

**“Operational Risk Management in SME’s based in Kya Sands
Industrial Area”**

by

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ABSTRACT

The purpose of this study is to investigate the role of Operational Risk Management (ORM) in the successes of Small Medium Enterprise (SME's) and to establish whether ORM has a direct correlation to the survival rate of SME's, which have been operational for a minimum period of five years. The study was limited geographically to Gauteng South Africa, in particular the Kya Sands Industrial area.

The South African Government is focusing on promoting small business to reduce the high unemployment rate and to increase the growth of the economy through developing SME's. Statistics states that South Africa currently has an unemployment rate of 25.5 per cent, in the third quarter of 2015 (Statistic South Africa, 2015), which is the worst rate since the first Labor Forces Survey in 2008. It is well known that SME's contribute significantly to the world's economy.

After conducting a significant literature review, it was found that no applicable research has been done globally or locally regarding ORM in SME's as per NG & Kee (2012). Most research in ORM is focused on large organisations, specifically the banking industry.

The need for this study arose as literature reviews reveals a high rate of SME failures, regardless of various financial assistance programs from Government for starting and assisting SME's.

In determining the impact of ORM by addressing the high probability of failure of SME's in emerging markets this research will be the first step in determining the value and trajectory of additional insights for SME sustainability. Thus ORM could indirectly provide assistance in undertaking and addressing the unemployment and economic freedom challenges in South Africa. This is unique and new knowledge generating ground breaking findings as ORM was not regarded nor researched, as a critical contributing success factor for smaller companies.

This research had a positive approach and was of a quantitative and exploratory nature to investigate the research question and problem statements. The research instrument was a self-designed semi-structured enumerated questionnaire. Personal

interviews were conducted with willing participants in order to obtain first hand data. This was an avant-garde study. The results based on the facts and perception of the owners and managers indicated the extent of implementation of ORM in the various business departments of the SME's. It was found that ORM is a contributing factor regarding the success of SME's. As a result, the main research problem and sub-problems were answered. Therefore ORM definitely plays a vital role in the survival rate of a SME and can be regarded as a critical success factor for SME's if implemented and managed. Through identifying the facts and perceptions of the owners and managers of SME's regarding ORM, further research can be conducted to identify the extent that ORM can have on the SME's successes.

DECLARATION

Name: Benjamin Phillipus Allen

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Degree: Magister Technologiae Business Administration

Operational Risk Management in SME's based in Kya Sands Industrial Area.

I declare that the above dissertation/thesis is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

SIGNATURE

DATE

DEDICATION

I dedicate this dissertation to my wife Belinda and twin daughters Chantè and Bianca who endured many years of study and research. Their support and assistance carried me through desperate times and my academic career.

In addition, to my father and mother, with their unwavering beliefs, that I would succeed in anything that I take on in life.

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LIST OF ABBREVIATIONS

AAA	American Accounting Association (AAA)
AICPA	American Institute of Certified Public Accountants
BEE	Black Economic Empowerment
COSO	The Committee of Sponsoring Organisations of the Treadway Commission
DTI	Department of Trade and Industries
ERM	Enterprise Risk Management
FEI	Financial Executives Institute
GARP	Global Association of Risk Professionals
GAO	Government Accountability Office
GDP	National Gross Domestic Product (GDP)
GEM	Global Entrepreneurship Monitor (GEM)
IC	The Internal Control
IIA	Institute of Internal Auditors (IIA)
IMA	Institute of Management Accountants
ORM	Operational Risk Management
NSB	National Small Business Act
SME	Small Medium Enterprises

1. CHAPTER 1: Background to the study

1.1. Introduction

This chapter presents the background of this dissertation of limited scope and aims to understand why Operational Risk Management (ORM) is important. Furthermore ORM will be defined and a set of research question for research will be formulated, followed by describing the purpose of this research.

1.2. Background

Globally SME's contribute significantly to the world's economy. They account for roughly 91 percent of formal business entities, which contributes between 51 percent and 57 percent to the National Gross Domestic Product (GDP), and providing approximately 60 percent of employment in South Africa (SEDA, 2012). The creation and sustainability of SME's are therefore vital to the economic growth and prosperity of South Africa and a key enabler to reduce unemployment (Davis, 2010, Zuma, 2012). SME's have the potential to create employment and therefore addressing the challenge of high unemployment locally (Booyens, 2011).

Small and medium enterprises (SMEs) operate in the same environment as their larger counterparts, but without the associated benefits such as adequate capital and extended human resources of the larger organisations. SMEs encounter increasing competitive pressure fuelled by globalisation, legislation and the relaxing of trade barriers, as well as an increase in market expansion due to emerging technologies and innovation.

SME's often flourish on their adaptability and agility such as their close proximity to their customers, their openness towards new ways of working, and their risk taking approach, but many micro, small and medium enterprise are susceptible to major external shocks (Berry, Von Blottnitz, Cassim , Kesper A, Rajaratnam B, Van Seventer 2002; Laforet and Tann, 2006). Although SME's experience difficulties in absorbing and coping with these obstacles, they need to develop an ability to deal with the ever increasing challenges, that is, risks faced by the organisation (Leopoulos, 2006).

In addition as far as creating additional job opportunities and employment are concerned, SME's are an important impact means for South Africa to achieve this outcome. SME's thus help creating employment, resulting in economic freedom - a catch phrase often called for by South African political figures (Zuma, 2012).

1.3. Context of the study

SMEs failure rate ranks high in the world, as reported by Fatoki and Garwe (2010), about 75% of newly established SME's in the country cannot be sustained. This was strengthened by Willemse (2010); the number of SME's which fail in their fifth year of existence varies between 50 per cent and 95 per cent, in addition 75 per cent of new SME's do not grow to become sustainable in the same period. The high failure rate of SME is due to various factors ranging from a lack of management skills and a limited access to finance.

A global study conducted by NG & Kee (2012), covering 19 studies over a ten year period regarding critical success factors for SME's in developing countries, reveals no consideration of the impact of ORM for SME's.

In addition small businesses are faced with challenges which hamper their sustainability and thus negatively affect the economic growth. In their study Zhu, Wittman and Peng (2011) revealed that 68% of small businesses in China would close down in their first five years; only 19% can survive between six and ten years; and only 13% survive more than ten years. These studies will be discussed further in the literature review in Chapter two of this dissertation.

In South Africa, the Department of Trade and Industries (DTI) (2008) found that the majority of South Africa's privately owned SMEs rarely survive beyond their nascent phases, lasting for an average of less than three years. According to Nieman and Niewenhuizen (2009), the largest percentage of SMEs fail during the first two years of their existence. This research was strengthened a year later that 63 per cent of SME's fail within the first two years of operation (Robert, 2010).

The success of small businesses has a direct impact on the financial security of thousands of communities (Willemse, (2010), Fatoki and Garwe, (2010) and Fatoki &

Odeyemi, (2010)). Based on the above research above a five year qualification of existence is used as qualifier for being “successful”.

According to Global Entrepreneurship Monitor (GEM), (2014), the survival rate for start-ups is low and opportunities for entrepreneurial activity appears to be lowest in developing countries. As a result, the South African Government has benchmarked assistance programs in SME’s and understands the importance of providing fertile ground for all types of SME’s to emerge and to grow.

The South African government has attempted to provide such support via a few mechanisms, namely: Preferential procurement and BEE codes; Tax incentives for entrepreneurs and big business who work with entrepreneurs; Provision of grant funding and soft loans; Incubation funds. In addition the stimulus provided, South Africa has no shortage of small business initiatives for SME’s as per Timm, (2013).

Headd (2003) suggests that two of the source factors for failure or unexpected closure are insufficient capitalisation and lack of planning all across all business activities. However Van Tonder (2010) indicates that the lack of proper business management practices, skilled labor, financial skill (experience), performance monitoring of business operations and unskilled or incompetent management and/ or owner contributed to the poor success rate of SME’s in South Africa.

From the insights above, it is clear that the problem facing SME’s have not yet been adequately understood to help improve the statistics regarding survival rates. Specifically in the first five years of the existence of a SME. What is also apparent in the literature review is the lack of research and related impact of Operational Risk Management in this regard.

This research will therefore aim to determine if ORM is a success factor of a SME’s. The study was conducted on SME as defined by The National Small Business Act of 1996 which was amended by the National Small Business Amendment Acts of 2003 and 2004 (NSB Act).

ORM is based on the risk of loss, resulting from inadequate or failed internal processes, people and systems.

ORM was selected to be investigated as this could be argument, a critical success factor that has been undetected. Furthermore if ORM can be managed in the day-to-day activities and assist the SME to recognise and potential failures that could have a direct impact on the survival of the SME's.

Currently ORM is not considered as a critical success factor for SME's as no research on SME could be identified. In addition no research was conducted on ORM within the internal business processes of a SME.

After conducting a significant literature review, no applicable research could be found globally or locally regarding ORM in SME's supported by a study conducted by NG & Kee (2012). Most research in ORM is focused on large organisations in particular the banking industry and relates to financial risk as set and governed by the World Bank (2010).

A study conducted by Miller (1992), Brustbauer (2014), Falkner and Hiebl (2015) indicated that risk management may help SME managers to identify significant risks that could jeopardize the success or existence of the company in time to efficiently cope with them.

When a risk is misjudged or failed to be recognised, it could have disastrous consequences, ranging from customer loss to damaging liability, environmental damage and possibly, even bankruptcy (Hollman and Mohammad-Zadeh,1984,) Falkner and Hiebl (2015). However, many SMEs do not – or not adequately – apply risk management practices, mostly because they cannot afford to rededicate resources because of their constraints (Marcelino, 2014). Although the volume of the literature body on the specifics of risk management in SMEs has been increasing in recent years, it is still fragmented, and no systematic review has yet been conducted on the topic ORM.

Such a review would be valuable because systematic reviews integrate existing research from various fields and present a synthesized knowledge base on which future research can build (Tranfield, 2003). Strategic project risks in SMEs should be avoided, while operational project risks should be identified and managed (Marcelino-

Sádaba, 2014) Thus, the non-existence of a systematic review of ORM in SMEs may be regarded as a gap, which the present paper aims to close.

The South African government is also focused on promoting small business predominantly private owned to reduce the high unemployment rate and to increase the growth of the economy through developing SME's. South Africa currently has an unemployment rate of 25.5 per cent, in the third quarter of 2015, the worst rate since the first labor forces survey in 2008 (Statistic South Africa, 2013).

The purpose of this study was to identify if ORM was a critical success factor. Furthermore if ORM was a contributing factor in the success of a SME as per the perspective of a privately owned SME's. The study was limited geographically to Gauteng South Africa, in particular the Kya Sand Industrial area.

This research could assist potential entrepreneurs, existing SME's and any other financial investors that would invest and develop SME's. By increasing the success rate of privately owned SME's, the benefits will lead to broader beneficitation across the communities they operate in, the dependence on government funding to sustain the population as well as the funding to support SME's via investors.

The study will aim to identify the impact and the importance of ORM within the SME and if ORM has a direct correlation with the survival rate of SME's.

By determining the impact of ORM in addressing the high probability of failure of SME's in emerging markets, this research could be the first step in determining the value and trajectory of additional insights for privately owned SME's sustainability and indirectly solving the unemployment and economic freedom challenges in South Africa

Therefore given the lack of detail in studies of the actual process of how SMEs identify risks, as well as the lack by various other researchers in regard to critical success factors the gap was never identified to investigate the role of Operational Risk Management in the SME segment.

1.4. Problem Statement

1.4.1. Main Problem

The main research problem identified was why is the success rate of SME's so low? To study the research problem the following problems were developed and is broken down into the following points.

- Does ORM play a role in the success of SME's.
- Will ORM play a role in the success of SME's in the future?

These main problem statements were researched in the SME's in the Kya Sands Industrial area that was in operation for a minimum period of five years. From the statistics it is clear that SME's do not contribute to economic growth and socio-economic welfare as expected, as there is a high rate of failure with in the first five years of operating. As result the gap and problem were identified as no research could be obtained in regards to ORM in SME's globally as well as in South Africa.

In any organisation there is a constant need to ensure that the operation is performing at an optimal level thus enhancing success, profitability and sustainability. In order to achieve this SME's must be able to identify their critical success factors and monitor each operational business process for possible risk.

An element of SME sustainability is their response to monitoring and managing operational risks that underpin their efficiency, however the majority of SME's do not develop a viable ORM program to identify internal risk within each business unit as Operational Risk. This practice is not regarded nor identified a success factor for sustainability and growth. In contrast, large corporate organisations would assign the required resources to identify the operational risk per department to identify and mitigate their risks in each business unit.

This has caused operational risk as perhaps the most significant silent risk any organisation can face. The loss or event is only discovered once the effect has negatively impacted the organisation. This research will therefore investigate the role of ORM in the success of the SME's and if it had an impact on the survival rate of the SME's. This leads to the following questions that are categorized in sub problems:

1.4.2. Sub-problems

- The lack of ORM strategy in SME's
- The lack of implementation of ORM or related framework at inception
- Absence of activity reviewing of ORM in the SME's
- Absence of ORM as an effective tool for a competitive advantage for SME's.
- Does ORM mitigate any potential losses and optimise business opportunities.
- Possible lack of awareness of ORM in SME's.

From these problems the study will therefore investigate whether SME's have developed a viable ORM awareness program to identify and to monitor such risks or if this remains an elusive goal for majority of SME's.

As result of the fact that internal risk was not identified as a critical success factor for SME, it was not possible to develop sub-problems from the literature. However the main problem was broken down in to sub-problems to ease the development of the questionnaire. The sub problems may be considered as building blocks of the main problem.

1.4.3. Significance of the study

A key benefit of the study would be to provide guidance to potential entrepreneurs, existing SME's and investors in the SME segment. Any advancement in driving a successful outcome for the stakeholders described above would be significant. The fact that no study could be found on the role of ORM in SME's presents a unique study with new founded knowledge in this area of research.

From the broader stakeholder community, government, financial institutions and society at large would also benefit from the SME's success. The impact would promote economic growth, employment and sustainability of competitiveness in a global market. The study will also assist start-ups to take heed of the importance and plan appropriate to incorporate the aspects that will drive sustainability in time.

As the study will delve into operationalising ORM, it would provide insight and support to owners and managers to review the business practices to embrace ORM. In addition the study would assist in the operational risk identification, acceptance and risk mitigation.

A potential consequence from exposing the role and impact of ORM would be to give ORM the required consideration and support from management based on the importance of ORM in terms of the success of the SME. The top 10 business risk as identified by Standard bank (2014) should be monitored by the operational risk framework of the SME. This will be discussed in the literature review. In essence each business practice has a particular impact on the performance of the SME.

The study would hopefully also reveal that owners and managers have a great influence on awareness and practice of ORM procedures and practices and should be implemented in business activities to ensure a competitive advantage.

Furthermore the study could also highlight the fact that ORM awareness levels in the SME sector has been neglected and that ORM might have in the corporate governance landscape in South Africa, specifically applicable to SME's across multiple industries. The lack of understanding and implementation of ORM might lead to significant impact supporting the success outcomes for SME's. The study might also reveal the relevance of business owners and manager's influence, awareness, practice and implementation of ORM procedures and the competitive consequences of their actions.

