UNIVERSITY OF CAPE COAST

ASSESSMENT OF RISK MANAGEMENT PRACTICE OF SMALL AND MEDIUM SCALE ENTERPRISES IN THE SEKOINDI-TAKORADI METROPOLIS, GHANA

DANIEL KWAMENA EYIAH

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BY

DANIEL KWAMENA EYIAH

A dissertation submitted to the Department of Accounting and Finance, School of Business, University of Cape Coast in partial fulfilment of the requirement for award of Masters in Business Administration, Degree in General Management

OCTOBER, 2015

DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this University or elsewhere.

Candidate's Signature …………………………….. Date: ……………………..

Name: Daniel Kwamena Eyiah

Supervisor's Declaration

I hereby declare that the preparation and presentation of this dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature …………………………….. Date: ……………………..

Name: Mr. Anokye Mohammed Adam

ABSTRACT

After a decade of reforming policy, building and developing the multi-sector market economy, Small and Medium Enterprises (SMEs) in Ghana have developed strongly and contributed to creating employment, increasing GDP, and raising the nation's volume of exports. However, SMEs have found difficulties on the way to development due to lack of risk management practices, and uncertainty within the business environment. As a result, SMEs often faced obstacles during their operations. This dissertation examines the relationship between risk management practices of SMEs in Sekondi-Takoradi Metropolis to determine whether absence of risk management practices impact on SME survival. Objectives of the dissertation are; to investigate risk management practices of SMEs in Sekondi-Takoradi, and to contribute to knowledge of risk management practices of SME survival. The study was conducted using the simple random sampling method, a total sample of fifty (50) SMEs owner/mangers in the metropolis were selected for the study. The main source of data collection was a primary data, through the use of descriptive research design a well – structured questionnaire was designed and administered on the fifty (50) SMEs owner/managers selected. The result of the study revealed that most of the SMEs do not efficiently manage their business risk due to inadequate knowledge of basic accounting records keeping and insurance policies as a measure to militate against any eventualities which threatens their survival and growth. The study recommended that there is the need to organized workshops and training seminars and also formation of chambers for SMEs to adequately equip them on the need to keep proper accounting records and to cover their business with insurance policies as a measure of mitigating risk and ensuring stability in the SMEs business operations.

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In all, while the above take all the credit, any shortcomings and inadequacies of this study are my sole responsibility.

DEDICATION

This work is dedicated to my lovely wife, Regina Eyiah , my children my siblings.

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LIST OF ACRONYMS

CBN	Central Bank of Nigeria
CED	Committee of Economic Development
EC	European Commission
GDP	Gross Domestic Product
GEDC	Ghana Enterprise Development Commission
GSS	Ghana Statistical Service
IASCF	International Accounting Standards Committee Foundation
ISO	International Organization for Standardization
NBSSI	National Board for Small Scale Industries
OECD	Organisation of Economic Co-operation and Development
SME	Small and Medium Scale Enterprises
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation

CHAPTER ONE

INTRODUCTION

Background to the study

There is a growing recognition of the important role Small and Medium-sized Enterprises (SMEs) play in economic development. SMEs are often described as efficient and prolific job creators, the seed of big businesses and the fuel of national economic engines. Even in the developed industrial economies, the SME sector rather than the multinationals is the largest employer of workers (Mullinex, 1997). The small business owner is any person or group of people that starts and runs a Small and Medium sized Enterprises (SMEs). SME is any enterprise with a total capital employed of not exceeding 10 million Ghanaian cedis and with the staff strength between 9 and 100 (Ghana Statistical Service 1992). SMEs all over the world play important role in the process of industrialization, economic growth, and sustainable development of any economy (Ariyo, 2005).

According to Central Bank of Nigeria 2011, SMEs are critical to the development of any economy, as they possess great potentials for employment generation, improvement of local technology, output diversification, development of indigenous entrepreneurship and forward integration with large-scale industries. The potential benefits of SMEs to any economy include contribution to the economy in terms of output of goods and services, creation of jobs at relatively low capital cost, provision of a vehicle for reducing income disparities, development of a pool of skilled and semiskilled workers as a basis for future industrial expansion. However, the level of risk management by SMEs is critical to its survival and sustainability.

Most empirical evidence of risk management of SMEs comes from the developed countries such as the United States of America (USA), the United Kingdom (UK), Canada and Australia ((Mcmahon, Holmens, Hutchenson & Forseaith, 1993) there seems to be lack of evidence from emerging economies especially from transiting economies such as Ghana. Furthermore, most previous researches focus on investigating and describing financial management practices whereas there have been little research on assessing risk management of SMEs survival. Major gaps therefore exist in the literature related to risk management of SMEs which need to be supplemented. It appears risk management of SMEs in developing countries especially in transiting economies such as Ghana have not been investigated and empirical data have not been produced. This lack of empirical evidence from emerging economies and lack of examination of risk management practices on SMEs survival are major gaps in the knowledge of risk management of SMEs. Based on previous research findings and recognition of these gaps, a study of risk management on SME survival is justified and a model of risk management practices should be developed and tested by using the empirical data from emerging economies.

Therefore the study will assess risk management of SMEs growth and survival using empirical evidence from Sekondi-Takoradi Metropolitan Assemble. The choice of Sekondi-Takoradi is relevant because all the tribes in Ghana operates Small and medium Sized businesses in the Metropolis due to its relative peace and also the discovery of oil in the Cape three point about hundred kilometers away from the metropolis. In particular, the study sought to assess the level that SMEs keeps accounting records and take insurance policy, as this would assist in reducing information risk, improve planning for managing financial risk (as accounting records provides information needed) and insurance policy provide a cover for other risk that are beyond the managers control.

Statement of the problem

Most previous researchers have concentrated on examining, investigating and describing the behaviour of SMEs in practicing financial management. Five specific areas of financial management practices include accounting information system, financial reporting and analysis, working capital management; credit risk management and assets management have long attracted the attention of researchers (Mcmahon et.al., 1993). These findings are mainly related to exploring and describing the behaviour of SMEs towards financial management practice. Although they provide much descriptive statistical data and empirical evidence on SMEs financial management practices, it appears that there has not been much research conducted on SMEs risk management practice in Ghana. It is perceived especially in the Sekondi-Takoradi Metropolis that some risks combined with the uncertainty of the business environment often leads SMEs to serious problems and threaten their survival. Therefore the problem to be addressed in this research are to assess the effects of risk management practices on survival of SMEs and then to determine the best measure for improving SMEs risk management practices in Sekondi-Takoradi by using accounting records keeping and insurance policy.

Objectives of the Study

The study intends to achieve the following objectives:

- To assess the level of knowledge on risk management practices by SMEs managers in Sekondi-Takoradi Metropolis;
- To assess SMEs risk management practices;
- To examine the challenges of risk management practices that affect SMEs survival; and
- To assess how risk management practices of SMEs can be improved

Research Questions

The research objective defined above leads to the following research questions:

- What is the level of knowledge on risk management practices by SMEs managers in Sekondi-Takoradi?
- How do SMEs assess risks management practices and implement an effective risk management strategy?
- What are the challenges of risk management practices that affect SMEs survival?
- How can risk management practices of SMEs be improved?

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Significance of the Study

The study is expected to impact on the survival of SMEs. To those in academia, the outcome of this study is to augment the existing store of knowledge on the subject and serve as a catalyst for further research on innovative ways of improving SMEs risk management. It will serve as a source of reference to researchers, academics, students, policy makers and other stakeholders interested in understanding the risk challenges been faced by SMEs.

To policy makers like government agencies such as the Ministry of Trade and Industry, Commercial Banks, Insurance companies and other stakeholders, the findings and results of the study will provide insight and a more reliable guide for monitoring the challenges of SMEs. It will serve as a benchmark for measuring partly their respective policy goals and objectives.

This research is to bring to bear modern trends of SME risk management practices. It would also help SME managers/owners to implement the necessary structures to curtail the high incidence of risk on it operations through the process of proper records keeping and to take insurance cover on their business.

Delimitations

Only some selected areas in the Sekondi-Takoradi Metropolitan Assembly were chosen for this study because a lot of SMEs have cropped up in the assembly and not all of these SMEs can be used for this research. However, it is assured that the findings from this research show the exact risks management practices that SMEs in the Sekondi-Takoradi Metropolis face. The study covers the SMEs in Sekondi-Takoradi, they include food processing, small shop owners, bakery, wood products, furniture works, metal works, and auto and machinery works. The study was conducted within the framework of assessing challenges of SME risk factors within the Western region, specifically looking at Central Business District (Market Circle) in Sekondi-Takoradi. It is a case study approach of small holder businesses and did not cover other larger enterprises. Hence, the result was not generalized but its findings would be placed in the relevant context of the individual owners studied.

Limitation

The study was limited to the operations of SME owners in Sekond-Takoradi. This location was chosen due to cost and time considerations and also because it was acknowledged that most SMEs were concentrated in the metropolis. The researcher anticipated unwillingness of management of SMEs to release information which should have enriched the study and also established a strong validity and reliability. Also, constraints of financial resources and unavailability of data as well as materials which will not make it possible to undertake nationwide study has limited this study to the study area alone. Furthermore, it is very difficult to access certain information that may be useful for the research.

Organisation of the Study

This research report is presented in five chapters. Chapter one is the general introduction. It looked at the background to the study, the objectives of the study and the statement of the problem. It also briefly looked at the research questions, scope and limitations and organization of the study. Chapter two was the literature review of relevant literature on risk management practices of SMEs. Chapter three was the methodology. It explained the research design. It also gave details about the population, sample and sampling procedures used in the study. It explained the research instruments, methods of data collection, data analysis plan. Chapter four was the data presentation, analysis and discussion. Chapter five presented the summary, conclusions and recommendations for the study.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This section reviews aspects of risk management practice of Small and Medium-Scale Enterprises in Ghana. The chapter is devoted to the review of literature on the definition of SMEs, the role of SMEs in the economic development and risk management practices of SMEs.

Overview of Small and Medium Sizes Enterprises

According to OECD (2005), SMEs are the non-subsidiary and self-governing firms which employ less than a given number of employees. Jordan (1998) defines small or medium sized firms by elaborating on the number of employees and turnover and states that SMEs are firms with less than 100 employees and a turnover which is less than €15 million. On the other hand the European Commission (1996) adopted the definition for SMEs as firms with less than: 250 employees, €40 million turnovers and €27 million in assets (Abor & Adjasi, 2007). A number of researchers tend to define SMEs as having 0-250 employees and in Africa this number is set around the 200 mark (Ayyagari, 2005). However, in the United States, SMEs comprise of firms with fewer than 500 employees (OECD, 2005).

Most definitions are based on size and number of employees, financial position or annual turnover. The International Accounting Standards Committee Foundation (2007), states that, an SME does not have public accountability and do not publish general purpose financial statements for external users such as banks and insurance entities. It establishes SMEs as entities which do not have the onerous requirement of filing their financial statements with any regulatory body for the purpose of issuing financial instruments. These entities do not hold assets in any fiduciary capacity for a group of outside investors but the owners, who usually are also managers.

