UNIVERSITY OF CAPE COAST

FINANCIAL RISKS FACED BY SMALL AND MEDIUM-SCALE ENTERPRISES IN MODERN BUSINESS ENVIRONMENT

ROSE NKUM

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BY

ROSE NKUM

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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: Rose Nkum

Supervisor's Declaration

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

Supervisor's Signature …… Date ……

Name: Mr. Patrick Akorsu

ABSTRACT

This study ascertained the financial risks faced by small and medium enterprises, the case of Naatoa Company Limited. The descriptive survey design was used for the research. A simple random sampling technique was employed in selecting 100 out of the total population of 230 employees. The views of 120 respondents, 71 males (59.2%) and 49 females (40.8%), were collated for the study. It was seen that most respondents had, at least, sought education. 96% of respondents had some level of education. It was also realised that the company faces all categories considered under market risk and the market risk itself. Per percentages, all the risk categories found under market risk (Equity risks, Interest rates, Exchange rates, Commodity prices) fell between 79% to 91.3%. According to the research, credit risk is pervasive, but organisations focus less on it than on risks like losing a supplier or their good name. But, all of these other factors might affect the financial risk itself. Financing/Liquidity Risks were slightly closer to average than credit and market risk, which appeared to be a significant factor. In general, the results of the risk management strategies and tools show that Naatoa Company Limited considers most of the strategies to manage their risks. Companies are urged to recognise the significance of financial risk management and how globalisation and the resulting expansion of organisations' limits for value creation—through sourcing, commercial alliances, and entry into new markets—reinforce this relevance.

ACKNOWLEDGEMENTS

Sincere appreciation goes to my project work supervisor Mr. Patrick Akorsu. Writing this effort was greatly benefited by his intelligent comments, quick edits, and encouragement. In addition, I would want to express my gratitude to everyone who helped in any manner to make this project a success.

DEDICATION

I dedicate this work to my Husband and my Children, Alan and Paa Kwesi.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

SMEs	Small and Medium Enterprises
OTC	Over-The-Counter

CHAPTER ONE

INTRODUCTION

The importance of small and medium companies (SMEs) in economic development is being increasingly recognised. SMEs comprise approximately 90% of Ghana's total business units and 60% of the country's employed labour force (KDI, 2008). They are often lauded as the fuel for national economic engines, the source of new industries, and the origin of many jobs. Rather than large businesses, small and medium-sized enterprises (SMEs) are the primary source of employment in advanced economies (Papanastassiou, Pearce & Zanfei, 2020).

Background of the Study

All firms need a favourable business climate to effectively manage and grow. It is shown by a governmental policy that encourages and safeguards economic competition by establishing predictable norms, requiring compliance from all market players, and keeping bureaucratic roadblocks to a minimum (Jaroslav et al., 2014). Several companies have felt the effects of global economic and political factors, the decline in oil and other commodity prices, and the volatility of foreign currency rates (Basher, Haug & Sadorsky, 2012; Lim, 2019). Due to the growing severity of these financial threats, businesses must reevaluate their risk management approaches. In the face of these difficulties, the risk remains a top priority for businesses everywhere. Companies are adapting to a post-recession environment while facing the increased risks of their evolution.

Risk management is only as effective as the organisation's capacity to foresee, react to, and continuously adapt to new risks. Most business choices are

made amid ambiguity (Linkov & Palma-Oliveira, 2017). This indicates that the circumstances under which commercial operations take place are prone to change at random. Risk is discussed when there is a quantifiable possibility that actual procedures and outcomes may deviate from the target. Hence, we may characterise the risk as measurable unpredictability (Dankoviová et al., 2012).

Hnilica and Fotr (2009) define business risk as "the possibility that the values of the real business outcomes will differ from anticipated values," wherein such deviations may be either favourable (in which case the company realises greater profits than planned) or unfavourable (in which case the company realises a loss instead of the planned profit), and wherein the magnitude of such variation may also be variable. Production, economic, market, financial, credit, legislative, political, environmental, human, information, and force majeure are all examples of the several kinds of risk outlined by the writers (Komendantova, Patt, Barras & Battaglini, 2012).

Fetisovová et al. (2012) state that financial risks are associated with building financial markets and using different financial instruments. They are multifaceted and may be broken down into the following categories: financing risk; credit risk; liquidity risk; interest rate risk; currency risk; inflation risk; and counterparty risk (Asadi & Al Janabi, 2020).

The potential for monetary loss is always and everywhere there. The will of man cannot make it change hands. No one on Earth can stay safe or get rid of it. Nevertheless, by the use of different technological tools and the development of preventative measures, they may lessen the loss and manage the risk (Ponikowsk

et al., 2014). There is a window of opportunity during which financial risk is present, but males cannot predict when this will be (Napp, 2011). This demonstrates the inherently uncertain nature of financial risk, highlighting the need for enterprise managers to continuously increase risk awareness and enhance financial management to mitigate this risk. Raising, spending, and dispersing money are all activities in a company financial management fraught with financial risk. Managers must pay close attention to every detail, identify potential dangers on time, and implement adequate safeguards to prevent the risk from spreading (Shuying & Mei, 2014).

Throughout the world, SMEs are the backbone of economies and the standard by which all other businesses are measured. Small and medium-sized enterprises (SMEs) now account for a significant share of global and national economies (Karpak & Topcu, 2010). Henderson and Weiler (2010) argue that small and medium-sized enterprises (SMEs) are crucial in economic expansion. Small and medium-sized enterprises (SMEs) are widely recognised as important tools for fostering economic growth and development and creating new jobs (Lucky & Olusegun, 2012). Since they drive the competitive dynamics of economic systems and influence large organisations, especially in efficiency and innovation, small and medium-sized enterprises (SMEs) are crucial to global economic development (Pavelková et al., 2009).

As the market-based economy expands rapidly, the pressure on small and medium-sized enterprises to succeed in the marketplace increases. The notion that financial risk exists everywhere and may affect the management and output of

businesses is something that small and medium-sized enterprises (SMEs) cannot ignore. The European Association of Craft, SMEs (2007) and Belás, Kljunikov, Vojtovi, and Sobeková-Májková (2015) both stress the importance of SMEs having a thorough understanding of the characteristics, current situation, and causes of financial risk in order to survive in the market competition and put forward effective prevention and control measures, thereby reducing the likelihood of the occurrence of risks to ensure their development.

Current theoretical studies and practical applications focus on the business risks of SMEs. The European Union's business climate deteriorated due to the financial crisis and the slow recovery of economies (Sanabria-Daz, Aguiar-Quintana, & Araujo-Cabrera, 2021). Uncertainty in the economy has likely heightened business risks. Many small and medium-sized businesses are battling to stay afloat in today's economy. Most companies face financial risks in various sales and purchases, investments and loans, and other business activities. Legal transactions, new projects, mergers and acquisitions, debt financing, the cost of energy, and so on may all have a role, as can the activities of management, stakeholders, competitors, foreign governments, or even the weather (Withanachchi & Fernando, 2013). A company's bottom line may take a hit if its financial assets experience significant and unexpected declines in value. Price-setting, resource allocation, and budgeting might all be impacted by economic uncertainty (European Association of Craft, SMEs, 2007).

Credit risks pertaining to customers, suppliers, and partners; finance and liquidity risks; and market risks pertaining to movements in share prices, interest

rates, exchange rates, and commodity prices all contribute to the potential for financial losses. This discussion will focus on methods for reducing market-related financial risks that may be used in risk management. Therefore it is relevant to investigate the financial risks small and medium-scale enterprises face in modern business environments.

Statement of the Problem

When it comes to the study of economics and finance, risk is a crucial phenomenon. It is also an idea that individuals encounter professionally and personally (Blumberg, Cooper & Schindler, 2014). Many individuals and organisations know the need to understand

There are several types of financial hazards that might affect a company's bottom line (or top line, in certain situations). Examples include foreign exchange, interest rate, credit, liquidity, cash flow, and financing uncertainties. The gravity of these dangers will vary from company to company. The potential for financial loss due to falling short of a financial goal is created by financial risks. Foreign currency risk, interest rate risk, commodity price risk, stock price risk, credit quality risk, liquidity risk, and financing risk are all reflected in this uncertainty (Spucháková, Valaková & Adamko, 2015).

Notwithstanding the challenges of modern business, small and medium-sized enterprises (SMEs) have emerged as major contributors to national economic and social progress (Shuying & Mei, 2014). Limited access to loans, small capital strength, increased competition, high tax burden, low level of managerial skills, low level of diversification, administrative complexity, risk of failure, and the

relationship between work and private life are some of the basic business risks of SMEs, as outlined by Podnikania (2013). Since many SMEs have restricted access to external financial resources, the financing gap is paramount to them. Small companies have always found it tough to get the capital they need to expand and innovate, which was before the economic slump. Financial institutions are now considerably more hesitant to lend to businesses than before the crisis (Evropská, 2011). In Ghana, where this study is situated, most studies (Anane, Cobbinah & Manu, 2013; Ametepey, Jnr & Cobbina, 2022) have paid attention to barriers and the sustainability of small and medium-scale enterprises in rural Ghana. A recent study from Ametepey et al. (2022) focused on managers of SMEs in four regions in Ghana.

Anecdotal evidence from the researcher indicates a dearth of studies focusing on SMEs in private organisations of which Naatoa Limited is no exception. Therefore, it is against this gap identified in the literature that the current study employed a quantitative research approach embedded with a descriptive survey design to examine the financial risks faced by small and medium enterprises in Ghana, the case of Naatoa Company Limited.

Purpose of the Study

The study's main objective is to ascertain the financial risks faced by small and medium enterprises, the case of Naatoa Company limited.

Objectives of the Study

Specifically, the study seeks to:

i. determine types and categories of financial risks faced by Naatoa Company Limited.
ii. examine risk management strategies and tools considered by Naatoa Company Limited.
iii. ascertain the effect of financial risks on the company's financial performance.

