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SMES, BUSINESS RISKS AND SUSTAINABILITY IN NIGERIA

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ABSTRACT

Small and Medium Scale Enterprises (SMEs) are critical to the Economic Growth and Development of Nigeria. However, this can only be possible in a risk free operating environment. This study examines the relationship between business risks and the sustainability of SMEs in Nigeria. SMEs face a number of risks that requires objective and conscious risk management efforts. Primary data were generated from fifty (50) SMEs in Lagos State. Data analysis and hypotheses testing were done with the use of Chi-square and descriptive statistics. The result revealed that standard risk management strategy by SMEs will result to their sustainability. It was recommended that entrepreneurs should consider risk management as an integral part of business management. Also, regulators should insist on minimum corporate governance standards for SMEs.

Keywords: SMEs, Sustainability, Risk Management, ERM, Enterprise Risks.

1. Introduction

Studies in recent times have established the fact that Small and Medium Scale Enterprises (SMEs) are keys to the growth and development of economies. According to Ojukwu (2006) SMEs provides the cornerstones on which any country's economic growth and stability rests. Stokes (1998), Szabo (1998), The Nigerian Business Info (2003), and the Organization for Economic Co-Operation and Development: (OECD) (2006) support the argument that SMEs form the backbone of all economies. This is based on the premise that SMEs represent more than 99% of all employers, employ 51% of private - sector workers, provide about 75% of new jobs of the private sector output and represent 96% of all goods exported (Twist,2000 cited in Ojukwu 2006).

In OECD countries, SMEs account for over 95% of firms, 60-70% of employment and 55% of Gross Domestic Products (GDP) (OECD, 2006). OECD further reports that in developing countries, SMEs represents more than 90% of all firms and such firms contribute significantly to GDP. There are various ways through which SMEs contribute to the economy. Ojukwu (2006) posits that SMEs stimulate indigenous entrepreneurship, provide employment to a greater number of people, mobilize and utilize domestic savings and generate inputs for large-scale production.

According to Aganga cited in Adeloye (2012), Nigeria has an estimated population of seventeen million SMEs, representing over 80% of the total number of firms in Nigeria and employ over 31 million Nigerians or about 75% of the total workforce. Aganga further noted that SME's contribution to the GDP in Nigeria is relatively low as a result of the major constraints in the operating environment (Adeloye, 2012). Such constraints include insecurity, corruption and poor infrastructure (Kauffmann, 2005). These in addition to other internal and external business challenges further expand the difficulty of SMEs in the performance of their economic roles. Similarly, Suh (2010) posits that the SMEs sector is worst affected by the economic environment and is the first to be hit by any external shock. This implies that SMEs are weak in terms of business plan, management structure and in decision making (Kelkar, 2008). In addition, SMEs are characterized by inability to absorb most uncertainties and risks confronting business organisations. This has direct impact on their performance and therefore weakens their ability to achieve economic sustainability.

1.1 Statement of Problem

In spite of the efforts of government and other stakeholders to achieve economic growth and development through sustainable SMEs, most small firms are short-lived. According to Utomi (2008) cited in Ifekwem, Oghojafor, and Kuye (2011), few of the early wealthy families (SMEs owners) have been able to sustain wealth past one generation, many of the ventures have failed rather than change ownership. Unlike in Nigeria, most large public firms in some countries were SMEs. This does not only result from the basic challenges facing SMEs in Nigeria, it stems out of the poor attitudes of SMEs owners to business risk and their management.

SMEs seem to be generally characterized by limited capital. In addition, they usually lack the requirements to assess the various funding options open to business firms. However, in their efforts to expand and grow their businesses, SMEs owners engage in various credit options which further exposes them to financial risks. This is because most SMEs find it difficult to fulfill their financial obligations to their various creditors thereby resorting to early liquidation in order to pay their debts with the business' assets. Furthermore, SMEs are weak and confront a lot of competition from their larger counterparts. These usually put them in poor strategic positions because they lack the wherewithal needed to withstand such competition like qualified and skilled workforce, adequate professionalism, limited capital and other resources among others. These expose them to serious strategic risks which limit their chance of survival.

SMEs face a number of operational risks. This stems mainly from the fact that most SMEs are family businesses structured along sole-proprietorship or partnership. Managerial decisions here are usually at the mercy of the key owner who in most cases lacks basic managerial skills, qualities and culture to manage a business successfully. This also has effects on the management structure and employees-employer relationship. In addition, SMEs' survival is threatened by high employee turnover, this result to poor and unstable organisation structure.

Furthermore as business entities, SMEs face a lot of hazard or pure risks. These include personal risks which result from bodily injury to or death of employees while working. Also, property risks which emanate from damage to plants, machineries or other assets use for production. Liability risks which place responsibility of other people's losses on the entrepreneurs and risks that arise from the failure of other people like debtors, suppliers, contractors among others. The happening of these risks hinder the performance, growth and expansion of SMEs. This is why Idemobi (2012) reports that over 70% of SMEs die within five years of establishment.

1.2 Objectives

From the above stated problems, the study explores the various business risks facing SMEs and to suggest strategies that could be used in their management in order to enhance their sustainability. Studies have revealed that most SMEs do not succeed their owners (for example, see Ifekwem et al, 2011 and Idemobi, 2012). This has been attributed to some factors among which are inability of SMEs owner to give adequate attention to business risks and their management (Terungwa, 2012).

