those risks that have traditionally been addressed by insurers, including fire, theft, windstorm, liability, business interruption, pollution, health and pensions. Financial risks cover potential losses due to changes in financial markets, including interest rates, foreign exchange rates, commodity prices, liquidity risks and credit risk. Operational risks cover a wide variety of situations, including customer satisfaction, product development, product failure, trademark protection, corporate leadership, information technology, and management fraud and information risk. Strategic risks include such factors as competition, customer preferences, technological innovation and regulatory or political impediments. Although there can be disagreement over which category would apply to a specific instance, the primary point is that enterprise risk management considers all types of risk an organization faces.

2.9 Steps in Risk Management

Enterprise risk management actually represents a return to the roots of risk management. However, gaining the ability to quantify exposures with a far less sophisticated approach than can be used for most hazard and financial risks presents new challenges. Although consideration of operational and strategic risk is important, the lack of data and the difficulty in predicting the likelihood of a loss or the financial impact if a loss were to occur makes it hard to quantify many risks a firm faces. That in itself is the challenge that enterprise risk management provides. Nevertheless, the basic approach of identifying, measuring, evaluating, controlling and monitoring risk remains the same. The steps of enterprise risk management are quite familiar to traditional risk managers. Most commonly they are: (i) Risk Identification - Identify risk on an enterprise basis (ii) Risk Analysis - Measure and report risk exposure (iii) Risk Response - Formulate strategies to limit risk (iv) Risk Control - Implement strategies (v) Risk Monitoring - Monitor results (vi)And repeat.

Except for minor changes in wording, the steps of enterprise risk management are the same as those first enumerated by Mehr and Hedges in 1963. Enterprise risk management is risk management applied to the entire organization. The basic approach, the goals and the focus of enterprise risk management are the same as those that have worked so effectively for traditional risk managers since the field was first developed.

CHAPTER THREE

METHODOLOGIES

3.1 Research Design

A research design is the blue print for conducting a research project. It is a set of advance decisions that make up the master plan specifying the methods and procedures for collecting and analyzing the needed information. A research design is the arrangements of conditions for the collection and analysis of data in a manner that aims to add relevance to the study. It can also be conceived as the outline of the steps to be followed in order to ensure that the research study is properly carried out.

In this study, both qualitative and quantitative research approaches were used. Quantitative research refers to the systematic empirical investigation of quantitative properties and phenomena and their relationships. The process of measurement is central to quantitative research because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationships. On the other hand, qualitative research refers to a set of research techniques where data is obtained from a relatively small group of respondents and not analyzed with statistical methods. Both primary and secondary data sources were used in data collection. Specific methods used were interviews using a survey questionnaire, document reviews and observations.

3.2 Data Sources

3.2.1 Primary data sources

Saunders *et al*. (2007) defined primary data as a data collected specifically for the research project being undertaken. The main method used for data collection was interviews using a survey questionnaire supported by observations.

(i) ***Survey:*** A questionnaire was designed to collect data in the survey. A questionnaire is a technique of data collection in which each person is asked to respond to the same set of question in a predetermined order de Vaus (1991). The questionnaire used contained open-ended questions and closed ended questions. The open-ended questions enabled respondents to express their views on some issues under consideration in their own way whiles closed ended questions made available answers for the respondents to choose from and therefore limit them in expressing their views. We administered thirty-seven (37) questionnaires. The unit of analysis was SMEs, so the respondents were be CEOs, risk managers, financial managers or any other responsible people in SMEs. One questionnaire will be filled for each selected SME. The questionnaire addressed all the four key objectives of this study.

The questionnaire is attached as Appendix A. The key sections in the questionnaire were basic demographic data to characterize respondents, types of risks that SMEs in Kumasi are exposed to, extent of risk awareness among SMEs, impact of the risks on businesses, criteria used to measure risk impacts and measures that SMEs put in place against risks.

(ii) ***Observations:*** Observations were used where feasible and during the surveys. We checked responses such as risk management measures put in place. For example, if a respondent says that he has fire extinguishers to guard against fire, then we politely asked to see if they are actually there, how many, their condition and even location within the building.

3.2.2 Secondary data sources

Saunders *et al.* (2007) defined secondary data as data that has already been collected for some other purpose perhaps processed and subsequently stored. Zikmund (1998) defines secondary sources of data as data that have been previously collected for some project other than the one at hand. Secondary data were collected through literature and document reviews, which included existing literature both published and unpublished such as books, journals, newsletters, newspapers and web site. These sources of data were mostly used in the literature review of similar works. These were done to appreciate the theoretical and conceptual framework of the work and to appropriately position the work.

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3.3 Study population and sample size

Study population is the entire population under study, but since all people cannot be involved, a sample is taken. A sample size refers to a set of people or objects chosen from a larger population in order to represent that population to a greater or lesser extent. The size of sample and the way in which it is selected will definitely have implications for the confidence one can have in data and the extent to which one can generalise (Saunders et al. 1997). But sample size must be representative. In this study, the study population was SMEs in Kumasi but samples were taken from specific the categories of SMEs in Kumasi. The categories of SMEs where a sample was taken from were salon and tailoring, manufacturing, wholesale and supermarkets, food and beverages as well as financial institutions. The sample size was 40 SMEs.

3.4 Sampling Techniques

In this study, stratified sampling was used to select a representative sample for interviews. The Selection of various sample sizes was done randomly based on convenience but care was taken that interviews were not conducted in one suburb in Kumasi but rather as many suburbs as possible. A detailed general description of Kumasi is as shown in Appendix B. The study focused on five major SME categories in Kumasi. These were

i. Food and beverages (FB) such as hotels, restaurants, sachet water producers etc, referred in this report to FB
ii. Salons and tailoring/seamstress enterprises (ST) including SMEs in clothing and textiles, beauty shops etc
iii. Wholesalers and supermarkets (WS) for fast moving consumer goods, specialized goods etc
iv. Manufacturing businesses (MN) including factories, sawmills, garages etc
v. Financial institutions (formal and informal) (FI) such as rural banks, micro-credit organizations, loan providers (susu) etc

A total of 37 interviews were done and the distribution is shown in Table 3.1.

Table 3.1: Sample size and suburbs where interviews were done

SME category	Sample size	Suburbs where interviews were done
WS	6	Central Market, Adum, Tech junction,
FB	6	Adum, Kaase, Esereso, Anloga, Odiom
FI	8	Amakom, Ahodwo, Adum, Anloga
ST	8	Kaase, Oforikrom, Adum, Ahodwo, Asafo
MN	9	Krofrom, Sokoban, Pankrono, Asafo, Adum, Bomso

Source: Authors' field work

3.5. Data analysis and interpretation

Both quantitative and qualitative methods were employed in the analysis of data. According to Saunders *et al* (2007), quantitative methods are also referred to as 'scientific method". It is predominantly used as a synonym for any data collection technique or data analysis procedure that generates or uses numerical data. For the quantitative aspect of the study, Statistical Package for Social Sciences (SPSS) was used. Qualitative data analysis is used as a synonym for any data collection technique or data analysis procedure that generates or uses non-numerical data (Saunders *et al*. 2007). When questionnaires used are of open ended questions which allowed respondents to express their views, qualitative data analysis is preferred. In this study, all interviews were recorded in notes by interviewer. The questionnaires, observations and interviews were structured into subthemes that guided the analysis. Quantitative data from questionnaires was entered into SPSS software program (version 13) and descriptive answers computed in verbatim text. Qualitative data was analyzed based on opinions from respondents and presented as narrations in the results.