Research Questions

The study seeks to answer the following research questions:

i. what are the types and categories of financial risks faced by Naatoa Company Limited?
ii. what are the strategies and tools used to manage financial risks in Naatoa Company Limited?
iii. what are the effects of financial risks on the company's financial performance?

Significance of the Study

A study is beneficial to the SME industry and has the strength of contributing a wealth of information to the existing literature on financial risks businesses face. Based on the research, financial risks and their attributes (credit risk, liquidity, operational risks, etc.) are critical, and companies must pay attention to them. The study would inform managers/stakeholders of businesses on financial risks and factoring able strategies to manage the business financial performance. It

also suggests reducing the chance of these financial risks hitting unknowingly since the study gives facts on how to anticipate them.

This research's theoretical framework shows that incorporating these suggestions would enhance the financial management of businesses. The findings of this article might be considered by governmental and non-governmental organisations when designing training initiatives. The seriousness of the financial risk to a firm may be included in entrepreneurship courses. With proper financial risk management, small firms may reap the full benefits of this strategy.

The research provided theoretical context for encouraging small company owners to manage adequate financial risk. Due to the inherent interconnectedness of leadership, entrepreneurial education, and financial success, this theoretical framework is more comprehensive. Also, the research contributes to our understanding of financial risk and management. It would benefit stakeholders and serve as a foundation for future studies.

Scope of the Study

The study was limited to Naatoa Company Limited, one of Ghana's Small and Medium enterprises. The study investigated the financial risks faced by Naatoa Company Limited and proposed managerial strategies for handling these risks.

Limitations of the Study

Due to the project work's need that is completed within the same time frame as other academic commitments, the study was time-constrained. Due to their claims that most of the requested information was secret, many respondents hesitated to supply it. Failure on the part of some respondents (particularly the self-administration questionnaire respondents) to answer and return the papers as scheduled, which in a way, affects the speed and time parameters set to guide the completion of the work.

Organisation of the Study

Chapter one of the study introduces the subject and covers areas such as the background to the study, statement of the problem, research objectives, research questions, the significance of the study, the scope of the study, and limitations of the study. The literature on the connection between financial development and economic growth is reviewed in the second chapter. The study design is covered in detail in the third chapter, taking sample design and data analysis methods into account. The fourth chapter presents the facts, an analysis, and a thorough discussion. The last chapter, chapter five, is divided into a summary of results, major findings, recommendations, a conclusion, and suggestions for more research. References and appendices are then included.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter critically reviewed various authors' opinions and views on financial risks faced by Small and Medium scale Enterprises in modern business environments, with a better theoretical understanding and its effect on firms' performance. A case study of Naatoa Company limited.

Theoretical Framework

The theory of Financial Intermediation serves as the primary theoretical framework for this research. This theory highlights the role of financial intermediaries, such as banks and other financial institutions, in bridging the gap between savers and borrowers in the financial system. Financial intermediaries collect savings from individuals and institutions and lend these funds to businesses and other borrowers who need them to invest in their operations. For small-scale enterprises, the availability of financing from financial intermediaries can be critical for their success, as they may not have the same access to capital markets as larger firms. However, small-scale enterprises also face unique financial risks, such as cash flow volatility and limited collateral, making it challenging to secure financing and manage financial risks. Therefore, understanding the role of financial intermediaries and the ways in which they can mitigate financial risks for small-scale enterprises is crucial in analysing the financial health and prospects of these businesses in the modern business environment.

Akerlof and Milborn (1980) proposed this idea. As its advocates defined, financial intermediation is "an amalgamation of the institutional tools and market needs of various economic entities," with the overarching goal of pooling funds from public and legal bodies and lending them on commercial terms, despite the inherent financial risk involved. The theory's primary goal was to lessen the price tag of changing how borrowers act to benefit lenders (Shar et al., 2011). Vishnevsky et al. (2008) updated the theory by showing that financial arbitrage is a variant of the conventional model that accounts for the success of businesses and financial institutions by relying on incomplete information about asset prices, qualities, and durations.

The traditional role of financial organisations is to transfer risk, which is why financial intermediation is so important (Sharp, Alexander & Bely, 2011). The intermediary financial theory has always been grounded on a focus on transactions and information. Information asymmetry and ethical hazards or adverse selection play a significant role in financial intermediation, necessitating cost verification and auditing methods. The market is flawed due to information asymmetry. All investors have the same expectations, there are no transaction costs, borrowing circumstances are not isolated, and in true financial markets, the individual has no impact on pricing. Liquidity risk, a key problem caused by informational dispersion, was studied extensively, focusing on the characteristics that encourage depositors to pull their money out of businesses (Shar et al., 2011).

Effective loan repayment and solvency are aided by regulations governing savings and economic capital flow (Diamond & Rajan, 2000; Bawa, Goyal, Mitra

& Basu, 2019). Liquidity risk cannot be predicted for depositors in the Diamond Model. Investors face liquidity risk, however, because of how easily their money might be spent or lost, the trade-off between liquidity and profitability, and their capacity to maintain their money in deposits. Financial institutions and other businesses often sell less profitable and more illiquid assets to keep their depositors' money liquid. This practice lowers the institutions' profit potential and leaves them vulnerable to liquidity risk in a "bank run," Many depositors withdraw their money, and other customers follow suit (Aleksandra, Dalia, & Julija, 2009).

The third method for determining transaction costs was proposed by (Fama, 1980) and is predicated on technological variations. The purpose was to substitute for the quality of financial assets that allowed for their liquidity and placement chances, including transfer expenses, research assessment, and monitoring costs. By pooling the auditing expenses of several creditors, financial intermediaries keep such costs to a minimum. Yet, if the borrower's determination to repay the loan causes their borrowing costs to drop, the lender's interest income will increase, and the borrower's moral hazard will decrease, allowing for possible loan renegotiation.

Yet the world has already encountered the challenges of direct public involvement in financial markets, and they deny that arbitration lowers participation costs. The decreased business costs predicted by the theory have facilitated more household engagement. The proliferation of mutual funds and financial derivatives cannot be attributed to intermediaries' responsibility to mitigate risk. Avoiding insolvency is the primary goal of financial risk management. This is accomplished by taking measures to reduce the impact of risks

like currency fluctuations, interest rate swings, and credit defaults on the company's bottom line. (Sharp, Alexander & Bely, 2011). The updated theory advocates for a market that is ever-evolving, innovative, and financially stable; it portrays financial intermediaries as risk-taking suppliers of financial services; it emphasises the importance of customer satisfaction; and it places risk management front and centre.

Prospect Theory

The anticipated utility theory serves a useful function in practical finance. The theory claims that individuals are driven not by the maximisation of projected financial gain but by the maximisation of expected utility (Tversky & Kahneman, 1986). Expected utility is the foundation on which utility theory in prospect theory is constructed (Paul et al., 2001). An asset merger is successful if the combined asset's economic benefits outweigh those of the individual assets (Nicholas, 2012). Simplifying dangerous decisions is a well-known effect of risk aversion frequency.

According to this theory, the advantages of a decline in wealth are greater than those of a comparable increase in wealth. It also illustrates how everyone's demand risk premium varies based on their specific performance objectives and track record with hazardous transactions. The social impact that optimises empirical patterns of transactions on the market affects individuals' behaviour in the financial markets. Different actions have various results because they react to market circumstances (Paul et al., 2001).

According to prospect theory, the utility curve is a non-linear function of utility. It is a helpful step forward for a more accurate and practical understanding

of usefulness. It is more evidence that the utility curve shifts as one moves from positive to negative utility (Plott et al., 2007). Individuals have a commonality in the form of their prospects theory value curves. Because of its S-shape, this curve is convex below its vanishing point. The degree to which a curve is steep indicates how responsive it is to variation. The curve's sensitivity increases towards the origin and decreases as it moves away from it. It is clear from the S curve that individuals are wary of taking chances in the profit zone and avoiding losses in the loss zone (Paul et al., 2001).

Risk Management Principles/Theory

The research presented in (David, 1997), which formed the basis for the risk management theory, was to determine why and how firms should deal with hazards like credit and market risk. According to this idea, banks' ability to stay in business depends on a number of factors, including credit and market risk (Eichhorn & Young, 2004). According to some, credit risk signals might negatively impact the profits of most financial institutions if proper credit risk management is not implemented (Ngumi, 2013). Loss of value may be traced back to fluctuations in interest rates, currency exchange rates, stock and commodity prices, all market risk factors (Wu & Olsson, 2010).

Managers focus on systemic risk and worry less about the specific risks associated with each portfolio holding because of their ability to shape the bank's public image. Since the risk of a portfolio is not the sum of its components according to the Markowitz principle, the total risk requirement demonstrates that the quantity of risk cannot be concentrated. This indicates that income from the

portfolio, invulnerable to changes in portfolio structure, should be used to quantify portfolio risk (Banks, 2004). Managers must weigh their options' risks and potential rewards to comply with regulations and make sound decisions. When assessing risk, managers must balance precision and affordability (Sovan, 2010). The cost-benefit analysis of every proposed organisational strategy must consider the trade-off. Their goal is to determine the largest possible loss for the company via careful risk assessment. In order to prevent collapse, authorities may establish capital requirements higher than the expected highest loss.

In the risk management philosophy, scenario analysis and value at risk are two major tools for measuring risk (Sovan, 2010). When estimating possible losses, scenario analysis relies on the asset return distribution rather than the distribution assumption of risk, is extremely subjective, and assumes future outcomes will be proportionate to value at risk (VAR). Managers can estimate projections thanks to two main ways of calculating VAR: Monte-Carlo simulation and the analytical VAR approach.

They are computationally efficient and easy to work with, but their distributions are not always normal, revealing the tails' uncertainty about the return's volatility. This approach considers established principles of economics and market organisation (Muhammad et al., 2014). As the fat tail distribution is meant to characterise the behaviour of portfolio returns, it may be acceptable and helpful to employ a non-normal distribution. VaR is calculated using standard portfolio theory; a portfolio's return distribution, characterised by its variance and covariance, represents its risk characteristics over time (Sovan, 2010).