Definition of Small and Medium Sizes Enterprises

Qualitative definitions

Qualitative definitions define small and medium sizes enterprises based on their qualitative characteristics. These however, vary from country to country and from industry to industry. In the USA, based on four key factors identified by the 1947 Committee of Economic Development (CED), the authorities define a small firm to be one which:

i. is independently managed;
ii. capital supplied and ownership held by an individual or small group;
iii. it area of operation is localized; and
iv. it is small in relation to other firms in the industry.

In the UK, the qualitative definitions adopted by the Bolton J. E Committee (1971) identified three major characteristics of small business: Firstly, in economic terms, a small and medium-scale enterprise one that has a relatively small share of the market, and is unable to influence the price or quantity of goods or servicing. Secondly, an essential characteristic of a small firm is that it is managed by its owner or part owner in a personalized way, and not through the medium of a formal management structure. Thirdly, it is also independent in the sense that it does not form part of a larger enterprise and that the owner-managers should be free from outside control in making their principal decisions.

In Australia, the Wiltshire (1973) defines a small business as: a business in which one or two people are required to make all the critical decisions (such as finance, accounting, personnel, purchasing, processing or servicing, marketing, selling) without the aid of internal specialists and with specific knowledge in only one or two functional areas. The Department of Industry, Technology and Commerce employs a definition of a small enterprise that is based on the following characteristics:

1. independently owned
2. closely controlled by owner-managers who have responsibility for principal decisions
3. owner-managers contribute most, if not all, of the capital
4. operations are locally based, although its market might not be.

Quantitative definitions

The quantitative definitions of SMEs, especially their quantitative characteristics, are very important because they provide the bases for carrying out research and gathering statistical information. They also provide quantitative standards for the comparative studies between SMEs in one country and SMEs in another country. These may involve employee, sales revenue or turnovers, total assets, and net worth.

The quantitative characteristics of small enterprises vary from industry to industry and from country to country. An enterprise, which is small in one industry, may be regarded as large in another industry. Similarly, an enterprise, which is considered small by the USA standards, may be relatively large in other countries such as Thailand, Malaysia or Vietnam. Regarding the number of employees, in the USA the government decided to use 500 employees as the general cut-off between small and other businesses while most studies in Australia have assumed a firm is small, if it employs less than 100 employees. In addition to the number of employees, some other countries such as the USA, Britain, and Japan define small business based on turnover and industry breakdown. The European Commission (EC) defined SMEs largely in term of the number of employees as follows:

1. Firms with 0 to 9 employees - micro enterprises;
2. 10 to 99 employees - small enterprises;
3. 100 to 499 employees - medium enterprises.

The EC definitions were based solely on employment rather than a multiplicity of criteria. Finally, the EC definition did not assume the SME group is homogenous; that is, the definition makes a distinction between micro, small, and medium-sized enterprises. However, the EC definition is too all-embracing to be applied to a number of countries. Researchers would have to use definitions for small firms which are more appropriate to their particular "target" group (an operational definition).

The UNIDO also defines SMEs in terms of number of employees by giving different classifications for industrialized and developing countries (Elaian, 1996). The definition for industrialized countries is given as follows:

1. Large - firms with 500 or more workers;
2. Medium - firms with 100-499 workers;
3. Small - firms with 99 or less workers.

The classification given for developing countries is as follows:

1. Large - firms with 100 or more workers;
2. Medium - firms with 20-99 workers;
3. Small - firms with 5-19 workers;
4. Micro - firms with less than 5 workers.

It is clear from the various definitions that there is not a general consensus over what constitutes an SME. Definitions vary across industries and also across countries. Narrowing down to our Ghana, the Ghana Statistical Service 1992 considers firms with fewer than 10 employees as small-scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises. Ironically, the GSS in its national accounts considered companies with up to 9 employees as SMEs (Kayanula & Quartey, 2000).

The value of fixed assets in the firm has also been used as an alternative criterion for defining SMEs. The National Board for Small Scale Industries (NBSSI) in Ghana applies both the "fixed asset and number of employees" criteria. It defines a small-scale enterprise as a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Ghanaian cedis. The Ghana Enterprise Development Commission (GEDC), on the other hand, uses a 10 million Ghanaian cedis upper limit definition for plant and machinery (Kayanula & Quartey, 2000). A more recent definition is the one given by the Regional Project on Enterprise Development Ghana manufacturing survey paper. The survey report classified firms into: (i) micro enterprise, less than 5 employees; (ii) small enterprise, 5 -29 employees; (iii) medium enterprise, 30 – 99 employees; (iv) large enterprise, 100 and more employees (Teal, 2002).

Characteristics of SMEs in Developing Countries

Fisher and Reuber (2000) enumerate a number of characteristics of SMEs in developing countries under the broad headings: labour characteristics, sectors of activity, gender of owner and efficiency. Given that most SMEs are one-person businesses, the largest employment category is working proprietors. This group makes up more than half the SME workforce in most developing countries; their families, who tend to be unpaid but active in the enterprise, make up roughly another quarter. The remaining portion of the workforce is split between hired workers and trainees or apprentices. SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier & Seibel, 1987; Liedholm & Mead, 1987; Schmitz, 1995).

In terms of activity, they are mostly engaged in retailing trading, or manufacturing (Fisher & Reuber, 2000). While it is a common perception that the majority of SMEs will fall into the first category, the proportion of SME activity that takes place in the retail sector varies considerably between countries, and between rural and urban regions within countries. Retailing is mostly found in urban regions, while manufacturing can be found in either rural or urban centers. However, the extent of involvement of a country in manufacturing will depend on a number of factors, including, availability of raw materials, taste and consumption patterns of domestic consumers, and the level of development of the export markets.

According to Kayanula and Quartey (2000), in Ghana, SMEs can be categorized into urban and rural enterprises. The former can be subdivided into “organized” and “unorganized” enterprises. The organized ones mostly have paid employees with a registered office, whereas the unorganized category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home, and employ few or in some cases no salaried workers. They rely mostly on family members or apprentices. Rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops.

The major activities within this sector include:- soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smiting, ceramics, timber and mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical-based products and mechanics (Kayanula & Quartey, 2000). Abor and Biekpe (2006) indicated that majority of SMEs are female-owned businesses, which more often than not are home-based compared to those owned by males; they are operated from home and are mostly not considered in official statistics. Females are mostly involved in sole-proprietorship businesses which are mainly microenterprises.

The Role of Small and Medium Scale Enterprises

Interest in the role of SMEs in the development process continues to be in the forefront of policy debates in most countries. Governments at all levels have undertaken initiatives to promote the growth of SMEs. SME development can encourage the process of both inter and intra-regional decentralization, and they may well become a countervailing force against the economic power of larger enterprises. More generally, the development of SMEs is seen as accelerating the achievement of wider economic objectives, including poverty alleviation. According to OECD (1997) SMEs produce about 25% of OECD exports and 35% of Asia's exports. SMEs represent over 90% of private business and contribute to more than 50% of employment and of GDP in most African countries (UNIDO, 1999).

Small enterprises in Ghana are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment of Ghana (Steel & Webster, 1991; Aryeetey, 2001). SMEs are also believed to contribute about 70% to Ghana's GDP and account for about 92% of businesses in Ghana. SMEs therefore have a crucial role to play in stimulating growth, generating employment and contributing to poverty alleviation, given their economic weight in developing countries. It is generally accepted that the broad goal of SME policy is to accelerate economic growth and in so doing alleviate poverty. The operators of small and medium scale businesses however, face certain degree of risk in their daily operation globally.

The role of SMEs in an economy

SMEs play important roles in the economic growth and sustainable development of every nation, (Moore, Petty, Palich & Longernecker, 2008). According to CBN (2011), SMEs are critical to the development of any economy as they possess great potentials for employment generation, improvement of local technology, output diversification, development of indigenous entrepreneurship and forward integration with large-scale industries. SMEs play a critical role in the social and economic development of Ghana. This sector is the largest upon which the majority of Ghana depends on as a source of their living. SMEs provide a solution to the employment problems facing Ghana since the majority of the people are employed in this sector.

The potential benefits of SMEs to any economy include contribution to the economy in terms of output of goods and services, creation of jobs at relatively low capital cost, provision of a vehicle for reducing income disparities, development of a pool of skilled and semiskilled workers as a basis for future industrial expansion (Azende, 2012). However, regardless of the importance of SMEs to many economies, reviewed literature states that SMEs continually face a number of challenges which affect their growth and usually lead to death of a number of SMEs.

Contributions of SMEs to Economic Development

There is a general consensus that the performance of SMEs is important for both economic and social development of developing 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. They perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensive, they are more likely to succeed in smaller urban centers and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labour intensity, they promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula & Quartey, 2000).

Risks of SMEs

The Portfolio Committee on Small and Medium Cooperative Development (2010) stated that risk is the probability that the outcome of an action or event could bring up adverse impacts on the business. It may include environmental risks, including natural disasters, development risk, manufacturing risk, marketing risk, financial risk and growth risk. Some of these risks can be controlled if appropriate action is taken to do so, whereas, some are largely unpredictable and uncontrollable. When every aspect of the business is carefully considered, planned and executed based on accounting information, the managers can only control the risk within their domain. However, a business could still face risk of closure due to some factors that are beyond its control such as: fire, flood, earthquakes, political crises and war among others. The ability of the management of SMEs to carefully identify the risk that their business face and take action accordingly to counter the risk, will certainly be successful, profitable and contribute to the economic growth of the nation. It is therefore, important for every business organization, be it small, medium or large scale to take its risk management seriously. Managers that do not take risk management of their businesses seriously are faced with the problem of performance which threatens the continuous existence of their business, be it small or large (Azende, 2012).

Risk has been highlighted as an unavoidable challenge that faces many SMEs and if it is not properly managed, it might lead to business failure or collapse of small enterprises. It is mainly concerned with uncertain future events which could influence the achievement of the organization's strategic, operational and financial objectives (International Federation of Accountants, 1999). Therefore, Risk can be broadly defined as any issue that can impact the objectives of a business entity and the potentiality that both expected and unexpected events may have an adverse impact on the capital and earnings. The existing literature shows that business organization whether small, medium and large are faced with risk in their operations globally. Azende (2012) stated that being ready to take a risk is necessary if business development and expansion is to occur, but what is also necessary to succeed is the ability to avoid as much misfortune as probable, through well-organized risk management.