In view of the above, this paper is intended to:

i. Examine the economic role of SMEs.
ii. Identify the major business risks that affect SMEs' performance.
iii. Suggest the most significant techniques for the management of SMEs risks.
iv. Examine the effect of business risk management on SMEs' sustainability.

2. **Literature Review**

2.1 ***Conceptual Clarification of SMEs***

There is no generally acceptable definition of SME (Altman, Sabato, and Wilson, 2008; Henschel, 2009). This is because there are no uniform criteria to measure them in terms of capital outlay, number of employees, sales turnover, fixed capital investment, available plant and machinery, market share, level of development and even nomenclature (Ogechukwu, 2011). These differences are from country to country, industry to industry, school to school and author to author (Fatai, 2010).

According to United Nations Environment Programme (UNEP) (2003), while some countries prefer to categorise small enterprises into three, that is, micro, small and medium or very small, small and medium, some other countries adopt two categories of small and medium. As a result, authors from different countries have come with different definitions of SMEs based on the classification used in their countries and the guidelines approved by their governments.

In order to minimize the controversy likely to be generated by these disagreements in conceptual clarification, numerous authors have reduced the criteria to be considered for SMEs definition into two (Altman et al, 2008; Henschel 2009). These are theoretical and operational definitions. Henschel (2009) specifically points out that theoretical definitions of SMEs considers qualitative criteria such as autonomy, personal comprehensibility as well as the financial and personal engagement of at least the owner. The author further posits that an operational definitions of SMEs look at quantitative criteria like annual turnover, number of employees and capital outlay.

According to UNEP (2003), European Union submits that Micro firms are those which employ less than 10 employees and with an annual turnover of about 2million Euros, small firms employ less than 50 employees and with about 10 million Euros as their annual turnover while medium-sized firms employ less than 250 employees with an annual turnover of 43 million Euros. Henschel (2009) reports that an SME in the United Kingdom is a company that employs less than 250 workers, while in the United States of America the figure is less than 500 employees.

In South Africa, small businesses are categorized into four, namely; micro enterprises, very small enterprises, small enterprises and medium enterprise (Smith and Watkins, 2012). The authors further put it that the differentiating factor between these categories is the number of employees. However, UNEP (2003), points out that advancement in Information and Communication Technology (ICT) could make SMEs definitions that take number of employees into account less relevant.

In Nigeria, a number of definitions of SMEs have been made available. Fatai (2012) opines that different authors, institutions, government agencies and policies have suggested different ways to define SMEs at various times over the years. These definitions seem to consider the various features of SMEs and the current economic situation of the country. Ogechukwu (2011) posits that different authors, scholars and schools have different ideas as to the differences in Capital outlay, number of employees, sales turnover, fixed capital investment, available plant and machinery, market share and the level of development, differences in these factors reflect in the available definitions of SMEs.

The table below summarises some of the definitions used in Nigeria.

Table 1: SMEs Definitions in Nigeria.

Author	Year	No Of Employees	Capital Employed/Asset
The Small Scale Industries Association Of Nigeria	1973	Not More Than 50	₦60,000 (Pre-Sap Value)
The Third National Development Plan	1975-1980	Less Than 10	₦600,000
The Federal Government	1980	Nill	₦150,000
The Centre For Management Development (CMD)	1982	50 Full-Time Workers	Nill
The Central Bank Of Nigeria	1995	Nill	Less Than ₦500,000
Ogundele	2000	5	₦ 5000
The Federal Ministry Of Commerce And Industries	2003	Not More Than 50	₦250, 000

Source: Author’s Compilation, (2013).

2.2 *Role of SMEs in Economic Development*

SMEs have a number of significant contributions to the economic growth and development of Nigeria. Ariyo (2008) affirms that SMEs account for 97% of all businesses in Nigeria, employs 50% of Nigeria's workforce and produce 50% of Nigeria's industrial output. Moreso, SMEs enhance the distribution of economic growth in a decentralized and more equitable manner, eliminating concentrated areas of population and enable equitable distribution of wealth in an emerging economy (Nowduri, 2012). SMEs also participate actively in the mobilization of the natural resources and reduce supply in the labour market (Ogechukwu, 2011).

The role of SMEs in an economy is enormous. The following are some contributions of SME's to Nigerian economic growth:

i. SMEs are sources of employment generation, this is because more jobs per unit of investment capital and per unit of energy consumed are created worldwide by SMEs than large -scale enterprises, providing employment to a lot of unemployed Nigerians.

ii. SMEs provide a training avenue for the creation of local entrepreneurs in several areas of Economic activities. They are regarded as training ground for developing human capital and potential entrepreneurs who are well equipped to establish and successfully manage business organizations regardless of size.

iii. SMEs proliferation has increase the level of economic and social development particularly in the rural areas. They are easily located in rural areas because they can survive on rudimentary industrial infrastructures. Consequently, they serve as major facilitators for industrial dispersal and rural development and thus help in mitigating the rural-urban drift.

iv. When SMEs are cited in rural areas, they help to improve rural infrastructure and the living standard of the people. Social amenities such as: road, electricity, pipe-borne water, telecommunication facilities, etc, are attracted to the area as a result of the presence of SMEs in the community.

v. Also, existence of SMEs has minimized the pressure and dependence on government and large companies by job seekers for salaried employment. They provide opportunities for the development of local skills and technological acquisition. The "Aba made" syndrome is a clear example of such technological acquisition. This is made possible by the liberalization policy of the government in some sectors including communication, education, and energy among others. Further encouragement in this regard will give rise to rapid economic development.

vi. SMEs act as catalysts to large enterprises through the supply of raw materials and goods to them. They also engage in the distribution of finished products from such big firms to the final consumers.