Conceptual Review

Risk

The idea of risk is integral to people's and organisations' operations. In order to prevent it, lessen it, or accept a size that would generate adequate revenue under "normal" conditions, many individuals and businesses have recognised the necessity to understand the risk, its components, and its repercussions. The Italian term 'ricercare', meaning "courage," dates back to the Middle Ages (Adamowicz, Flynn, Hunter & Harcombe, 2018). Everyone is vulnerable, not just corporations or even whole governments. Happiness, sadness, luck, uncertainty, probability, and chance are all interconnected with risk. Hotchner, Papa and Hotch (2005) argues that taking risks makes new opportunities possible.

All endeavour carries the risk of loss due to contingencies beyond the control of the person or business. However, they often face judgements involving specific actions, sometimes with little data, which might have negative consequences. One word summarises all this: "risk" (Shapkin & Shapkin, 2014). Exposure to something dangerous causes risk. Most businesses have some impact from financial market exposure. Risk and reward are associated with an organisation's participation in the financial markets (Horcher et al., 2005). Losses may be incurred due to occurrences such as shifts in market pricing, which is an example of risk. While avoiding risk entirely is not always practical, learning about it is crucial to figure out how to deal with it (Horcher et al., 2005).

Production, economic, market, financial, credit, legislative, political, environmental, employee, information, and even force majeure risks may all threaten the success of a business. Risk management is one of the most significant,

if not the most important, financial ideas (Adamowicz, 2018). The emphasis is on risk management whenever there is financial stress, including previous crises and crashes in the financial system. Accurate risk assessment, particularly prediction, is a cornerstone of good financial risk management. The possibility of catastrophic failure is directly connected to its significance, providing powerful incentives and oversight (Danielsson et al., 2018). The underestimating risk may lead to significant human, financial, and legal losses or hardship, particularly during times of crisis, while overestimating risk can force a financial institution to hold numerous resources that might be allocated to other projects, producing an opportunity cost (Adamowicz, 2018).

Financial performance

Several methods are used to measure the efficiency with which a company turns its resources into cash flow. According to Richard (2009), a bank's financial success is measured by how efficiently it turns its money into profit. The profitability of a business may be determined by analysing its brand value, cash flow, and efficiency. The most successful companies use profitability as a yardstick for the success of their initiatives and policies to ensure their continued success and expansion (Greuning & Bratanovic, 2009). Both "return on assets (ROA)" and "return on equity (ROE)," which account for profit per unit of shareholders' equity, are useful metrics for evaluating a company's financial performance.

Financial risk

The term "financial risk" may be interpreted in several ways. Understanding the nature of cash flow or transactional risks is necessary for appreciating the effect of financial risk on the company. Both the magnitude and timing of the potential loss must be considered. One simple method to grasp such dangers is to consider how they can affect the company's bottom line. If the company's profits changed, it would show that it had different outcomes.

Various writers have defined the concept of financial risk in a few different ways. Fetisovova et al. (2012), for instance, list the following financial risks associated with the growth of financial markets and using individual financial instruments: funding risk, credit risk, liquidity risk, interest rate risk change, currency risk, inflation risk, and counterparty default risk. Napp (2011) pointed out several types of monetary risk. There are two types of financial risks: those originating from outside the firm, such as fluctuations in the financial markets, and those originating from inside the organisation. Exchange rates, interest rates, and the cost of commodities are just a few examples of the external financial risks that businesses face. The author defines internal financial risks as funding, solvency, and liquidity concerns.

The potential for inadvertent financial loss exists, and more business dealings are anticipated. Another sort of financial risk arises from the interplay between changes in macroeconomic factors and the competitive landscape in which a business operates. It is important to remember that everything is connected to the firm's value, which can be defined as the present value of the cash flows the

company is expected to create. Credit risk, financing risk, liquidity risk pertaining to customers, suppliers, and partners, as well as market risk pertaining to movements in share prices, interest rates, exchange rates, and commodity prices, all provide the possibility of loss and are considered financial hazards. The financial risks associated with the market will be the primary emphasis of this management tool (Chartered Accountants in Business and Finance, 2015)

Features of Financial Risk

Objectivity

The risk of monetary loss exists constantly and in all places. It cannot be stopped by sheer force of will. No one on Earth can stop it or eradicate it. However, by developing innovative technology tools and protections, they can reduce the damage and address the threat (Huihui, 2003).

Uncertainty

Financial risk occurs only in a certain period or stage; men cannot determine the duration and stage. Thus it shows that financial risk is also uncertain, for which enterprise managers must continually strengthen their awareness of risk and improve financial management to reduce the likelihood of risk occurrence.

Comprehensive

Raising, spending, and dispersing money carry some financial risk for every business. Managers must pay close attention to every changing detail, identify threats immediately, and implement corrective actions before they escalate.

Duality

That is the paradox of making a loss while making a profit. Risk and reward in business are equivalent, and companies must take certain chances to make a profit. There is a positive correlation between risk and return. The more their financial resources, the greater their vulnerability. On the other hand, the lesser one's income, the greater the danger (Weizhong, 2009). Financial risk mitigation strategy is affected by the company's operating position, which affects profits, financial strategy, technological innovation, and other factors. Hence, their earnings grow in proportion to the breadth of their strength. Hence, businesses must effectively manage the connection between revenue and risk, using financial risk to generate more profits.

How does financial risk arise?

Most commercial operations include some financial risk, including sales and purchases, investments and loans, and many more. It may be caused by anything from the actions of management to those of stakeholders to those of rivals to those of the government of a foreign country or even by the weather. Financial price volatility may have a negative effect on a company's bottom line by raising expenses, lowering revenues, or a combination of these factors. Instability in the economy may make it harder to set prices for products and services and distribute resources.

There are three primary causes of monetary uncertainty:

i. Exposure to fluctuations in interest rates, currency rates, and commodity prices may financially put a company at risk.

ii. Exposure to potential financial loss because of the acts or inactions of other parties, such as suppliers, buyers, or derivatives counterparties.

iii. Dangers to the company's finances come from inside in the form of problems like "people, procedures, and systems."

Types of Financial Risk

The potential for financial loss due to falling short of a financial goal is created by financial risks. Uncertainty in monetary policies, interest rates, commodity prices, stock prices, creditworthiness, liquidity, and a company's ability to borrow money all contribute to this risk (Woods & Dowd, 2008). These monetary dangers often occur together. Managers should account for the interconnected nature of various risks, such as the correlation between currency exchange and interest rates. Financial risks can be subdivided into distinct categories; a convenient classification is indicated in *Figure* 1 below;

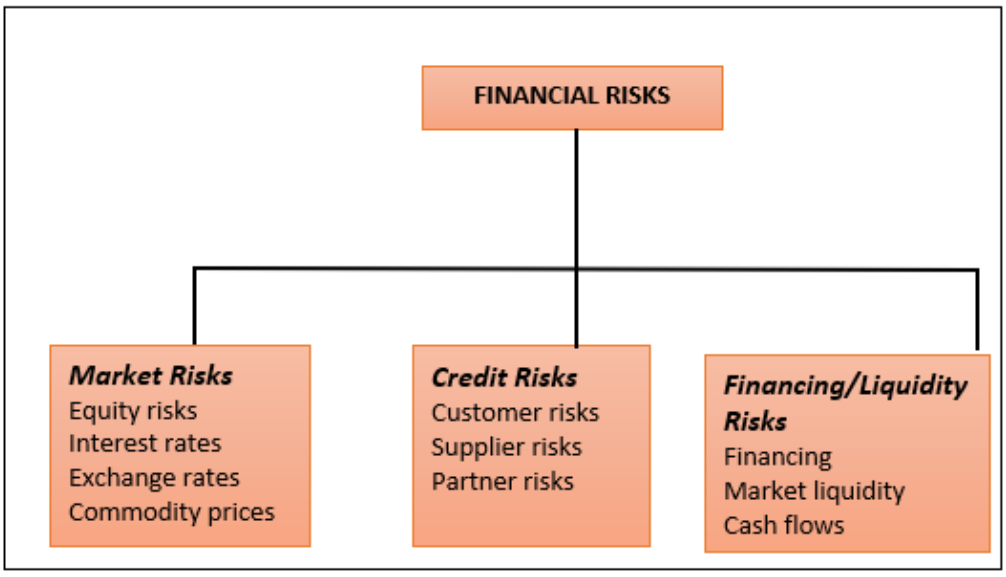

***Figure 1*: Categories of Financial Risk**

Market risks

Potential losses resulting from fluctuations in future market prices or interest rates constitute this category of financial risks. The pricing structure will also reflect changes in the cost of fundamental commodities essential to the firm's operation. The volatility in instrument prices resulting from fundamental shifts in the market is a proxy for market risk. The most prevalent causes of market risk include unexpected shifts in foreign exchange rates, interest rates, and the volatility of prices of financial products. Currency and interest rate risk are inherent in all FX investments. Interest rate variations must be quantified in order to match the cash flows of assets and obligations that mature at a later period. When asked to define the most fundamental kind of financial risk, Kanchu and Kumar (2013) pointed to market risk as an example (exchange rate risk, liquidity risk, interest rate risk)

Financing liquidity and cash flow risks

Finance concerns impact the availability of future funding. A company's reliance on its bank for financing is a prime illustration. Liquidity risk is the risk that a company will not have enough cash to pay its bills on time and will be unable to quickly unwind a position it has taken. Cashflow risks are associated with the uncertainty of a company's normal operational cash flow. Organisational incapacity to respond to fluctuations in cash inflows and outflows is the root cause of liquidity risk. It may be challenging for businesses, particularly financial institutions, to generate capital to satisfy potential increases in credit demand if borrowers fail on their debts. Liquidity ratios are the amount of cash a corporation has to pay down its current debts, as Black, Wright, and Bachman (1998) described.

Companies with large debt loads and little liquidity are more likely to collapse; thus, it is good for the company if the liquidity ratio is high.