No studies could be found on ORM in SME's. As this is currently a neglected area of insight, any additional knowledge of ORM for SME's would shed light on its value and application. This is core to the unique contribution of this research.

ORM can be a vital component in a SME if implemented, as the internal controls and process would be monitored and assessed on a regular basis. ORM will identify any potential loss the SME might be exposed to. ORM could enable the owner or manager to take the appropriate actions, in order to mitigate the operational risk and could contain the risk, without any losses. Potential or near losses would be recorded and mitigating controls could be implemented to avoid future incidents.

1.5. Research Objectives

1.5.1. Primary Objectives

The primary objectives of this research were:

- To identify if ORM played a role in the success of SME's.
- To identify if ORM will play a role in the success of SME's in the future.

1.5.2. Secondary Objectives

Based on the primary objective, the research seeks to achieve the following empirical research objectives:

- To determine if SME's has an ORM strategy in place
- To determine if ORM or related framework was implemented at inception of the SME.
- To determine if ORM is actively reviewed in the SME.
- To determine if ORM was seen as an effective tool for a competitive advantage for the SME's.
- To determine if ORM mitigates any potential losses and optimize business opportunities.
- To determine the awareness levels of ORM within the SME.

To achieve these objectives a questionnaire was developed by the researcher as described in chapter two.

1.6. Delimitations of the study

Delimitations of the study were the following:

- Research is limited to small and medium privately owned SME's.
- Research was limited geographically to Kya Sands Industrial Area to ease the accessibility to the proposed population; therefore it might be argued that different geographical areas might have a different outcome due to location/areas in SA.

- Research was limited to respondents that met the qualifying criteria SME's that has survived more than five years, based on researched conducted by Willemse, (2010), Zhu, Wittman and Peng (2011), Fatoki and Garwe, (2010) and Fatoki & Odeyemi (2010) therefore limiting sample size.
- Only responses by privately owned owners and/or managers were taken into account.
- The study will be limited to focus only on the success factors from an owner or manager perspective and if operational risk management contributed to the success of the SME.
- The study will be conducted during office hours, and will reflect the current 2015 reality of the companies interviewed. As a result the time allocation will be dependent on the availability of the respondents and be limited as such.
- The assumption is made that this study will contribute to the understanding of the contribution of ORM to the success of SME's.

1.7. Definition of terms

1.7.1. Small Medium Enterprise Sector in South Africa - (SME)

The National Small Business Act of 1996 as amended by the National Small Business Amendment Acts of 2003 and 2004 (NSB Act) classified SME's into five different sectors namely:

- I. Survivalist enterprise.
- II. Micro-enterprise: The turnover is less than the value added tax (VAT) registration limit. They also employ no more than 5 people.
- III. Very small enterprise: These are enterprises employing fewer than 10 employees, and 20 employees for the electricity, mining, manufacturing and construction sectors. These enterprises operate in the formal market and have access to technology.
- IV. Small enterprise: Small enterprises are generally more established than very small enterprises and have more complex business practices. The upper limit is 50 employees

- V. Medium enterprise: The maximum number of employees is 100 and 200 for the mining, electricity, manufacturing and construction sectors. These enterprises normally have an additional management layer.

For this study the focus will be on privately owned SME's (as defined above) that have been in operation for a minimum of five years, in order to determine if ORM have an impact on the survival rate of a SME.

1.7.2. Operational Risk definition

Operational Risk has various definitions and will be discussed in detail in Chapter two. The most recent definition of Operational Risk as per Global Association of Risk Professionals (GARP 2015) is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes fraud, security, and outside occurrences which includes natural disasters, political upheaval, and widespread power outages.

1.8. Assumptions

It was assumed that:

The SME's in the Kya Sand Industrial area would accept the invitation to participate in the study in order to obtain the required reliable and sizable data. If an adequate response rate could not be obtained, a valid reliable conclusion would not be possible.

The survey questionnaire will be completed by either the SME owner or manager. Based on the fact that these questionnaires are based on the value judgments from the respondents, completion by the inappropriate person might generate inaccurate data affecting the outcome of the study.

The owners and managers interviewed have enough knowledge and expertise in the business operations in order to complete the survey regarding ORM.

The survey questionnaire would be answered truthfully without any prompting or suggestive questioning techniques. Non- truthful or prompted responses might create a halo effect impacting negatively on this study.

The survey questionnaire participation is voluntary and would be completed in full. All incomplete questionnaires would be discarded as it could cause a misrepresentation of the variables. This could likely lead to a skewing of the results of the survey.

1.9. Summary

From 19 independent global studies conducted over the last ten years, they all concur that no studies have been conducted in the role of ORM (NG & Kee 2012). Similarly in South Africa no studies could be found in regards to ORM. This is the key value from the study furthering local and global understanding of ORM in SME's. Due to the lack of research and related insight from ORM, it is therefore not seen as a critical success factor to SME's.

The study is thus aimed to determine whether SME's value the importance of Operational Risk Management and if ORM has a direct impact on their survival rate

1.10. Chapter outline

This report is structured into 6 Chapters.

Chapter two will cover the literature review providing the framework of the research comprising of the conceptual, theoretical, methodical and analytical consideration. In addition the literature review, provides an overview of content and research conducted into the success factors of SME's. This chapter will also provide insight whether ORM plays a role in the success of a SME. ORM within the financial industries will be discussed.

In Chapter three the research methodology is explained covering the research paradigm, research design, the population, sampling, data collection, analysis methods used and limitations of the study. In reviewing the most appropriate research methodology, a quantitative research design has been chosen for this study. Participants in the Kya Sands Industrial area based in Gauteng province was selected for this study in order to save cost and time and will be discussed further in Chapter three. The data will be collected through self- administered questionnaires as well as interviews conducted with the owners and managers of the SME's. This chapter will also provide the design of the questionnaire for this empirical research.

In Chapter four the results of the research will be presented and described through graphs and figures. The questionnaire and interview data will be analysed.

In Chapter five the results of the research data will be discussed and examined. Operational Risk Management as per the participant's perspective within the SME will be discussed. The results will indicate if the main and sub problems were answered.

Chapter six will provide a summary and conclude the study. The emphasis is to recommend further research and improve the awareness and implementation of ORM in SME's in South Africa.

2. Chapter 2: LITERATURE REVIEW

2.1 Introduction

This literature review focuses on the themes identified in Chapter one and will also identify further related themes warranted by the topic of ORM.

This review will focus on any research that has been done in this field that could assist in the better understanding of the role of ORM in the success of SME's. The ORM definition and impact in the financial industries will be discussed.

Generally research on success factors and practices as a topic, although widely researched, seems to focus primarily on the SME's success and not within the SME's internal ORM framework. No meaningful research could be found to determine if ORM for SME's could be considered to be a critical success factor (NG & Kee 2012). By analysing the literature and a full discussion on ORM, the review will focus on ORM as a critical success factor within SME's.

2.2 Definition of Topic

The main scope of this literature review concerned itself with identifying whether ORM has an influence in the success of a SME. In addition if ORM is a determining factor in the survival rate of a SME. Various Risk Management and successful business practices studies have been conducted to prove that there are a positive relationship between business practices, management activities and performance; these are the success factors of an SME (Neneh & van Zyl, (2012), Van Tonder (2010), Willemse (2010), Fatoki & Odeyemi (2010)).

2.3 Definition of Success regarding SME's

There is a predisposition that SME's enter into business to achieve the goals and aspirations of the entrepreneur. *"Success is nothing more than a few simple disciplines, practiced every day."* Rohn, (1996) and Vilord, (2011).

Successful businesses are recognised for earning a substantial return on investment for the shareholders who risked their capital in the venture. The founders of the company, who are generally also shareholders, are able to create wealth for their families and security for their future, as well as enjoy a more affluent lifestyle. They

measure success by being able to provide a better life for their children than they had when they were young. Rohn(1996) quoted and described success as *“Success is neither magical nor mysterious. Success is the natural consequence of consistently applying the basics fundamentals”*

2.4 Determining success factors for SME's in South Africa

Success is the realisation of a worthy intention as quoted by Rohn, (1996) *“Success is nothing more than a few simple disciplines, practiced every day.”* This means a person becomes successful each time he/she takes a step towards achieving a predetermined goal, objective or target. For example a business can be said to be successful if it is expanding its market share and increasing its profits aligned to the strategy the business set.

The measures of success for SME's are the level of achievement of the business goals. Some of the indicators that can be used to measure or assess the success of a business are as follows (Alter, 2015):

- **Increased profits**

If the profits of a business have been persistently increasing, it shows that a business is successful. A business whose volumes of operations are increasing is likely to have its profits also increasing (if the expenses are not increasing). (Alter, 2015)

- **Expansion of business**

A business that is successful is also likely to diversify their revenue streams and client phase penetrations. The following may reflect the expansion of business operations:

- Market share
- Production lines e.g. number of products being produced
- Quality of products
- Increased number of employees
- Number of assets e.g. in case of a farmer, number of cows on the farm. (Alter, 2015)

- **Increase in assets**

A successful business will have its production or volume of operations increasing significantly over time. This increase typically requires additional assets to cater for these increases (Alter, 2015)

- **Customer satisfaction**

A SME must strive to meet the customers' needs and their requirements of the product or service that is offered to them. The customers' satisfaction is a critical indicator if the SME is successful or not. (Alter, 2015)

- **Employee and Owner Satisfaction.**

Both must be satisfied in the working environment at all times as less friction means less conflict in the working place (Alter, 2015). Dissatisfaction is contagious and can destroy working relationships that can negatively affect the SME's performance and successes.

All of the above can be used to measure if a SME is successful. However these activities must be monitored by the owner and or manager. This can be reviewed through a business plan that must be implemented and reviewed.

A study conducted by Cant and Wiid (2013) revealed that a business plan is the basic premise of the success of each business. It thus further deduces that a business plan sets the ambitions of efficiency and effectiveness of the business operations of the SME. This thus serves as a measurement of efficiency and effectiveness of the overall enterprise guiding the business owners in striving to achieve these standards. However Cant and Wiid (2013) did not take into account that ORM is present in each business activity. In other words, a risk in the business plan can have a direct impact on each business activity. In addition how do they identify and mitigate the risk if no operational risk policy or framework exists?

SME owner would therefore always strive to be continuously successful in order to achieve their goals, to be profitable and sustainable according to their own perception of success. In most cases this is achievable through continual growth. Success could also be linked to the owner or manager skills and ability to

adapt to possible economical changes in the macro, micro and market environments (The World Wide Worx, 2013). This SME survey also found a strong correlation between firm turnover growth and skills acquisition (training).

A study by Pellissier and Nenzhelele (2013) found that years of working experience has a direct impact or greater influence on awareness and practice of competitive intelligence. It could be argued that SME's are new entrance businesses that do not have the required skill sets based on the limited experience they have, as well as their size being an indicator of maturity (the larger the firm the longer the existence). ORM will minimize these shortcomings on competitive intelligence as ORM will enable the SME to identify any potential problems and mitigate the risk, therefore ORM can be vital component in the success of a SME if implemented and can could be a critical success factor in a SME.

Although the studies of critical success factors of SME's are abundant, most of these studies focus on only one or two critical success factors as per Ng and Kee, (2012). Which aggregates 19 global studies over the last ten years. ORM was not covered in these research studies and could this be argued does not seem to be a critical success factor. In addition no research was conducted on ORM within the internal processes of a SME. Table 2.1 displays the last 10 years research conducted on critical success factors in SME's. The authors listed are the following:

Islam, Khan, Obbaidukkah and Alam, (2011), Philip (2011), Chittithaworn, Sulaiman, Islam, Keawechana, and Yusuf (2011), Hung, Effendi, Talib and Rami (2011) Chawla, Khanna, Jin,(2010), Lussier and Halabi (2010), Reijonen and Kmppula (2010), Tuan and Yoshi (2009), Sanchez and Ruiz (2009), St-Jean, Julien, and Audet, (2008). Coy, Shipley, Omer and Khan (2007) and Kessler (2007).

Authors (year)	Significant findings
Islam <i>et al.</i> (2011)	The characteristic of entrepreneur is found to be a significant factor for business success of SMEs in Bangladesh. And duration of organisation operated and gender has significant effect toward business success of SMEs
Philip (2011)	The most significant factors affecting business success are products and services, the way of doing business, management know-how and external environment
Chittithaworn <i>et al.</i> (2011)	The most significant factors affecting business success of SMEs in Thailand were SMEs characteristics, customer and market, the way of doing business, resources and finance and external environment
Hung <i>et al.</i> (2011)	Six key success factors are networking, product, ability to focus on market, customer, supportive management team and strong leadership. Government support programme is not significant
Chawla <i>et al.</i> (2010)	In China, Mexico and US, the common critical success factors are marketing effort and competitive forces but in China, financial needs and location are also the factors. Also, a lack of support is found for a life cycle effect on the importance of the critical success factors
Lussier and Halabi (2010)	Results support the Lussier 15-variable business success versus failure model's validity in Chile
Al-Mahrouq (2010)	The five success factors are: Technical procedures and technology, structure of the firm, financial structure, marketing and productivity and human resources structure
Reijonen and Komppula (2010)	Market orientation (Customer orientation, human resources and market intelligence) are regarded as important success factors in SMEs
Tuan and Yoshi (2009)	Ownership, firm size, firm age, new product introduction strategy and competition intensity are significant factors for the growth of manufacturing SMEs
Barba-Sanchez and Martinez-Ruiz(2009)	The factor that is whether or not the entrepreneur has been entrepreneurs before. Secondly, entrepreneurial motivation has non-zero effect on a firm's success although it does not determine if a company will success or fail
St-Jean <i>et al.</i> (2008)	Management's motivation for growth was an important element and this motivation changed over time, being influenced by both success and problems associated with actual growth
Coy <i>et al.</i> (2007)	Critical success factors are working hard and for long hours, customer service, product quality, attention to customer needs, communication skills, interpersonal skills and business connection
Kessler (2007)	In Australia, success factors are environment (Network, role models) and process (Fulfilment of expectations, start-up failure consideration, team start-up, start-up size and small target group strategy and specifications strategy. In Czech, success factors are person (Need for achievement), resources (Management experience, self-employment experience and initial financial situation) and process (Fulfilment of expectations, team start-up, small target group strategy, specialisation strategy and high pricing strategy)

Table 2-1 Previous Critical Success Factors studies

This table clearly shows no consideration in the research of ORM as a factor relating to success of SME's. As previously mentioned, only large organizations in the banking industry have studies relating to ORM and the related impact to sustainability (Gibson, 2012). These studies will be discussed under ORM in financial institution later in the chapter.

Further global research conducted by Marcelino-Sádaba, (2014) showed that risk identification may also be critical in SME project management. The research was based on a multiple case study of 72 Spanish SME's, they proposed that strategic project risks that may jeopardize the entire project or the survival of the SME should be removed completely, and that more operational risks should be carefully identified and analyzed. However, a case study conducted by Gao, (2013) highlighted that, efficient risk identification in SMEs may be stalled by SME employees' limited knowledge of risk management.

In line with this perception, several of the papers reviewed (Moore, 2000; Ellegaard, 2008; Bruns and Fletcher, 2008; Sukumar, 2011) pinpointed the usually limited financial and human resources in SMEs and their limited inability to effectively manage all possible risks simultaneously.