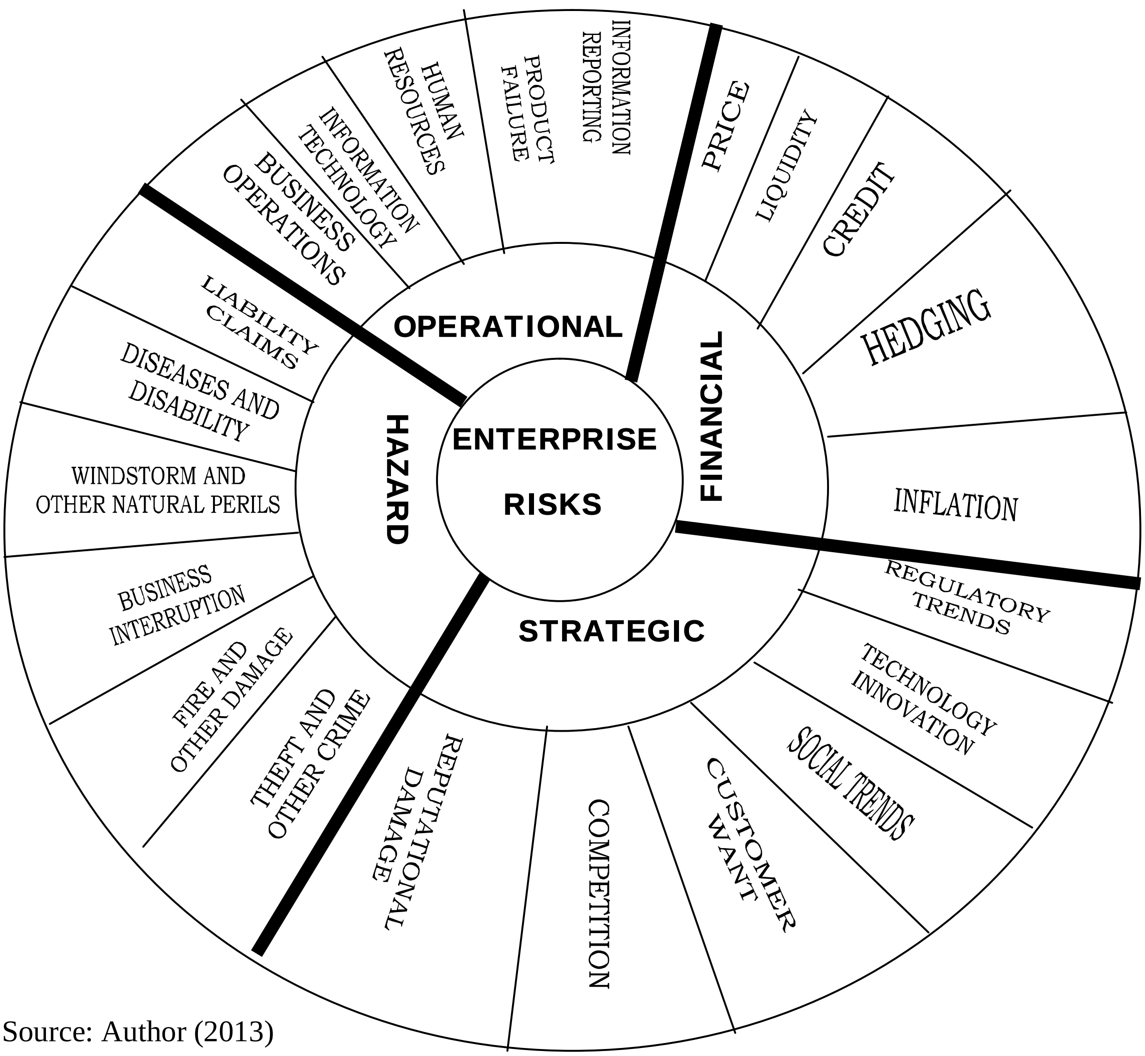
vii. Sound development of SMEs has positive implications for improved standard of living of the people. In addition, it generates foreign exchange for further development of the economy.

2.3 *Business Risks Facing SMEs*

SMEs and large firms operate in the same business environment but there are evidences that they derive different benefits and opportunities therein. Moreso, they are exposed to diverse categories of risks. This is because of their differences in economic capacity including asses to human capital and material resources. Kelkar (2008) posits that SMEs are weak in terms of business plan, management structure and in decision making when compared to large organizations. This further increases SMEs' inability to absorb most business uncertainties and risks. According to Suh (2010) SMEs sector is worst affected by the economic environment and is the first to be hit by any external shock. As a result, there are more SMEs closures than establishments, with approximately only 1% of SMEs growing from having five or less employees to ten or more (Mead and Liedholin 1998; cited in Smith and Watkins, 2012). The implication is that SMEs face a wider range of business risks which are rooted in both the internal and external environment of the enterprises (AIRMIC, ALARM and IRM, 2002).