Credit risks

The danger of losing money because your financial counterparty defaults. The failure of credit-based consumers to pay for delivered products is the primary source of credit risk (Brown & Moles, 2014). When a company places disproportionate weight on a small number of very big clients who have been granted generous credit terms, the company's exposure to credit risk rises dramatically. Credit risk is important in certain industries more than others because of the essential role that short- and long-term loans play in the financial services industry (Castro, 2013). The inability of a counterparty to fulfil its payment obligations under a contract is the source of credit risk. A company's credit may be in danger if it has extensive business dealings with other companies. For instance, a company might lose money if a crucial vendor or co-venture partner finds financing difficult.

Characteristics of SMEs in Ghana

Compared to larger corporations, SMEs stand out due to their inability to directly access international and domestic capital markets due to the higher intermediation costs associated with smaller projects. Small and medium-sized businesses (SMEs) have the same fixed costs as large businesses to comply with regulations but less ability to market their products internationally (Kayanula & Quartey, 2000).

There is a clear divide between urban and rural Businesses in Ghana. "organised" and "unorganised" businesses fall under the former category. The difference between an organised business, which has employees and a permanent location, and an unorganised business, which is often run out of someone's house or a temporary wooden building, is that the former typically pays its workers a salary the latter does not. Family members and trainees make up the bulk of their workforce. Family businesses, individual craftspeople, and women who grow and sell their food are the backbone of rural economies (Ramadani, Ademi, Ratten, Palalić, & Krueger, 2018).

Soap and detergent production, fabric, clothing and tailoring, textile and leather production, village blacksmithing, timber and mining, bricks and cement production, beverage production, food processing, wood furniture production, electronic assembly, agro-processing, chemical-based product production, and mechanical work are all examples of what can be found in this industry (Liedholm & Mead, 1987; Osei et al., 1993). The self-employed in this field tend to have less formal education and training. Close members of one family-run most of these establishments, and their personal bank accounts are often intertwined with the companies.

In Ghana, small and medium-sized enterprises (SMEs) include various sectors, from producing furniture and metal components to providing services, including restaurants, consultancy, and computer software. Although some businesses are content to stay small and traditional, others are ambitious in their pursuit of expansion.

SMEs Contribution to Economic Development and Growth

As the private sector is responsible for most economic expansion, it must have the resources it needs to thrive (Anyima-Ackah, 2006). Industrialization, increased gross national product (GNP), and higher per capita income are all indicators of economic progress.

Nonetheless, economic development is desired since it increases wealth and the economy's ability to consume and produce more goods and services via increased investment, a larger labour force, more efficient use of inputs to boost output, and technological innovation. If the government can aid economic growth by enacting monetary and fiscal policies that are complementary and growth-enhancing, the quality of life in any country will rise (Pass et al., 1993)

Because of their importance in creating employment, collecting tax revenue, promoting innovation, and opening new markets, small and medium-sized businesses (SMEs) are highly valued in many countries. Beck and Kunt (2004) argue that SME activity and economic growth are important given the relatively large share of the SME sector in most developing nations and the substantial international resources that have been channelled into the SME sector of these nations from sources like the World Bank Group.

Nearly 93% of all registered businesses in Ghana are classified as SMEs, making them an integral part of the country's economic landscape. SMEs contribute to growth in a number of ways, including through the creation of jobs, the introduction of innovative products and services, the promotion of entrepreneurship, and the encouragement of artistic expression. Kayanula and

Quartey (2000) noted that these might serve as economic engines for many developing countries by providing opportunities for employment and tax income. According to Mensah (2005), SMEs act like sponges, soaking up extra labour and spreading it throughout the economy.

Several academics have concluded that SMEs improve competition and entrepreneurship and have consequently advocated for governments to provide direct aid to SMEs to foster economic growth and development. Also, the expansion of SMEs has a greater impact on employment than big firms. SMEs depend more on human labour and use limited resources more efficiently. Hellberg (2000) agrees that emerging nations should focus on SMEs since they represent a significant portion of the business community and economic growth in these nations. According to Young (1994), "small and medium-sized enterprises (SMEs)" are significant for more than just providing jobs; they also promote economic development, decentralisation, and efficiency.

Last but not least, they play a crucial role in alleviating poverty by supporting the policy of most governments, particularly in developing nations where poverty is at its worst. They cannot be ignored since they provide jobs to low-income people and are sometimes the only place to work in the countryside.

Financial Risks in SMEs

Most corporate choices are made in the face of unknown outcomes. That is because the circumstances under which businesses operate are subject to random fluctuation and development both during and as a consequence of their actions. What we mean when we talk about risk is the degree to which actual processes and results deviate from the expected level. It leaves us vulnerable to quantitative

uncertainty (Fetisovova et al., 2012). According to Smejkal and Raise (2006), risk can be understood in a variety of ways, including as the possibility of loss or failure, the difference between possible and actual outcomes, the possibility of any outcome other than the expected outcome, the circumstance in which the quantitative magnitude of a certain event is subject to a certain probability distribution, and the threat posed by "(so-called net risk)." Risk can be defined in a variety of ways, including as the mean squared loss, the probability that a given system will increase a given risk, the likelihood of making a loss or gain "(so-called speculative risk)", the uncertainty resulting from the price volatility of assets "(so-called investment risk)," etc.

Small and medium-sized enterprises (SMEs) are the "engine" behind every economy's growth and development. Ariyo (2005) claims that in most West African nations, SMEs are responsible for 97% of all jobs, 50% of all employment, and 50% of all industrial output. When there are less concentrated concentrations of population and income, as in a developing country, SMEs help distribute economic development more equally and decentralised way. As a result of these factors, SMEs face a more complicated kind of business risk, one that is comprised of several interrelated partial hazards. Business risks are classified by Fetisova et al. (2012) as "strategic risk," "operational risk," "financial risk," "socio-political risk," and "reputational risk." The company's business environment dictates its mode of conduct, the business objectives it sets for itself, and the means by which it seeks to achieve those goals.

Access to adequate money, high cost of finance, and access to appropriate information Capital market need as a barrier to entry and expansion of SMEs (Owino et al., 2013). Inadequate knowledge and effective skills in risk identification and management, and the inability to manage asset portfolios, are the main issues keeping most SMEs to their existing failure rates, according to Olawale and Garve (2010). Several studies have identified faults during the crisis, including inadequate financial risk management (such as failing to heed an early warning signal from a financial manager) and poor cash flow management. Managers might have saved their firms from the consequences of the crisis altogether if they had avoided these blunders (Kristofic, 2010). The worrisome percentage of SME failure has led to increased funding to SMEs from both banks and investors. Because of the potential for capital loss, lending to SMEs is often avoided.

Covin and Lumpkin (2011) emphasised the importance of innovation, proactivity, and risk-taking as decision-making characteristics linked to the success of small and medium-sized enterprises (SMEs). Against the backdrop of major corporations, SMEs are seen as activities geared towards sustainable development and outstanding performance via risky investments (Hansen, Dietz, Tokman, Marino & Weaver, 2011). According to research by Smit and Watkins (2012), small and medium-sized enterprises (SMEs) are well-positioned to take advantage of and harness existing resources thanks to their systematic approach to risk management.

Risk management strategies and tools

The possible responses can be categorised into three categories, as illustrated in Figure 2.

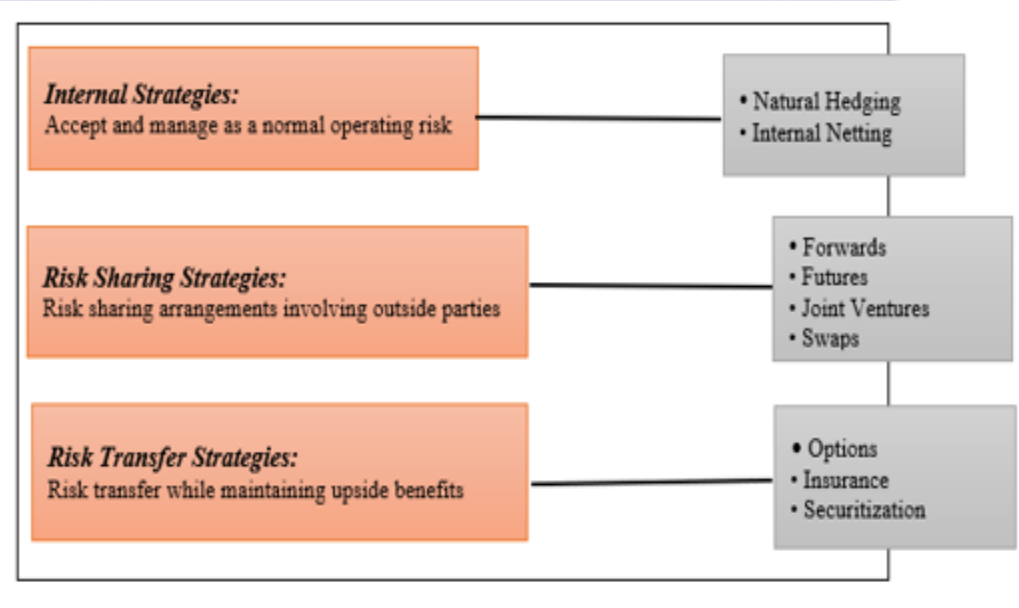

Figure 2: Risk management strategies and tools

Source: Field work (2022)

Internal strategies

Accepting and managing risk within the context of routine company operations are what we mean when we talk about internal strategies (Woods, Humphrey & Dowd, 2008). One strategy for handling currency vulnerabilities is to price all exports in the currency of the end user and employ internal netting procedures. Internal to a company, natural hedging capitalises on the fact that certain types of risk exposure might cancel each other out. Foreign currency and interest rate risk management are the most common applications. As a kind of natural hedging, internal netting involves the identification of mutually cancelling exposures to arrive at a net balance from which a business may choose (Yow,

2012). Internal netting is useful when dealing with various internal exposures in different currencies.