Every business encounters risk, some of which are predictable and under management's risk control, whiles others are unpredictable and uncontrollable, therefore, some companies undertake policies with insurance companies to serve as a cover for them. Literature reveals that risk management is still in an early phase of development and that no standard for SMEs has yet become established which would describe how a comprehensive risk management should appear (Troßmann & Baumeister, 2004). Risk management is a formal discipline whose sequence rarely runs smoothly in practice; sometimes simply identifying a risk is the critical problem, while at the other times arranging an efficient economic transfer of risk is the skill that makes one risk manager stand out from another. (Croughy, 2009). Risk management therefore involves identifying, analyzing, and taking steps to reduce or eliminate the exposures to loss faced by an organization or individual. The practice of risk management utilizes many tools and techniques, including proper accounting records keeping and insurance, to identify and manage a wide variety of risks.

Risk and risk management is a major concern for all companies, especially SMEs which are particularly sensitive to business risk and competition (Alquier & Lagasse, 2006). A further motivation to push the implementation of risk management in SMEs is to protect innovative projects, which are fundamental to gain competitive advantage and succeed in the market, but necessarily involve risky decisions and activities (Vargas-Hernandez, 2011). It has only been a few years since the management literature started to show an interest in applying risk management in SMEs; for this reason, many areas are still understudied. The choice of this theme is determined first, by the SMEs' fundamental role in society from an economic and social point of view; in Ghana they comprise 92 percent of the total number of companies, employ 85 percent of workers and generate 70 percent of the total gross domestic product (Aryeetey, 2001). Thus, the second motivation is to promote the development of risk management for SMEs; till now there have been limited studies to improve these firms' ability to survive and create value over time. The ability of SME managers to address the dynamics of a global economy is largely influenced by their ability to carefully identify and analyse the type of risk their businesses face, and subsequently examine the factors that need to be taken into account for control. It is based on this notion that this research seeks to study the factors that stimulate or prevent owners of SMEs in Sekondi-Takoradi in taking risk management decisions.

Risk management is particularly vital for small businesses, since some common types of losses – such as theft, fire disaster, flood, legal liability, injury, or disability can destroy in a few minutes what may have taken entrepreneur years to build. Such losses and liabilities can affect day to day operations, reduce profits, and cause financial hardship severe enough to cripple or bankrupt a small business (Azende, 2012), and prevent it from contributing to the economic development of the nation. But while many large companies employ a full time risk manager to identify risks and take the necessary steps to protect the firm against them. Small companies rarely have that luxury. Instead, the responsibility for risk management is likely to fall on the small business owner. However the level of risk management by SMEs is critical to its survival and sustainability. It is generally accepted that the broad goal of SME policy is to accelerate economic growth and in so doing alleviate poverty. SMEs in the world and Ghana in particular, in recent time, are faced with serious risk, ranging from changes in cost of operation due to the removal of fuel subsidy, political crises, fire disaster and flooding, among others. These risks have posed a great challenge to the performance, survival, growth of SMEs and its contribution to the gross domestic product (GDP) as they are unpredicted.

The concept of Risk Management

Risk is a combination of probability that some (dangerous) event will occur and the consequences of it if it actually occurs (Labodova, 2004). From the definition two variables are identified: the frequency of the occurrence (probability) of the risk event, that is to say the number of times that it happens during a set period of time; and the magnitude of the event, which is the set of consequences that can result if the event happens. Therefore risk is the chance of something or an event happening that will have effect upon set goals that is unexpected and unforeseen. Put differently risk is the possibility of deviation from a planned outcome or goal.

Therefore, the risk that any business faces depends on the type of industry and economy where it operates. The available literature indicate that Business organization whether Small, medium and large faced risk in their operations globally (Azende, 2012; Meulbroek, 2002; Muhammad & Amber, 2011; Awura, 2004). Business organizations face risk at the stage of start up, grow and exit. To start a business takes one of the biggest risks of all, for example if you leave a well-paid job to start up a business you risk your own money to finance it or that of financiers/lenders. To grow a business you risk the funds required for growth as well as the livelihood of those you employ. To exit a business you've worked hard to build, you risk leaving it in the hands of others who may manage it for their self-interest. Being prepared to take a risk is necessary if business start-up and growth is to occur, but what is also necessary to succeed is the ability to avoid as much mishap as possible, through well thought out 'risk management.

Risk management and SMEs

Risk management consists of identifying and analyzing the events that may cause loss, and choosing the best way to deal with each of these potentials for loss. Risk management a term often linked to major corporations as a corporate governance requirement, is a useful process that SME's can adopt to improve their chances of sustained and successful longevity (Labodova, 2004). In recent times we have heard about the increase in frequency in natural events, including floods, political crises, religious crises, devastating earthquake, wars among others. The existing literature show that business organization whether Small, medium and large are faced with risk in their operations globally (Azende, 2012; Awura, 2004). Being ready to take a risk is necessary if business development and expansion is to occur, but what is also necessary to succeed is the ability to avoid as much misfortune as probable, through well organized risk management.

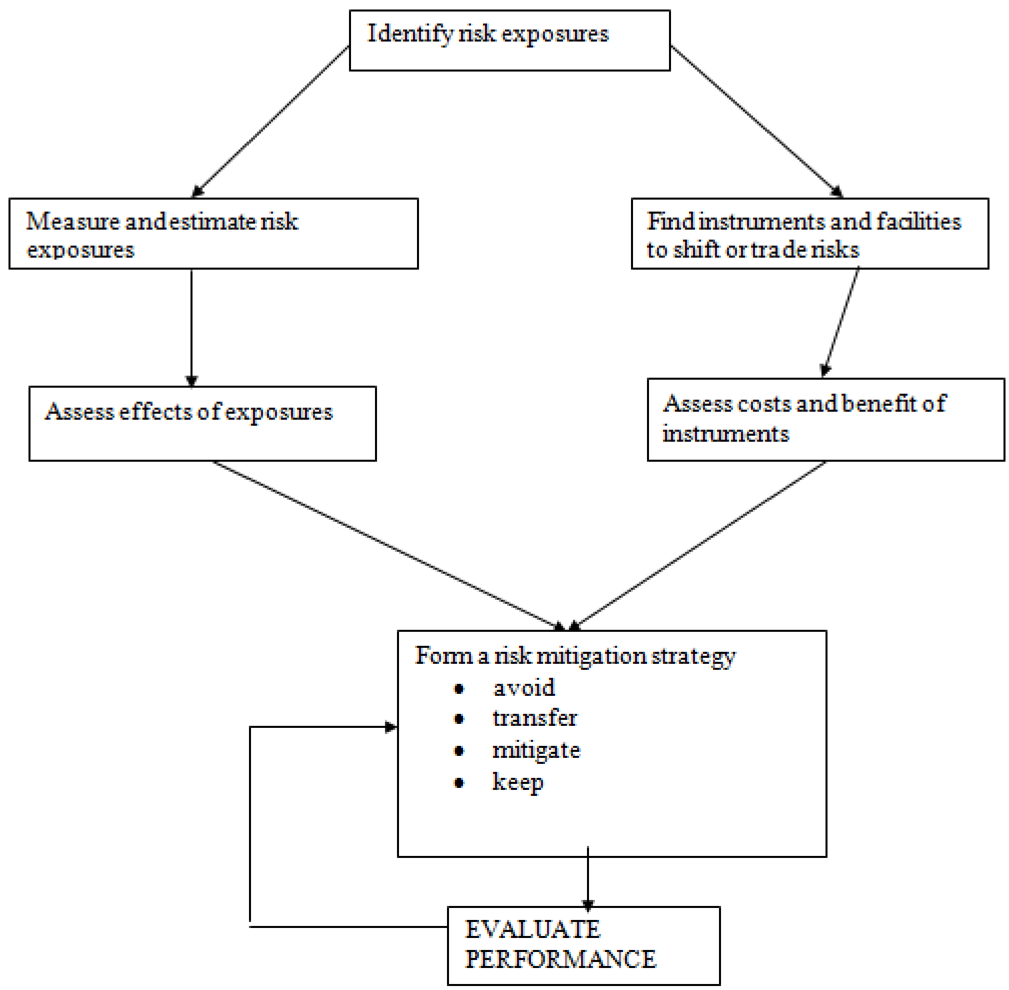
Risk management can also be defined as the process intended to safeguard the assets of the company against losses that may hit it in the exercise of its activities, through the use of instruments of various kinds (prevention, retention, insurance, etc.) and in the best cost conditions (Urciuoli & Crenca, 1989). Risk and risk management is a major concern for all companies, especially small and medium sized enterprises which are particularly sensitive to business risk and competition (Alquier & Lagasse, 2006). On a similar note risk management is defined in terms of how firms actively select the type and level of risk that is appropriate for them to assume. Most business decisions are about sacrificing current resources for future uncertain returns. ISO 31000 noted that risk management creates and protect value. Triantis (2000) states that a company needs to understand the sources of risk it is exposed to in order to manage them well.

From reviewing various works of other authorities, it is found out that the importance of a positive risk management approach in SMEs is quite significant. A structured risk management approach enables an enterprise to pursue its strategies assertively and economically as management can predict the risk exposure of each activity engaged in, thus ultimately achieving more satisfactory results at a reduced cost (Ntlhane, 1995). Strategic risk management allows SME owner-managers to objectively assess their actions. One of the problems encountered in risk management is that most risk evaluations are linked to a specific discipline which is not necessarily known by owner-managers. Moreover, owner-managers may be able to recognize the obvious risk, but their depth of risk knowledge may hinder identification of indirect risks or cognizance of the inter connections of risks (Watt, 2007). In a study conducted by Friedrich (2004) on South African SMEs, it is emphasized that personal initiative consisting of the owner's characteristics such as being a self-starter, having a proactive approach, specifically regarding risk management, and persistent actions, is a vital key to enterprise success.

Henschel (2008) states that lack of expertise and knowledge in SMEs can make a huge business risk for SMEs. According to O'Hara et al (2005), SMEs identify two barriers to risk assessment such as time pressure and access to suitable guidance. He noted that given access and appropriate guidance and help SMEs can improve risk assessment efficiently. Janney and Dess (2006) noted that SMEs are away from adopting a positive approach towards risk management due to limitations such as inadequate infrastructure, limited managerial and technical expertise, lack of financial and intellectual resources to generate substantial technological developments and change, weak information networks to locate and recognize information and knowledge that is especially relevant to them, and low investment in research and development.

Risk management practices in small firms relate to the beliefs and attitudes of owner/managers. SMEs do not tend to use special techniques to optimize single risks. They make decisions in terms of their business as an entity rather than in terms of managing specific risks. Another definition risk management refers to the process of planning, organizing, directing, and controlling resources to achieve given objectives when unexpectedly good or bad events are possible (Head, 2009). The adoption of risk management methodology can lead firms to reduce the uncertainty in enterprise management, to ensure continuity in production and trading in the market, to decrease the risk of failure, and to promote the enterprise's external and internal image. Therefore, risk management creates business value, maximizing business profits by minimizing costs (Urciuoli & Crenca, 1989).