Neneh and Van Zyl, (2012), identified six business practices in South Africa that have attained a significant level of recognition by prior studies with respect to company performance. These include:

- Marketing practices
- Strategic planning practices
- Human resource management practices
- Risk management practices
- Performance management practices
- Teamwork practices.

The research problem thus arose as various studies above did not take into account that ORM is present in each business activity and could be a success factor. In other words, a risk in the business plan can have a direct impact on each business activity. In addition how do they identify and mitigate the risk if no operational risk policy or framework exists?

2.5 Risk and Risk classification

In order for any business to be operational and successful several key factors have to be present and implemented. Businesses also have to take risk in order to be successful as stated - "Risk and economic activity are inseparable" (Liekweg & Weber 2000). Risks are therefore inherent in every business. A study conducted by Culp (2001) states that risks can often lurk undetected in hidden exposures of a company. As risk can result in positive or negative impact to the business operation, it requires proper management controls and oversight. Over the years the description and classification of risk has evolved and have been implemented in various business management programs.

Despite the necessity for risk identification and the classification therefore, many SME's seldom carry out detailed risk assessment and management strategies. In order to perform a risk identification and assessment, the SME's require funding and human resource, which are typically limited in small enterprises. The SME's decision on how and what to invest in, depends on the ongoing activities and on their financial liquidity position.

Small scale businesses generally transfer the process of risk management into project-based tasks if losses have already occurred, only if financial resources are available. It is questionable that whether a traditional risk management plan or a customized project risk management would help SME's to reduce losses, once losses have already occurred.

All SME's desires to avoid negative impacting risks. The overall risk situation of the company should be compared to the strategic plan, the risk strategy and deviations should also be documented (Liekweg & Weber, 2000). However businesses (SME's) needs to mitigate and adapt to operational risks continuously.

Traditionally the business norm of economy encourages businesses, to take risks so that they can achieve profits. Any organisation takes risk as it could result in competition, innovation and success. This is an ongoing practice and should therefore live in the way the business is managed.

Day to day activities of a business requires extracting capital from one source to other sources (in order to ensure effectiveness and continued business operations), thus taking risks in the pursuit of further profits. Consequently, risks are reduced through operational management and can be addressed by the following practices: structure management plans, understand the planned or unplanned risk, prepared for, and to improve on the mitigating actions.

Risk management has changed over the last fifteen years resulting in a more serious approach taken and has developed into a so-called Integrated Risk Management plan (KPMG, 2003). As risks evolved over the years the relevance of operational risk were also identified. The first discussion covering operational risk was broadly discussed in the Working Paper on the regulatory Treatment of Operational Risk (BCBS 2001).

Risk and operational risk can be classified by the impact they might have on different business operational activities. Table 2.2 indicates the variety of risk types faced by organisation's which all have an impact on business operational activities:

External Environment	Business Strategies & Policies	Business Process Execution
Competitors Legal & regulatory Catastrophic loss Medical cost / utilization trends Customer expectations	Strategy & innovation Capital allocation Business / product portfolio Organization structure Organization policies	Planning Process / technology design Technology execution & continuity Vendor / partner reliance Customer satisfaction Regulatory compliance & privacy Knowledge / intellectual capital Change integration
People	Analysis & Reporting	Technology & Data
Leadership Skills / competency Change readiness Communication Performance incentives Accountability Fraud & abuse	Performance management Budgeting / financial planning Accounting / tax information External reporting & disclosure Pricing / margin Market intelligence Contract commitment	Technology infrastructure / architecture Data relevance & integrity Data processing integrity Technology reliability & recovery IT security

Table 2-2 Common Business Risk Types

The table above suggests the various risk types SME's must evaluate in their daily business practices.

In other studies Clearly, Valleret, and Fenyés (2007) defined risks as “measurable certainty and true uncertainty which cannot be measured”. This definition is important to know which risks and risk areas can be measured and what risks and risk areas cannot be measured. Similarly, Kuritzkes and Schuermann (2006) classified Financial risk, Operational risk and Environmental risk into known, unknown and unknowable variables. A known variable is when the risks are known and can be classified and quantified. Unknown risk can be classified but cannot be quantified or measured such as various operational risks. The unknowable risk cannot be predicted nor classified or quantified. Organisations must therefore be aware of the different types of possible risks and the maximum exposure of which the risks can cause if not planned for.

A study conducted by Andersen and Schroder (2010:11) describe risk as a potential source of economic disruption. In addition they mention conventional risk management focus was concentrated on volatile financial markets, insurable casualties and macro-economic conditions. They further indicated an approach to risk management were dependant on the professionals' perspective. The formal risk management cycle is classified by them as an on-going process consisting of four

main activities, namely risk identification, risk analysis, risk evaluation and risk responses (Andersen & Schroder, 2010). These risks must be evaluated within the SME internal departments. The study will investigate if ORM is currently being performed within the SME.

Risk assessment is critical to any business and must be in line with the organisations strategic strategies. The internal environment will be reviewed in this study that will focus on the ORM of the SME's. In Figure 2.1 below, describes the risk management cycle that will assist the SME in risk classification and the appropriated steps to follow within the internal departments of the SME.

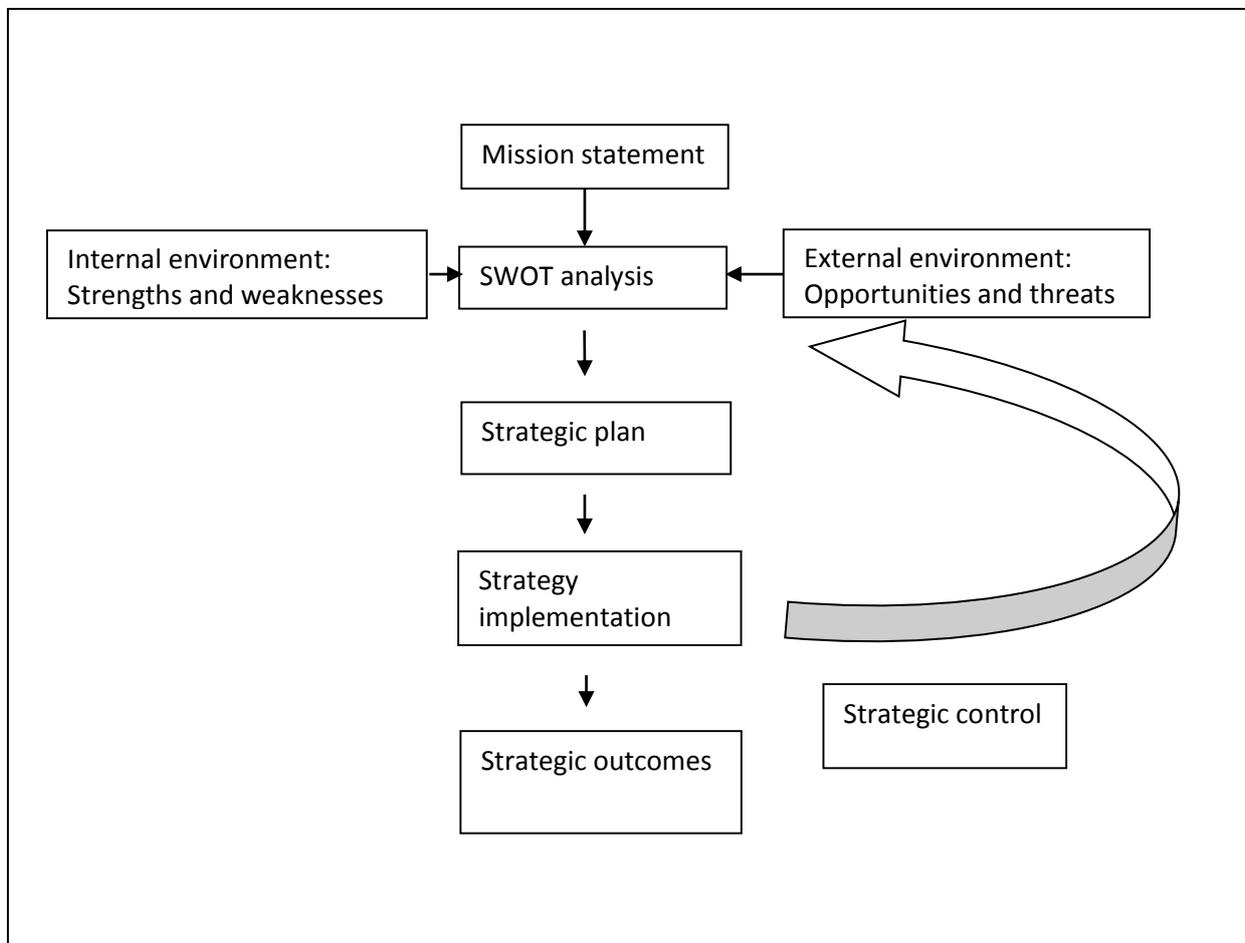


Figure 2-1: Risk assessment in the strategic management process

Source: (Andersen and Schroder (2010))

Risk management is also an integral part of strategic decision-making, strategic planning and corporate management processes in general. Andersen & Schroder, (2010) has created a full range of corporate risk exposures, and responses as illustrated in Figure 2.2 below.

Risk category	Risk factor	Possible response
Strategic risks	Competitor moves	Business development Innovation Response capabilities Contingency planning Strategic analyses Environmental scanning
	New regulations	
	Political events	
	Social change	
	Changing taste	
	New technologies	
Operational risks	Malfunction	Corporate values Internal accounting/auditing Management controls Continuous learning TQM Certifications
	Process disruptions	
	Administrative error	
	Technology breakdown	
	Compliance failure	
	Legal exposure	
Economic risks	General demand	Structural flexibility Portfolio diversification Financial derivatives Leading/lagging payments
	Price relations	
	Foreign exchange	
	Interest rates	
	Commodity prices	
Hazards	Natural disasters	Insurance contracts Risk-transfers and financing Risk mitigation efforts Preparedness
	Man-made disasters	
	Terrorism	
	Casualties	

Figure 2-2 The full range of corporate exposures

Source: (Andersen and Schroder, 2010)

As per the figure above the following internal operational risk can be identified in a business: malfunction, process disruptions, administrative error, technology breakdown, compliance failure and legal exposure. These can be mitigated and included in the following business activities and structures being: corporate values, internal accounting/auditing, management controls, continuous learning, total quality management and certifications (Andersen & Schroder, 2010).

2.6 Operational Risk

Operational Risk is evident in any business irrespective of the company's turnover or size. ORM can be found in any business process as if have an impact on all the internal activities. As a result ORM is vital to any organisation irrespective of the size and turnover. Therefore ORM is important to be defined and research in respect of the critical rol it could play in the survival of any organisation.

Risk is so widespread that operational risk can be found in just about every activity of a business process. Culp (2001:433) further emphasizes that operational risk identification is more an art than it is a science.

Operational risk is concerned with the adverse deviation of a firm's performance, due to the way in which the firm is operated, as opposed to how the firm was financed. It is defined as a measure of the link between a firm's business activities and the variation in its business results (King, 2002:7).

A study conducted by Allen & Bali (2003) notes that operational risk events in the banking industry can be classified or divided into high frequency/low severity events or low frequency/ high severity occurring regularly. Their study concluded each event individually with high frequency/ low severity risk exposed the firm to low levels of losses. However, in contrast, the low frequency/high severity operational risk events were quite rare, but the losses were significant. Operational risk is therefore based on low frequency that can have a severe impact.

Operational risk is the potential loss resulting from inadequate or flawed internal processes, people and systems, or external events.

The Banking sector has the most operational risks with most probabilities. The Basel II regulations (Basel Committee on Banking Supervision, 2004) defines operational risk as the risk of loss resulting from inadequate or failed processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

The Basel II committee classified operational risk into seven categories: internal fraud; external fraud; employment practices and workplace safety; client, products and business practice; damage to physical assets, business disruption and system failure; and finally, execution, delivery and process management (BCBS 2004)

The Basel Committee, however, states that an ORM system must be “conceptually sound and implemented with integrity” (BCBS 2004:3), but gives little guidance as to what such a system might actually look like. Operational risk and the management thereof have been under increased focus over the last few years as a result of the Basel II Capital Accord. As a result of the regulations from the Basel Capital Accord South Africa’s Reserve Bank amended its regulatory requirements and introduced Operational Risk as per the Reserve Bank Supervision Department Annual Report (2010).

The Reserve Bank of South Africa Classifies Operational Risk as:

“Operational risk is the risk of a possible financial loss or damage to the Bank’s reputation arising from either human factors, internal control failure, systems failure or external events that have an adverse impact to the Bank. The Bank has an incident reporting tool which enables the process of self-reporting for any operational risk related events. Action plans are drawn on reported incidents and follow-ups done with relevant units. For its externally managed investment portfolios, the Bank requires the fund managers to provide their Statement on Standards for Attestation Engagements (SSAE) No. 16, for purposes of reporting on the design of internal controls and their operating effectiveness.”

Furthermore Young and Coleman (2009) stated that in the qualitative risk management assessment that a more forensic approach towards operational risk management must be taken to identify internal risks. They concluded that risk management include operational risk identification, as an element in the calculation of capital requirements for a bank.

In addition a study conducted by Cortez (2010) describes operational risk as:

The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes fraud, security issues, and outside occurrences, including natural disasters, political upheaval, and widespread power outages.

The study further notes that managers may view operational risk as just back-office operations risk and executives generally believe that ORM is fundamentally about managing control weaknesses in the processes at a tactical level.

This approach to operational risk impacts the effectiveness of ORM and the resource allocation of working capital. The key factors impacting Operational Risk Management must be researched to establish if operational risk has a direct impact on the business practices in the organizations success or failure. For example power failures and load shedding in South Africa can be classified as an operational risk. If the power failure was not identified as an operational risk it would affected the internal operations and profitability that could have been mitigated through ORM.

These categories could be present in all SME's and therefore shares a common threat from these kinds of risks. These risks must be monitored, reviewed and updated into current management data and structure in operational risks management.

Operational Risks are also regularly referred to as human risks, due to the discussion that human error could lead to business operations failure. The Global Association of Risk Professionals describes operational risks as: the total risks that are incurred from organisations' internal activities i.e. involving people, products or services offered operational systems, as well as external factors.

As a result from the above risks, ORM is therefore imperative for the success of any SME. Neneh and van Zyl (2012) emphasizes to enhance business performance, risk management practices should be simplified and embedded into normal business activities being, operations, planning, budgeting processes and organizational culture. SME's therefore needed to properly execute the risk management strategies they develop as a means of enhancing their performance and minimising potential fatal consequences.

The above definitions of ORM were not researched in the context of SME's as the procedures mentioned were only implemented in large corporate businesses.

It might, therefore, be advisable for SMEs to identify all potential operational risks and to focus only on the most important operational risks. Proactive measure is to train their employees to identify and to manage these risks effectively. Nonetheless, given the lack of detail in operational risk studies of the actual process of how SMEs identify risks, research is needed to shed more light on this issue.

Therefore given the lack of detail in studies of the actual process of how SMEs identify risks, as well as the lack by various other researchers in regard to critical success factors the gap was identified to investigate the role of Operational Risk Management in the SME segment.