There are various ways of categorizing risks faced by business organisations (SMEs inclusive). Business risks are commonly categorised into four major types. This categorisation is developed with the emergence of Enterprise Risk Management (ERM). The Casualty Actuarial Society: (CAS) (2003) lists the four major risks to include Hazard Risk, Financial Risk, Operational Risk and Strategic Risk. Each of these is further broken down into specific risks as shown in the diagram below

Figure 1: Categories of Enterprise (SMEs) Risks.



Source: Author (2013)

Hazard risks are risks that are traditionally insurable. They are sometimes called pure or insurance risks. Financial risks comprise of potential losses as a result of fluctuations in the operations of the various financial markets like the capital market, foreign exchange market and the commodity market. Operational risks arise from a number of situations like product development, product failure, information technology, management fraud, and employees' agitation. Strategic risks relates to factors like competition, customer preferences, technological innovation and regulatory/political issues.

It is worthy of note that business opportunities lies in risk, therefore risks could be exploited in favour of business objectives. CAS (2003) asserts that not every risk should be viewed as situations to be minimized or avoided. Risks should also be seen as potential profit or value creating opportunity (Darcy and Brogan, 2001). This idea is popularized by the ERM proponents. According to Hoffman (2009) the use of ERM can be viewed as a business competency enabling managers to optimize opportunities associated with risks. This implies that entrepreneurs while conducting risk management should evaluate all risks in order to identify their potentials before taking the decision about how best to treat them.

2.4 *SMEs Risks Management*

Head (2009) defines risk management as the process of planning, organizing, directing and controlling resources to achieve given objectives when good or bad events are possible. Vaughan and Vaughan (2001) consider risk management as a scientific approach to dealing with pure risks by anticipating possible accidental losses and designing and implementing procedures that minimize the occurrence of loss or the financial impact of the losses that do occur. The authors further submit that the main objective of risk management is to ensure that the organisation is not prevented from achieving its primary objectives as a result of losses that might arise from its operations.

SMEs risk management has not received desired attention in the literatures despite its importance. ICAEW (2002) concludes that there is still little guidance on how SMEs should best manage risk, who should be responsible, and where to turn to for advice. Similarly, Henschel (2009) submits that there are very few sources in the literature on risk management as applied by SMEs. This implies that SMEs risk management is still in an early phase of development and that no standard for SMEs has yet become established which would describe how a comprehensive risk management should appear.

However, Henschel and Gao (2010) affirm that a risk management system is necessary for SMEs not only because it is required by law but rather because it is in the essential interest of the SME. Moreso, risk management is a major concern for SMEs particularly because of their sensitivity to business risk and competition (Smith and Watkins, 2012). Risk management will therefore help in the development of contingency plan to stop the erosion of organizational income and improve performance.

The purpose of risk management is to control and manage the existing risks of a company so that nothing will hinder the organization from achieving its main and long term goal. Also to ensure that the risk exposures of a company can be controlled within the available resources of the company (Henschel, 2009). The achievement of these goals usually begins with the performance of the risk management function. Watt (2007) opines that the risk management function in SMEs is usually at the prerogative of the owner. This however means that SMEs risk management will greatly be influenced by the owner's risk perception and his attitude towards risk management (Ntihane, 1995) cited by Smit and Watkins (2012). In this regard, entrepreneurs should acquire the skills of risk identification, analysis and control. Alternatively, the function of risk management should be assigned to another person with the necessary skills within or outside the enterprise.

Risk management function involves the application of a process developed following some steps (Henschel, 2009; Vaughan and Vaughan, 2001). A sequential implementation of the process enables the achievement of the risk management objectives. Though authors' opinions differ about the uniformity of the process and the number of steps it should involve, the risk management guide for small business (2005) suggested a seven steps risk management process for SMEs.

The risk management process begins with communication and consultation. These aim at identifying and selecting those who should be involved in the entire risk management process. This first step will be reflected in each of the other steps of the process. The next step is to establish context. This step requires SMEs to define the boundaries within which their risk management process will function. Five issues are to be addressed here. First is the establishment of the internal context which identifies the broad objectives and goals of the organization. The second issue defines the total assessment of the external environment in which the SME operates. It may engage a SWOT analysis of the environment. The third issue to be considered is to establish the risk management context. The fourth step to be taken is the development of risk criteria. This enables the business to clearly define its level of risk acceptance while the last issue to be considered is to define the structure for risk analysis.

Risk cannot be managed unless it is first identified. Therefore, the next step of the process is risk identification. Its aim is to identify possible risks that may affect the objective of the business negatively or positively. Risk analysis is the fourth step of the process. It enables risks to be classified according to their importance. It also assists in the determination of both the possible impact of risks and likelihood of occurrence. Henschel (2009) recommends that SMEs should avoid rigorous risk analysis techniques. Instead, they should draw on checklist, questionnaires, workshop, feedback diagrams and risk brainstorming. After risk analysis is risk evaluation, this implies a comparison between the levels of risk found during risk analysis to the acceptance level of risks earlier determined in the process.

Evaluation is followed by risk treatment. This concerns considering alternative risk treatment strategies and selection of the best option to treat each risk, particularly those not considered tolerable. The various risk treatment devices open to SMEs are risk avoidance, loss prevention, loss reduction, risk sharing, risk retention, risk transfer and risk diversification. The last step of the risk management process is to monitor and review. Like the first step, this also cut across the entire process. Risk changes over time, hence, the need for periodical monitoring and review to ensure that changing circumstances do not alter the risk priorities.