Risk management process



SOURCE: (Croughy, Galay & Mark, 2009) www.iosrjournals.org

Risk management begins with the identification of natural phenomena, accidental or deliberate man-made events that could have a significant adverse impact on businesses. The causes and sources of risk need to be identified, whether they originate from disaster such as earthquake, climate change, deforestation, suburban development, theft, fire disaster, flood, legal liability, injury, or disability that could affect exposure and vulnerability. Identifying risks may present complexities, which have to be acknowledged when conducting risk assessment. For events associated with extreme randomness, such as earthquake, a return period cannot be formulated, but information on such elements as intent and opportunity, economic and social trends and threat analyses can help to determine plausibility.

The use of risk scenarios is an alternative in which a plausible event leading to significant impacts is selected as an informative example. Scenario building is mainly based on experiences from the past, but can also consider events and impacts that have not yet occurred in order to take into account the potential full range of risk events and the long-term trends that may not yet be fully captured in the historical evidence. In practice, risk scenarios are often built with reference to certain levels of impacts. These levels are also referred to as protection levels and can be defined in terms of prevented casualties. Other terms of reference may include the probability of a certain risk exceeding a certain threshold level and this suddenly boosting the impacts. Generally, a risk scenario is used in risk identification phase as well as in the analysis which aims to estimate impacts. At the stage of risk analysis it is important to estimate quantitative probabilities for each scenario if possible.

Development Paths of Risk Management

In the last decades, we have witnessed an increasing vulnerability of the industrial and social systems (e.g., related to clinical risks, natural risks, safety of workers, etc), leading to a growing social concern about this phenomenon. A proliferation of theoretical and empirical developments of risk management has taken place during the same period in many fields, with specific methodologies, models and techniques, coming from different cultural contexts. After an in-depth study of the literature (Verbano & Venturini, 2011), the risk management applications have been classified into nine different streams:

- Strategic risk management: an integrated and continuous process of identification and assessment of strategic risks (human, technological, brand, competition, project and stagnation risks), which are considered obstacles that prevent reaching an organization's financial and operational goals (Chatterjee, 2003).
- Financial risk management: a process of creating economic value in a firm by using financial techniques and methodologies to manage exposure to risk (credit, exchange rate, inflation, interest rate, price and liquidity risk) (Crockford, 1986).
- Enterprise risk management: a process applied across the enterprise, designed to identify potential events that may affect the organization, and manage risk (strategic, market, financial, human, technological and

operational risks) to be within its risk tolerance, to provide reasonable assurance for achieving enterprise objectives (COSO, 2004).

- Insurance risk management: a pure risk management process in a firm (where pure risk can be of environmental, social, personal and technological types), based on the observation of damaging events that have already occurred, the application of a premium and the subjective assessment based on the assessor's experiences and competencies (Gahin, 1967).
- Project risk management: a process integrated into the project's life cycle, which involves defining objectives, identifying sources of uncertainty, analyzing these uncertainties and formulating managerial responses to develop an acceptable balance between risks and opportunities (Thevendran & Mawdesley, 2004). Project risks can be of technical, operational, organizational, contractual, financial, economic and political types.
- Engineering risk management: a complex and continuous process that involves managing the planning, design, operation and evolution of an engineering system. This is aimed to identify and choose appropriate responses to problems related to different risk factors (technical/operational risks) through the use of a systemic and proactive approach (Regan & Patè-Cornell, 1997).
- Supply chain risk management: a shared risk management process, developed in collaboration with the partners in the entire supply chain, to

deal with the risks (logistics, financial, information, relationships and innovation risks) and uncertainties resulting from logistic activities and resources (Norman & Lindroth, 2002). With the diffusion of the open innovation phenomenon many companies are building strong supply chain partnerships with business partners, such as manufacturers, distributors, suppliers and customers, and consequently risks deriving from these relationships have to be managed carefully.

- Disaster risk management: a holistic and flexible approach in governing any community, involving a series of actions (programs, projects and measures) and tools aimed at reducing disaster risks (deriving from natural phenomena, terrorism, epidemics and industrial accidents) and mitigating the spread of disasters, following the processes, structures and rigour typical of risk management (Garatwa & Bollin, 2002).
- Clinical risk management: an approach to improve healthcare quality, which identifies circumstances that put patients at risk of harm, and then acts to prevent or control those risks (related to human and organizational factors or technological aspects) (Walshe & Dineen, 1998). The aim is both to improve the safety and quality of care for patients and to reduce the costs of such risks for healthcare organizations (Verbano & Turra, 2010).

Accounting Record Keeping and Insurance police as a measure to mitigate risk in SMEs

The level at which an organization whether small or large maintain its books of account determines the level of information available to the organization managers and other stakeholders such as investors, lenders and tax authorities, thereby reducing information asymmetry which poses risk to organizations and SMEs in particular, which suffers most from lack of information due to inadequate record keeping. Maseko and Manyani (2011) posit that accounting system provides a source of information to owners and managers of SMEs operating in any industry for use in the measurement of financial performance.

In Ghana one challenge faced by SMEs is finance due to their risky nature which is caused by their inability to keep proper accounting records among others. According to Alfred (2011) good record keeping of financial transactions is one of the key requirements by finance providers to access funds. Unfortunately, this requirement considered very critical for assessing the capacity of small entrepreneurs to manage funds for sustained growth and expansion is lacking. He further argued that this explains why out of the N 40 billion set aside by banks under micro finance scheme for Small-Scale businesses less than 50 percent of the amount has been accessed. Azende (2012) stressed that it is difficult for SMEs to access funds from the formal sources because of stringent collateral security requirement and inadequate risk mitigating schemes for the formal sources of finance. However finance is central to the running of any business and SMEs will be able to attract funds from the formal sector when they are seen not to be risky.

When SMEs do not keep proper record they are considered as being risky. However, SMEs that keep proper accounting records can use the information provided to manage the risk faced by them, because the financial data and ratios form the basis for risk management. One way of managing risk with financial data is by identifying financial risks through the analyses of the financial statements of the company. Therefore the results of risks and also weaknesses of the financial situation of the business can be found. The effective keeping of accounts and records by SMEs can be used to assess how their business was and will be able to be economically.

More so if the financial analysis is reliable it will help in assessing the insolvency or bankruptcy risk of SMEs and at the same time is easy to apply by SMEs owners. This will aid SMEs managers to effectively manage risk that is within their control through diversification or ignore to undertake such activity and the ones they cannot diversified can be covered or managed through insurance policy. Insurance is all about planning for the unexpected. It refers to an equitable transfer of the risk of a loss from one company to another in an exchange for a periodic payment known as premium. The premium or fee paid will depend on the policy undertaken such as fire insurance, money insurance, burglary insurance, personal accident insurance, marine insurance, general third party insurance, workmen's compensation insurance, goods in transits and professional indemnity insurance policy. There are many types of insurance policies available because there are different risk exposures that businesses face. More so Insurance is used as a risk management strategy or tool that protects the insured (SMEs or individuals) from risk.

The roots of risk management can be traced to the insurance sector in the 1960s. The acquisition of insurance makes it possible to secure business against Systematic risks. Over time the understanding of risk management was extended and now also includes the management of unsystematic risk .In today's risky business era, no one can survive without covering up the business risks with some insurance. As Douglas (2009) asserts that running businesses with basic insurance is a very smart way in managing the identified risk and reduce uncertainty. Insurance is all about planning for the unexpected which is one way SMEs can manage (cover for) their risk exposures and potential opportunities realized. The primary function of any insurance firm is to pay the claims of insured and for that purpose they need a mix of debt and equity to make good the losses and achieve their own financial goals. Businesses may stop operating or may go insolvent due to a high risk that is why insurance companies are very watchful to maintain their financial structure sound to lend a hand to other businesses (Bilal, Muhammad & Abdul, 2012) and SMEs in particular at a time that business environment is volatile. This is due to the significance of SMEs to the economic development of any nation.

Summary

It is noted from various works reviewed that risk management facilitates an effectual risk approach by prioritising risks, thereby reducing surprises, and directing the focus on important risks. This has the effect of reducing the possible over-management of insignificant risks. To assist SMEs in avoiding such losses, it is believed that risk management is more important to business now than ever before and they can do this effectively with the use of accounting records keeping and taking insurance policy.

CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

This chapter consists of the research design, population of the study, sample and sampling design, data collection and data analysis. The objectives of this chapter are: (1) to justify the study's research methodology, (2) to explain the research methodology used in the study, and (3) to demonstrate how research design, and data collection and analysis can be utilized in this study to answer the research questions outlined in the chapter 1.

Research Design

Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of research. It includes an outline of what the investigator will do from writing the hypotheses and their operational implications to the conclusion. In view of the varieties of different research approaches, it is helpful to categorize types of research. Research designs consisted of the following:

- Historical research – which involves studying, understanding and explaining past events.
- Descriptive research – which involves collecting and examining data in order to answer questions concerning the status or condition of the research subject at some point of time.

- Associative research – which attempts to determine whether, and to what degree, a relationship exist between the status or condition of the research subjects at some point of time and other factors which cannot be manipulated by the researchers.
- Causal-comparative (or ex post facto) research – which attempts to establish the cause of the status or condition of the research subjects at some point of time on the basis of knowledge of factors which cannot be manipulated by the researchers.
- Experimental research – which attempts to establish the cause of the status or condition of the research subjects at some point of time on the basis of knowledge of factors that can be manipulated by the researchers.

The research was conducted under causal research design. Causal research is conducted to identify cause-and-effect relationships among variables where the research problem has already been defined. Its major objective is to identify the cause-and-effect relationships between variables.

Target population

Ghana has four large cities (Accra, Tema, Kumasi and Sekondi-Takoradi) among her 10 regions. Sekondi-Takoradi Metropolitan Assemble is the fourth largest city in terms of the numbers of SMEs, labour force, industrial outputs, trading and service volumes. These are made up of 56 electoral areas. The Metropolis also has five constituencies. They are Effia, Kwesiminsim, Takoradi, Sekondi and Essikadu-Ketan. The metropolis has an estimated population of about 360,000 and estimated floating population of 80,000 made up of people from neighboring district who commute into the city daily for civic, trade and industrial activities.

Typically, SMEs in Sekondi-Takoradi metropolis may be viewed as representative of SMEs in the country. Therefore, in this research, SMEs in Sekondi-Takoradi metropolis were defined as the target population from where the sample was drawn for the research. In Ghana, SMEs include many forms of business such as state enterprises, private enterprises, cooperatives and business households or family business (GSS, 2000). However, this study assessed the impact of risk management practices on survival of household or family business SMEs. As indicated, only family business that satisfies this criterion were, therefore, viewed as the target population. This study adopted a survey research design to assess the level of risk management by SMEs in Sekondi-Takoradi metropolis with particular emphasis on the level of accounting records keeping and insurance policy undertaken by their businesses with a view of reducing their risk.