An effective SME must have a combination of structures being: leadership, culture, organising capabilities and systems. SME's should adopt different organisational frameworks to analyse the relationships between essential organisational characteristics and their own operational risks associated with each structure. The McKinsey 7S framework (Johnson, Whittington & Scholes, 2011) could assist the SME to identify the areas of business where operational risk is present as per figure 2.3 below.

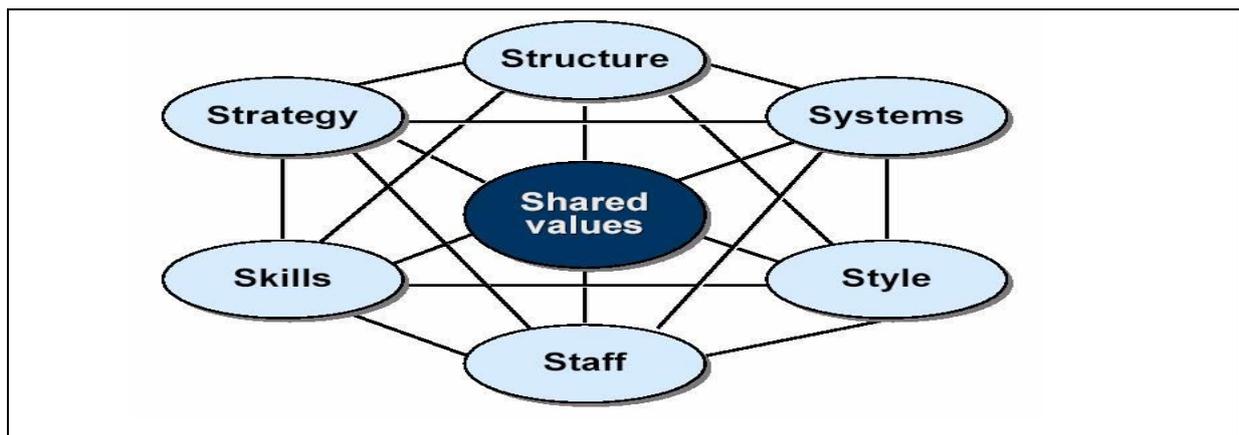


Figure 2-3 Mckinsey 7S Framework model

Source: Strategy & Leadership 33, no. 3 Kaplin and Peters (2005)

ORM is an integral part of any SME. The objective of ORM framework is to identify, evaluate, control, measure, monitor and report operational risks across the organisation.



Figure 2-4 Operations Risk Management Controls and Components

Source: National Payments Corporation of India (Reserve Bank of India 2015)

As per figure 2.4 above ORM has various dependent risks that should be monitored and actioned. An ORM framework will assist the owner or manager of a SME in evaluating all the risks in each business activity, resulting in the appropriate identification, monitoring and mitigation. to ensure that operational risk is being identified monitored and mitigated. (Vyas, Raitani, Roy, & Jain, (2015)).

2.7 COSO framework of Risk Management

In order to implement the various internal controls the COSO Framework is a systematic approach that could assist the SME in the management activities required to evaluate and monitor the operational risk with in the SME.

The Committee of Sponsoring Organisations of the Treadway Commission (COSO) was formed to initially sponsor research into the causes of fraudulent financial reporting in the 1980's in United States of America. Today COSO provides through leadership and the development of comprehensive frameworks and guidance on enterprise risk management, internal control and fraud deterrence designed to

improve organisational performance and governance and to reduce the extent of fraud in organisations. COSO's frameworks provide guidance to which risk management and internal control systems can be assessed and improved. COSO is currently seen as best practice in risk management and internal control as per The Institute of Internal Auditors South Africa and various other auditing firms, Delloitte, Price Waterhouse Coopers(PWC), KPMG and BarnOwl.

The sponsoring organizations are: Institute of Internal Auditors (IIA); American Institute of Certified Public Accountants (AICPA); American Accounting Association (AAA); Institute of Management Accountants (IMA); Financial Executives Institute (FEI). Later, COSO is also endorsed by GAO, Federal agencies & SEC. Below is the CUBE design for COSO Risk Management Framework. Figure 2.5

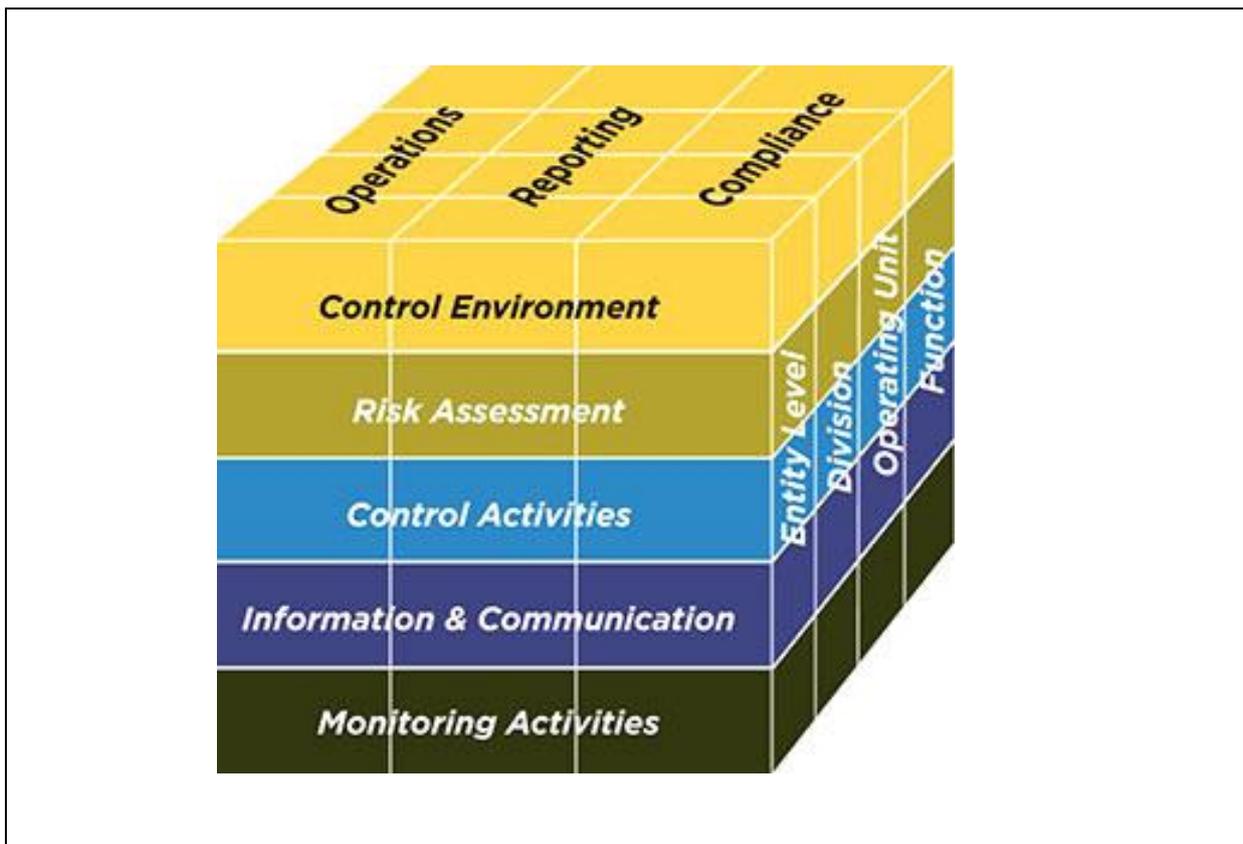


Figure 2-5 COSO Cube Risk Management Framework

2.7.1 Internal Control of the COSO Framework

The Internal Control (I/C) - Integrated framework was introduced in 1992 whereas the Enterprise Risk Management (ERM) - Integrated framework was introduced in 2004. Below is the internal environment design for COSO Risk Framework. Figure 2.6



Figure 2-6 COSO Internal Framework explained

As a potential solution, the SME can adopt the core values of the COSO framework. This will ensure that all the aspects of the business are reviewed and monitored on a constant basis. The areas of internal controls are as follow:

Control Environment - The employees of the SME are the most important people - their individual attributes, including integrity, ethical values & competence – as well as the environment in which they work. .

Risk Assessment - The SME must deal and respond to any risks that it might encounter. The SME must set objectives, that will be integrated with all the different department of the SME being; the sales, production, marketing, financial and other activities so that the SME can operate successfully. It also must establish mechanisms to identify analyse and manage related risks.

Control Activities - Control policies & procedures must be established and managed. This will ensure that the actions identified are implemented to address the risks, and that the SME achieve its objectives.

Information & Communication – SME’s information and communication systems must be able to capture, record and exchange data and information required to conduct, manage and control its operations.

Monitoring is essential to always be abreast to any developments within the SME. Therefore the SME activities must be monitored, and modifications made as necessary. This will ensure that the management can react and do the required changes as conditions warrants.

In the latest developments, COSO introduced three levels of defense for any risks. Below in Figure 2.7 is the diagram that is explaining the processes.

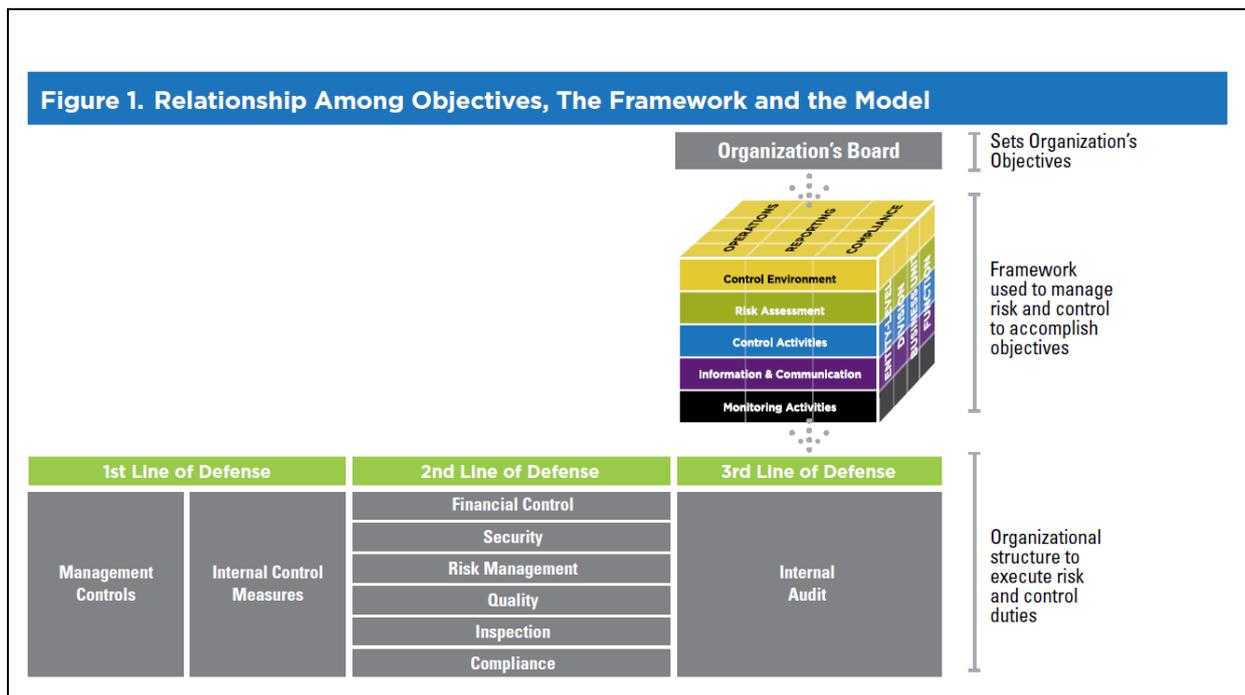


Figure 2-7 Three levels of defense.

The three levels of defense were developed that the risks are monitored and reviewed by three different levels in an organisation.

- The first level of defense is management controls and internal controls measures that were developed by the management team of the SME.
- The second level of defense is possible by the various business departments or activities is interlinked with each other.
- The third level of defense is internal audit that can play a vital role. The internal audit must review the SME independently in order to provide an independent opinion in regards to the business process and procedures. The internal audit could also provide recommendations that could benefit the SME and management controls.

These levels of defense can only be successful if Business Risks are identified within the SME's.

2.8 SME Business Risk identified

The business risk is factors that can influence the SME in the macro, market and micro environments. Standard Bank, one of the four largest banks in South Africa, has published on their business website a report on the top ten SME Business Risks. They advised that the first step in implementing a risk management plan is identifying potential risks. In order to have a successful risk management plan the SME must also prevent, train and plan for any risk within the SME's. The reason for the business risk classification is to illustrate that through ORM recommendations can be identified and mitigated.

The top ten SME Business Risks identified by Standardbank are briefly explained and the ORM recommendations made in order to mitigate the risk:

- Cash Flow- any SME must plan daily, weekly and monthly. It is recommended that SME's create a contingency plan that they have operating cost reserves that can assist them for at least three to six months if an unexpected event occurs
-
-

- Reputational Risk, the SME's reputation is the SME most important asset. SME's must monitor their reputation on the social media sites and respond to if needed.
- Supply Chain- Supply chain risk is normally over looked. SME advised that supply chain insurance can cover losses incurred as a result of interruption in the supply chain.
- Business interruption due to fire or floods can be devastating to a SME if not insured. To mitigate the risk business interruption insurance would cover these unforeseen events if occurred.
- Key person losses can be detrimental to a SME. It is recommended that operational manuals be documented and that staff are multi skilled to minimize the risk. Key person insurance can also be acquired to cover such an event.
- Regulatory and compliance are dependent on the business industry the SME operates in. SME's must always comply with the regulatory requirements and the obligations associated with their industry.
- Intellectual property protection is vital. SME's must familiarise themselves with how to identify, protect, enforce and monetise their intellectual property.
- Data security is critical as this would contain their customers' data. In addition data security would also include the SME's confidential information and intellectual property.
- Business assets must be insured if the SME has a bank loan and or equipment. Business assets must be protected and managed on a continual basis.
- Human Capital Risk must be reviewed to ensure sustainability and new knowledge contribution for SME's. The majority of SME's are family owned and new talent must be obtained for succession planning and developments in the industry.

2.9 ORM in the Financial Industries

The global financial crisis led to a significant increase in awareness of, and concern about, risk management. In most countries across the globe, the global financial crisis revealed the inadequacy of the current financial services industry regulation. In addition the industries inability to successfully detect and prevent the risk that was

experienced. A major contributing factor to the most severe losses experienced during the crisis were attributed to operational risk failures.

Operation Risk was identified as one of the primary risk types that a bank could encounter. There is a growing awareness in the banking industries that the management of operational risk is crucial for their future existence.

There are countless papers on the topic of Operational Risk (ORM) and measurement, particularly directed at banks.

Allen (2003) notes that operational risk events can be divided into high frequency/low severity events that occur regularly.

Ding (2006) provides examples of common operational risk vulnerabilities across financial services organisations.

Janakiraman (2008) conducted a survey to determine the state of preparedness and challenges in developing an ORM framework for Indian banks.

Gartner (2009) defines an operational risk management system as a combination of two primary technologies, namely operational risk engines (OREs) and qualitative risk self-assessments (QRSAs).

These papers provide detailed theoretical presentations of various methods used to quantify OR. They also present the results of comprehensive case studies, some based on the historical experience of individual banks and others based on aggregated data for multiple institutions.