Risk sharing strategies

Sharing risks with others or dividing them up our risk management practices. A forward contract is one such instrument since it "locks in" a certain rate or price at some point in the future. This protects the buyer from losing money due to adverse currency fluctuations but commits the buyer to a certain exchange rate in the future. Joint ventures are another kind of partnership (Woods et al., 2008). When two parties agree on a price and delivery date in the present, they are said to have entered into a forward. It is being viewed as a hedge against inflation in commodities (such as oil, sugar, and cocoa) and currencies.

A buyer may protect themselves against a rise in the asset's spot price by engaging in a forward contract to lock in a fixed price. In addition, the seller is protected from any future decline in the spot price. Delivery occurs when the buyer receives the underlying asset and submits payment. When this occurs, the gap between the forward price and the spot price equals the value of the buyer's position. If the spot price has increased, the value of this position will be higher, and vice versa if the current price has decreased. The difference between the forward and terminal spot prices may be paid or received in cash under some forward contracts. Each party to a forward contract assumes the risk of the other party defaulting on the deal, and the contracts are created and exchanged over the counter (OTC). Thus, the companies involved in the forward contracts must take steps to mitigate credit risks.

Futures contracts are a kind of forward contracts that are only traded on regulated markets. Futures may be used to hedge against fluctuations in the price of almost anything, including stocks, commodities, interest rates, currency rates, and even the weather. Futures contracts are not as adaptable as forward contracts due to their predetermined contract sizes. In addition, not all commodities may be hedged against price fluctuations using standard futures contracts. Nonetheless, the insurance provided by futures (and forwards) might be essential for all commodities that play a substantial role in manufacturing.

Every futures contract has the exchange as its counterparty. This means that the risk of default for firms trading futures is extremely low. The exchange mitigates its exposure to default risk by requiring participant businesses to have margin balances. The position's value is "marked to market" daily, at which point any profits or losses are resolved promptly. If a company has bought a futures position that will grow in value if the futures price rises and the futures price does climb, it may cash in on its investment. The company will incur losses and be subject to margin calls if the futures price drops. Although futures contracts are more liquid than forward contracts, the company must still consider the risk of margin calls that might reduce available funds.

Swaps are agreements to trade the disparity between two cash flows at a specified future date or dates. Controlling exposure to fluctuations in interest and currency markets. Swap markets for commodities and credit have emerged more recently. To (a) lower financing costs, (b) arbitrage tax or funding differentials, (c) obtain access to new financial markets, and (d) sidestep regulatory constraints,

swaps may be employed. Currency conversion is a common feature of many swaps. In the case of a cross-currency interest rate swap, a company may exchange Canadian dollar payments with a fluctuating interest rate for dollar payments with a fixed interest rate.

For a business to enter into a joint venture, it must be prepared to take on some risk, but it may choose to divide that risk with another entity. Entering into new markets where expertise may be pooled to save expenses.

Risk transfer

Risk transfer entails forking over cash to an outside party in exchange for them taking on your potential losses while you keep your upside potential. For instance, the strike price of an option represents the potential for currency exchange at a certain rate. If the ensuing exchange rate is advantageous, the holder will exercise the option; otherwise, the option will expire unexecuted. Hence, the option insulates the bearer from losses while allowing them to participate in potential gains from the upside. It is important to remember that there is often a trade-off between risk transfer tool versatility and cost.

Option contracts allow the buyer or seller the right, but not the obligation, to buy or sell an asset at a predetermined price on or before a certain future date (unlike forward or futures contracts). The price at which the option may be exercised is called the “strike price.” Call options are associated with the right to purchase, whereas put options are associated with the right to dispose of. Options may be bought and sold on stock exchanges or over-the-counter (OTC) (Woods et al., 2008). In contrast to the American option, which allows the holder to use the

option at any time before the option's expiration date, the European option only grants the holder the right to do so at a certain future date. Exotic options, such as the Bermudan option, provide holders with a number of different ways to exercise their option up to its expiration date.

There is great flexibility in the applications of options. Companies may reduce their exposure to interest rate risk by using interest rate limits, and they can reduce their exposure to foreign exchange rate risk by using exchange rate caps and floors. When the average price of gasoline over a long period is the primary issue, fuel price options may be utilised to hedge fuel expenses (airlines). A company may buy an option with a knock-out barrier on an exchange or interest rate if (a) the option is less expensive than a "normal" option, (b) the company does not anticipate the underlying to hit the barrier, or (c) the company is otherwise "covered" should the barrier be broken. Since an option's premium (or price) is set to restrict the maximum loss to that amount, options provide the holder with downside protection. Nonetheless, they are still eligible for rewards on the upside if the underlying moves in the desired direction.

Insurance

Traditional insurance is the most effective way to manage many types of risk, including the risk of loss or damage to buildings or possessions due to fire. The buyer is protected against losses on the insured asset as long as the premium is paid. Mortgage insurance, for example, is a common example of insurance that borrowers must have before receiving a loan. The corporation may take on certain risks on its own (known as self-insurance) and may even establish its own insurance

company (known as a captive insurance company) to handle such risks. Self-insurance covers some litigation risks and is commonly paired with bought insurance to provide employee perks like health benefits. It is up to the captive insurer to decide whether or not to reinsure any of the risks it takes on.

Securitisation

Transforming non-tradable financial assets (credit cards, bank loans, and mortgages) or tangible assets into tradable financial instruments. By transforming low-liquidity assets into more marketable securities, securitisation may pave the way for larger-scale commercial activities. Airports, petrol stations along highways, office buildings, and utility companies are all examples of securitised enterprises. Companies have started to securitize pension fund risks in recent years.

Empirical Review

Financial risk management and financial performance

Instead of concentrating on modelling financial instruments and increasing financial returns, as was formerly the case with risk management, attention has turned to maintain regulatory compliance (Banks, 2004). It underlined that a company's worth rises when managing and controlling financial risks. As a result, their principal duty is to mitigate the enterprise's exposure to financial risks that might have a negative impact on profitability. Good and consistent profits and cash flow estimates are made by companies, lowering future uncertainty (Goldberg & Drogt, 2008). Financial risk management is aimed at avoiding monetary issues and associated expenses (Goldberg & Drogt, 2008). Effective risk management makes gaining a competitive edge and increasing profits easier (Stulz, 1996). Financial

risk management calls for active regulation and evolving business practices in the financial sector. Loan defaults, managing liquidity, interest rate fluctuations, and currency exchange rate fluctuations are all sources of financial risk.

As a result, banks' total financial performance is affected by banking operations decisions, as measured by metrics such as "net income," "return on assets," and "return on equity" (Athanasoglou, Brissimis & Delis, 2005). According to Bikker and Metzmakers (2004), the primary focus of the financial risk management strategy is to improve business results. Risk management encourages a timely due diligence system of examining relevant indicators, which helps the company reach its financial performance targets.

Financial risks must be managed as consistent and healthy financial performance is crucial for SMEs. Stakeholders need reliable information, and independent verification of the effectiveness of the risk management system is a crucial step in this direction. A risk management process's efficacy may be evaluated in three ways, as outlined by the IPPF (2010): the process element approach, the basic theory method, and the maturity model approach. A comprehensive risk management framework establishes a direct connection between predetermined goals, predetermined controls, goal accomplishment, and guarantees at all organisational levels.

Chapter Summary

The chapter reviewed the concepts and defined the various financial risks faced by small and medium-scale enterprises in modern business.

CHAPTER THREE

RESEARCH METHODS

Introduction

The study was to ascertain financial risks faced by small and medium scale enterprises in modern business environment. This chapter describes the research design used for the study, the study organisation, population and sampling, and the various procedures and processes employed to collect and analyse the data. That is, the instruments used for the study and the data analysis method.

Research Design

The descriptive survey design was used for the research. This is deemed appropriate as the study aims to assess the financial risks faced by small and medium-scale enterprises in a modern business environment, the case of Naatoa Company Limited. According to Saunders, Lewis, and Thornhill (2007), the survey approach is widely accepted since it is simple to describe and comprehend. When employed as a data-gathering tool, a questionnaire survey yields consistent results that can be easily compared. It is easy to use, adaptable, and useful for gauging the success of a finished product or programme.

Descriptive surveys are more than simply a data-collecting exercise, as Creswell (2003) explains. Quantitative and qualitative data collection, organisation, and interpretation. Creswell (2003) explains that in a descriptive study, the researcher first identifies the issue before deciding on the appropriate methods of gathering data and then describing, analysing, and interpreting the results. A cross-sectional study is a collection of data at one point in time. It is carried out to obtain

information at that time (Bhat et al., 2019). In a cross-sectional study, the investigator simultaneously measures the outcome and exposures of the study participants (Setia, 2016). This research aims to investigate the nature of the financial risks that small and medium-sized businesses (SMEs) confront, the methods used to mitigate those risks, and the results of such efforts.

Study Area

Naatoa Telecommunication Systems is the key distributor of MTN products in the whole Central Region. The company deals in MTN scratch cards, phones, transfer units, starter packs, swap kits and internet modems. They started operations on the 6th of May 2008. They have fifteen branches in the Central Region and some parts of the Eastern Region, specifically Cape Coast, Saltpond, Kasoa, Agona Swedru, Mankessim, Abura Dunkwaw, Twifo Praso, Kade, Assin Fosu and Asikuma. There are sales vans used to visit the customers with a staff strength of about 120. All branches' functional managers ensure the sales teams perform to the best standards. Two delivery vans also pick up stocks from the MTN warehouse to the various branches.

Population

The study population consisted of all employees of Naatoa Company Limited. The company currently has 230 employees.

Sample and Sampling Technique

According to Sekeran (2003), sampling is the process of selecting a sufficient number of elements from the population so that the study of the sample

and understanding its properties or characteristics would allow us to generalise such properties or characteristics to the elements of the population.