SMEs' risk management is basically the responsibility of the owner who will account for risk decisions made for the business. The size of an enterprise, measured by the number of employees will determine the complexity and the level of formalization require by the risk management system. There are three level of formalization according to the Risk management guide for small business (2005). The first is intuitive, which is simply an oral risk management process. This risk management process does not require any paper records. It can be applied through intuition in critical time or dynamic situation. The second level of formalization is the planned risk management process. This involves the careful application of the risk management process. It engages available data to determine and assess the risks, and then to consider appropriate control measures. The calculated risk management process is the last level of formalization. This may require more research and data collection and more comprehensive consultation with stakeholders and experts. It is usually used when there is a project or activity that involves significant resources or equipment.

2.5 ***SMEs Sustainability***

The aim of an average entrepreneur (SMEs, owners in particular) extends beyond profit-making. Business growth and expansion constitute key objectives of SMEs. However, in a study conducted by Idemobi (2012), it was revealed that over 70% of SMEs die within five years of establishment. This means that less than 30% of SMEs can survive various business challenges.

The concept of sustainability as used here is defined as the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families, the local and global community as well as future generations (Crals and Vereeck, 2004). Sustainability is often considered as a possibility for large enterprises than SMEs because of variations in size and ability to overcome challenges in the business environment. In view of this, an entrepreneur must recognize and extend fair treatment to the three P's of People, Planet and Profit (Crals and Vereek, 2004). The authors further argue that all the aspects have to be satisfied before SMEs can be labeled as sustainable.

Firstly, the aspect of "People" looks at how SMEs handle social and ethical issues. The kind of treatment they extend to their employees, whether it encourages social cohesion or not. Key issues like the protection of human rights, non-indulgence in fraud and corruption, the use of child labour, gender relationship and discrimination on the work floor, employees participation in management and profits are to be considered.

The second aspect looks at the natural environment. The Planet as used here considers the effect and remedy of entrepreneurial activities on the natural resources. In line with the Indian adage that says that "we did not inherit the earth from our ancestors; it is on loan from our children", SMEs must also show adequate care towards the natural environment.
Finally, 'Profit' the third aspect does not relate directly to the financial results of an enterprise. It also considers the use and allocation of value added for employment, investments in machines and infrastructure.

These 3p's of sustainability also form the main sources of business risks face by SMEs. A careful recognition and handling of these three aspects would not only mean movement towards sustainability but also attempt to address the risks that threaten the achievement of enterprises' corporate objectives. Nowduri (2012) adopts the following tips from Giuseppu (2005) and Kathleen (2010) to better handle SMEs risks for the purpose of sustainability:

- SMEs should learn creative ways to manage difficult times. Free avenues like social media and word of mouth could be adopted in place of spending on marketing.
- SMEs owners should always be prepared for unpredictable business situation.
- Also, SMEs should be surrounded by strong support network of trusted professional contact and close relations.
- The SMEs owner must create time to examine and evaluate risks of the business.
- In addition, the entrepreneur should imbibe adaptability by giving room for reaction time. Thus, keep a watch on happenings in the business environment and prepares for uncertainties.
- The business owner must always look at best fit for proposed new ventures by studying business factors from internal and external environment.
- Lastly, the entrepreneur should always have a back up business plan for new products and services.

SMEs that do not anticipate and take to these requirements risk loosing business to competitors that do or did invest in sustainable production methods (Crals and Vereek, 2004). Sustainable SMEs will enjoy among others, the following benefits:

3. Data and Methodology

The study was carried out in Lagos state, the economic capital of Nigeria. The population of the study is the Small and Medium Scale Enterprises (SMEs) in Lagos State. Fifty SMEs were randomly selected from two local government areas in the state. Data were gathered through personal interview conducted by the researchers with support of two trained assistants. Owners or senior management employees of the selected SMEs were required to respond to twenty (20) questions set by the researchers.
The sample was composed of SMEs with a maximum of 20 employees engaging in either manufacturing or business services.

Chi-square and descriptive statistics of frequency and percentage were used to analyze the data to determine if there is any significant relationship between the variables in each hypothesis. Statistical Package for Social Sciences (SPSS 15.0) and stata (version10) was used to analyze the data. Out of the fifty (50) SMEs selected as sample, responses from thirty four (34) SMEs were considered for data analysis.

The keys to the respondents and their respective ratings are given as follows:

VLR = Very Low Risk LR = Low Risk HR =High Risk and

VHR = Very High Risk

VLR = 1, LR=2, HR =3, VHR = 4

VLI = Very Low Impact LI = Low Impact HI =High impact

VHI = Very High Impact

VLI = 1, LI=2, HI =3, VHI = 4

SA = Strongly Agree A = Agree SD =Strongly Disagree D = Disagree

SA a= 4, A=3, SD=2, D=1,

4. Results and Discussion

The rule guiding the acceptability of the hypotheses states that, when the p-value is less than 0.05, the researcher accepts the alternate hypothesis and rejects the null hypothesis. On the other hand, if the p-value is greater than 0.05, the null hypothesis is accepted the alternate hypothesis rejected. The three hypotheses stated for this study are:

HO_1: There is no significant relationship between business risk and SMEs’ performance in Lagos State.