One of the reasons explaining the relatively limited number of papers focusing on ORM for SME is that ORM in financial industries are a standard formulas developed by regulatory authorities (Reserve Banks) to calculate operational risk capital instead of quantifying operational risk using internal models. ORM it seldom developed as a model for risks categories with the internal model and instead relies on a standard formula approach for quantifying its operational risk.

Furthermore Banks are adopting an advanced measurement approach (AMA) under Basel II that allows the bank to use internal models to calculate regulatory capital requirements for operational risk (BCBS, 2006a). These models are typically risk-

based and use information from the underlying risk measurement systems as inputs into the model. Risk-based capital requirements are good and comprehensive consolidated measures of operational risk exposures, especially as far as extreme or tail risk exposures are concerned. This is mainly due to the nature of one of the key inputs into the capital model, namely risk scenarios. Risk scenarios are also consolidated measures of operational risk in their own right, as each scenario is subjectively derived from various underlying risk measures.

In addition four research papers on ORM specifically for insurance industries could be found. These research papers are based on the papers specifically addressing the quantification of operational risk for the insurance industries. (Tripp, Bradley, Devitte, Orros, Overton, Pryor and Shaw (2004), Dexter, Ford, Jakahria, Kelliher, MacCall, Mils, Probyn, Randall and Ryan (2006), Taylor (2013) and Corrigan, Luraschi (2013).

2.10 Summary of the Literature Review

From the above literature review, it is evident that a SME is dependent on a variety of critical success factors across numerous dimension of the existence of an SME. The literature review indicated that no studies could be found in regards to the success factors pertaining to ORM in SME's.

This study will therefore focus on identifying if ORM was a critical success factor and if ORM is regarded by the owner manager perspective as a contributing factor in the success of the SME. ORM is important as it could be used to mitigate various risk in various departments and actions of a SME. ORM is important as it could be a determining factor in the survival rate of a SME's. Therefore it could be considered as a critical success factor.

The benefit for this study arose as literature reviews reveals a high rate of SME failures, regardless of the financial assistance offered to SME's from government. In addition the need to investigate if ORM is implemented in the SME's and if they have a formal ORM frame-work or plan to mitigate the risks that could be a constant variable. It is therefore recommended that the Risk Management plan be implemented as subscribed by the King III (2009) report. This is however not mandatory as SME's are excluded, in the report.

Thus leading from the above research in regards to ORM the potential to enhance the success rate of SME's, the research project is seen as just and valuable.

This study will also focus on the internal operational risk namely- Strategic risk, Employee risk/ HR risk, Environmental risk, Health and Safety risk, Operational risk and Financial risk in particular.

In the next Chapter the proposed research methodology and research design will be discussed together with the research instrument and data collection methods selected for this study. The limitations of the study will also be listed.

3. Chapter 3 RESEARCH METHODOLOGY

3.1 Introduction

Research is a unique, groundbreaking investigation undertaken with a view to contribute to knowledge and understanding of a particular field. It is therefore a creative activity leading to new knowledge in the particular field. This new original idea or concept creates new knowledge as the facts or theories used to explain the outcome has not been used or tested in the new particular way before. (Myers, 2009).

This chapter covers the explanation of research methodology covering, the research paradigm, research design, the population, sampling, data collection, analysis methods used and limitations of the study. This chapter will also provide the design of the questionnaire for this empirical research. An important objective of this study is to identify if ORM was a critical success factor. Furthermore if ORM was a contributing factor in the success of a SME.

In a quantitative research approach, the focus lies on the measurements of objectives and statistically valid information that is usually gathered from a relatively large sample size or can be found in the form of already existing numerical data. The unavailability of company specific information (registration and contact details) for SME's necessitated the use of unclassified business registers, the yellow page directory (Trudon) and the National Data base of Business Connect.

The study therefore adopted a quantitative research design and restricted the researcher to concentrate on a specific area namely Kya Sands Industrial area in Gauteng.

The target participants/population size of all enterprises in the chosen area was limited to 92 qualifying enterprises. Purposive sampling (a non-probability form of sampling) was used to select a sample that conformed to the qualifying criteria, being owner-manager of small business that was established in the last five years. The unit of analysis in this study was individuals (SME's Owners and Managers).

However, after receiving a low response rate, all the SME's were contacted resulting in a total of 28 voluntarily participants willing to be interviewed.

The participant letter used is attached as Appendix A. The Survey Questionnaire containing three sections.

- section one was qualification data,
- section two was closed questions and
- section three were various open-ended questions.

These sections were developed in order to obtain the required data used in this study is attached as Appendix B.

3.2 THE EMPIRICAL STUDY

This section cover the empirical study by attending to the research design and method. The research design is discussed below.

3.3 Research design

For ease of reference the problem studies as well as the primary and secondary objectives are stated again. The problem statement was based on various studies that only investigated the normal critical success factors and not the operational risk in SME's. As previously mentioned, only large organizations in the banking industry have studies relating to ORM and the related impact to sustainability as per the literature review in chapter two.

The primary objective of this study were:

- To identify if ORM played a role in the success of a SME.
- To identify if ORM will play a role in the success of SME's in the future.

The secondary objectives of the study were:

- To determine if SME's has an ORM strategy in place
- To determine if ORM or related framework was implemented at inception of the SME.
- To determine if ORM is actively reviewed in the SME.

- To determine if ORM was seen as an effective tool for a competitive advantage for the SME's.
- To determine if ORM mitigates any potential losses and optimize business opportunities.
- To determine the awareness levels of ORM within the SME.

The research design is defined by Welman and Kruger (2001) as:

- the analysis of the principles of methods, rules and postulates employed by a discipline
- The development of methods, to be applied with a discipline
- The study or description of methods

In this dissertation research methodology refers to a set of plans and procedures to be followed to investigate if Operational Risk Management is a critical success factor for SME in Kya Sands Industrial area. To investigate if ORM was a determining factor in the success of the SME's in the owners and managers opinions and perspectives. Creswell (2009) states that "individuals seek understanding of the world in which they live and work".

This research had a positive approach and was of a quantitative nature to investigate the research question and problem statement. The research instrument was a self-designed questionnaire. The surveys were completed by the business owner or business manager.

The research was of an exploratory method on the owner or business manager perceptions as facts and objectives, therefore reported as quantitative manner.

Quantitative research is frequently used in exploratory research as it provides general information on a particular subject that can then lead to a more comprehensive research on the other hand qualitative research deals with subjective data that are produced by the minds of respondents or interviewees i.e. human beings (Welman and Kruger (2001); Denzin and Lincol (2011); Marshall and Rossman (2011)).

Qualitative research information can be collected and recorded either numerically or in the form of recorded categories. The principal advantage of such questionnaires and interviews are that they can be administered to a numbers of individuals, organisations, or households using standardised methods (Cresswell, 2003).

Exploratory research was chosen as it describes an ambiguous research problem, as very little studies have been conducted in the success factors pertaining to the impact of operational risk within the SME, this method was found to be most applicable.

3.4 Population and Sample

3.4.1 Population

A population is generally defined as group of individuals or items that share one or more characteristics from which data can be gathered and analysed. Welman & Kruger (2001) states that the population encompasses the entire collection of units which they wish to make conclusions from. Furthermore they state that the target population is a group of people to whom they want their research to apply too. The study population in this research is therefore the people or SME's that meets the operational definition of the target population.

The initial investigation regarding the population of SME in Gauteng revealed that data were unavailable as South Africa does not have an updated data base of SME's. The study was then amended and limited to the geographical area of Kya Sands Industrial area to ease the accessibility to the proposed population research.

In order to obtain relevant data, various requests have been submitted to the following entities: Statistics South Africa, Business Partners, DTI, FinScope, SACCI, SASFIN, Nedbank Factors, Standard bank Factors, ABSA Debtor Finance, ABS Entrepreneurial Development and the ABSA SME Index to identify the SME's in the demarcated area. Unfortunately the information could not be obtained and disclosed by the entities due to numerous factors including some confidentiality agreements with their clients and related privacy regulation.

As a result of the above various different sources have been selected to obtain possible participant's contact details including the yellow page directory (Trudon) and

the National Data base of Business Connect. The target participants/population size of all enterprises in the chosen area amounted to 92 enterprises based on the data bases collated from these sources above. However the study population would be only the SME's that qualifies to the criteria of the study would be included in the study.

The unit of analysis in this study will be individuals (SME's Owners and managers) operating in Kya Sands industrial area.

3.4.2 Sample and sampling method

A sample is a portion or subset of the population. Welman and Kruger (2001) define population as encompassing the entire collection of units on which conclusions are made. As mentioned a purposive sampling (a non-probability form of sampling) will be used to select a sample. The advantage of non-probability sampling is that it's less complicated and more economical than probability sampling (Black, 2010)

A purposive sample will be drawn from the database that will conform to the qualifying criteria, being owner-manager of small business that was established in the last five years.

Due to the limited interest in participation the entire population was contacted to participate in the questionnaire and interviews. As previously mentioned the sampling frame was not available. The population defined by the sampling frame was then SME's in Kya Sands Industrial area.

Only 28 SME's were prepared to assist in the research. A total of 28 interviews were conducted however only 22 qualifying participants were included in the research, which conformed to the five year criteria.

Data were collected by means of a self-designed questionnaires coupled with an interview. Interviews were included as the participants required explanation of the participant information sheet and to elaborate on the topic of ORM. The questionnaire consisted of three sections;

- Section A include questions on the business dynamics and demographics.
- Section B include questions that revealed the business activities and awareness levels of ORM present in the SME, etc.

- Section C The questionnaire consists of open-ended questions. The intentions of open questions were to obtain more information in regards to owner and managers perspective of ORM.

The ORM concept was not explained as the participants (owner and manager's) perspective in regards to ORM was sourced as primary data and their perspectives.

The aim of this study was to identify if ORM was one of the major contributing success factors and a determining factor in the survival rate of a SME's.

Once the perception was obtained and recorded from the SME, the ORM concepts were explained to the participants. The terminology "near misses" was defined in the questionnaire as a risk event that has occurred but has not resulted in a loss. After the completion of the questionnaire several participants request additional information in regards to ORM, from the researcher which was supplied to the participants.

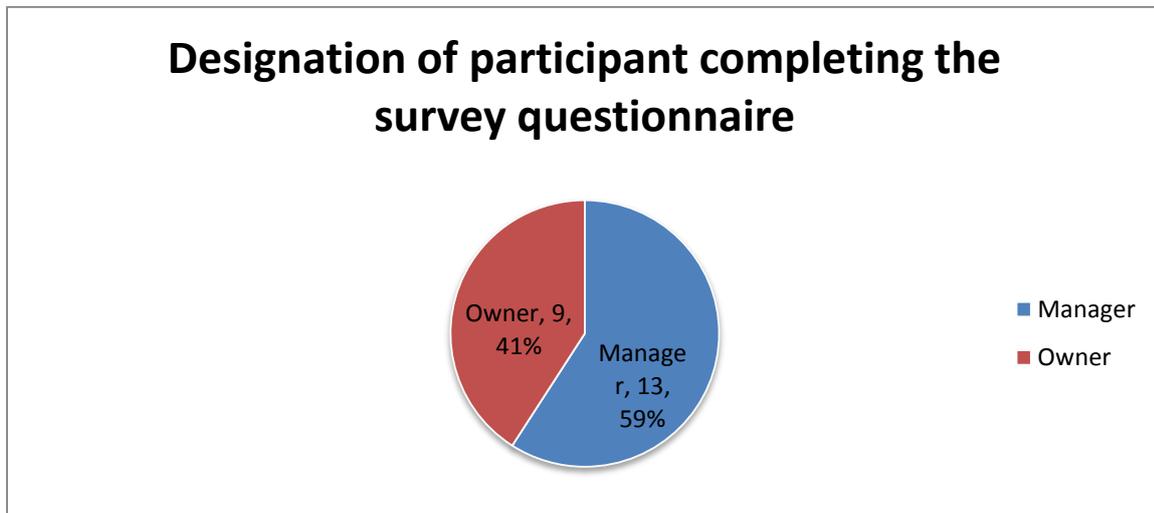


Figure 3-1 Profile of Respondents

The survey questionnaire was designed to obtain only managers and owners perspectives of ORM. The majority of the questionnaires were completed by Managers as per figure 3.1 above.

3.5 Data-collection techniques and Research instrument

The goal for all data collection is to capture quality raw data or evidence that then can be translated to rich data analysis that will allow a convincing and credible answer to questions or that have been posed. This data will then follow a scientific process of data analysis. The collection instrument used was in the form of a self-enumerated questionnaire. A participant invitation letter was designed and explained to the participants that were willing to participate voluntarily as per Appendix A.

3.5.1 Survey questionnaires

To achieve the set objectives the following questionnaire was developed by the researcher. As previously mentioned the collection instrument used was in the form of a self- designed enumerated questionnaire (thus becoming the measurement instrument). The questionnaire was self-designed due to the fact that no research could be found in regards to ORM in the SME sector. Questions were developed from the literature as far as possible.

Respondents were invited to participate in the study, and an invitation letter was attached as per Appendix A. Survey research itself is an old research method and has been proven as effective, relevant and the most used data-gathering technique. According to Angelopulo (2004) a survey was used to explore and obtain the facts, being numbers, general attitudes, opinions, preferences and perceptions of employees thus making it particularly suitable for this research topic and approach.

The questions asked from owners and managers pertained to the day-to-day operations of the different business units. In addition, the questionnaire investigated if the SME has a documented audit trail of any operational event that occurred in the history of the SME operations.

The research had to abandon the electronic survey method as the ethics committee request original consent form from the participants. This could not be obtained hence personal interviews were scheduled with each participant. The semi-structured self-designed questionnaire was completed with each willing participant.

When using questionnaires with standardised closed questions, it strengthens the study reliability as this would enable the researcher to ask the exact same question to each respondent (Rubin & Babbie 1997). The questions would be open to interpretation by the respondents and would therefore limit the researcher's ability to manipulate the research situation and increases the reliability of the research findings (Rubin & Babbie 1997).

In the close ended questions a five –point Likert scale was used where 1= strongly disagree, 2= disagree, 3 = agree in some cases, 4 = agree, and 5 = strongly agree (Neneh and Van Zyl. 2012). This was used to obtain information regarding the ORM present at the SME's.

The questionnaire consisted of three sections as per Pellissier & Nenzhelele (2013):

Part A: Demographic information

The data collected included factual information obtained from the SME, to ascertain if the SME qualified for the participation in this study. These would include, Type of Industry, Size of the SME-number of employees, Original date of registration, and Participants position in the SME.

Semi structured questionnaire had closed and open questions.

Part B: Closed questions

The closed questions were designed in order to obtain specific responses from the participants.

Part C Open questions

The reason for the open questions was to obtain different aspects of the research questions and to obtain more information in regards to ORM

3.5.2 Pre-testing for validity and reliability

In order to determine the effectiveness of a survey questionnaire, it is essential to pre-test the questionnaire prior to the actual research roll out. The pre-testing can assist in the determining the strength and weakness of the questionnaire as well as the

validity and reliability thereof (Neneh & Van Zyl, 2012). The questionnaire was tested with three SME's to validate the acceptance and completeness of the survey/questionnaire. It was assessed and met the criteria for the research objectives of the study.