CHAPTER FOUR

PRESENTATION OF RESULTS AND ANALYSIS

4.1 Background information of respondents and SMEs

4.1.1 Characteristics of respondents

Key characteristics of the 37 respondents interviewed from different types of SMEs are shown in Table 4.1. Most respondents were males except in salons and tailoring SMEs, where 75% were females. This clearly reflects what was observed during the time of data collection and has a strong reflection of the Ghanaian culture where more women are involved in beauty and dressmaking sectors than men. The ages of most respondents (31-45 year) reflect the active working age group in Ghana. The highest level of education attained by respondents in most SMEs was generally very high (tertiary). However, education levels of respondents were generally low on salons and tailoring where 62.5% of the respondents had education only up to junior secondary school. The highest levels of education were reported at financial institutions (87.5% tertiary) since financial institutions need specialized skills, for example in financial management. Data collected also shows that most respondents who were interviewed were owners except for financial institutions where most respondents were senior employees such as risk managers, accountants, financial managers etc. It was striking to note that owners of SMEs play an active role in management of the SMEs as we found that they were actively involved. Many of the respondents had been working in the SMEs for more than 5 years as most of them were owners and senior employees

Table 4.1. Characteristics of respondents

	WS (%)	FB (%)	FI (%)	ST (%)	MN (%)
Sex of respondent					
Male	83.3	50.0	75.0	25.0	88.9
Female	16.7	50.0	25.0	75.0	11.1
Age of respondent					
Less than 20 yrs	0.0	0.0	0.0	12.5	0.0
20-30 yrs	16.7	0.0	50.0	37.5	44.4
31-45 yrs	66.7	83.3	25.0	37.5	33.3
More than 45 yrs	16.7	16.7	25.0	12.5	22.2
Highest level of education					
Illiterate	16.7	0.0	0.0	0.0	22.2
Primary	0.0	16.5	0.0	12.5	0.0
Junior secondary	16.7	0.0	0.0	62.5	22.2
Senior secondary	16.7	0.0	12.5	25.0	22.2
Tertiary	50.0	83.3	87.5	0.0	55.6
Position at SME					
Owner	66.7	50.0	12.5	62.5	66.7
Senior employee	33.3	50.0	85.0	12.5	33.3
Junior employee	0.0	0.0	12.5	25.0	0.0
No. of years working at SME					
Less than 2 yrs	33.3	0.0	25.0	25.0	11.1
2-5 yrs	33.3	66.7	37.5	12.5	33.3
More than 5 years	33.3	33.3	37.5	62.5	55.6

Source: Authors' field work

**WS-Wholesale and supermarkets, FB- Food and Beverages, FI-Financial Institutions, ST, Salons and tailoring, MN-Manufacturing*

4.1.2 Characteristics of SMEs

62.5% of the financial institutions and 75% of the salons and tailoring where interviews were conducted had been in operation for more than 10 years. However, wholesales and supermarkets and manufacturers where interviews were conducted had been in operation for a comparatively shorter time (2-5 years). No SME interviewed had more than 5 branches other than financial institution while most of them had 1-2 branches showing that most SMEs in Kumasi are small and emerging. This is further illustrated by the number of employees in branches of SMEs where this study was carried out and the total number of employees in other branches as well. As Table 4.2 shows many of SMEs had 5-10 employees with only food and beverages and financial institutions having more than 25 employees in the branches where the interviews were conducted. Wholesales and supermarkets, Manufacturers and Salons and tailoring were particularly small.

Table 4.2. Key characteristics of SMEs where interviews were conducted.

	WS (%)	FB (%)	FI (%)	ST (%)	MN (%)
No. of years SME has been operating					
Less than 2 yrs	16.7	16.7	0.0	12.5	11.1
2-5 yrs	50.0	16.7	12.5	0.0	44.4
5 -10 years	16.7	33.3	25.0	12.5	11.1
More than 10 yrs	16.7	33.3	62.5	75.0	33.3
No. of branches					
1-2 branches	83.3	85.3	37.5	100.0	88.9
3-5 branches	16.7	16.7	12.5	0.0	11.1
More than 5 branches	0.0	0.0	50.0	0.0	0.0
No. of employees in this branch					
5-10 employees	100.0	33.0	75.0	87.5	88.9
11-25 employees	0.0	33.3	12.5	12.5	11.1
More than 25 employees	0.0	33.3	12.5	0.0	0.0
No. of employees in all branches					
5-10 employees	100.0	50.0	37.5	87.5	77.8
11-25 employees	0.0	16.7	0.0	12.5	22.2
More than 25 employees	0.0	33.3	62.5	0.0	0.0

Source: Authors' field work

**WS-Wholesale and supermarkets, FB- Food and Beverages, FI-Financial Institutions, ST, Salons and tailoring, MN-Manufacturing*

4.2 Knowledge and awareness of business risk

4.2.1 Knowledge levels on business risk

Assessment of knowledge levels of respondents on business risks is shown in Figure 4.1. Reponses on business risk were compared to the definitions obtained from standard finance literature. In general terms business risk refers to any situation where there is uncertainty about what outcome will occur (Adarkwah 2010). But in financial and investment management it is specifically used to indicate possible variability in outcomes around some expected value (Adarkwah 2010). From this study, all respondents saw risk only as a negative aspect and none mentioned that risks can be positive at times. For example, unexpected increase in profit could be termed as a risk, as it was uncertain, but none of the respondents could see risk from that perspective. Some of the key phrases commonly said were: low prices, uncertainty of outcome and unexpected occurrence. Those who scored higher on knowledge mentioned the term "uncertainties".

Figure 4.1: Knowledge levels of respondents on the term "business risk".

**Knowledge level is on scale 1-10; 1 is lowest and 10 is highest*

**WS-Wholesale and supermarkets, FB- Food and Beverages, FI-Financial Institutions, ST, Salons and tailoring, MN-Manufacturing*

Source: Authors' field work

As Figure 4.1 shows, most respondents scored average (4-6 in a scale of 1-10) on their knowledge on business risk. Respondents in the food and beverages sector demonstrated the highest knowledge levels on understanding the term business risk while those from salons and tailoring shops had lowest knowledge levels. This corresponds with the education levels (see Table 4.1) which showed high numbers of respondents from food and beverages SMEs with tertiary education as opposed to those from salons and tailoring enterprises. It was however surprising to see that knowledge levels of respondents from financial institutions, who were expected to understand business risks best, was comparatively lower than even respondents from wholesalers. In general, the knowledge level of SMEs on business risk is fair and there is need for increasing understanding of what a business risk is.