There are two distinct sample designs, both of which are named by Sekeran (2003). First is the probability design, in which participants are selected based on a predetermined likelihood. In the latter, components of the population that "do not have any likelihood associated with their being picked as sample subjects" are selected at random, thus the name "non-probability sampling" (Sekaran, 2003). There are pros and cons to every kind of sampling, but probability sampling allows studies to show how likely it is that individual sample findings will vary from those of the whole population (Welman, 2005). This study used a probability sampling strategy, namely a basic random sample technique.

This method of sampling was decided upon because of its two primary benefits. Firstly, such studies are the most unbiased, and their findings may be taken as representative of the population as a whole (Sekeran, 2003). Second, it does not matter whether the worker is available during that shift or not (Bryman, 2005). Simple random and random sample techniques was used to select 100 workers out of 230. One hundred managers were chosen at random to participate in the research.

Data Collection and Sources

Primary and secondary data were collected utilising a variety of methods. The questionnaire served as the primary data collector. Primary data was collected via interviews using a variety of questioning methods. Both closed and open-ended questions will be utilised in the study. The purpose of the closed-ended questions is to limit the respondents' ability to make subjective responses, making for a more

reliable basis for statistical comparisons. The respondents were given options for the closed-ended questions and explicit instructions to facilitate analysis. The purpose of the free-form questions is to allow responders to share their thoughts without feeling stifled.

There were two sections of questions, labelled "A" and "B." Personal information is requested in Part "A," and research questions are listed in Part "B." Several managers and employees were also interviewed to supplement the questionnaire's findings on the financial risks being encountered in today's business climate and the impact these risks have on the organisation's productivity and performance. Verification of some of the questionnaire responses would be useful for the research.

Data Analysis Procedures

Data collected by other researchers or institutions for their purposes are known as secondary data (Blumberg et al., 2008). Using secondary data helps researchers ground their work in the larger body of prior research and provides a more comprehensive grasp of the issue (Blumberg et al., 2008). The secondary information came from books, magazines, newspapers, and encyclopaedias. The internet and other media were also searched for further information.

Data Collection Instruments

Data was gathered mainly through the use of questionnaires and interviews. The questionnaire was self-administered. It was divided into two main two parts – Sections "A" and "B." Section "A" deals with personal data, and section "B" deals with questions for the study. To support the questionnaire, interviews were

conducted with a subset of managers and employees to learn more about the financial risks their organisation faces today. This study seeks verification of some of the answers provided in the questionnaire.

In a face-to-face interview, the researcher has the chance to engage with the respondents and clear up any confusion. The interviews had some framework but mostly consisted of free-form inquiries. The researcher and the interviewee were given enough time to have a natural conversation so that all relevant aspects of the topic could be covered. According to Sekeran (2003), this method might get the interviewee to relax and open up about personal details.

Pre-testing

In addition to the questionnaire, several managers and employees were interviewed to learn about the financial risks they are exposed to in the current business climate if they are experiencing them, and whether doing so has any detrimental consequences on their performance or productivity. A pre-test of the research instrument (questionnaire) would be carried out in a selected service firm in the Cape Coast metropolis. A total number of twenty (20) questionnaires was handed to twenty (20) respondents of the selected firm representing about 10% of the sample.

Validity and Reliability

Validity

According to Mugenda and Mugenda (2003), validity is the extent to which findings from data analysis accurately reflect the phenomenon being studied. The surveys' content, organisation, chronology, meaning, and

ambiguity were all verified by pilot testing. Professionals, such as the researcher's supervisors and colleagues, were given instruments to use in order to verify the instruments' content validity by determining whether the instruments measured the constructs they were designed to assess.

Reliability

According to Mugenda and Mugenda (2003), reliability is the extent to which repeated uses of the same research instrument provide the same or similar outcomes or data. To be reliable, a measurement must be consistent. The steadier the measurement, the more dependable the equipment. The researcher chose two pilot schools to conduct test-retest reliability analyses on the questionnaires. In cases where the questionnaire caused confusion or failed to provide findings relevant to the study's aims, it was changed.

Data Processing and Analysis

After collecting survey replies, a coding system was developed to make sense of the data. After assigning unique serial numbers to each questionnaire for tracking purposes, each answer was coded according to a predetermined system. In order to identify and collect replies for analysis, we turned to SPSS (version 20. 0 of the Statistical Package for the Social Sciences). Descriptive statistics were used to show how many people picked each option and what proportion of people picked each.

Ethical Considerations

To ensure that the rights of the participants were protected, the researcher did the following:

a. The purpose of the research was articulated verbally and in writing to the participants, and how the data would be used was also described to them.
b. The activities and equipment utilised to gather the data were disclosed to the participants.
c. When decisions were made about disclosing the data and assuring participant anonymity, the rights, interests, and preferences of the participants came first. As a result, pseudonyms were used to represent the study's participants and schools.

Chapter Summary

To sum up, this chapter discussed the research methods used to accomplish the purpose of the study. The research design for the study was a descriptive method. By extension, the research prioritised quantitative data and treated qualitative data as secondary data. After gaining the necessary approvals from my supervisor, department, and the Heads of the study area, a self-administered questionnaire was used to collect the data. The quantitative data were analysed using descriptive statistics. Finally, ethical issues were discussed in the chapter. In the next chapter, however, emphasis will be placed on the results and discussion.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The purpose of the study was to ascertain the financial risks faced by small and medium scale enterprises in modern business environment. It analysed the various findings in respect of some related theoretical perspectives established. This calls for setting up the data for analysis, delving more into the data's meaning, visually expressing the data, and drawing conclusions about the data's significance (Cresswell, 2003).

Demographic Characteristics of Respondents

The views of 100 respondents, 61 males (61%) and 39 females (39%), were collated for the study. These respondents were spread among five age brackets. A substantial number of these respondents were within the 20 to 30 years age ground. They made up about 59.2% of the total number of respondents surveyed. It must be seen that relatively older age brackets had fewer respondents. For example, whereas only 7 (5.8%) respondents belonged to the 41 to 50-year range, only as little as 2 (1.7%) respondents were aged 51 years and above.

For their level of education, it was seen that most respondents had, at least, sought education. About 96% of respondents claim to have had some level of education. More than half of these respondents (52.4%) had Secondary or Technical education as their highest level. It can be seen, therefore, that the views captured in this study are that of a male-dominated and youthful society who have some level

of education to adequately provide relevant responses. These characteristics are summarised in Table 1.

Table 1: Demographic characteristics of respondents

		Frequency	Percent (%)
Gender	Male	61	61
	Female	39	39
	Total	**100**	**100.0**
Age	Below 20	21	17.5
	20 – 30	61	59.2
	31 – 40	19	15.8
	41 – 50	7	5.8
	51 and above	2	1.7
	Total	**100**	**100.0**
Level of Education	None	3	3
	Basic School	24	24
	Secondary/Technical	54	54
	Tertiary	18	18
	No Response	1	1
	Total	**100**	**100.0**

Source: Fieldwork, (2022)

Table 2 Types and Categories of Financial Risks Faced

Market Risks	Minimum	Maximum	Mean	Std. Deviation
Foreign exchange rates and prices exposure affect the firm's transactions and are hence seen as a financial risk factor	1.00	5.00	4.0867	1.04872
Interest rates are considered market risks since prices can suddenly change from suppliers	1.00	5.00	3.8200	1.14733
Holding equity in a particular investment via the purchase of stock is a market risk to the firm	1.00	5.00	4.0400	1.16941
Price fluctuations of basic commodities that are vital to the business are a category of risk	1.00	5.00	4.0467	1.06397
Overall Mean	2.40	5.00	**3.9320**	**.60682**

Source: Fieldwork (2022)

The result shows that most respondents regarded foreign exchange rates and price exposures as affecting the firm's transactions and are hence seen as a financial risk factor ($\overline{X}$ = **4.0867**; SD = **1.04872**). Similarly, a number of respondents agreed that Price fluctuations of basic commodities that are vital to the business are a

category of risk ($\overline{X}$ = **4.0467**; SD = **1.06397**). Holding equity in a particular investment via the purchase of stock as a market risk to the firm was the next option which attracted a number of respondents significantly ($\overline{X}$ = **4.0400**; SD = **1.16941**). Finally, Interest rates are considered market risks since prices can suddenly change from suppliers ($\overline{X}$ = **3.8200**; SD = **1.14733**).

The data retrieved reveals that th company faces all categories considered under market risk and the market risk itself. Per percentages, all the risk categories found under market risk (Equity risks, Interest rates, Exchange rates, Commodity prices) fell between 79% to 91.3%, hence accepting that market risk is being faced by SMEs, which arise out of changes to financial market prices such as exchange rates, interest rates, and commodity prices. A study by Kanchu and Kumar (2013) emphasized this finding, viewing SME market risk as a possibility of loss due to variability in a market-based dynamic (exchange rate risk, liquidity risk, interest rate risk, etc.).

Most Czech Republic entrepreneurs (79.44%) cited market risk as their primary concern in recent research (Belás et al., 2014). Similar results were found in Slovakia (Belás et al., 2015), where most business owners cited market risk as the most significant threat to their company's future.