3.6 Procedure for data-collection

Data collection was done through the administration of the self-enumerated questionnaires with respondents that accepted the invitation to participate.

No pre-survey communication was done as telephonic meeting requests were done by the researcher. The researcher informed the participant of the Participant letter and consent form as mentioned earlier. Various survey questionnaires and Participants letters were sent prior to formalising a meeting request to the SME's that were willing to participate voluntarily. Post communication will be forwarded to the participant's.

3.7 Data analysis and interpretation

The quantitative data that was obtained were analysed by means of descriptive statistics and themes from open-ended questions. Using descriptive tables and graphs (covered in Chapter four), each variable concerning the ORM facts and perspectives were evaluated in relation to the score achieved. The descriptive graphs will also indicate the number of responses in each category, a percentage value for ease of reference will be included in the results.

All the above data will be analysed, formulated and interpreted from the questionnaires (discussed in Chapter five), in order to obtain any similarities between the participants. The analysed data will enable the researcher to suggest recommendations and guidelines for the existing and future SME's.

3.8 Limitations of the study

- Research was limited to privately owned Small and Medium SME's.
- Research was limited to the geographical location of Kya Sands Industrial area to ease the accessibility to the proposed population; therefore it might be argued that different geographical areas might have a different outcome due to location/areas in SA. Further research can be conducted in different areas of South Africa.

- Research was limited to qualifying criteria SME's that have survived more than five years, therefore limiting the population size of an estimated 92 SME's that were contacted.
- Interviews were only conducted on business owners and/or managers.
- The study were limited to focus only on the ORM as per owner and/or manager perspective
- The study was limited to the perception of the owner manager if ORM contributed to the success of the SME.
- The study was conducted during office hours during the months of August to September and was reflecting the current situation during 2015.
- The assumption was made that this study will contribute to the understanding of the contribution of ORM to the success of SME's.
- The research might be prone to the possibility of the "Halo" effect due to the subjective nature of questions asked. The participant might answer the question different in order to promote the SME involvement in ORM and their knowledge perspective to the researcher (Isham, 1994).

3.9 Reliability and validity

Reliability of a measure refers to the consistency or reproducibility of the measurement technique. As per the study by Singh (2007:34) reliability refers to the ability of a measurement instrument to measure in a consistent manner each time it is used. In other words reliability means that the same outcome should be obtained for the same enterprises irrespective of which instrument is used and irrespective of who is administering the instrument. In addition closed questioned were included to increase the reliability of the study (Rubin & Babbie: 1997)

The validity measure test means that the findings obtained from a sample can be generalised to the population as a whole and also generalised to other populations under the same circumstances. Sing (2007) mentions that validity refers to the extent to which a measurement instrument measures consistently against the given standard. In other words validity means that the same outcome should be obtained for the same enterprises irrespective of when the study is performed. Validity focuses on whether the measuring instrument is an accurate measure of the reality (Easterby-Smith, 2002).

Internal validity additionally focuses on the research design and poses the question whether bias can be eliminated. The measuring instrument was pre-tested and was found to be unbiased.

The external validity however would then focus on the domains where the research results may be generalised to other economic sectors of the South African economy. All primary data will be available for five years after the completion of the research project has been approved.

In order to ensure the overall instrument had face and content validity, a preliminary analysis via a pilot test was undertaken on a small group of SME's who were representative of the population. This procedure ensured that the respondents had no difficulties in answering the questions and there was no problem in recording the data. The trustworthiness will be ensured by the sample selection from various different businesses and by collecting the data from different respondents.

3.9.1 Credibility

The participating SME's in the geographical area that meet the criteria for the research all signed consent forms. Therefore the study does have credibility. In addition all participants can be contacted to verify their answers. The research was also supervised.

3.9.2 Transferability

Transferability is concerned with the extent to which the findings of one study can be applied to other studies. Since the findings of a quantitative project are specific to a small number of particular environments and individuals, it is not possible to test the transferability applicable to other situations and populations.

3.10 Ethical considerations

Only SME's who freely consented in participating in the research or questionnaires were included in the research. Business owners and or managers names will be confidential and will not be disclosed. All ethical consideration as per the University

policy on Research and Ethics has been followed and Ethical clearance was obtained prior to the research activities. The consent form stated that by completing the questionnaire the participant consent to participating based on the disclosed purpose that will enabled the researcher to make an informed decision. Their participation was voluntary and that they can withdraw at any stage without negative consequences from the study.

3.11 Summary

In this chapter the research methodology in regards to the dissertation of limited scope was discussed. The research paradigm, research design, population, sample selection and research instrument were explained. In addition to this the limitations and reliability and validity were discussed.

In the next chapter the presentation of the results from the data collected through the questionnaire and interviews will be discussed. The results of the study will be displayed using both graph and tables. The graphs will be used for percentages and to illustrate the results of the research.

CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

In Chapter three, the research methodology as well as the process and development of the questionnaire were laid out.

Chapter four deals with the presentation of the results based on the data analysis obtained via the questionnaire and interviews. As previously mentioned the data were collected through self-administered questionnaires and interviews conducted with the owners and managers of the SME's that were operational for a minimum of the last five years in the Kya Sands Industrial area.

This chapter will also present the results from the questionnaire in regards to the implementation of ORM within various departments or business practices of the SME.

The results visualisation is presented in both graph and tabular format, augmented with information obtained from the open questions from the questionnaire.

4.2 Demographic profile of respondents

The research was limited to Small and Medium privately owned businesses as a result of cost and time constraints. The research was limited to the geographically area of Kya Sands Industrial area. The research was further limited to only qualifying SME's: i.e. that has survived more than five years. This had a limiting effect on the sample size. A total of 92 SME's in the Kya Sand Industrial area were contacted, with 28 businesses opting to participate.

Due to the smaller participant base, it was possible to conduct the questionnaire and interview simultaneously. All 28 participants completed the questionnaire with the researcher; however six participants did not meet the qualifying criteria and were excluded from the research, which left a sample size of 22 participating respondents.

4.3 The Nature and Characteristics of SME's

The first section of the questionnaire was to gather data describing the characteristics of the SME in order to meet the requirements for participation in the research.

4.3.1 Industry sector in which the SME operates (Question 1)

This question was to ensure that the study was unbiased to any specific industry and that a diverse response would be able to assist in a fair conclusion.

Type of SME's	No of Respondents	Percentage
Manufacturing	4	18.2%
Mining/Gas	1	4.5%
Automotive	2	9.1%
Textiles	1	4.5%
Medical and Lab equipment	4	18.2%
Cleaning services	3	13.7%
Import/export	1	4.5%
Other	4	18.2%
Audio visual/ Entertainment	2	9.1%
Total	22	100%

Table 4-1 Nature of business conducted by SME's

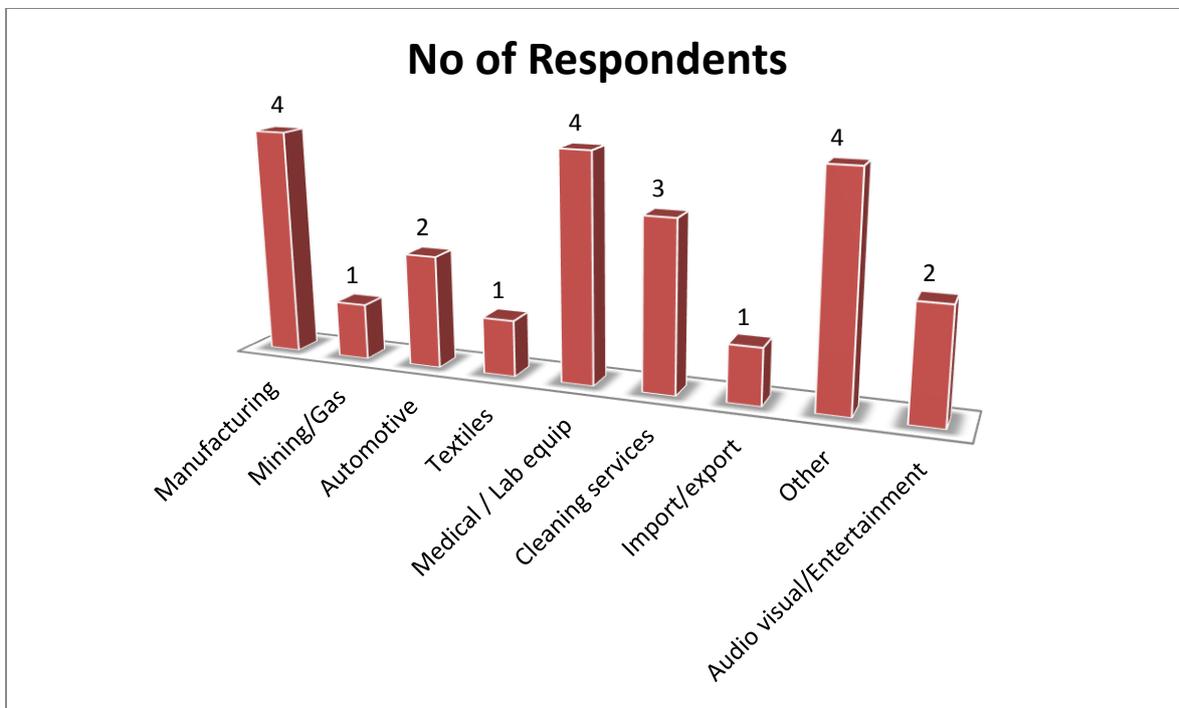


Figure 4-1 Number of Respondents

From the results in table 4.1 above, an acceptable selection of sectors represented in the selected sample of this study is evident, therefore reducing the risk of any sector being preferred.

4.3.2 SME Size- Employee's employed in SME (Question 2)

The respondents had to indicate their number of employees to be classified as a SME as per the criteria covered in chapter 1. All respondents interviewed provided their staff complement. Two participants were excluded as they exceeded the employee threshold for SME classification. The two respondents excluded had over 125 employees.

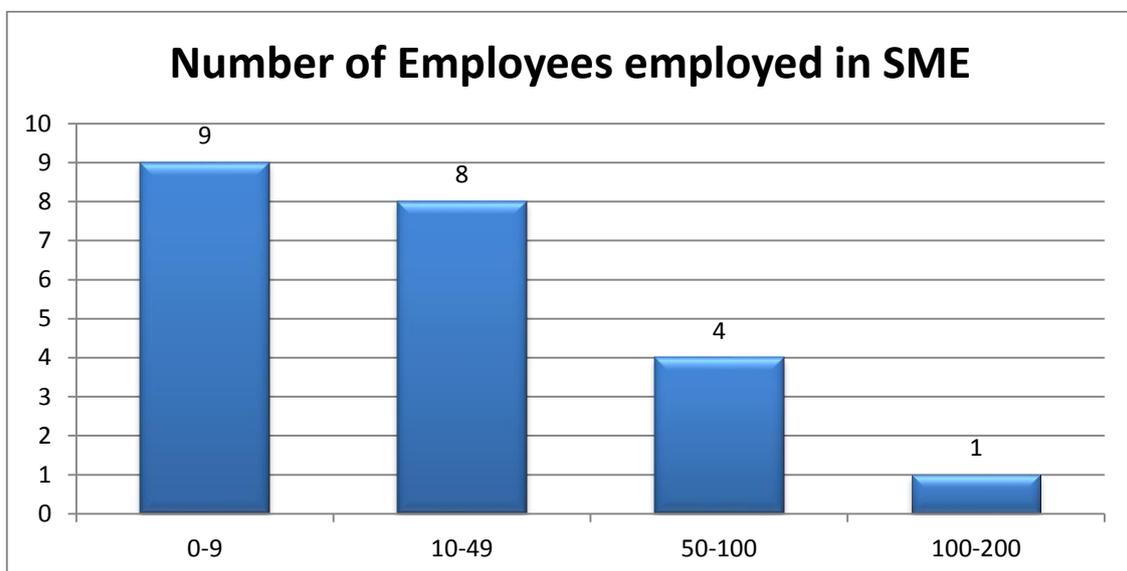


Figure 4-2 Number of employees in the SME's

The results in figure 4.2 shows the distribution of employees per the 22 responded that qualify for the participation. The demographics show a good spread of companies in the SME classification.

4.3.3 SME's registration date (Question 3)

The SME's registration date was requested in order to comply with the second qualifying criteria being long of existence. Participating SME's had to be in operation for a minimum of five years. Four participants had to be excluded as they were not operationally for at least five years and did not meet the minimum qualifying criteria as described in Chapter one.

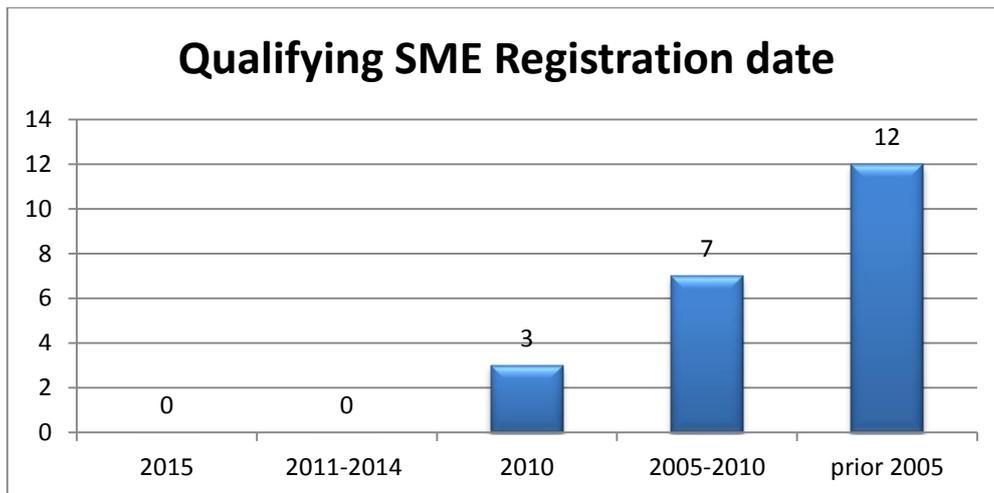


Figure 4-3 Qualifying SME's older than five years

From the results in figure 4.3 above it is clear that 22 SME's respondents' questionnaires can be used for the study

4.3.4 Respondents position in the SME (Question 4)

Only responses by owners and/or managers were taken into account in order to meet the minimum qualifying criteria as described in Chapter one.

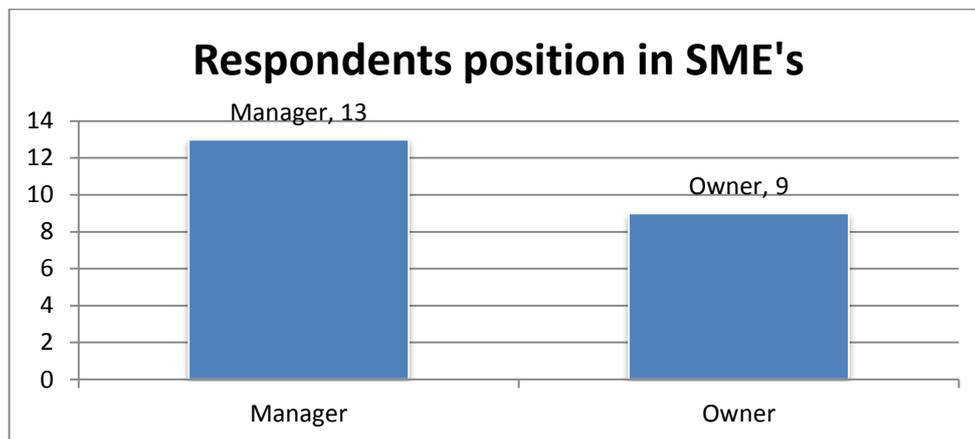


Figure 4-4 Respondents position in SME's

Figure 4.4 indicates the number of managers and owners that participated. This data were required to assist in the research objectives as only the perceptions of Managers and Owners were needed in regards to ORM.