4.2.2 Awareness of various kinds of business risk

On assessing awareness levels, respondents were asked to mention all business risks that they were aware of. Various kinds of risks that respondents from various categories of SMEs mentioned are shown in Table 4.3. A number of business risks such as theft, credit risk from delayed payments and changes in market prices were common in all categories of SMEs. Others like food contamination and legal costs were only mentioned by particular SMEs, in this case food and beverages and financial institutions respectively. Table 4.3 also shows that the extent to which each risk was mentioned differed depending on the SME. In general, the cross-cutting risks such as theft, credit risk from delayed payments and changes in market prices were the three most commonly mentioned risks.

It was interesting to hear respondents from the food and beverages as well as salons and tailoring shops mention “family interference” as a business risk. They said the family members wanted services and products for free. One respondent in a restaurant said, “*My family expect me to provide free food during funerals and out-dooring of children, with increasing frequencies of these activities, how do they expect me to make profits*?” This risk can be attributed to our cultural values. For example, do you expect to charge your relative the same amount of money you charge others for making a dress? Can your brother pay for a dress or can you charge him the same amount you charge others? The problem comes in when you have so many “brothers and sisters” as it is the case in Ghana which can ruin your business. Another increasing risk that was mentioned is the issue of “fake products, including counterfeit money for financial institutions”. Respondents in wholesale and manufacturing talked a lot on the losses they make from losing customers because by accident they sold to them products that ended up being not genuine. These so called “*Nigerian and/or Chinese goods*” are becoming a major concern in many SMEs in Kumasi.

The specific risks mentioned can be grouped into all three major types of business risks reported in the literature (see Table 4.4). This shows that respondents were aware of a very wide range of risks since risks mentioned covered all the three major types of business risks. Table 4.4 shows that most risks mentioned were pure risks.

Table 4.3. Respondents' awareness of business risk

Risk mentioned by respondents	WS	FB	FI	ST	MN
Fire	3	5	n.m	5	3
Flooding	n.m	n.m	n.m	1	1
Theft	5	3	5	4	3
Changes in exchange rates	n.m	1	1	1	1
Delayed credit repayments and defaults	3	4	5	4	5
Changes in market prices	4	4	1	5	3
High staff turnover	n.m	2	n.m	1	2
Legal costs– damages, legal suits	n.m	n.m	+	n.m	n.m
Employee benefits – injury, death	+	n.m	n.m	n.m	4
Changes in interest rates	n.m	1	1	3	1
Damages to goods	4	1	n.m	n.m	3
Fake and expired products	3	n.m	1	n.m	n.m
Family interference	n.m	1	n.m	1	n.m
Changes in taxes	n.m	2	n.m	1	n.m
Food contamination and spoilage	n.m	1	n.m	n.m	n.m

Source: Authors' field work

**Relative number of times risk was mentioned on a scale of 1-5 where 1- Least mentioned 5- Most mentioned n.m not mentioned* *WS-Wholesale and supermarkets, FB- Food and Beverages, FI-Financial Institutions, ST, Salons and tailoring, MN-Manufacturing

Table 4.4. **Grouping of business risks that respondents were aware of**

Types of business risks	**Specific risks mentioned**
Pure risk	Fire, theft, flooding, staff turnover, legal coSalons and tailoring, employee benefits, damages to goods, fake and expired products, food contamination and spoilage.
Credit risk	Delayed credit payments and defaults, family interference
Price risk	Changes in exchange rate, changes in market prices, changes in interest rate and changes in taxes

Source: Authors' field work

4.2.3 Respondents' assessment on their awareness and knowledge levels on business risk

Respondents were asked to assess themselves on their knowledge levels and awareness of business risk. Table 4.5 shows the exact questions asked and the level of agreement or disagreement to the statements. It was interesting to notice that respondents perceived that most SME operators were more knowledgeable and knew about all risks, than what our assessment in preceding sections show. For example, Salon and tailoring (ST) respondents whose knowledge levels and awareness was rated lowest (less than 5 on a scale of 1-10, see Figure 4.1) here had 50% recording on agreeing and strongly agreeing to knowing about business risk and 75% recording on awareness of risk. This assessment presents a potential challenge especially for awareness campaigns because until they accept that their knowledge and awareness levels are low, it will be hard to see the need for training and awareness campaigns.

Table 4.5: Respondents' assessment on their own awareness and knowledge on business risk

		Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
Knowledge on business risk among business operators like you in Kumasi is very high.	WS (%)	0	0	16.7	16.7	66.7
	FB (%)	0	16.7	0	16.7	66.7
	FI (%)	12.5	25.0	0	50.0	12.5
	ST (%)	0.0	37.5	12.5	12.5	37.5
	MN (%)	11.1	22.2	11.1	11.1	44.4
Business operators of business like yours in Kumasi are fully aware of all kinds of business risks that they face.	WS (%)	16.7	16.7	33.3	33.3	0
	FB (%)	16.7	50.0	0	33.3	0
	FI (%)	0	62.5	0	25.0	12.5
	ST (%)	0	25.0	0	12.5	62.5
	MN (%)	22.2	0	11.1	66.7	0

Source: Authors' field work

*WS-Wholesale and supermarkets, FB- Food and Beverages, FI-Financial Institutions, ST, Salons and tailoring, MN-Manufacturing

4.3 Risk Measurement: How SMEs in Kumasi measure business risk

4.3.1 Knowledge on risk measurement methods and actual use

Information obtained from respondents on awareness levels and use of various common business risk measurement methods in literature by respondents is presented in Table 4.6. Awareness levels on the standard methods were generally high other than the direct estimate method for wholesalers and supermarkets (16.7%). Even though awareness levels on the methods were high, actual use of the methods was comparatively lower, especially for direct estimation methods. In principle SMEs are aware and often use the standard methods, although it could have been harder to get such high ratings, if only the technical terminologies were used with no explanation as done in parenthesis in Table 4.6.