Table 3: Credit Risks

Credit Risks	Minimum	Maximum	Mean	Std. Deviation
customers fail to pay for goods supplied on credit	1.00	5.00	3.5667	.92340
The firm may suffer losses if our key suppliers have difficulty accessing credit /product/ approval to continue trading.	1.00	5.00	4.3250	.56750
firm may suffer losses if a key partner in a joint venture has difficulty accessing credit /product/ approval to continue trading	1.00	5.00	4.0250	.76105
Overall mean	2.20	5.00	**3.7080**	**.5309**

Source: Fieldwork (2022)

The above table considered confirming credit risk as a type of risk being faced by most SMEs which may be hindering them in other ways. The result shows that most respondents accepted that the firm might suffer losses if their key suppliers have difficulty accessing credit /product/ approval to continue trading. This feedback yielded the highest mean ($\overline{X}$ **= 4.3250; SD = .56750**). Equal weight was placed on the possibility that the company may lose money if a crucial joint venture partner had trouble obtaining funding, a product, or clearance to continue

operating, and this was done with a considerable mean of ($\overline{X}$ **= 4.0250; SD = .76105**). Some respondents responded that customers fail to pay or do not pay on time for goods supplied on credit, with a mean of ($\overline{X}$ **= 3.5667; SD = .92340).**

Overall, a greater number of the respondents, hence a very high level of significance, was given to the fact that their firm may suffer losses if their key suppliers and partner have difficulty accessing credit /product/ approval to continue trading. Horcher's (2005) research provides strong confirmation of this finding with respect to credit risk categories; since credit risk is so crucial in both derivatives and non-derivatives transactions, it is crucial to be able to calculate the total exposure to a counterparty at any given time and compare this sum to internal counterparty limits. Although the report acknowledges credit risk's pervasiveness, it notes that businesses pay significantly less attention to it than they do to risks related to suppliers or reputational harm. Yet, the financial risk itself is influenced by the hazards mentioned above.

Table 4: Financing/Liquidity Risks

Financing/Liquidity Risks	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Access to credit/finance is risky since it comes with covenants, and failure to comply creates the risk	1.00	5.00	4.0917	.76692

Uncertainties regarding the ability to slow a position at little cost, and relates to the availability of funds to meet financial commitments.	1.00	5.00	3.6917	.98558
Firm considers the possibility of future cash flows falling short of expectations as the consequence of changes in market variables as a risk	1.00	5.00	3.9917	.67979
Overall mean	2.20	5.00	**3.5341**	**.52121**

Source: Fieldwork (2022)

The final type of financial risk was the financing/liquidity risk, categorised into financing, market liquidity and cash flows. The table above indicates that a significant number of respondents considered the firm accessing credit/finance risky since it comes with covenants, and failure to comply creates more risk. ($\overline{X}$ = **4.0917; SD = .76692**). This reveals that accessing funds to finance SMEs is considered risky due to the major conditions that may come with it. A number of them with a mean ($\overline{X}$ **= 3.9917; SD = .67979**) revealed that the firm considers the possibility of future cash flows falling short of expectations due to changes in market variables as a risk. Some respondents responded that there are risks regarding the ability to slow a position at little or no cost and relate to the

availability of funds to meet financial commitments with a mean of ($\overline{X}$ = **3.6917; SD = .98558).**

Their reaction to financing/Liquidity Hazards was more in line with the norm than to credit/market risk, which they seemed to incorporate quite heavily. Market circumstances and the market's assessment of the intrinsic riskiness of the borrowing institution have a significant impact on liquidity risk, according to research by Greuning and Bratanovic (2009). They said a liquidity deficit at one institution might have systemic ramifications for other financial institutions, making liquidity risk management crucial.

Table 5: Risk Management Strategies and Tools Considered by Naatoa Company Limited

Internal Strategies	**Agree**	**Neutral**	**Disagree**
	Freq(%)	Freq(%)	Freq(%)
The firm takes advantage of the fact that different risk exposures and handling them may nullify each other	**43***(35.83%)*	**28***(23.33%)*	**49***(40.83%)*
Firm counteracting exposures are identified to come up with a net balance that can help make a decision.	**67***(55.83%)*	**31***(25.83%)*	**22***(18.33%)*

Source: Fieldwork (2022)

The table above represents the respondent's responses on internal risk strategies. The result showed that about 55.83 percent of the respondents, representing an average number, agreed with the internal netting strategy. To get at a net balance upon which the corporation may settle, an average number of them

take into account offsetting exposures. Forty-nine respondents, with a percentage of 40.83%, disregarded that the firm takes advantage of the fact that different risk exposures and handling them may nullify each other. The result depicts less attention being given to the internal strategies

Table 6: The Result Attention Internal Strategies

Risk-Sharing Strategies	Agree	Neutral	Disagree
	Freq(%)	Freq(%)	Freq(%)
firm protects against rises in asset prices by making 'today contracts' for delivery of an asset/product at some specified future date, at a pre-agreed price	**79**(65.83%)	**26**(21.66%)	**15**(12.50%)
Firm consider Futures contracts - standardized forward contract that are traded exclusively on organised exchanges in any asset/commodity price, interest rate, exchange rate	**52**(43.33%)	**22**(18.33%)	**46**(38.33%)
firm is willing to accept a given level of risk, but it may wish to share that risk with another party (partners, stakeholder)	**88**(73.33%)	**19**(15.83%)	**13**(10.83%)
Firm manages interest rate and exchange rate risks by undertaking contracts to exchange the difference between two cash flows at one or more agreed future dates	**49**(40.83%)	**31**(25.83%)	**40**(33.33%)

Source: Fieldwork (2022)

The table above presents the results of risk-sharing strategies. The result shows that 73.33% of the entire respondent, representing a significant number, approved that the firm is always prepared to take some degree of risk, but it may choose to divide that risk with another entity (partners, stakeholder). Again, 65.83% responded significantly to the fact that the firm protects against rises in asset prices by making 'today contracts' for delivery of an asset/product at some specified future date at a pre-agreed price. The respondent gave a minimal response to swaps and future contracts as risk-sharing strategies

Table 7: Options Insurance Securitization

Risk Transfer	**Agree** Freq(%)	**Neutral** Freq(%)	**Disagree** Freq(%)
The firm considers payment of a premium secures the purchaser against losses on the insured asset/product.	**84***(70.0%)*	**19***(15.83 %)*	**17*(14.16%)***
The firm considers converting financial or physical assets into financial instruments that can be traded, often through special-purpose vehicles.	**21***(17.50%)*	**22***(18.33%)*	**77***(64.16%)*
The firm manages risks by entering into contracts that give the holder the right to buy or sell an underlying asset at an agreed price at one or more specified future dates.	**16***(13.33%)*	**17***(14.16%)*	**87***(72.5%)*

Source: Fieldwork (2022)

The table above represents the response concerning risk transfer strategies (Options, Insurance, and Securitisation). The result shows that 84 respondents, with a percentage of 70.0%, recorded that Insurance and Self-insurance are one of the major risk transfer strategies they consider. On the other hand, the respondent significantly disregarded option and Securitisation as risk transfer strategies

In general, the results of the risk management strategies and tools show that Naatoa Company Limited considers most of the strategies to manage their risks. Per the results, they highly reflect on Risk-Sharing strategies, especially their willingness to accept a given level of risk but wishes to share that risk with another party (partners, suppliers, and stakeholder). This result is confirmed by Woods & Dowd (2008); the companies see the joint venture as an expansion into new markets where shared knowledge and costs help to reduce risks.

Again, regarding risk sharing, they responded significantly to the fact that the firm protects against asset price rises by making 'today contracts' to deliver an asset/product at some specified future date at a pre-agreed price. For their risk transfer strategy, they exclusively went for Insurance and Self-insurance as their risk management tool or strategy. Minimum attention was given to internal strategies in general, as the very little above-average number of them confirmed that firms counteract exposures identified to develop a net balance that can help decide about.

Research by Tahir and Razali (2011) has confirmed that most businesses are selective in their approach to risk management, identifying potential risks that could have an impact on the entity and managing risk to be within its risk appetite

in order to give reasonable assurance about the accomplishment of the entity's goals. Andersen (2013) argues that the growth in scope and complexity of the discipline of financial risk management over the last several decades is proof of this claim.

Table 8: Effect of Financial Risks Management on the Company's Financial Performance

	Min.	Max.	Mean	Std. Deviation
reduction in the volatility of cash flow, protection of earnings against fluctuations	1.00	5.00	4.3000	1.01111
Minimization of foreign exchange losses	1.00	5.00	4.1122	1.00366
reduce the costs of bankruptcy, which follows a prolonged period of financial distress	1.00	5.00	4.1222	1.20706
Consciously manages the firm's exposures in order to achieve the maximisation of values and minimisation of costs.	1.00	5.00	4.1444	1.41272

Source: Fieldwork (2022)

The survey also determined the influence of risk management on the company's financial performance. The results shown in the table indicate that the majority agree that risk management significantly impacts the company's financial performance. The result shows that most respondents regarded that risk management affects financial performance by reducing cash flow volatility and protecting earnings against fluctuations often, which had the highest mean of ($\overline{X}$ = 4.3000). Similar importance was also given to close financial risk management,

consciously managing a firm's exposures to maximise values and minimise costs. The same attention was given to the fact that managing financial risk help reduce the costs of bankruptcy, which follows a prolonged period of financial distress ($\overline{X}$ = 4.1222). The respondent also responded highly to managing risk affecting the minimisation of foreign exchange losses. Dionne (2013) defines risk management as a collection of financial or operational actions that optimises company or portfolio value by reducing expenses associated with cash flow variability, with the latter having an indirect impact on financial performance.

Chapter Summary

The findings above show management strategies and tools results show that Naatoa Company Limited considers most strategies to manage their risks. But one interesting twist in these findings is that most respondents regarded that risk management affects financial performance by reducing cash flow volatility and protecting earnings against fluctuations. The next chapter presents the Chapter summary, recommendation, and conclusion.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The chapter summarises the study process and key findings to draw relevant conclusions and recommendations on financial risks faced by small and medium-scale enterprises in a modern business environment, the case of Naatoa Company limited.

Summary of the Study

The study sought to find financial risks faced by small and medium-scale enterprises in a modern business environment, the case of Naatoa Company limited. The study used descriptive and correlational statistics in analysing data with the help of the SPSS 20.0 version. From a population of 230, a sample size of 120 respondents was selected to provide information that could be generalized for the entire population. However, a retrieval rate of exactly 100% meant that all the 120 questionnaires sent out were recovered for analysis. Through a survey, the following key findings were realised.

Summary of Key Findings

The study determined the types and categories of financial risks faced by Naatoa Company Limited. First, respondents generally believe that almost all SMEs face financial risks. Most employees and the management significantly regarded market risks and all their categories, especially exchange rates, commodity prices and equity risk. This was evident since the overall mean for market risk is a type of financial risk ($\overline{X}$ = 3.9320).