4.4 Determining the perceptions in regards to ORM in the SME's

The SME's perceptions of ORM consisted of eight questions. A five-point Likert scale was used to measure the respondent's perceptions (Neneh and Van Zyl. 2012). The responses were classified and measured through:

- 1= strongly disagree,
- 2= disagree,
- 3= Agree in some cases,
- 4= agree, and
- 5= strongly agree

A description of the Likert rating value used can be found in Table 4.2 below.

Value	Likert Scale Description
1	Strongly Disagree
2	Do not agree
3	Agree in some cases
4	Agree
5	Strongly agree

Table 4-2 Likert scale rating and description

The respondents were requested to select the extent to which they either agreed or disagreed with the statements posed. All answers were then totalled per question in order to determine the overall score of each characteristic. Each answer given by the SME would therefore characterise the owner or managers perception and be regarded as a fact. The results of the answers are presented in section 4.5 below. The detailed conclusions and findings will be discussed later in Chapter five.

4.5 Main Research Objective

4.5.1 ORM has contributed to the success of the SME

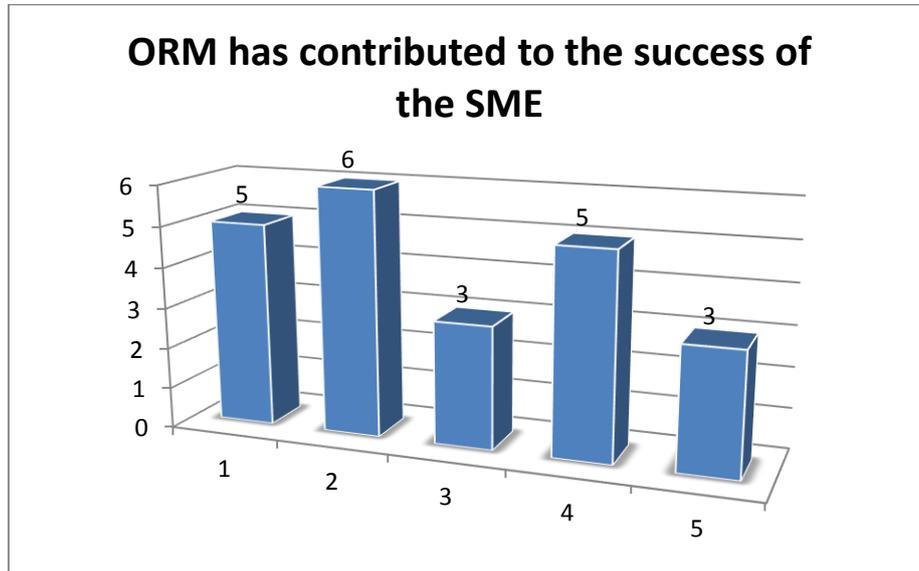


Figure 4-5 ORM has contributed to the success of the SME

In respect of the question “ORM has contributed to the success of the SME’s (Question 9), the results were as follow as per figure 4.5 above:

Strongly disagree 5 (23%)

Disagree 6 (27%)

Agree in some cases 3 (13%)

Agree 5 (23%)

Strongly agree 3 (14%)

Total disagree 49%

Total agreed 51%

It is not possible to identify a conclusive result to this question and will be discussed in Chapter five.

4.5.2 ORM will in the future contribute to the success of the SME?

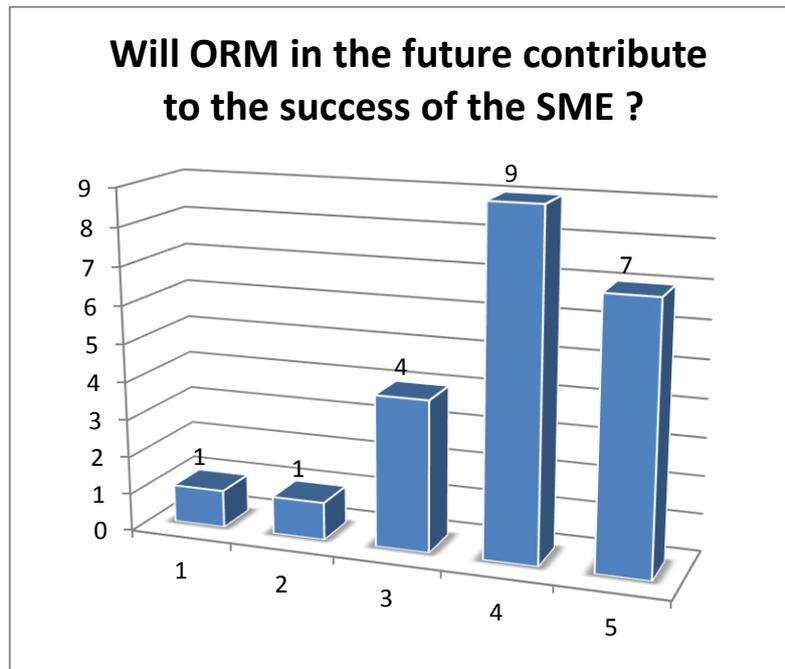


Figure 4-6 Will ORM in the future contribute to the success of the SME

In respect of the question “Will ORM in the future contributed to the success of the SME’s? (Question 10), the results were as follow as per figure 4.6 above:

Strongly disagree	1	(4.5%),
Disagree	1	(4.5%)
Agree in some cases	4	(18.2%)
Agree	9	(40.9%)
Strongly agree	7	(31.8%)

The majority of the respondents believe that ORM will contribute to the success of the SME.

4.6 ORM embedded in Internal Departments

The following section of the questionnaire was to identify if ORM embedded in the SME's internal departments (Question 13). These questions were closed self-designed questions that were aligned with the objectives of the study. These questions align with the ORM awareness and if the ORM is actively pursued within the internal departments. The information gathered is summarised in Table 4.3 below. All six questions were assumed to have the same effect on the success of the SME's. The findings will be discussed in chapter five.

Department	Yes	No	YES %	No %
Strategic Risk	12	10	54.55%	45.45%
Employee Risk	14	8	63.64%	36.36%
Environmental	11	11	50.00%	50.00%
Health and Safety	16	6	72.73%	27.27%
Product Risk	17	5	77.27%	22.73%
Financial Risk	16	6	72.73%	27.27%
Total	86	46	65%	35%

Table 4-3 Operational Risk Management embedded in Internal Departments

4.6.1 Strategic Risk

The result indicate that a total of 12 participants (54.55 per cent) indicated that they have ORM embedded in the internal departments in regards to strategic risk.

4.6.2 Employee Risk

The result indicate that a total of 14 participants (63.56 per cent) indicated that they have ORM embedded in the internal departments in regards to human resources risk.

4.6.3 Environmental Risk

The result indicates that SME were unsure if ORM were embedded into the internal departments in regards to environmental risk factors. Based on an equal result agreeing and disagreeing with the question. It is not possible to identify a conclusive result to this question and will be discussed in Chapter five.

4.6.4 Health and Safety Risk

The results indicate that a total of 16 participants (72.73 per cent) indicated that they have ORM embedded in the internal departments in regards to the health and safety risk.

4.6.5 Product Risk

The results indicate that a total of 17 participants (77.27 per cent) indicated that they have ORM embedded in the internal departments in regards to the product risk.

4.6.6 Financial Risk

The results indicate that a total of 16 participants (72.73 per cent) indicated that they have ORM embedded in the internal departments in regards to the financial risk.

The total result in regards to if ORM was embedded into the internal departments of the participating SME's reflected a total of 86 "Yes", which amounts to 65 per cent agreeing that the ORM was embedded into the internal departments. A total of 46 "No" results were recorded which amounts to 35 per cent, that indicated that ORM were not embedded into their internal departments.

4.7 Secondary objectives

4.7.1 First Secondary objective result:

Does the SME have an ORM strategy in place? (Question 5)



Figure 4-7 ORM Strategy in Place

In respect of the question “Does the SME have an ORM strategy in place (Question 5), the results were as follow as per figure 4.7 above:

Strongly disagree	7	(32%),
Disagree	1	(4%)
Agree in some cases	6	(27%)
Agree	5	(23%)
Strongly agree	3	(14%)

The majority of the respondents believe that their SME's have an ORM strategy in place.

4.7.2 Second Secondary objective result:

ORM is implemented and managed in the SME (Question 6)

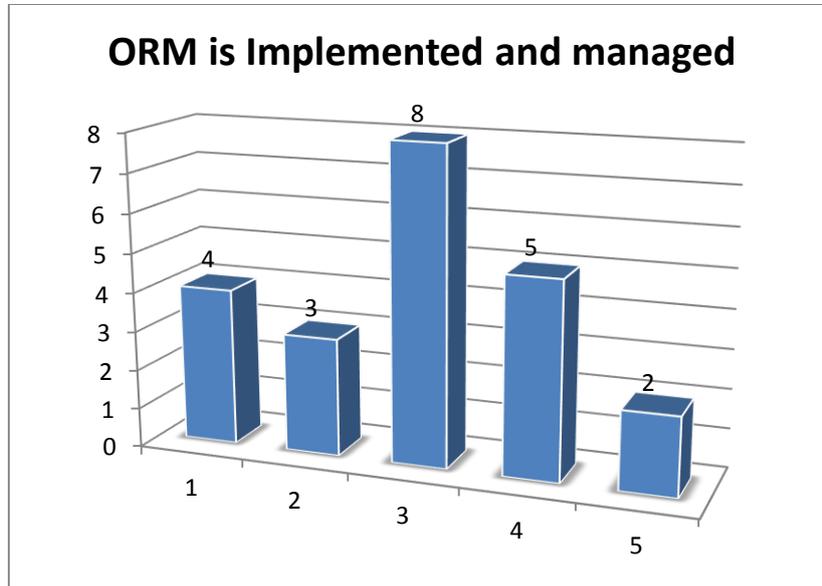


Figure 4-8 ORM Implemented and managed

In respect of the question “Was ORM implemented and managed” (Question 6), the results were as follow as per figure 4.8 above:

Strongly disagree	4	(18%),
Disagree	3	(14%)
Agree in some cases	8	(36%)
Agree	5	(23%)
Strongly agree	2	(9%)

The results indicate that the majority of the respondents believe that ORM is implemented and managed in their SME.

4.7.3 Third Secondary objective result:

The SME has a well-defined documented ORM Policy in place (Question 7)

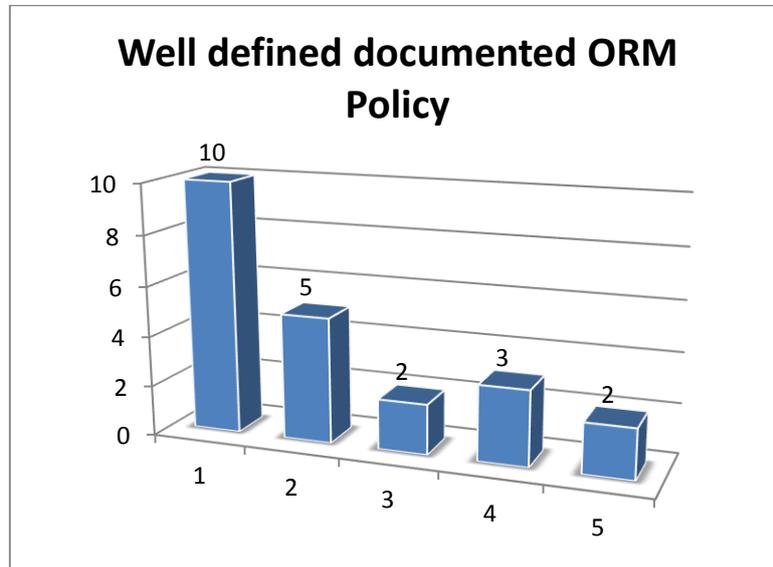


Figure 4-9 Well defined documented ORM Policy

In respect of the question “Has the SME a well-defined documented ORM Policy in place? (Question 7), the results were as follow as per figure 4.9 above:

Strongly disagree	10	(45%),
Disagree	5	(23%)
Agree in some cases	2	(9%)
Agree	4	(14%)
Strongly agree	2	(9%)

The majority of the respondents do not believe that SME’s have a well-defined ORM policy in place.

4.7.4 Fourth Secondary objective result:

ORM is regarded as an essential tool for a competitive advantage in the SME (Question 8)

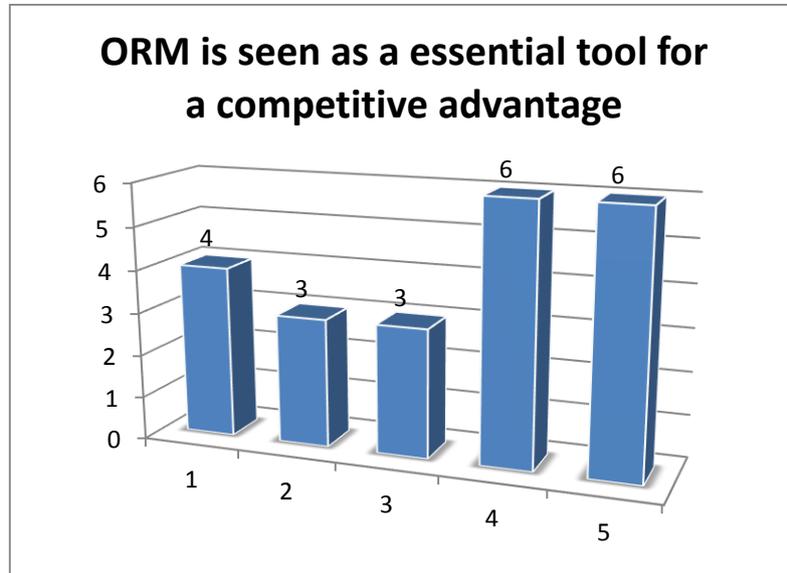


Figure 4-10 ORM is regarded as a tool for a competitive advantage

In respect of the question “ORM is regarded as an essential tool for a competitive advantage in the SME (Question 8), the results were as follow as per figure 4.10 above:

Strongly disagree	4	(18%),
Disagree	3	(14%)
Agree in some cases	3	(14%)
Agree	6	(27%)
Strongly agree	6	(27%)

The results indicate that the majority of the respondents believe that ORM is regarded as an essential tool for a competitive advantage in the SME

4.7.5 Fifth Secondary objective result:

ORM will mitigate losses and optimise business opportunities (Question 11)

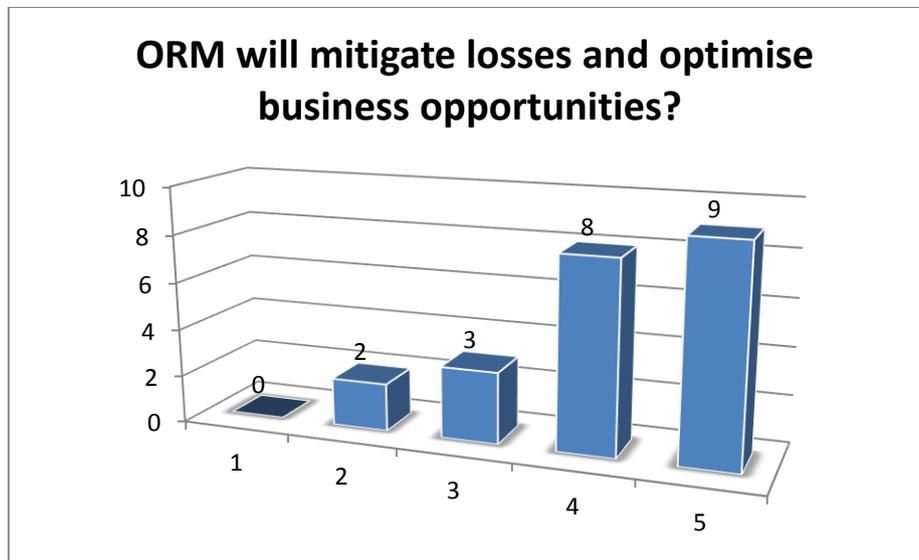


Figure 4-11 ORM will mitigate losses and optimise business opportunities

In respect of the question “ORM will mitigate losses and optimise business opportunities (Question 11), the results were as follow as per figure 4.11 above:

Strongly disagree	0	(0%),
Disagree	2	(9%)
Agree in some cases	3	(14%)
Agree	8	(36%)
Strongly agree	9	(41%)

The majority of the respondents believe that ORM will mitigate losses and optimise business opportunities.