Table 4.6. Knowledge on risk measurement methods and actual use

Method		WS	FB	FI	ST	MN
Proxy(comparing risks with other similar businesses)	% awareness	66.7	100.0	62.5	50.0	87.5
	% use	50.0	100.0	37.5	25.0	62.5
Earning volatility(based on losses from earnings)	% awareness	83.3	100.0	75.0	62.5	87.5
	% use	33.3	100.0	75.0	62.5	75.0
Direct estimation(based on expert knowledge)	% awareness	16.7	100.0	62.5	37.5	50.0
	% use	16.7	40.0	50.0	12.5	37.0
Loss modeling risk assessment(using previous data to predict losses)	% awareness	83.3	100.0	87.5	62.5	56.3
	% use	33.3	80.0	87.5	62.5	56.3

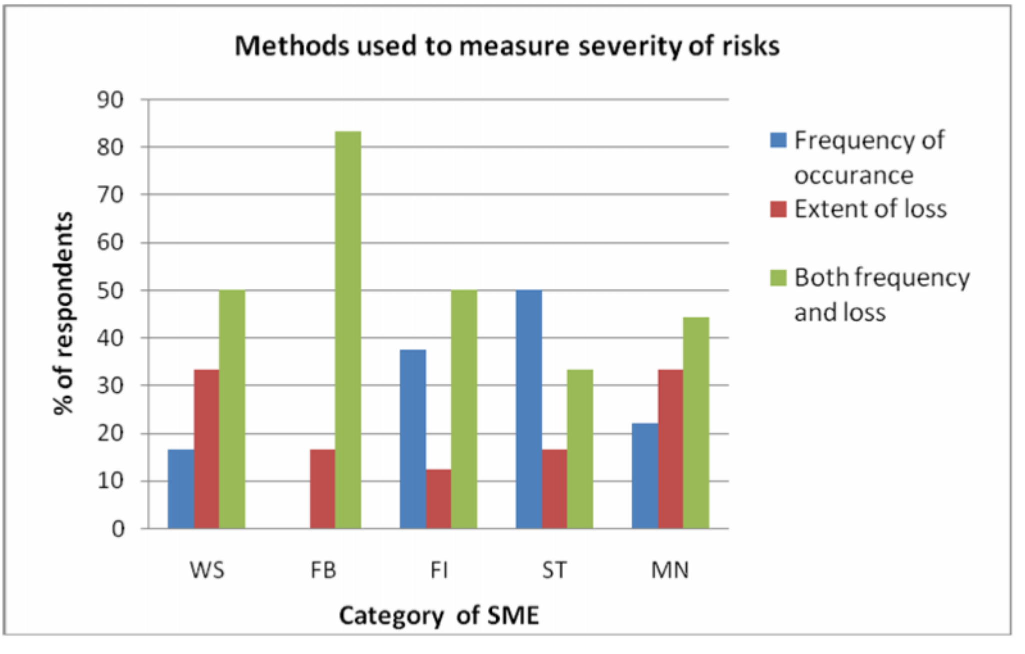
Source :Authors' field work

**WS-Wholesale and supermarkets, FB- Food and Beverages, FI-Financial Institutions, ST, Salons and tailoring, MN-Manufacturing*

4.3.2 Methods used by SMEs to measure severity of risks

Findings from the methods that SMEs use to measure severity of risks are shown in Figure 4.2. All categories of SMEs either use how often the risks occur (frequency of occurrence), extent of loss (costs incurred from the risk,) or the combination of the two, except food and beverages where respondents said they don't use frequency of occurrence only as a way to measure the extent of risk. In cases where risks were easily quantified in monetary terms, some respondents said they preferred using the extent of loss method. For example, in wholesale SMEs, it was common to hear that "*once thieves broke into my store and they stole stock worth GHC 5, 000*" or in manufacturing hearing "*we had fire that razed property worth GHC 12,000*". So, an event could occur once but cost a lot.

Figure 4.2: Methods used by SMEs to measure severity of risks.



Source: Authors' field work

**WS-Wholesale and supermarkets, FB- Food and Beverages, FI-Financial Institutions, ST, Salons and tailoring, MN-Manufacturing*

However in cases like tailoring shops since risks commonly occurring like high staff turnover were not easily quantifiable in monetary terms, SMEs tend to use more of the frequency of occurrence. Some risks that could not cost a lot in one occurrence like theft by employees in restaurants (as they steal in small amounts at a time), it was easier to use frequency of occurrence than the extent of loss. One respondent in a restaurant said, they "*steal small, small amounts, but if all my 10 workers steal 10 Ghana Cedis a day for a whole week, you see I'll lose a lot*". In general, most SMEs combine both the extent of losses and frequency of occurrence to measure the degree of severity: risks with big losses and a higher degree of occurrence being seen as more severe, and vice versa.

4.3.3 Respondents' assessment on their knowledge on measuring business risk.

Respondents were asked to assess themselves on their knowledge on how to measure business risk. Table 4.7 shows the exact question asked and the level of agreement or disagreement to the statement. A higher proportion of respondents tend to perceive that they know how to measure risks. This assessment tends to correspond to the high knowledge levels and usage of standard methods presented in Table 4.6.

Table 4.7: Respondents' assessment on their own awareness and knowledge on severity of risk

	(%)	**Strongly disagree**	**Disagree**	**Neither agree or disagree**	**agree**	**Strongly agree**
I know how to measure the severity of the business risk that face my business	WS	0.0	0.0	34.4	50.0	16.7
	FB	16.7	0.0	0.0	83.3	0.0
	FI	12.5	0.0	12.5	37.5	37.5
	ST	12.5	0.0	0.0	75.0	12.5
	MN	22.2	0.0	11.1	66.7	0.0

Source: Authors' field work

*WS-Wholesale and supermarkets, FB- Food and Beverages, FI-Financial Institutions, ST, Salons and tailoring, MN-Manufacturing

4.4 Risks and severity of risks facing SMEs in Kumasi

4.4.1 Risks that SMEs in Kumasi actually face and their perceived severity

The most frequently occurring risks to SMEs in Kumasi and the perception of the respondents to their severity are shown in Table 4.8. Change in market prices as a business risk was the risk that was reported to have occurred most to the wholesalers and in manufacturing enterprises. This could be attributed to the fact that most wholesalers and manufacturing enterprises sell or deal with a variety of products, whose prices keep on varying. Some respondents said that nowadays they carry some money to the market only to realize that the money cannot buy even half of what they have been buying. Most of them complained that since January when fuel prices were increased in Ghana and the general instability of the local market, market prices of 2011 have been unpredictable.