The respondents gave very similar attention to credit risk ($\overline{X}$ =3.7080), especially supplier risk and partner risk, which had a very significant consent for Naatoa company. Also, some respondents with a mean of $\overline{X}$ =3.5341 agree that Financing/Liquidity Risks are a type of financial risk faced. Per the mean figure, it depicts an average response or attention shown regarding liquidity risk. According to Kristofík (2010), SMEs are exposed to many risks due to fewer resources, bad management and others but can be extremely affected by losses due to changes in future market prices or rates often related to interest or foreign interest exchange rate movements. The expansion of financial markets and the usage of various financial instruments, according to Fetisovová et al. (2012), are both associated with increased financial risk. Ngumi's (2011l3) research confirms the existence of credit risk by showing that although the financial risk is present at all times, credit risk signals have a far more direct impact on the profitability of most businesses.

For the second objective of examining risk management strategies and tools considered by Naatoa Company Limited, the respondents reviewed internal risk sharing and risk transfer strategies. The result revealed that the majority (73.33%) of the respondents confirm that the firm accepts a given level of risk but wishes to share that risk with another party (partners, suppliers, stakeholder) which happens to be a risk-sharing strategy. About 65.83%) of them also accepted that the firm considers forward contracts, which is also a significant strategy under risk-sharing strategies.

Payment of a premium to safeguard the purchaser against losses on the insured asset/product (Insurance and Self-insurance), which happens to be a risk

transfer method, also received excellent marks from most respondents (70.0%). Lastly, an average amount of positive feedback was provided to internal strategies, with 55.83 percent of respondents agreeing that the organisation uses diverse risk exposures and treating them may cancel each other out.

Finally, in pursuit of the fourth objective, respondents assessed the effect of financial risks on the company's financial performance. Also, all the respondents accepted that financial risk management influences a company's financial performance. Management of financial risks was seen as beneficial for a number of reasons, including stabilising cash flow, safeguarding earnings from market swings, maximising the firm's value while minimising its expenses, lowering the likelihood of bankruptcy after an extended financial crisis, and limiting exposure to foreign exchange losses.

Conclusions

The objective of the work was to establish financial risks faced by small and medium-scale enterprises in a modern business environment, the case of Naatoa Company limited. From this study, it became evident that SMEs also encounter financial risks. According to the survey, these monetary concerns originated in the market, credit, and financing/liquidity. All these risks influence the financial management of businesses. Most financial hazards are especially dangerous for small firms, especially newer ones that have yet to build up sufficient reserves of cash flow to cover unexpected expenses. As the market-based economy expands rapidly, the pressure on small and medium-sized enterprises to succeed in the marketplace increases.

Every business faces financial risk, which may affect how it is run and the goods it produces. In order to remain competitive in today's market, small and medium-sized enterprises (SMEs) must thoroughly understand the nature, current state, and root causes of financial risk before they can provide adequate preventative and control measures.

It was also seen that SMEs factor in financial risk management strategies, especially risk-sharing risk transfer strategies. Financial risk management is crucial because it offers the data needed to make management choices about risk reduction or avoidance. Financial risk management emphasises the idea that a company's ability to survive rests entirely on its capacity to foresee risk and assess risk rather than wait and disregard risk, which has the potential to damage the company's financial performance. The purpose of the financial risk management framework is to support financial performance because risk management encourages an efficient method of reviewing pertinent indicators for due diligence, which allows the business to meet its targeted financial performance targets. The findings backed the claim that the field of financial risks is of ultimate relevance since all business risks are concentrated in the company's financial risk, which impacts its financial condition.

The research concludes that SMEs' financial success correlates closely with financial risk indicators. SMEs' financial performance and risk indicators have an extended equilibrium connection. They imply that good asset diversification might result in better financial performance for Ghana SMEs via effective asset selection, effective portfolio management, and matching principles to lower risk. The findings

may be disputed by a number of writers using diverse justifications for financial risks, their tactics, and their impact on SMEs' financial success. Since it concentrated solely on a few chosen characteristics of financial risk management, the research had several limitations. Despite this, the study advances intriguing and novel scientific understanding.

Recommendations

The results of this research have important implications for academics, businesspeople, and managers of different SMEs in Ghana and all organisations. Based on the study's findings, it is advised that SME leadership always take into account the identification and quantification of the primary financial risks to which a company is exposed, as well as (b) the establishment of the primary tools and techniques the company will employ to manage those exposures in order to enhance business financial management.

The research demonstrated that implementing these concepts may enhance firm financial management. The findings of this article may be considered by government and non-governmental organisations, particularly in terms of training initiatives. The entrepreneurship training programmes may include the importance of financial risk and its severity on the company. This makes it possible to completely realise the purpose of financial risk management in small businesses.

The research strongly focuses on how businesses must understand the significance of financial risk management and how it is reinforced by rising globalisation and its associated expansion of corporate boundaries for value creation, including sourcing, business alliances, and new markets. This study fills

a knowledge gap in financial risk research and serves as a document for theoretical evaluation and other academic objectives.

In conclusion, this study presents research results that may be valuable to management professionals and researchers in risk management. They contribute to the body of knowledge on effective practices in financial risk management stemming from operational disruptions that might harm SMEs.

Suggestions for Further Studies

1. This study employed a quantitative research approach; in essence, further studies should employ a mixed-method approach to examine the financial risks faced by small and medium-scale enterprises in private business environments.
2. Further studies should look at the effect of bank recapitalisation on the performance of small and medium-scale enterprises in Ghana.
3. The effect of the devaluation of the cedi on small and medium-scale enterprises in Ghana.

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APPENDIX A
Research Questionnaire

Section A

Demographic Characteristics

1. What is your gender?
   Male ☐
   Female ☐

2. Age range
   1. Below 21 ☐
   2. 21 – 30 ☐
   3. 31 – 40 ☐
   4. 41 – 50 ☐
   5. 51 and above ☐

3. Educational background
   1. None ☐
   2. Basic School ☐
   3. Secondary/Technical ☐
   4. Tertiary ☐

Section B

Part I:
The statements below are used to find out how well they acknowledge market risks.

Please select by ticking (√) the appropriate number to rate how you agree or disagree with the statement. ***1 (*Strongly disagree*) 2 (*Disagree*) 3(*Not sure*) 4(*Agree*) 5(*Strongly disagree*)***

Market Risk	**1**	**2**	**3**	**4**	**5**
Foreign exchange rates and price exposure affect the firm's transactions and hence are seen as a financial risk factor.					
Interest rates are considered market risks since prices can suddenly change from suppliers.					
Holding equity in a particular investment via the purchase of stock is a market risk to the firm					
Price fluctuations of basic commodities vital to the business is a risk category.					

Credit Risks
The statements below are used to find out how well they acknowledge credit risks

Please select by ticking (√) the appropriate number to rate how you agree or disagree with the statement. ***1 (*Strongly disagree*) 2 (*Disagree*) 3(*Not sure*) 4(*Agree*) 5(*Strongly disagree*)***

Credit Risk	1	2	3	4	5
Customers fail to pay for goods supplied on credit					
The firm may suffer losses if our key suppliers have difficulty accessing credit /product/ approval to continue trading.					
The firm may suffer losses if a key partner in a joint venture has difficulty accessing credit /product/ approval to continue trading.					

Financing/Liquidity Risks

The statements below are used to find out how well they acknowledge **Financing/Liquidity Risks**

Please select by ticking (√) the appropriate number to rate how you agree or disagree with the statement. ***1 (*Strongly disagree*) 2 (*Disagree*) 3(*Not sure*) 4(*Agree*) 5(*Strongly disagree*)***

	1	2	3	4	5
Access to credit/finance is risky since it comes with covenants, and failure to comply creates the risk					
Uncertainties regarding the ability to slow a position at little or no cost and relates to the availability of funds to meet financial commitments					
The firm considers the possibility of future cash flows falling short of expectations as the consequence of changes in market variables as a risk.					

Part II: Financial risk management strategies and tools

The statements below are used to find out how they consider internal strategies to manage financial risks. (Natural Hedging • Internal Netting)

Please select by ticking (√) the appropriate

INTERNAL STRATEGIES	**Strongly Disagree**	**Disagree**	**Not sure**	**Agree**	**Strongly Agree**
The firm takes advantage of the fact that different risk exposures and handling them may nullify each other					
Firm counteracting exposures are identified to come up with a net balance that can help make a decision about					

The statements below are used to determine how they consider risk-sharing strategies to manage financial risks.
Forwards • Futures • Joint Ventures • Swaps

RISK SHARING STRATEGIES	Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
The firm protects against rises in asset prices by making 'today contracts' for delivery of an asset/product at some specified future date at a pre-agreed price					
Firms consider Futures contracts - standardised forward contracts that are traded exclusively on organized exchanges in any asset/commodity price, interest rate, exchange rate					
The firm is willing to accept a given level of risk, but it may wish to share that risk with another party(partners, stakeholders)					
Firm manages interest rate and exchange rate risks by undertaking contracts to exchange the difference between two cash flows at one or more agreed future dates.					

The statements below are used to determine how they consider risk transfer strategies to manage financial risks.
Options • Insurance • Securitisation

RISK TRANSFER STRATEGIES	Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
The firm considers payment of a premium secures the purchaser against losses on the insured asset/product					
The firm considers the conversion of financial or physical assets into financial instruments that can be traded, often through special-purpose vehicles.					
The firm manages risks by entering into contracts that give the holder the right to buy or sell an underlying asset at an agreed price at one or more specified future dates.					

Part III Effect of financial risks management on the company's financial performance

Please select by ticking (√) the appropriate

	Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
Reduction in the volatility of cash flow, protection of earnings against fluctuations					
Minimization of foreign exchange losses					
Reduce the costs of bankruptcy, which follows a prolonged period of financial distress					
Consciously manages firm's exposures in order to achieve the maximisation of values and minimization of costs.					