HO_2: There are no significant techniques used for managing SMEs’ risks in Lagos State.

HO_3: There is no significant relationship between business risk and SMEs’sustainability in Lagos State.

4.1 *Discussion of Findings*

The result of this study reveals that SMEs are exposed to a combination of business risks, though at varying degrees. This depends on among other factors the operations of the business. The risks of property loss, fire or explosion, business interruption, employees' safety, product liability, finance and ICT are among the risks that frequently occur among SMEs. However, credit risks, fire or explosion, and employees' safety pose a very big threat to the survival of SMEs since they impose a very high financial impact on them. This is unlike business interruption, environmental risks, financial risks, product liability, ICT, and market changes which financial impact on SMEs is low.

This reflect the fact that most SMEs in Nigeria operates in the service sector with relatively very low productive capacity in terms of human, financial, and physical resources.

A combination of both likelihood of occurrence and severity of some selected business risks among SMEs indicates that the economic survival of SMEs depend on their ability to mitigate risks. This is presented on table 1. The result supports the findings of Idemobi (2012) that 70% of SMEs in Nigeria die within five years of establishment. Also, Utomi (2008) cited in Ifekwem et al (2011) opine that most SMEs failed before they could change ownership.

The result in table 2 indicates that SMEs do not engage in formal risk management process. While majority of them (58.8% who do not attend to this section of the questionnaire) totally ignore the risk management process, the remaining 41.2% only undertake selected steps of the process. As shown in figure 1, most SMEs either identify or monitor risks while few others do a combination of both steps. This implies further that majority of the SMEs in Nigeria do not measure (evaluate) and financially control risks. This is a confirmation of the position of Pradama (2012) that SMEs owner-managers who are responsible for risk management do not invest enough time and resources to the development and implementation of risk management strategy.

SMEs mostly adopt risk prevention and reduction in controlling their risks. This is revealed by table 3 and figure 2. These techniques are considered suitable because of their cost effectiveness. The least used risk control measures among SMEs is avoidance. This is because as entrepreneurs, they are expected to exploit risks and not to ignore them. This is in support of the opinion of CAS (2003) and Darcy Brogan (2001) that every risk should not be viewed as situations to be minimized or avoided, but rather as potential profit or value creating opportunity. The result also shows that insurance is not attractive to Nigerian SMEs because of its perceived cost implication on their performance.

The result in table 4 shows clearly that a significant relationship exists between business risks and SMEs' sustainability. This could be linked to the result in table 3 which clearly indicate a negative relationship between SMEs' risks and performance. This therefore means that a careful management of SMEs' risks will result to positive performance which will further enhance sustainability.

4.2 *Conclusion*

The survival and economic performance of any 21st century enterprise rest highly on the strategic development and implementation of quality risk management plan. Despite the huge potentiality of SMEs for the development of Nigerian economy, their real contribution is relatively low. This on one hand is attributed to the combination of risks and uncertainties that inhibit their success. On the other hand is the lack of required skills to handle these risks properly.

This study has been able to identify key risks that could hinder the economic sustainability of SMEs. However, proper development and application of risk management process will result to higher performance of SMEs. The SMEs sector is known for the challenge of poor funding and as a result, they find it difficult to invest in risk management programme. The responsibility of risk management therefore remains the prerogative of the owner whose decisions may lack the required professional qualities.

4.3 *Recommendations*

The following recommendations are hereby submitted by the researchers base on the findings of this study:

- The governments should intensify their efforts in tackling the challenge of funding SMEs as this will make more resources available for treating risks confronting SMEs.
- SMEs owners should be meant to imbibe the culture of corporate governance.
- Nigerian entrepreneurs should not restrict themselves to only the economic objectives of profitability, growth and expansion. They should consider risk management as not just a business objective but a means of achieving other business objectives.
- Risk management unit/department headed by a trained risk manager should be created in business organisations, while SMEs, due to their size should have an employee charged with the responsibility of managing risks.
- Risk management skills acquisition should be added to the training giving to employees of SMEs and they should be regularly communicated on issues relating to risk management.
- The idea of micro-insurance should be attended to and made attractive to SMEs in order to make insurance policies affordable to them.