Table 4.8. Most frequently occurring business risks among SMEs in Kumasi and their severity

Risk mentioned by respondents	WS		FB		FI		ST		MN	
	Frequency	*Severity*	*Frequency*	*Severity*	*Frequency*	*Severity*	*Frequency*	*Severity*	*Frequency*	*Severity*
Fire	-	-	2	Low	_	-	2	Medium	2	High
Theft	4	High	5	High	5	High	3	High	3	High
Changes in exchange rates	+	Low	-	-	3	Medium	-	-	-	-
Changes in market prices	5	High	3	High	-	-	4	Medium	4	Medium
Staff turnover	-	-	4	High	2	Low	5	High	4	Medium
Legal costs	-	-	-	-	1	Medium	-	-	-	-
Employee benefits –	2	Low	-	-	-	-	1	Low	1	Medium
High interest rates	3	Medium	1	Low	4	High	-	-	-	-

Source: Authors' field work

**Five most common risks that occurred to SMEs: 1 - Least common 5- Most common (-) Risk could have or have not been mentioned, and if it was, then it was not among the 5 commonest risks.*

**WS-Wholesale and supermarkets, FB- Food and Beverages, FI-Financial Institutions, ST, Salons and tailoring, MN-Manufacturing*

In food and beverages and financial institutions the most occurring risk was theft, which was also reported to have a high degree of severity. For financial institutions theft was from different sources. Financial institutions such as rural banks and micro-credit enterprises are prone to insecurity since they deal with money and cannot afford good security services hence theft becomes a major risk. Some of these institutions send individuals around to give people loans or collect loan repayments with no accompanying security services, so money can easily be stolen on the way. Some respondents also said their own staff steal only to come up with an excuse that money was stolen when they were carrying it to the bank or at home. Customers going to these financial institutions for money or to repay their loans are equally prone to theft. Some of these financial institutions still reported that some of the loans they lend out to their customers are defaulted hence perceived as a form of theft to the financial institutions. For food and beverages the theft risk was attributed to stealing of foods, ingredients, money and even more commonly non-payment of money after people have eaten or drunk. Operators of small restaurants particularly complained of customers who eat or drink and disappear without paying. Others said their own staff collect money they don't fully account for.

Staff turnover was the commonest risk that occurred in saloon and tailoring SMEs. This risk was also ranked the second most occurring in manufacturing and food and beverages. Reasons given for this included extensive use of apprentices, low wages, sacking of employees due to malpractices. In any case there are numerous such SMEs in Kumasi and it's even easy to start one's own saloon or tailoring business, making movement of staff common. Other risks that commonly occur include legal costs (financial institutions), high interest rate (wholesalers, food and beverages, financial institutions), changes in exchange rates (FI, WS). Legal costs were mostly mentioned as a business risk in financial institutions due to many default cases by creditors.

The most commonly occurring risks among SMEs in Kumasi have been grouped and presented in Table 4.9. Table 4.9 however shows that most risks mentioned were pure risks such as fire, theft and legal cost. When Table 4.9 is compared with Table 4.3, where awareness levels were assessed, it can be noticed that not all risks that respondents were aware of actually occurred. For example, credit risks which were mentioned in Table 4.3, were not reported to have actually occurred among SMEs, based on results in Table 4.9. This is a little bit surprising since delayed credit repayment and default featured strongly as commonly mentioned risks, but could be attributed to the fact that some respondents may have seen delayed credit repayment and defaults as part of other risks like theft.

Table 4.9. Grouping of business risks that actually occurred to SMEs

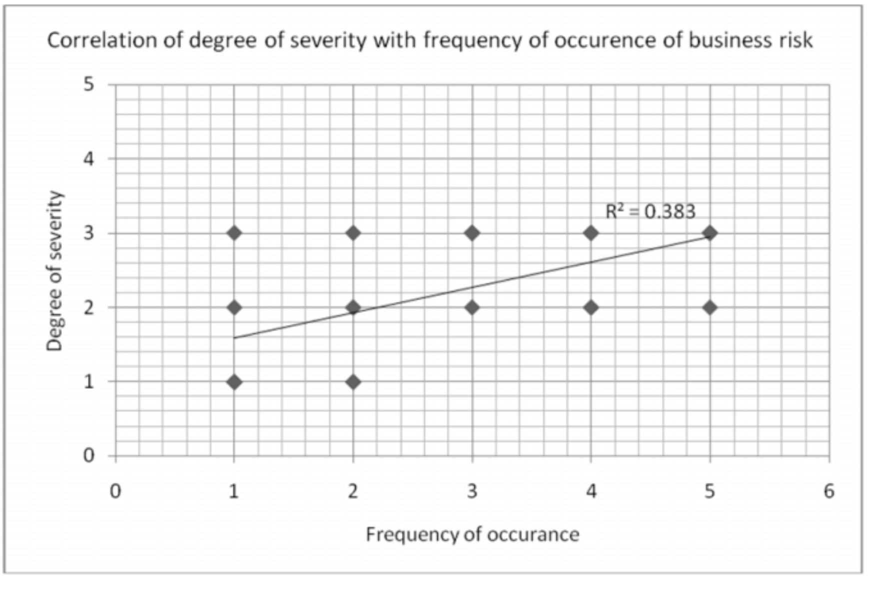
Types of business risks	**Specific risks which actually occurred**
Pure risk	Fire, theft, staff turnover, legal costs and employee benefits
Price risk	Changes in exchange rate, changes in market prices and changes in interest rate

Source: Authors' field work

4.4.2 Relationship between frequency of occurrence and severity of business risk

Figure 4.3 shows the correlation between frequency of occurrence and severity of business risk. The correlation coefficient, $R^2 = 0.383$, showing a weak positive correlation. Business risks that were not so frequent in occurrence were generally perceived to have low degrees of severity while the ones with highest frequency of occurrence were perceived to have highest degree of severity. For example, theft, high staff turnover and changes in market prices which were most frequent among food and beverages, salons and tailoring and wholesales and supermarkets respectively also had a high degree of severity. However, for manufacturers, though changes in market prices were most frequent, it had medium severity, while fire which was not very frequent was regarded with theft to have a high level of severity. This basically shows that frequency of occurrence does not always correspond to severity, implying that SMEs could be using more factors to measure severity like the extent of losses or a combination as reported in Section 4.3.

Figure 4.3. Relationship between frequency of occurrence and degree of severity of business risks



Source: Authors' field work

4.5 Impacts and management of business risk

4.5.1 Impacts of business risk

Impacts from the most common risks affecting SMEs in Kumasi are shown in Table 4.10. There were no significant differences among SME categories on impacts of risks. So SMEs had almost similar impacts from a specific risk. For example, an impact from theft such as loss of creditworthiness was reported in almost all categories of SMEs. Some of the commonest impacts that were mentioned from the various risks such were loss of assets and related replacement costs, loss of creditworthiness and trust, disruptions of activities and loss of customers. Some specific risk impacts were like environmental pollution for fire outbreaks and reduced borrowing due to high interest rates. Respondents said that whenever interest rates in financial institutions were high, it reduced their ability to borrow while financial institutions themselves had reduced activity from customers who preferred not to borrow due to high interest rates.