Sampling frame

The List of Businesses provided by Sekondi -Takoradi Metropolitan Assemble Department of Investment and Planning was chosen as the sampling frame from which the sample of SMEs was drawn for interviewing. It is estimated that about 1500 registered SMEs are operating in the Sekondi- Takoradi Metropolis. These include forms of business such as state enterprises, private enterprises, limited liability companies, joint stock companies, cooperatives and family business. To achieve the objective of the study, fifty (50) family business enterprises of SMEs in Sekondi-Takoradi Metropolis were selected out of 162 family business SMEs. Fifty was chosen because the research was conducted using case study approached. A further study on this regard would be appropriate. Furthermore due to financial and logistical constraints as well as difficulties in collecting data, especially data regarding risk management and time afforded the researcher. The selected SMEs comprise five (5) each from the following line of businesses, namely; provision stores, sachet water production, hotels, barbering shop/hair salon, mechanics/vulcanizers, carpentry/joinery, patent medicine stores, private schools , market women in central business district (market circle), and cyber café/computer services. These are the main lines of businesses operating in the metropolis. An open-ended questionnaire was distributed to each owner/manager of the SMEs selected for the study. The instrument was deliberately designed to give the respondents the freedom to express their views on the level of risk management in their business. The date collected was analyzed using descriptive statistics.

Sample Procedure

Simple random sampling methods were used in attaining the sample size, by basically concentrating on Sekondi-Takoradi Metropolitan area and its SME owner/managers within the Western region for the study and proportions of SME owner/managers were sampled for input for this work. Simple random sampling was used to determine the number of sample to be used for the study whiles the researcher selected every fifth SME within the target met on the street of Sekondi-Takoradi for the research.

Data Collection

The source of materials for the study is primary even though secondary data was used during the literature review stage. In Sekondi-Takoradi secondary sources of data have not been available for collecting data that reflects the variables of risk management practices. In this case primary data is viewed as an appropriate source. Primary data were collected by the use of structured questionnaires which were designed and administered to SME owner/managers, for information on the general perception of SME risk management practice within the Sekondi-Takoradi. Scheduled interviews were another medium through which primary data were obtained. Stakeholders like SME owner/managers were interviewed for input on this study.

Data Analysis

This study was concerned to assessing risk management practices of SMEs in Sekondi-Takoradi Metropolis. Descriptive statistics were methods of data analysis that are suitable to these research questions. Descriptive statistics were applied to investigate and describe characteristics of risk management practices of SMEs in the sample. In this study, the following statistical techniques were used as the tools of descriptive analysis:

- calculation of averages, frequency distribution, and percentage distribution used as a form of summarizing data

- tabulation used as the orderly arrangement of data in a table format

As respectively indicated , this study was a causal research in which simple random sampling technique were used to draw a sample of 50 SMEs located in Sekondi-Takoradi Metropolis for data collection via personal interview. Personal interview provided information of risk management practices of SMEs in the sample. Data collected was transformed into more suitable format for analysis by utilizing Excel software. Descriptive statistics such as means and frequency tabulation were used to summarize and describe characteristics of risk management practices of SMEs in the sample. Results of the survey and findings of risk management practices, and SMEs survival will be presented in chapter 4: "Data Presentation and Analysis".

Research Instruments

In view of the nature of the topic, it was realized that questionnaire would be the main and the most appropriate instrument to use. Questionnaires are an inexpensive way to gather data from a potentially large number of respondents.

The researcher gave a serious thought to the wording of individual questions. This was done to ensure that respondents answer objectively to the questions in the questionnaire. The questions were in the open ended and closed or forced choice-format formats. In the open ended question, the respondents formulated their own answers. In closed format, respondents are forced to choose between several given options. The open ended format allowed exploration of the range of possible themes arising from an issue. It was used where a comprehensive range of alternative choices could not be compiled. The closed or forced choice-format was easy and quick to fill in. It minimized discrimination against the less literate or the less articulate (in interview questionnaire). It was easy to code, record, and analyze results quantitatively and easy to report results.

Administration of Questionnaire

Questionnaires sent out to respondents had a personalized covering letter explaining briefly the purpose of the survey, the importance of the respondents' participation, which is responsible for the survey, and a statement guaranteeing confidentiality. This cover letter also expressed thanks to the respondents at the end. Questionnaires were self administered or read out by interviewers. Interview administered questionnaires were done face to face. The self administered questionnaires were cheap and easy to administer. It preserved confidentiality and was completed at the respondent's convenience. It was administered in a standard manner. The interview administered questionnaires allowed participation by respondents who could not express themselves fluently in the English language and allowed clarification of ambiguity.

Piloting and Evaluation of Questionnaires

The questionnaires were thus pre-tested - that is, piloted - on a small sample of people characteristic of those in the survey. The fieldwork lasted for a period of two weeks. The problem encountered each day was analyzed and resolved before going out the following day. For those owners or managers that could independently fill the questionnaire, it was handed to them and a follow up visit was made after two weeks for collection. For those who could not fill their questionnaire independently, the researcher adopted face-to-face interactions and interviews based on the format of the questionnaire. Analysis of the responses and the interviewers' comments were used to improve the questionnaire. The pilot test was polished to improve the question order, filter questions, and layout. The respondents were given one week to fill out the questionnaires before their collection. This was done to give them ample time to respond to them. Repeated visits and phone calls though costly were made to the respondents, to ensure high return rate of questionnaires.

Interview Schedules

This study used “personal interview” as a technique to obtain information about risk management practices from the respondents – key managers or owner-managers. The interviews were conducted with the respondents to get their views on the challenges SMEs were facing in the administration and management of the business. The researcher used structured interviews for the owners of SME businesses for the study. The structured interview, at its most formal may be considered as an oral presentation of a written questionnaire. The interviewer read out the questions and the persons being interviewed gave their responses; while other interaction was kept to a minimum. The structured interviews had a fixed number of questions. The structured interview is more efficient in terms of the time taken to collect the data and the degree of reliability and validity is greater than in the more unstructured interview formats. The main disadvantages with a structured approach is that the data gathered lack the richness obtained by more open-ended interviews, and because the number of possible responses is often limited, participants may be forced into giving responses which do not reflect their true feelings about an issue. The structured interview schedules based on the modules of the questionnaire was very helpful in gathering the data from the owners or managers of SMEs who could not independently fill the questionnaire

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

Introduction

The results presented below are based on the data collected from the questionnaire issued to fifty SMEs owners/ managers in the ten lines of businesses operating in Sekondi-Takoradi Metropolis. The results of data analysis and findings presented in this chapter are linked to the research questions and objectives as mentioned above. Firstly, descriptive findings of the research study including findings of sample on SME characteristics, risk management practices and findings of SME survival will be presented respectively.

Demographic Background of respondents

Data was collected on the demographic background on the respondent and the SMEs sampled for the study.

Sex of respondents

Data collected on the sex distribution of respondents revealed an overall percentage of 52 percent to 48 percent with regard to male and female distribution respectively in terms of gender representation as demonstrated in Figure 1. The ratio of 1: 0.9 is an indication of almost equal representation of both genders, thereby implying that even though the male dominated the respondents, there is active participation of females in the SME sector.

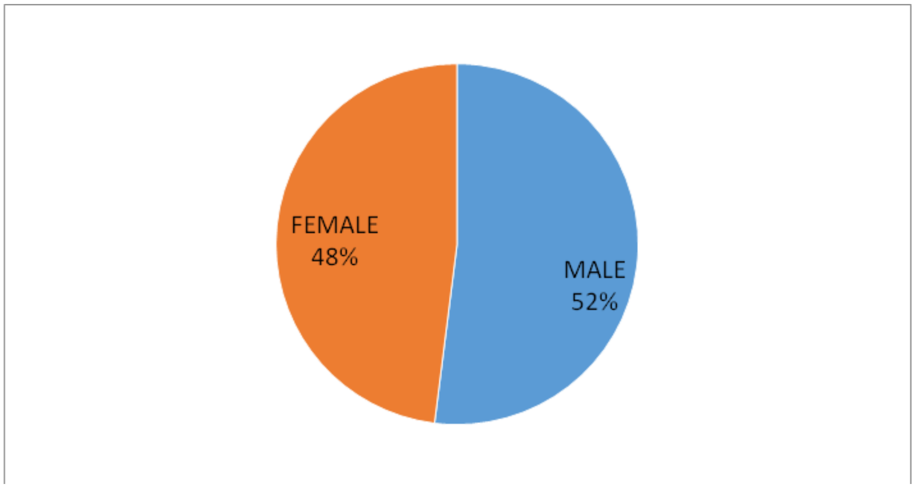


Figure 1: Sex of respondents
Source: Field Data, 2015

Management Distribution of SME

The researcher also collected data on the management of the SMEs under the study. This can determine the level of knowledge of the respondents about their institution.

Table 1: Management Distribution of SME

Response	Frequency	Percentage
Owner	**25**	**50**
Manager	**15**	**30**
Accountant	**10**	**20**
Total	**50**	**100**

Source: Field Data, 2015

Table 1 above represents the management distribution structure of SMEs. The Table indicated that 50 percent of businesses sampled were managed by the owners of the business, 30 percent were managed by managers employed by the owners and 20 percent were accountant serving as managers too. This implies that most of the SMEs are managed by the owners themselves.

Educational level of SME managers

After knowing who manages the business, the researcher went further to find out the level of education of the managers to ascertain their knowledge in business management. The study revealed that all the respondents are educated but only 10 percent held Bachelors Degree. 40 percent with SHS certificates, 30 percent were JHS leavers and the remaining 20 percent Diploma holders. This goes on to suggest that managers of SMEs depend largely on work experience rather than educational expertise to manage the business. It also reveals any SME with managers with high educational knowledge and expert can easily shadow the existing business due to innovation and technology that they might be privy to.

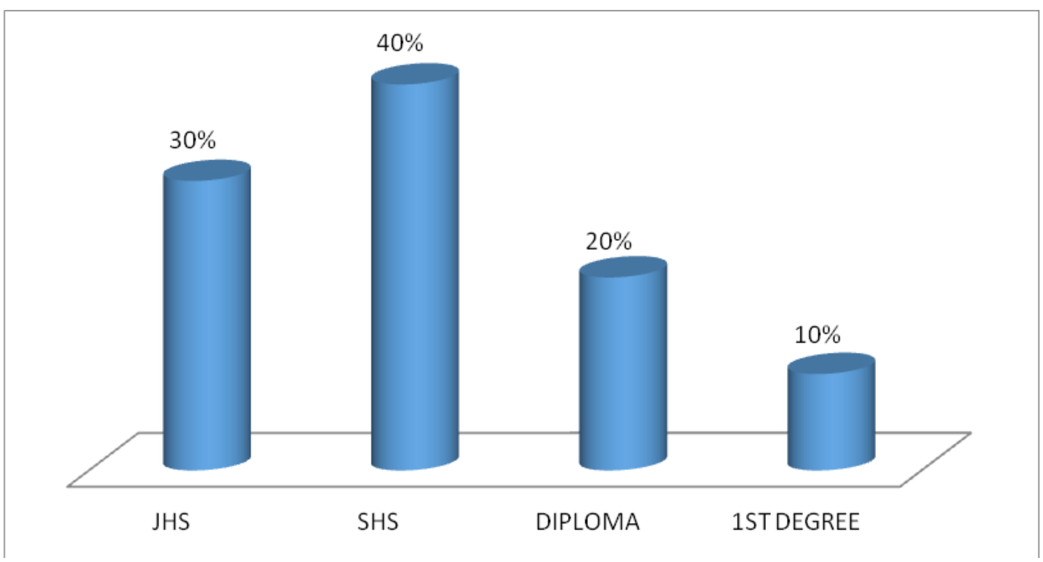


Figure 2: Educational level of managers

Source: Field Data, 2015

Risk Management Training of Manager

Data was also collected to find out whether managers have ever attended risk management training programmes or courses to update or refresh their knowledge on risk management and increase their expertise on how to identify risk in early stages and manage before it causes greater harm to the business.