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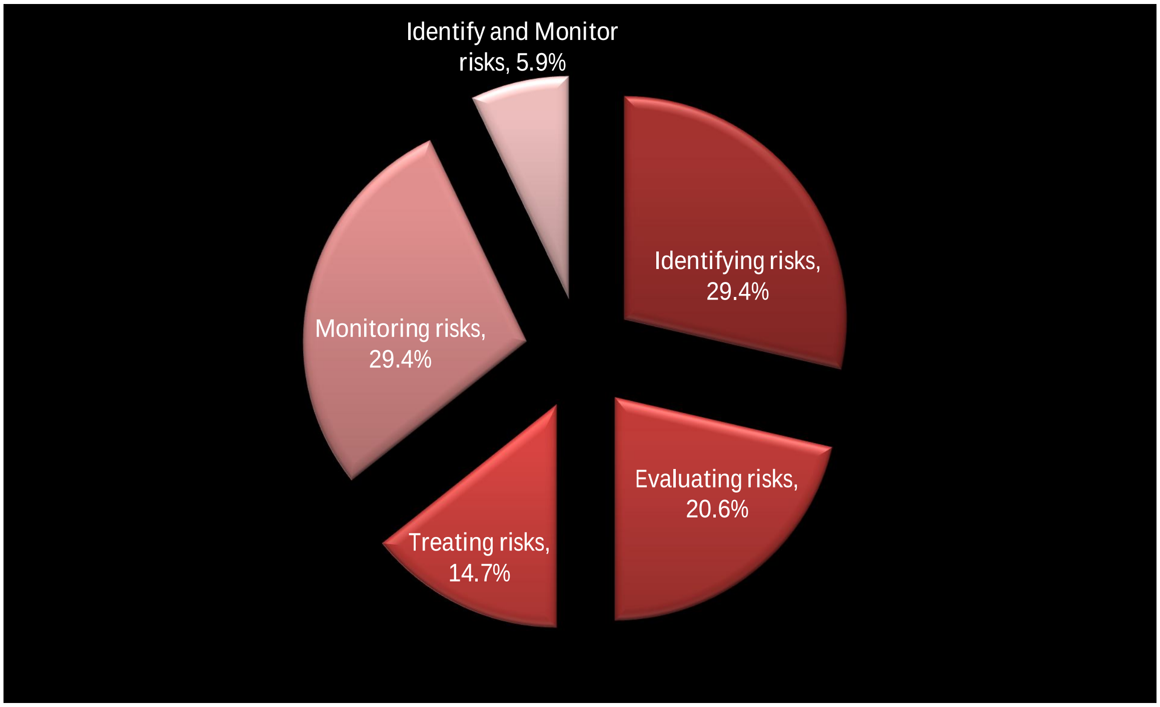

Figure – 1: Engagement of the risk management process by SMEs.

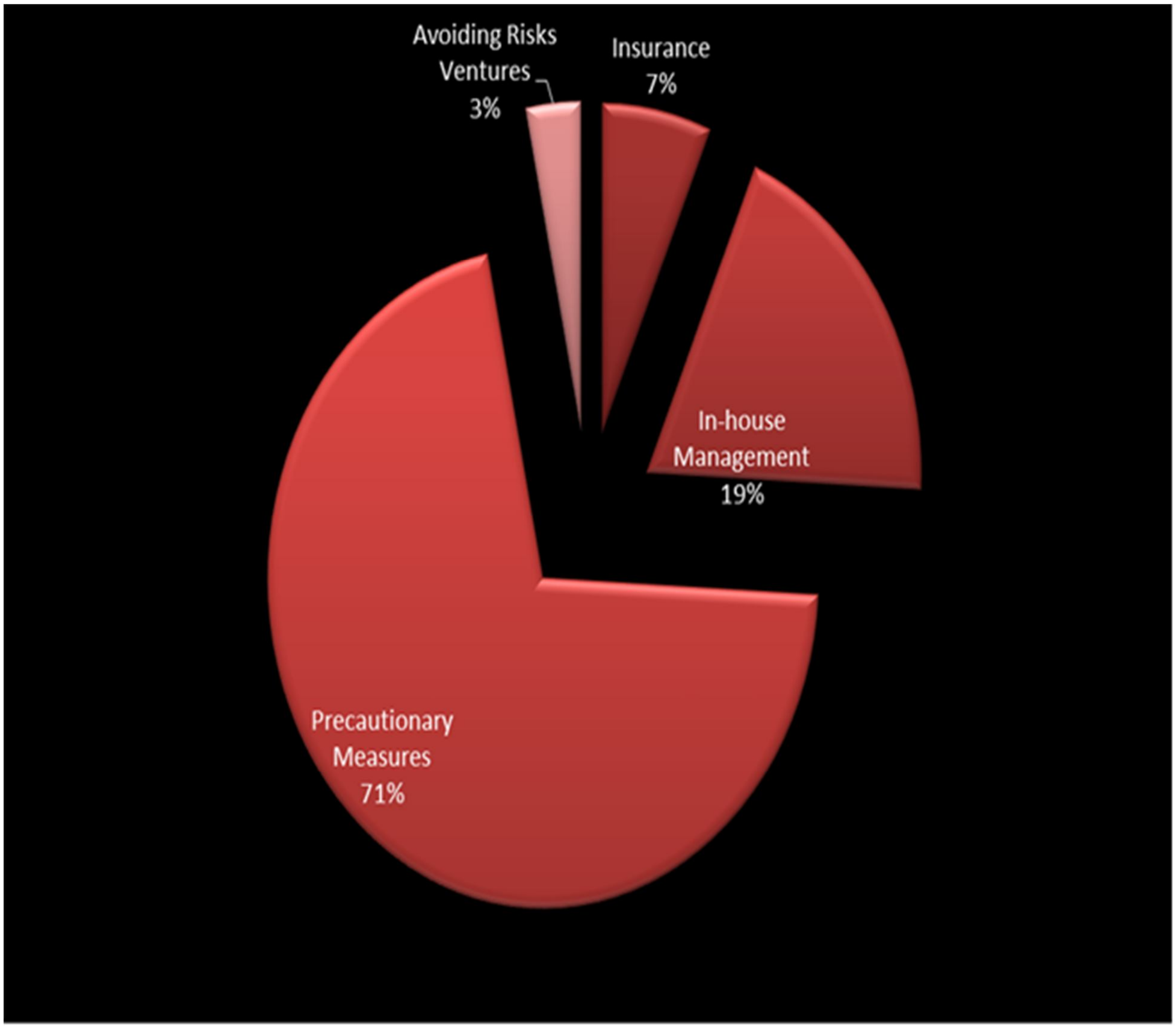

Figure – 2: Adoption of the various techniques of risk control among SMEs

Tables

Table_1: Chi-square test for independence result showing the relationship between business risks and SMEs' performance