Table 4.10. Impacts of most commonly occurring risks on SMEs

Risk	Effects and impacts
Non-repayment of credit	• Affects cash flows • Reduction in profit margin • Reduces trustworthiness • Reduced Cash flow
Theft	• Decrease in money deposited • Replacement costs • Decrease in stock • loss of credibility • loss of creditworthiness
Fire	• customer loss • Loss of assets • environmental pollution
High interest rate	• Reduced borrowing
Employee benefits	• Increased expenses in form of compensations • loss of labor and disruption of activities
Changes in market prices	• Decreased deposits • Increased cost of production • Reduced stock • loss of customer
Staff turnover	• Disruptions of activities • Loss of credibility • Extra costs on recruitment and training

Source: Authors' field work

4.5.2 Measures to manage risks

Of great importance for this study was how the SMEs managed various risks that they faced. Responses are shown in Table 4.11. Measures mentioned were basic and low-cost. For example, to address theft as a risk measure, most respondents mentioned "buying quality doors and padlocks and employing services of security guards". Other than few rural banks, the use of modern security gadgets such as security cameras and tracking devices were not observed. It was also common to hear some SMEs say we use fire extinguishers or smoke detectors, like for the fire risk, but none of these were observed in some of the enterprises. From literature, the major risk management methods include (i) loss control such as reduced level of risky activity and increased precautions, (ii) loss financing such as retention and self-insurance, insurance, hedging and other contractual risk transfers, and (iii) internal risk reduction such as diversification and investments in information. So most methods used by the interviewed respondents fall under loss control, implying that SMEs in Kumasi need to be made aware of other measures.

Table 4.11 Measures that SMEs in Kumasi use to manage risks

Risk	**How to manage risks**
Non-repayment of credit	• Employing legal services in debt recovery • Use of collateral such as guarantors and other assets • Limiting amount given out
Theft	• Employing security personnel • Increase customer awareness • Installing security system – padlocks, quality doors, employing security guards, money-safe
Fire	• Putting off all electrical appliances after close of work • Insurance • Installation of smoke detectors and Fire extinguishers • Training staff
High interest rate	• Internal financing • Take loans when interest rate is low
Employee benefits	• Ensuring safety at the work place • Insurance
Changes in market prices	• Bulk purchase • investing in information support services
Staff turnover	• Proper recruitment • Attractive remuneration and incentives • Employee persuasion

Source: Authors' field work

It was surprising to note that as much as many risks mentioned were pure risks, there were few enterprises that have actually insured their enterprises. So why do SMEs in Kumasi don't insure their enterprises? One owner of an SME gave a very good summary why he had not insured his SME, which was echoed by many other respondents. He said,

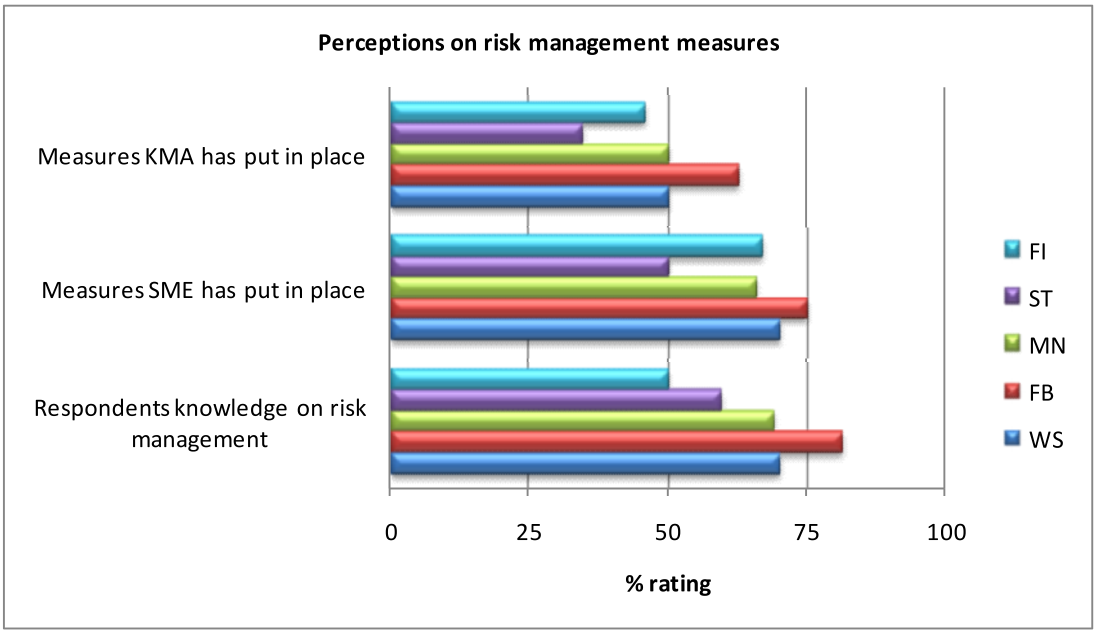
> "*The insurance people have been talking to me, but I am not yet convinced. Many people who have insured their businesses equally cry like me, so why should I do it? I have not time chasing what should be my money for months. Insurance companies in Ghana are so bureaucratic; you have to sign so many papers before they give you your money, but when they take the insurance money from you, they even beg you. I have heard some people not being given their own money because they did not present every fact right. If I have to wait for 3 months before I get insurance repayment to fix my machine, then I don't see the need for insuring my business at all. Let the problem come and I'll see how to sort it out"*

This respondent's view could be some truth or misconceptions, but whichever the case, there is need for more education on insurance as a business risk management measure among SMEs in Kumasi.

4.5.3 Perceptions on risk management measures

Perceptions on risk management measures, measures respondents had put in place to manage risks and those put in place by the Kumasi Metropolitan Authority (KMA) was assessed and presented in Figure 4.4. Rating on the measures that KMA has put in place to manage risks were generally below average. These issues included security services and response to fire incidents. SMEs gave themselves a higher rating on their knowledge levels and measures that they have put in place to manage risks. Food and beverages always rated every aspect highest with salons and tailors generally rating lowest.