Table 2 SMEs owner/manager attend training programs related to risk management

Response	Frequency	Percentage
Never	**35**	**70**
Rarely	**10**	**20**
Sometimes	**5**	**10**
Often		
Total	**50**	**100**

Source: Field Data, 2015

Table 2 shows that 70 percent of respondents have never attended training on risk management practices, 20 percent have rarely attended and 10 percent sometimes attend risk management program. This implies that SME managers do not value risk management as an important factor to business success and also would not be able to handle or manage risk to meet the current demands of modern work organisations.

Type of business

Figure 3 shows data on the types of business sampled for this study. Data collected shows that 20 percent of SMEs in the sample were in manufacturing industry, 20 percent were in trading industry, 50 percent were rendering services whiles 10 percent were in other industries. This implies that most of the SMEs in

Ghana are in the business service industry including microfinance, printing and photocopying, photography among others.

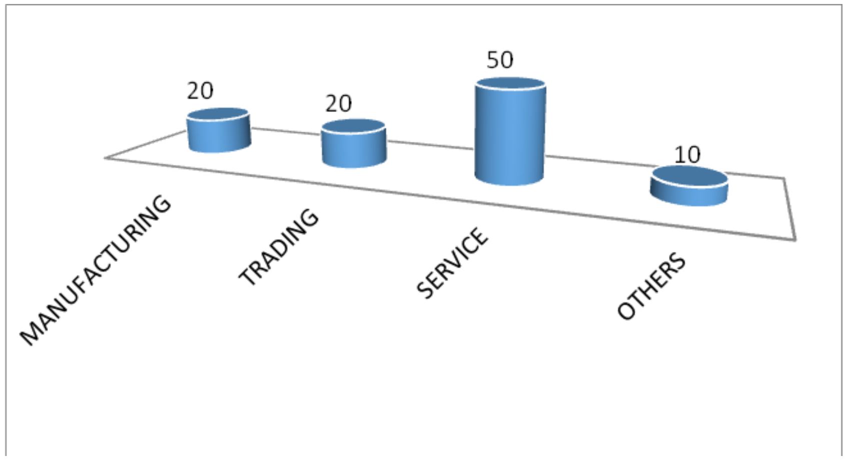


Figure 3: Type of SMEs businesses

Source: Field Data, 2015

Table 3: Number of years SMEs has been in business

Response	Frequency	Percentage
Less than 2 year	**5**	**10**
2-5 years	**5**	**10**
6-10 years	**10**	**20**
More than 10 years	**30**	**60**
Total	**50**	**100**

Source: Field Data, 2015

Table 3 provides an insight/review of business characteristics of SMEs in the sample. 10 percent of SMEs reported that they have been in business for less than 5 years, 20 percent reported business operation between 6-10 years and 60 percent of the SMEs sampled have operated for more than 10 years. This gives an indication that there is a slow rate of new business opening in recent years due to high risk associated with SMEs business.

Employment policy of SMEs

Data depicted in table 4 gives an illustration of employment policy practiced by SMEs in Ghana.

TABLE 4: SMEs employee employment policy

Response	Frequency	Percentage
Full time	**5**	**10**
Part time	**45**	**90**
Total	**50**	**100**

Source: Field Data, 2015

From the survey and data presented in Table 4 above it is clear that most SMEs in Ghana employed casual labourers and very few engage full time employees. This is because from the data, 90 percent of SME employees were ‘casual’ or part time workers whiles only 10 percent were full time or ‘permanent’ workers.

SME total asset or value

The total assets of the SMEs were crucial to this research to determine the risk level of the SMEs and good management practices that can be important for the SMEs.

Table 5: SMEs total assets

Response	Frequency	Percentage
Less than GH₵ 5,000	**25**	**50**
Gh₵ 5,000- Gh ₵10,000	**15**	**30**
More than Gh₵10,000	**10**	**20**
Total	**50**	**100**

Source Data: Field Data, 2015

From the Table 5, 50 percent of the SMEs total assets is less than GH₵5,000, 30 percent of the total assets ranges between GH₵5,000 and GH₵10,000 whiles 20 percent have a value more than GH₵10,000 as total assets. Knowing that most SMEs are loan financed, considering current interest rates on loan facilities which is not less than 20% annually, a poorly managed risk can lead to a collapse of the SME and this can cause great debt to the manager due to the fact that the asset of the SMEs are expensive considering the loan interests to be paid. After knowing the total value of the SMEs, it is prudent to find data on the annual sales of the business.

Annual Business Sales

The annual business sales were investigated to find out the viability of the business with respect to their assets and cost of operation. Figure 4 shows that 40 percent of SMEs have an annual turnover of between GH₵5,000 and GH₵30,000, 30 percent have an annual turnover between GH₵31,000 and GH₵50,000, 20 percent annual turnover is less than GH₵5,000 and only 10 percent have annual turnover above GH₵50,000. This implies that most of the business are viable and if given good risk management, will be more successful.

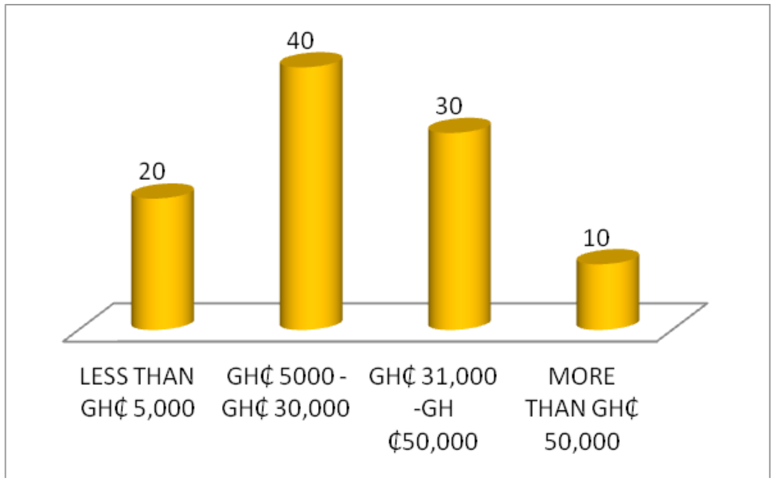


Figure 4: SMEs business annual sales
Source: Field Data, 2015

SMEs Annual Net Profit

Data in figure 5 below shows that 20 percent of SMEs under the study had an annual net profit of less than GH₵5,000, 40 percent annual net profit was between GH₵5,000 and GH₵10,000, 30 percent annual net profit ranged between GH₵10,000 and GH₵20,000 and only 10 percent of the SMEs annual net profit was more than GH₵ 20,000. This means that majority of SMEs are living above break-even level since they can recover all their cost and have a net profit too.

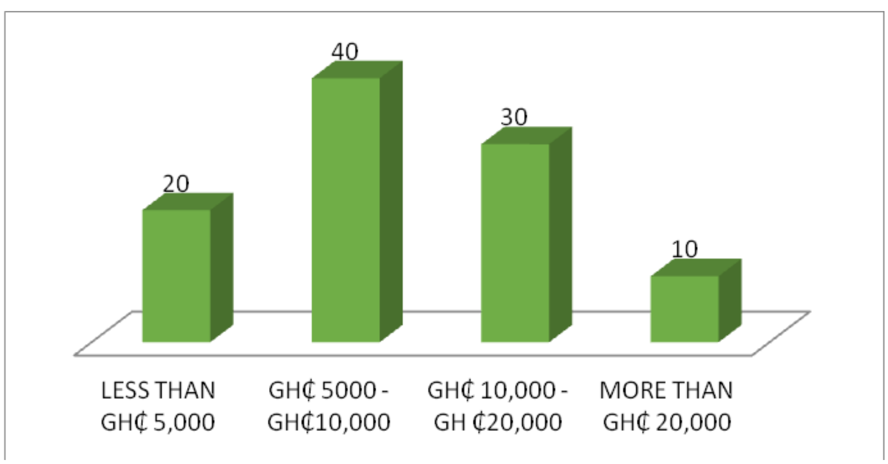


Figure 5: SMEs business annual sales
Source: Field Data, 2015

Table 6: Persons responsible for preparation of accounts

Response	Frequency	Percentage
Full time	**10**	**20**
Consultant	**-**	**-**
Owners/Managers/Staff	**30**	**60**
None of the above	**10**	**20**
TOTAL	**50**	**100**

Source: Field Data, 2015

Regarding the responsibility for accounting preparation, the results obtained from the survey indicates that sixty percent of the 50 SMEs that were examines in the study their owners or managers are preparers of accounts and financial statements, twenty percent were employed full time accounts officers to prepare financial statements, none of the SMEs used consultants in preparing financial statements and twenty of the SMEs did not used anybody (none) to prepare financial statements.

Table 7: Accounting records kept by SMEs

Response	Frequency	Percentage
Purchase day (order) books	**12**	**24**
Sales day (receipts) book	**12**	**24**
Expenditure (bills) book	**10**	**20**
Payroll records	**7**	**14**
Asset register		
Others	**4**	**8**
None	**5**	**10**
TOTAL	**50**	**100**

Source: Field Data, 2015

SMEs owners were ask to state accounting records they kept. Table 7 shows that purchases and sales day books ranked highest with twenty percent, expenditure book ranked second with eighteen percent , payroll rank third with fifteen percent, those that did not keep any book (none) ranked fourth with twelve percent, others rank fifth with eight percent . Finally, asset register ranked sixth with zero percent meaning that none of the sampled SMEs maintained asset registers. This means that 8 out of the 50 SMEs sampled did not maintained any accounts and all the SMEs did no keep asset register. This implies that SMEs did not keep proper accounting records but were more concerned about sales than any other thing. There is likelihood that spending or expenditure pattern can exceed sales since there is no balanced attention given to sales and expenditure.

Table 8: Financial statements (accounts) prepared by SMEs

Response	**Frequency**	**Percentage**
Statement of income	**20**	**40**
Statement of financial position	**10**	**20**
Statement of cash flow	**15**	**30**
Statement of changes in equity	**0**	**0**
None	**5**	**10**
TOTAL	**50**	**100**

Source: Field Data, 2015

Financial reporting and analysis practices of SMEs in the sample were respectively analyzed and presented in this subsection. To know the list of financial statement prepared by SMEs, the results reveals that the statement of income ranked highest with forty percent, statement of cash flow rank second with thirty percent, statement of financial position rank third with twenty percent those that did not prepare any accounts ranked fourth with ten percent and no SMEs prepare statement of changes in equity during the study period.