Risks	Frequency	VLI	LI	HI	VHI	Total	Df	X^2cal	P-val	R
Credit Risk	Observed	7	6	16	3	32	42	93.7	0.027	-0.093
	Expected	7.6	9.9	9.0	5.5	32.0				
Fire or explosion	Observed	6	3	10	14	33				
	Expected	7.8	10.3	9.2	5.7	33.0				
Security of Property	Observed	4	13	9	6	32				
	Expected	7.6	9.9	9.0	5.5	32.0				
Safety of Employees	Observed	5	11	14	1	31				
	Expected	7.3	9.6	8.7	5.4	31.0				
Business Interruption	Observed	4	10	11	6	31				
	Expected	7.3	9.6	8.7	5.4	31.0				
Political Risk	Observed	10	14	6	2	32				
	Expected	7.6	9.9	9.0	5.5	32.0				
Environmental Risks	Observed	8	8	10	3	29				
	Expected	6.9	9.0	8.1	5.0	29.0				
Finance	Observed	9	5	7	8	29				
	Expected	6.9	9.0	8.1	5.0	29.0				
Fraud	Observed	8	7	5	11	31				
	Expected	7.3	9.6	8.7	5.4	31.0				
Treasury	Observed	7	14	9	1	31				
	Expected	7.3	9.6	8.7	5.4	31.0				
Pension Fund Integrity	Observed	15	7	4	0	26				
	Expected	6.1	8.1	7.3	4.5	26.0				
Product Liability/Quality	Observed	8	12	5	4	29				
	Expected	6.9	9.0	8.1	5.0	29.0				
People	Observed	4	12	9	7	32				
	Expected	7.6	9.9	9.0	5.5	32.0				
ICT	Observed	8	7	5	8	28				
	Expected	6.6	8.7	7.8	4.8	28.0				
Market Changes/Sales	Observed	5	13	8	5	31				
	Expected	7.3	9.6	8.7	5.4	31.0				
Total	Observed	108	142	128	79	457				
	Expected	108.0	142.0	128.0	79.0	457.0				

X^2 = 93.7 (df = 42; p< 0.05).

The X^2 value of 93.7 (df = 42, $p< 0.05$) is significant at 0.05. This result, therefore suggested that business risks significantly affect the performance of SMEs. The r value of -0.093 indicated that, there is a weak negative relationship between the variables of interest, hence, the lower the risks encountered by the SMEs, the better their performance.

Table_2: Frequency and percentage result showing the organizational formal procedures for managing SMEs' risks

Procedures	Frequency	Percentage
Identifying risks	10	29.4
Evaluating Risks	7	20.6
Treating Risks	5	14.7
Monitoring Risks	10	29.4
Identify and Monitor Risks	2	5.9
Total	34	100.0

Source: Field survey, February, 2013.

Interpretation:

The table above revealed the extent of adopting the risk management process by SMEs. 29.4% of the respondents were of the opinion that they identify risks in their organizations, 20.6% revealed that, they evaluate risk, 14.7% showed that they treat risks in their organizations, 29.4% revealed that they monitor risks in their organizations and the remaining 5.9% revealed that they do not only identify organizational risks, but they also monitor them. The result showed that SMEs employed at least one step of the risk management process. For further clarification, the exploded pie chart marked as figure 1 shows how SMEs applied the risk management process.

Table_3: Frequency and percentage result showing risk management techniques used to control SMEs' risks in Lagos State

Techniques	Frequency	Percentage
Insurance	3	6.5
In-house Management	6	19.3
Precautionary Measures	24	71.0
Avoiding Risky Ventures	1	3.2
Total	34	100.0

Source: Field survey, February, 2013.

Interpretation:

The table above revealed the different techniques used to control SMEs' risks. It showed that 6.5% of the respondents transfer their risks to insurance companies, 19.3% revealed that they adopt in-house (retention) technique in controlling risks, 71.0% showed that they use precautionary (reduction) measures to control risks and the remaining 3.2% avoid risky ventures. The result showed that all the organizations involved in the study employed at least one of the enlisted techniques in managing their business risks. For further clarification, the information is illustrated in the exploded pie chart marked as figure 2.

Table_4: Chi-square test for independence result showing the relationship between business risk and SMEs' sustainability

X^2 = 18.2 (df = 3; p< 0.05). The X^2 value of 18.2 (df = 3, p< 0.05) is

Responses	***Observed Value***	***Expected Value***	***Df***	***X^2-cal***	***P-value***	***Decision***
SD	*04*	*8.5*	*3*	*18.2*	*0.000*	*Accept alternate hypothesis*
D	*02*	*8.5*				
A	*18*	*8.5*				
SA	*10*	*8.5*				

significant at 0.05. Based on this result, the alternate hypothesis which states that there is a significant relationship between business risk and SMEs' sustainability is accepted. This result indicated that business risk affects SMEs' sustainability.