Figure 4.4. Perceptions on risk management measures



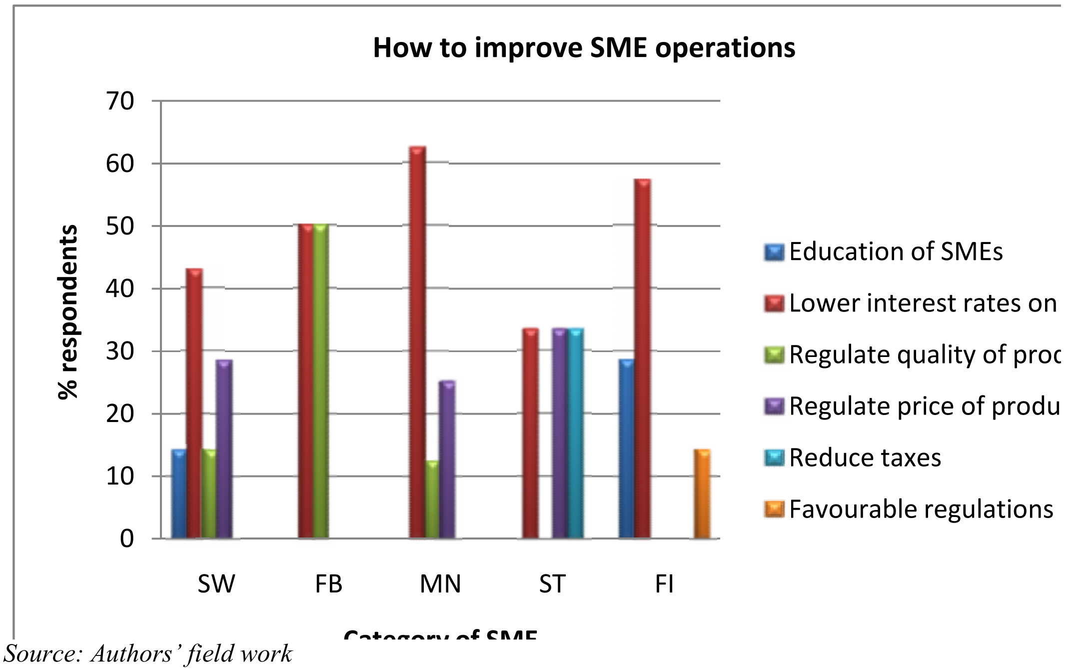
Source: Authors' field work

*WS-Wholesale and supermarkets, FB- Food and Beverages, FI-Financial Institutions, ST, Salons and tailoring, MN-Manufacturing

4.6 Proposed measures on how to improve operations of SMEs

Advice given by respondents on what should be done to improve operations of SMEs is presented in Figure 4.5. The most recurring need by SMEs is reducing interest on loans and conditions for borrowing to enable SMEs borrow money to expand their operations. Most respondents said that conditions of borrowing money were hardly attainable and interest rates were too high. SMEs lacked enough creditworthiness to meet the borrowing requirements. It was interesting to see the need of regulating the quality of products feature strongly as a need. This was a particular problem among wholesalers, food and beverages and manufacturing SMEs. In general, the need to reduce interest rates, regulating product quality and product prices was the three most important proposed measures to improve operations of SMEs in Kumasi.

Figure 4.5 Proposed measures to improve SME operations in Kumasi.



Source: Authors' field work

**WS-Wholesale and supermarkets, FB- Food and Beverages, FI-Financial Institutions, ST, Salons and tailoring, MN-Manufacturing*

4.7 Critique of the findings

This study shows average knowledge levels on business risk and risk measurement methods among SMEs in Kumasi. The findings correspond to a related study conducted by Andoh & Nunoo (2011) among 556 SMEs from four districts in the Greater Accra region which rated their financial literacy as modest (3.4 on a scale of 1-5). The study established a link between financial literacy of owners of SMEs and sustainability of SMEs in Ghana. Kufuor (2008) in a study conducted among manufacturing SMEs in Ghana identified managerial incompetence as a major constraint for growth and sustainability in Ghana.

One of the main business risk identified in this study is on financing and access to credit, as indicated by high interest rates. Access to affordable credit seem to be a universal SME challenge Kufuor (2008) identified access to finance and credit facilities as the greatest hindrance for SMEs in Ghana. Many SME's are perceived as risky enterprises; so many financial institutions find it more difficult to finance SMEs. This is further illustrated in this study where loss of creditworthiness was listed as a major impact of a number of risks mentioned. However, there are now some funding schemes for SME's in Ghana including GRATIS, FUSMED, NBSSI BAF and MASLOC (Asiama and Osei, 2007). Several microfinance institutions such as Pro Credit, Sinapi Aba Trust now also fund SMEs. Lately, commercial banks are increasingly opening SME counters, showing the increasing important of the sector in Ghana.

Most studies done on SMEs have focused more on assessing SMEs constraints (which could be seen as risks in this study) but much less on how to manage the constraints (risks). Particular studies on business risk are rare. It then becomes hard to compare this study's results on actual risks and risk management measures to others. Nevertheless many of the risks that were mentioned by respondents like fire, floods, theft, family interference, delayed payments and credit defaults are commonly reported in local newspapers. What is largely missing is quantifying the risks in monetary terms to know how much loss the SMEs make. This has not been reported and was not also done in this study.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of findings

The study sought to understand the extent in which SMEs in Kumasi understand business risk, how they assess risks and the measures that they use to manage risks. Data was collected to answer a number of questions to address the objectives. All the objectives were achieved as highlighted below.

- **Knowledge and awareness levels on business risk:** The study shows average knowledge and high awareness levels of business risk among respondents from all categories of SMEs interviewed. Knowledge and awareness was highest among respondents from food and beverage SMEs and lowest in salons and tailoring enterprises. This was attributed to the education levels of respondents.

- **Risk measurement**: Awareness on risk measurement methods was very high accompanied with average usage of these methods. To measure severity, most SMEs combine frequency of occurrence of risks with the extent of loss.

- **Actual business risks facing SMEs**: SMEs in Kumasi face different kinds of business risk, but the commonest business risks facing SMEs in Kumasi were theft, changes in market prices and staff turnover. Some unique risks mentioned included "family interferences" which was linked to cultural and social ties. Most risks mentioned were "pure risks". The most commonly occurring risks were also regarded as the most severe, with a positive correlation relationship (R^2 = 0.383).

- **Impacts of business risk:** Impacts were more linked to the type of risk not category of SME. Some of the commonest impacts that were mentioned from the various risks were loss of assets and related replacement costs, loss of creditworthiness and trust, disruptions of activities and loss of customers. Some specific risk impacts were like environmental pollution for fire outbreaks and reduced borrowing due to high interest rates.
- **Management of risks:** Respondents listed a wide variety of measures to manage risks, but most of them were basic and low-cost of the "loss-control" category such as safety locks and guards against theft and fire extinguishers against fire. Hardly was insurance mentioned, which many respondents opting not using insurance due to bureaucracies in the systems.

5.2 Conclusion

Small and medium enterprises are exposed to many kinds of business risks. In this study, these business risks were largely perceived to be negative, but business risks can also be positive, and SMEs should explore opportunities that some business risks present. SMEs in Kumasi should translate their relatively high knowledge and awareness levels on business risk to practical implementation of sound risk management measures. It was surprising to note that only few SMEs in Kumasi were actually insured. Perceptions on insurance were also negative hence the need to encourage insurance companies to improve their service delivery. Overall, the project has shown the need for training SMEs in Kumasi on understanding of business risk and more specifically on measures to put in place to manage the business risks.