This clearly shows that most SMEs did not maintain proper accounts as revealed above. This may be due to inadequate skilled manpower. However, to be able to identify and assess risk effectively, SMEs need to keep proper records.

SMEs exposure to risks

Figure 6 shows that 90 percent of the sampled SMEs agree that their business faced risk, whiles only ten percent of the 50 SMEs in the study did not know that their business faced risk.

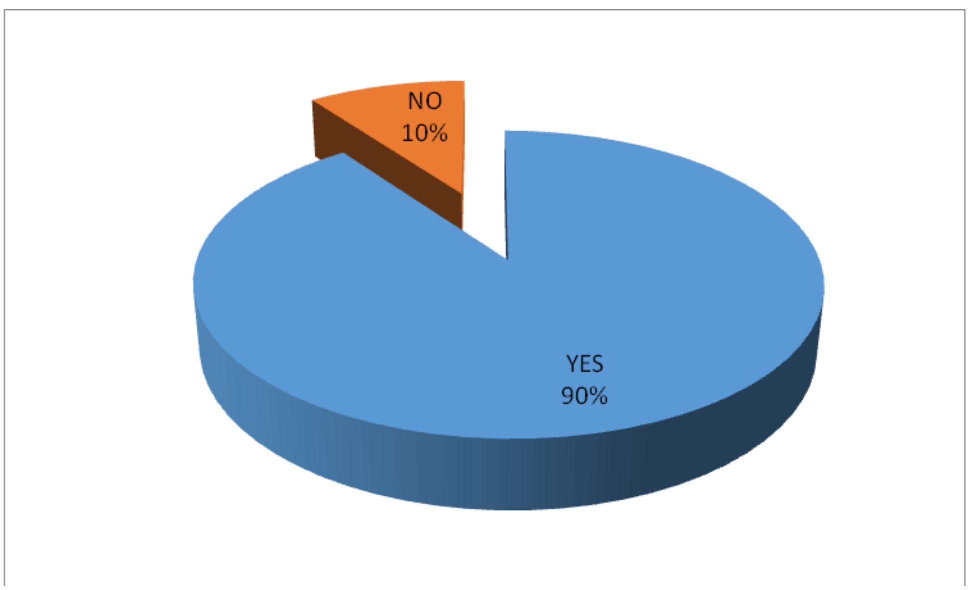


Figure 6: SMEs exposure to risks
Source: Field Data, 2015

Presence of insurance cover for SMEs

On whether SMEs owners take insurance cover as a way of managing the risk exposed to their business, only twenty percent of SMEs responded that they took insurance cover however eighty percent of the SMEs did not insure their business.

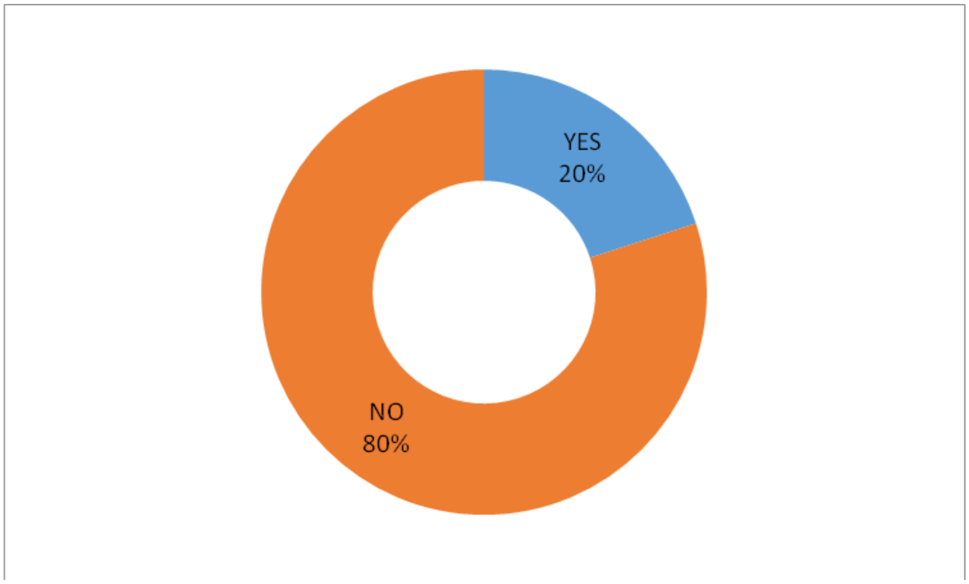


Figure 7: Presence of insurance cover for SMEs
Source: Field Data, 2015

Reasons for absence of insurance policies

From figure 7 SMEs who stated that they had not insured their business gave varying reasons. 50 percent of them said they cannot meet strict requirements which actually required them to contribute some amount monthly and also expected to follow stringent rules and regulations and provide information they may not be able to provide when the time is due for them to collect their benefits from these insurance companies. 15 percent stated that they cannot afford and another 10 percent also reported they do not trust insurance companies.

Nonetheless 5 percent SMEs had no reason to give for their inability to insure their companies. See figure below;

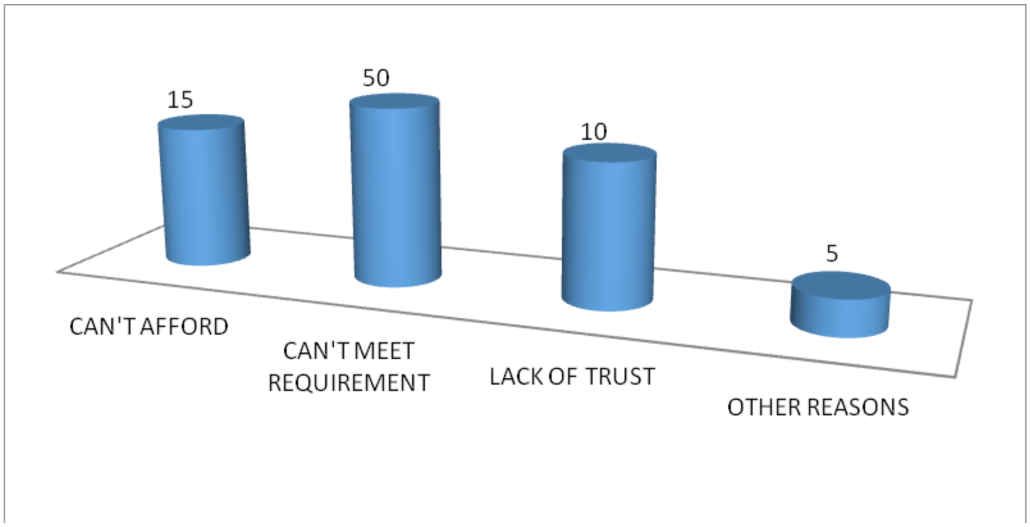


Figure 8: Reasons for absence of insurance policies
Source: Field Data, 2015

Level of risk management by SMEs

When the researcher enquired about the level of risks management that these SMEs go through, about fifty percent said the level of risks management is moderate, thirty percent also claimed it was low and twenty percent said otherwise.

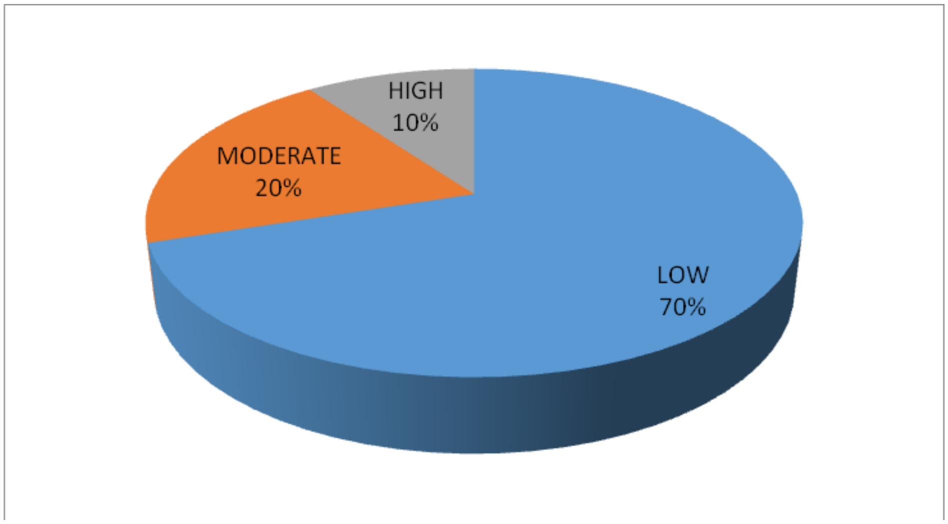


Figure 9: Level of risk management by SMEs
Source: Field Data, 2015

Implications of the research study

This section presents implications of the research study outcomes including the implications for risk management practitioners, government, and training organizations and comments on the contribution to knowledge of this research into risk management practices of SMEs.

Implications for risk management practices of SMEs

Owners and managers of SMEs in Sekondi-Takoradi Metropolis believe that risk management plays the most important role in their survival, while accounting information only plays a role in protecting financial position of a business. This research study indicates that efficiency of risk management could lead to high survival and, as such, risk management not only controls the growth but also significantly contributes to improving and increasing survival of small business. These conclusions suggest that SMEs should highly regard risk management and view insurance as one of the tools to improve and increase survival. Moreover, based on the findings of this research study, the central role of risk management to the success of any SMEs has been demonstrated by the empirical data from SMEs in an emerging economy.

Actions to improve SME survival

The study indicates that SME survival depends upon efficiency of risk management practices. Therefore any action that influences risk management practices should be carefully considered to determine whether they positively or negatively impact on SME survival.

Raising the efficiency of risk management practices to improve SME survival

The study shows that SME survival is positively related to the efficiency of risk management practices. Therefore raising the efficiency of risk management is considered an effective tool for improving and increasing survival of SMEs. Specifically, the research indicates the efficiency of accounting information systems practices. In risk management practices, the manager or owner should have regard to the effects of these components on survival and decisions should be reviewed to determine whether they affect the efficiency of risk management and thus affect SME survival.

Implications for the government and policy-makers

The main objective of this study is to identify implications for risk management practices of SMEs. However, in this research study, SMEs were found to have difficulties involving the insurance policies, which make risk management practices ineffective. As reviewed in chapter 2, SMEs continue to play important roles in developing the multi-sector economy and the government must have polices to promote and support development of SMEs. Government policies will be more effective if the policy-makers understand current practices of risk management of SMEs.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

Introduction

This chapter summarizes the research report, brings to the fore the findings, concludes the study and offers recommendation based on the study.

Summary

This research was conducted to assess risk management practices of Small and Medium Scale Enterprises in Sekondi-Takoradi Metropolitan Assembly to improve risk management practices of SMEs. The target population was SMEs at Sekondi-Takoradi Metropolis. Using the simple random sampling method, a total sample of fifty (50) SMEs was selected for the study. The main source of data collection was the primary source of data with a well-structured questionnaire designed and administered.

Findings

The following findings were then discovered from the research.

1. The study indicates a proportional representation of both genders in the SMEs sector. It also indicates that most SMEs are managed by their owners.
2. On the educational qualification, the research shows that a higher percentage of the owners of SMEs have their education to the level of Senior High School. This implies that knowledge of risk management is very low in the sector.

3. Most of the owner/ mangers of SMEs have never attended any training on risk management. This implies that SMEs do not value risk management as an important factor to their business success and would not be able to manage their risk portfolio efficiently.
4. A large proportion of the industries are in the service sector and they employ mostly casual labourers who are semi-skilled. This is due to low growth rate in the sector.
5. About seventy percent of the SMEs total assets value is between GH₵ 5,000 - GH₵10,000. This is because most SMEs finance their business through borrowing financing. This indicates low annual business sales and low profitability in the industry.
6. Most SMEs interviewed have prepared financial statements based on monthly periods. This finding demonstrates that SMEs maintained informal accounting information systems in which four kinds of accounting records purchase day book, sales day book, expenditure book and payroll records are infrequently and irregularly prepared. Keeping of proper accounting records is a prerequisite for examining practices of risk management reporting and analysis by insurance firm.
7. Although SMEs produced accounting reports including statement of financial position and statement of income or profit and loss account these were not prepared regularly. This shows that SMEs have a very low regard for accounting reporting practices. Moreover, other financial statements such as statements of cash flows and assets register are rarely prepared.

8. Employed accountants play an important role in carrying out most accounting responsibilities effectively. This finding reveals that, to date, qualified accountants have not been engaged and most SMEs continue to use semi-skilled accountants in their businesses. This proved that the owner management mechanism continues to affect management styles of SMEs.
9. Most SMEs do not cover their business against risk. Most of the SMEs have not covered their business against any eventualities. This is due to their inability to satisfy the stringent rules and regulations of the insurance industries. This therefore shows that risk management in SMEs is low.

This research study has made a number of contributions to knowledge in the fields of SME risk management. SME survival is considered a most significant and important contribution of this study to knowledge of management for SMEs. This research, in one hand, evaluates the risk management theories provided by previous researchers by using empirical evidence from an emerging country. On the other hand, it provides knowledge of simultaneous impacts of risk management practices on SME survival which has not investigated previously. This study provides details of the relationships between risk management practices, and survival of SMEs in developing nations. Previous research provided a large number of descriptive findings of financial management and financial characteristics whereas the associative risk characteristics have rarely been investigated. This study supplements the gap by investigating the association between survival and risk management practices of SMEs.

Through the studies, testing and revision of the findings, the research demonstrates how field data from an emerging nation (Ghana) can be applied to business environment of SMEs. This study contributes to the knowledge of risk management practices of SMEs in Ghana which can be considered representative of emerging economies. As indicated in Chapter 3, the descriptive findings of risk management practices of SMEs around the world are numerous, however most findings involve SMEs in the developed or market economy countries while findings involving SMEs in the developing or emerging countries are few and findings involving SMEs in Ghana are rare. Therefore descriptive findings of risk management practices of SMEs in this study expand the literature of risk management in general and especially risk management of SMEs in Ghana.

Benefits of risk management

The major benefits are summarized below;

i. It helps decision makers to make informed choices, priorities actions and distinguish among alternative courses of action.

ii. It explicitly takes account of uncertainty, the nature of uncertainty and enables determination of how it can be addressed.

iii. A systematic, timely and structured approach to risk management contributes to efficiency and to consistent, comparable and reliable results.

iv. It recognises the capabilities, perceptions and intentions of external and internal forces that can facilitate or hinder achievements of the organisation's objectives.

Conclusion

Based on the research study and findings, the research concludes that SME survival is positively related to the efficiency risk management practices and that the more efficient risk management practices is, the higher the survival of SMEs. Therefore by raising the efficiency risk management practices, SMEs can improve their growth and survival.

The findings also indicate that risk management in SMEs is still at lower levels due to lack of competent employees to identify and manage risk for them. In addition to this, SMEs lack the required resources to engage the services of management consultant to advice them so as to minimize the impact of risk. It can also be concluded that risk management in SMEs is mainly centered on owner /manager belief which seriously hamper sustainable entrepreneurial development

Recommendation

Based on the descriptive findings of risk management practices of SMEs in the survey, this study recommends the following issues to be considered;

1. Training skills of accounting management for the owners and managers is essential. Thus SMEs did not maintain proper accounts as a result they cannot be able to identify, assess and plan the management of their business risk effectively.

2. Most SMEs do not cover their business against risk. This therefore shows that risk management in SMEs is low. As a result of the importance of risk management to the performance, survival and sustainability of SMEs to the economic growth of Ghana, the study recommends that SMEs should try to maintain proper books of accounts so that they will be able to plan, identify asses and manage their risk effectively. SMEs owners as a matter of necessity should take an insurance policy for their business as this may not only help to protect them against uncontrollable risk, but will help to bring them back to their position whenever they suffer loss. Remaining profitable and continue to operate in perpetuity at the same time contributing to the economic growth of the Nation.
3. Government should take the lead in managing the risk characteristics of SMEs, if it believes that over 65% of Ghana's GDP is contributed by the SMEs which are with the private sector this is against the background of the fact that private sector is believed to be the engine of growth. A national policy for SME including risk management practices should be formulated, implemented and monitored. It is expected that the government should provide resources to create an incentive scheme for insurance institutions to make it flexible for insurance industry to cover SMEs in Ghana against risk factors that impinge against their survival.
4. The insurance companies should be actively involved in SME risk management processes by providing products that attract SMEs to cover their businesses against uncontrollable risk. The insurance companies as a

matter of policy must introduce educational programmes as part of measures to educate SMEs in areas of insurance policies to eradicate the misconception about the mistrust of the SMEs on the insurance companies.

5. Educational workshops and training should be organized by the National Board for Small Scale Industries (NBSSI) for SME operators to ensure efficient and effective risk management practices. Again there is the need for institutions such as the Banks and Micro Finance companies who support the activities of SME to introduce risk management practices as part of their advisory service to the SMEs as a means of reducing risk exposure of the SMEs.

In addition the following actions are recommended to address the concerns of SMEs:

i. Creation of specialised departments to deal with risk management.
ii. The distribution of manuals for SMEs in risk management.
iii. The formation of SMEs chambers which will educate SMEs on risk management

To future researches, the study is a case study of a particular metropolis; however, every aspect of SME risk could not be studied. As a result other appropriate variables such as profit and viability of SMEs should be taken into consideration to determine the exact effect of the challenges they face. A further study on this regard would be appropriate.

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APPENDIX

QUESTIONNAIRE

Dear Respondent, Your Are Please Encouraged To Respond To This Questionnaire With The Best Of Your Knowledge To Help This Researcher To Partially Fulfil His Requirement For The Award Of Post Graduate Studies in General Management . You Are Assured Of Confidentiality and Anonymity As Your Response Would Not Be Used For Any Other Thing Apart From Academic Purpose

Instructions: Please kindly tick in the boxes provided your responses

1. Position Owner [ ] Manager [ ] Accountant [ ]

.

2. Identify the sector that represents the main activity of your business

   Provision Stores [ ]

   Sachet Water Producers [ ]

   Hotels [ ]

   Barber Shop/Hair Salon [ ]

   Mechanics/Vulcanizes [ ]

   Carpentry/Joinery [ ]

   Patent Medical Stores [ ]

   Private School [ ]

   Market Women [ ]

   Cyber Café/ Computer service [ ]

3. Have you registered your business? Yes [ ] No [ ]

4. Gender: Male[ ] Female[ ]

Educational Background: Junior High School [ ] Senior High School[ ]

Diploma [ ] Bachelor Degree [ ] Masters Degree [ ]

5. Do you ever attend management training programs related to risk management ? Never [ ] Rarely [ ] Sometimes[ ] Often [ ]

Business details

6. What best describes the type of industry of your business ? Manufacturing [ ] Trading [ ] Service [ ] .
7. How long has your business been established ? Less than 2 years [ ] 2 – 5 years [ ] 6 – 10 years [ ] More than 10 years[ ]
8. How many employees does your business currently have (Please fill the number that applies)? Full-time[ ] Part-time[ ]
9. Which of the following ranges is the best indication of your business total assets? Less than 5 thousand Ghana Cedis [ ] 5 to 10 thousand Ghana Cedis [ ] More than 10 Thousand Ghana Cedis [ ]
10. Which of the following ranges is the best indication of your business annual sales ? Less than 5 Thousand Ghana Cedis [ ] 5 – 30 Thousand Ghana Cedis [ ] 31 – 50 Thousand Ghana Cedis [ ] More than 50 Thousand Ghana Cedis [ ]
11. What best describes your businesses profitability Profitable [ ] Not profitable [ ]

12. Which of the following ranges is the best indication of your business annual net profits? Less than 5 Thousand Ghana Cedis [ ] 5 to 30 Thousand Ghana Cedis [ ] 30 to 50 Thousand Ghana Cedis [ ] More than 50 Thousand Ghana Cedis[ ]

B. FINANCIAL MANAGEMENT

Accounting information system

13. What type of accounting records kept ?(May circle more than one number) Purchase Day Book[ ] Sales Day Book [ ] Expenditure Book[ ] Payroll records [ ] Assets register [ ] None [ ] Others ………………………………………………..

15 What best describes characteristics of the organization of your business accounting system ? Formal [ ] Informal [ ]

Financial reporting and analysis

16. What kinds of financial statements are regularly prepared in your business (May circle more than one number)?

Statement of Income (Profit and loss statement) [ ]

Statement of Financial Position (Balanced Sheet) [ ]

Statement of cash flows [ ]

Statement of Changes in Equity [ ]

None: ....

17. Who is responsible for the following duties in your business Owner Manager [ ] Full-Time Accountant [ ] Consultant [ ] None ………………………………

RISK CHARACTERISTICS OF SMEs

18. Do you know that your business is exposed to risk? Yes [ ] or No [ ]

19. Identify your business risk factors (you may tick more than one) Theft [ ] Fire disaster [ ] Flood [ ]

Legal liability [ ] Injury [ ] Disability [ ]

20. Does your business ever use insurance cover to manage it risk? Yes [ ] No [ ]

21. What are the reasons for not taking insurance policy? Cannot afford [ ] Cannot meet strict requirements [ ]

Do not trust insurance companies [ ] Tried but turned down. [ ] Others no reason [ ]

22. How do you assess level of risk management by SMEs Low [ ] Moderate [ ] High [ ]

Thank you for your time