5.3 Recommendations

Based on results and conclusions of this study, we recommend the following:

- **Training of SMEs**: Knowledge and awareness levels on risks, risk measurements, and risk management measures could be improved through targeted training on owners and senior risk managers in SMEs in Kumasi. This will improve their overall understanding and implementation especially of management measures.
- **Insurance:** The government should strengthen the national insurance commission to ensure that the insurance claims are paid to the respective parties at the expected time.
- **Diversification:** The SMEs should diversify into other businesses to avoid losing everything when a risk occurs. Many SMEs have invested all their monies in one business which makes them vulnerable in case of any eventuality therefore calling strictly for diversification
- **Bulk purchase encouragement**: Many SMEs need to take advantage of bulk purchase to reduce the pressure that comes with price fluctuation. More goods bought together can give discounts which later can help the businesses to make profits and further aid the
- **Addressing needs proposed by SMEs**: Section 4.6 of this study presents needs assessment from respondents themselves. Their top most priority is reduction of interest rates, regulating price and quality of products. Quality of products in particular is an increasing risk that needs to be addressed by authorities due to influx of fake goods to the country.

5.4 Suggestions for further studies

As the government of Ghana regards SMEs as engines of growth, more studies especially on risk management will be essential so that SMEs are equipped with right skills to predict and address risks especially in this era of volatile global economy. Specific studies could be done to show the links between knowledge, actual practices and their impacts on profitability and sustainability of SMEs.

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APPENDICES

Appendix A. Survey questionnaire

CHRISTIAN SERVICE UNIVERSITY COLLEGE (CSUC) KUMASI

DEPARTMENT OF BUSINESS ADMINISTRATION

BUSINESS RISKS AND RISK ASSESSMENT MEASURES AMONG SMALL AND MEDIUM SCALE ENTERPRISES (SMES) IN KUMASI, GHANA.

SME Survey Questionnaire

Name of Enumerator: ________________________

Date of Interview: __________________________

Community Name: ___________________________

Introduction

[Enumerator: Read the following introductory statement].

Taidi is working on a survey about business related risk that SMEs in Kumasi face. The research is for our final year project and will help us understand the challenges in the SMEs. We also hope the relevant authorities will make use of our study recommendations to make SMEs even more beneficial to Ghanaians. We are collecting information from various kinds of SMEs in Kumasi. The interview will be completely confidential and will take 20 minutes.

I. BACKGROUND INFORMATION

A. ON RESPONDENTS

1. [Enumerator: What is the gender of the respondent?]

____ (0) Male

____ (1) Female

2. Position at the SME

__ (1) Owner

____ (2) Employee: Specify position ………………………………….

3. How long have you worked here?

____ (1) less than 2 yrs

____ (2) 2-5 yrs

____ (3)More than 5 yrs

4. Age of respondent

___ (1) less than 20

____ (2) 20-25

____ (3)26-30

____ (4) 30-45

____ (5) above 45

5. Highest level of education of respondent

___ (1) Illiterate

____ (2) Primary school

____ (3)JSS

____ (4) SSS

____ (5) Tertiary

B. ON SME

6. [Enumerator: Specify the kind of SME?]

____ (1) Food and beverages

____ (2) Financial institutions

____ (3) Small manufacturing enterprises

____ (4) Salons and tailoring

____ (5) Wholesale businesses

____ (6) Other

7. [Enumerator: Specify the location (suburb) of SME?]

----

8. How long has this business been operating in Kumasi?
____ (1) less than 2 yrs

____ (2) 2-4 yrs

____ (3) 5 -10 yrs

____ (3) More than 10 yrs

9. How branches do you have in Ghana?
____ (1) 1-2 branches

____ (2) 3-5 branches

____ (3) more than 5 branches

10. How many employees does the SME have?
(a) In this branch?
___ (1) less than 5 employees

____ (2) 5-10 employees

____ (3)10-25 employees

____ (4 More than 25 employees

(b) In all your branches?
___ (1) less than 5 employees

____ (2) 5-10 employees

____ (3)10-25 employees

____ (4 More than 25 employees

II. AWARENESS AND PERCEPTIONS OF BUSINESS RISKS

11. What is your own understanding of the term "business risk" [Enumerator: allow respondent to say all he/she understands without interrupting and write down key risk related words used in the response]

____

____

____

12. What kind of such risks does your kind of businesses face? [Enumerator: List as many as the respondent can mention]

____

____

____

____

13. Of these risks, which one do you think are the 3 most serious ones which your kind of SME face?

- ____________________________________
- ____
- ____

14. What criteria do you use to know the severity (most serious ones)? [Enumerator: You can tick more than one]

___ (1) Frequency of occurrence

____ (2) Extent of losses – cost incurred

____ (3) Other – specify………………………………….

15. Which of these risks (mentioned in 12) have you faced in the recent years in your SME?

____

____

____

16. I have a list of some business risks that we think your kind of business face. Please indicate your awareness and extent of occurrence of this in your SME [Enumerator: Just read the risk and tick or cross as applicable. If risk listed was already named above by respondent, then don't ask, but use previous responses to tick or cross it)

Risk	Aware	Prone to your kind of SME	Occurred to you	Severity (Mark as: High, Medium, Low
Fire				
Flooding				
Theft				
Changes in exchange rates				
High staff turnover				
Legal costs– damages, legal suits etc				
Employee benefits – injury, death				
High interest rates				
Price changes – cash flow				

III. **IMPACTS AND MANAGEMENT OF RISKS**

17. Impacts of risks [Enumerator: List at most 5 different kinds of risks that the respondent has experienced and assess the impacts of these risks]

Risk	Specify Impacts [Personal, family, business, environmental]	Details of the impacts, including extent
Risk 2:…………………..		
Risk 3:…………………		
Risk 4:…………….		
Risk 5:……….		

18. How do you manage these risks [Enumerator: Assess 3 of what has actually happened and 2 that the business is prone to and has not happened]

Risk	How you manage the risk	Details on the management, including costs involved
Risk 2:………………….		
Risk 3:…………………...		
Risk 4:……………….		
Risk 5:……….		

19. Any extra information on business risks faced by SMEs that you will like to give?

____

____

____

20. What is your advice to external support agencies and government that can help improve your kind of SMEs

____

____

This is the end of our interview. Thank you very much for your time and assistance.

Appendix B. Description of study area

Kumasi (see Table and Figure below) is the second largest city in Ghana, an African country located in the West Africa's Gulf of Guinea with an area of 238,540 km^2. Surrounding by forest and cultivated areas, the city of Kumasi is a commercial and industrial centre with formal industries in timber, food processing (including beer brewing) and soap manufacturing, together with informal activities in woodworking, light engineering, vehicle repair, footwear, furniture manufacture and metal fabrication. The entire of the city has one of the largest market centres in West Africa with over 1000 sellers.

Brief description of Kumasi.

Location:	Middle part of Ghana, 270 km northwest of Accra, Ghana's capital
Climate:	Tropical, 21-34 ^{o}C round the year
Notable features:	Historically, the capital of Ashanti Kingdom; now second largest city in Ghana and capital of most populous region (Ashanti)
Population:	About 1.6 million
Religion:	Christian 79%, Muslim 16%, other 1%, no religion 4%
Languages:	English, Twi

Map of Ghana showing location of Kumasi