4.7.6 Sixth Secondary objective result:

ORM awareness levels are actively being discussed in strategic meetings (question 12).

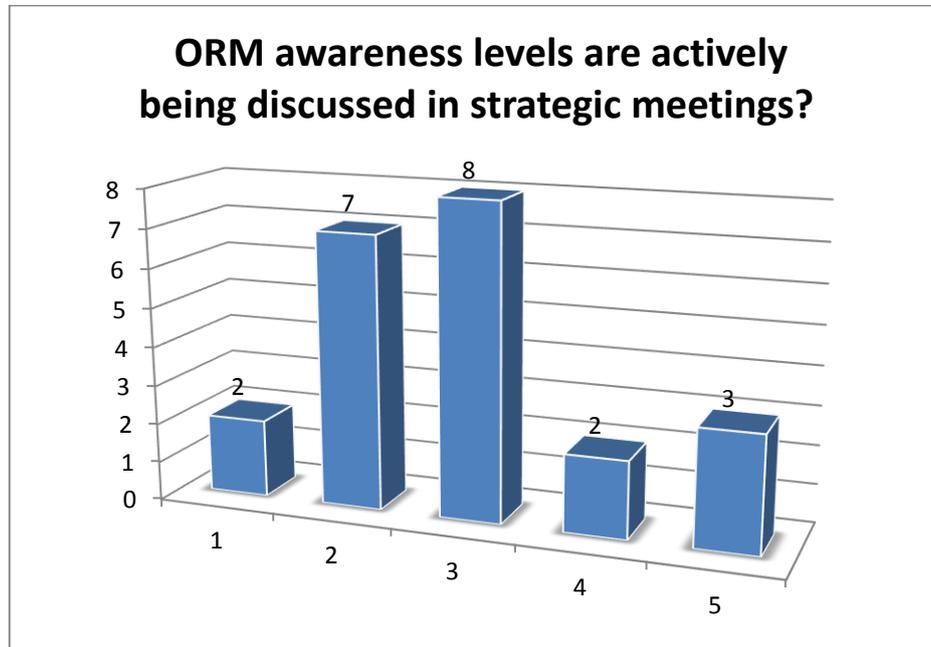


Figure 4-12 ORM awareness levels are actively being discussed in strategic meetings

In respect of the question “ORM awareness levels are actively being discussed in strategic meetings (Question 12), the results were as follow as per figure 4.12 above:

Strongly disagree	2	(9%),
Disagree	7	(32%)
Agree in some cases	8	(36%)
Agree	2	(9%)
Strongly agree	3	(14%)

The majority of the respondents believe that ORM awareness levels are actively being discussed in strategic meetings.

4.8 Open questions - ORM and the management thereof

The information gathered via the interviews and questionnaires were summarised and is reported within each of the questions. The general finding of the SME's perceived perceptions were reported as per the results below.

4.8.1.1 What is ORM in your opinion? (Question 14)

The respondents had various definitions and interpretations regarding ORM. The most descriptive response received was: that the SME would take advance precautions against any factor being internal /external that could negatively impact on the profitability and the day to day operations of the company. A total of 15 respondents (68 per cent) had a general knowledge of ORM; the remaining seven participants (32 per cent) had a vague definition thereof.

4.8.1.2 Can ORM contribute to success (Question 15)

All the participants indicated that ORM can contribute to the success of the SME. However this must be implemented and monitored.

4.8.1.3 Is Near misses recorded in The SME'S (Question 16)

It was established that 86 per cent would record the near miss event in order to have a documented incident register. This would enable them to identify reoccurrences in the future.

4.8.1.4 Methods used to quantify ORM events (Question 17)

A total of 59 per cent of the respondents indicated that the event would be quantified into predominately a financial loss category. The remainder 41 percent indicated they would only record the event as an occurrence for future reference.

4.8.1.5 Does the SME's categorise the ORM events and near misses? (Question 18)

A total of 64 per cent of the respondents indicated that the event is currently not categorised. The remainder 36 percent indicated that the event is categorised per department and or business activity.

4.8.1.6 Record keeping on ORM events (Question 19)

The respondent's results indicated that 41 per cent of the respondents had records in regards to documentation of events (losses) that occurred, for a period between two and ten years. The remainder 59 percent indicated that they do not have records; however they will keep records in the future.

4.8.1.7 Record keeping on near misses events (Question 20)

The results indicated that 32 per cent of the respondents had records in regards to near misses events that occurred, for a period between two and ten years. The remainder 68 percent indicated that they do not have records; however they will keep records in the future.

4.9 Summary of the Results

In summary, this chapter outlined results of the 22 (twenty two) respondents that were interview and have provided answers. The questionnaire was summarized through figures and tables. While the open questions portion were summarized and the responses summed up in to general findings.

The study only focuses on the data obtained from the respondent's perspectives in regards to Operational Risk Management. This is by no means a comprehensive list of the diverse variables that can be associated with the success of an SME. The purpose was to establish the role of Operational Risk Management and if ORM has and will contribute to the success of the SME's.

Results of the above will be discussed in detail in Chapter five.

Chapter 5 DISCUSSION OF THE RESULTS

5.1 Introduction

The aim of this chapter is to discuss the results based on the primary data obtained from the self-designed questionnaire and interviews conducted as reported in of Chapter 4.

As previously mentioned the research was limited to Small and Medium privately owned companies (SME's) as no prior existing research conducted in Operational Risk Management in SME's, could be found, specifically relevant to the South Africa context.

The objective of this research was to identify and to investigate the role of Operational Risk Management in SME's in the Kya Sands Industrial area. Furthermore to investigate if ORM has a direct impact on the success of a SME and if it was a determining factor in the survival rate of a SME. The SME had to be in operation for a minimum period of five years.

To achieve this, a literature review was conducted to identify if ORM has been researched.

This chapter will discuss the results as obtained from the self- administered/ designed questionnaire. Reference will be made to the figures as indicated in chapter four. The same heading will be used for ease of reference.

5.2 Demographic profile of respondents

The research was limited to Small and Medium privately owned companies as a result of cost and time constrains. The research was limited to the geographically area of Kya Sands Industrial area to ease the accessibility to the proposed population.

As previously mentioned the data were collected from owners and managers of privately owned SME's operational for a minimum of the last five years. The length criteria further limited the sample size. A total of 92 SME's in the Kya Sand Industrial area were contacted, only 28 participants accepted the invitation, and only 22 qualified to participate.

Due the limited number of volunteering participants as well as the requirement by Unisa Ethical Committee to obtain an original consent form, the researcher conducted the questionnaire and interview simultaneously. All 28 participants completed the questionnaire with the researcher; however six participants did not meet the qualifying criteria (size of employee base and length of operation) and were excluded from the research.

5.3 The Nature and Characteristics of SME'S

5.3.1 Industry sector in which the SME operates (Question 1)

The results reflected that the respondents are in various business sectors as per Table 4.1 and Figure 4.1. This result indicated that the study was diverse and represented various industries within the SME's sectors; as a result the study was unbiased.

5.3.2 SME Size- Employee's employed in SME (Question 2)

From the results in figure 4.2 it is clear that 22 questionnaires can be used for the study. The demographics of the questionnaire respondents displayed as per figure 4.2 and indicate that there is a good distribution of employees in the SME classification.

5.3.3 SME's registration date (Question 3)

The SME's registration date was requested in order to qualify based on the criteria for participation, i.e.: minimum of five years in operation. Four participants had to be excluded as they were not operationally for at least five years. From the results in figure 4.3 it is clear that 22 respondent's questionnaires can be used for the study.

5.3.4 Respondents position in the SME (Question 4)

Only responses by owners and/or managers were taken into account in order to meet the minimum qualifying criteria as described in Chapter one. From the results in figure 4.4 above it is clear that the survey questionnaires were completed by 13 Managers which represents 59 per cent and nine SME Owners which represent 41 per cent. This data were required to assist in the research objectives as only the perceptions of managers and owners were relevant with regards to Operational Risk Management. Therefore the results conform to the research criteria.

5.4 Main Two Primary objectives in regards to ORM in the SME's

5.4.1 ORM has contributed to the success of the SME(Question 9)

In respect of the question to identify if ORM plays a role in the success of the SME's (Question 9), the results were as follows and depicted in figure 4.5 indicates: strongly disagree five (23%), disagree six (27%), agree in some cases three (13%), agree five (23%) and strongly agree three (14%).

The result for this question was "Unsure" -

A total of 11 participants (50 per cent) negatively rated the question with 23 per cent strongly disagree and 27 per cent disagree, therefore do not believe that ORM has contributed to their success in the past.

The other half of respondents a total of 11 participants which is 50 per cent of the result (agreed in some cases, agreed and strongly agree) believes that ORM has contributed to their success. It is therefore clear that SME's perspective in this regard was unsure, if ORM has contributed to their success of the SME.

However if strongly disagree (23%) is compared with strongly agree(14%) it could indicate that the majority disagrees with the statement that ORM contributes to the success of a SME.

5.4.2 ORM will in the future contribute to the success of the SME(Question 10)

In respect of the question "Will ORM in the future contribute to the success of the SME's? (Question 10), the results were as follows and depicted in figure 4.6 indicates: strongly disagree one (4.5%), disagree one (4.5%), agree in some cases four (18.2%), agree nine (40.9%) and strongly agree seven (31.8%).

The result for this question was positive.

Only two participants (9 per cent) did not agree that ORM would contribute to their success in the future. A total of 20 participants agreed that the ORM will in the future contribute to the success of the SME which contributed an overwhelming 91 per cent

(18 per cent agreed in some cases, overwhelming 41 per cent and 32 per cent respectively agree and strongly agreed).

As a result ORM can therefore be seen as a contributing factor to the survival rate of SME's in the future, according to the perceptions of the owners and manages. The result therefore could indicate that the ORM is believed to be a success factor.

These results are contradicting the previous research question results. It was discovered that the SME's gained ORM knowledge during the research process. As a result their perception in regards to ORM has changed and they realised that ORM could be a contributing factor in their SME. The main research question is therefore being answered successfully.

5.4.3 ORM embedded in Internal Departments

The following section of the questionnaire was to identify if ORM was embedded in the SME's internal departments (Question 13). These were closed self-designed questions that were aligned with the objectives of the study.

These questions ties in with the ORM awareness and if the ORM is being managed within the internal departments. The information gathered is summarised in Table 4.3. All six questions were assumed to have the same effect on the success of the SME's.

The data obtained as per Table 4.3 clearly indicates that the respondents believe that ORM is clearly embedded in all the departments, as no internal department had a score of below 50 per cent. However only the environmental risk, based on an equal result agreeing and disagreeing with the question. It is not possible to identify a conclusive result to this environmental risk question.

ORM was rated as the highest in Product Risk at 77 per cent and then followed by Financial Risk 72 per cent and Health and Safety Risk at 72 per cent. This could confirm that ORM was embedded in all the internal departments.

The total result in regards to if ORM were embedded into the internal departments of the participating SME's reflected a total of 86 "Yes", which amounts to 65 per cent agreeing that the ORM was embedded into the internal departments. A total of 46 "No" results were recorded which amounts to 35 per cent, that indicated that ORM were not

embedded into their internal departments. Thus if all six questions were assumed to have the same effect on the success of the SME's, the result indicates that ORM have been embedded into the SME's internal departments.

5.5 Secondary objectives

5.5.1 First secondary objective

In respect of the question "Does the SME have an ORM strategy in place? (Question 5), the results were as follow and depicted in figure 4.7: strongly disagree seven (32%), disagree one (4%), agree in some cases six (27%), agree five (23%) and strongly agree three (14%).

The result for this question was positive.

The results indicate 36 per cent of respondents in their perceptions believe SME's do not have an ORM strategy in place (strongly disagree 32 per cent and disagree four per cent).

The remaining 64 per cent believe they have a strategy in place therefore it seems that SME's are aware of ORM as a long term factor.

Larger business must conform to King III requirements and therefore implement ORM plan. SME are however not bound by the same regulations. The first sub objective of the research study was to determine if SME's has an ORM strategy in place. As per above an ORM strategy was implemented in 64 per cent of the SME's.

5.5.2 Second secondary objective

In respect of the question "Was ORM implemented and managed? (Question 6), the results were as follow and depicted in figure 4.8: strongly disagree four (18%), disagree three (14%), agree in some cases eight (36%), agree five (23%) and strongly agree two (9%).

The results indicate 32 per cent of SME in their perceptions believes that the ORM is not implemented and managed (strongly disagree 18 per cent and disagree 14 per cent).

The remaining 68 per cent believes that ORM is implemented and managed. It is therefore noted that SME's do have knowledge about ORM as the majority of the participants are implementing ORM Strategies.

The second sub problem of the research study was therefore positive. SME's do have knowledge about ORM as the majority are implementing ORM strategies in their perceptions. The question still remains: do they know what ORM is? In order to answer this question it would be advisable to do a future study on the effectiveness of their Operational Risk Framework as per the literature in chapter three.

5.5.3 Third secondary objective

In respect of the question "Has the SME a well-defined documented ORM Policy in place? (Question 7), the results were as follow and depicted in figure 4.9: strongly disagree ten (45%), disagree five (23%), agree in some cases two (23%), agree four (14%) and strongly agree two (9%).

The result for this question was negative.

The results indicate 68 per cent of respondents believes that the SME did not have an ORM policy in place (strongly disagree 45 per cent and disagree 23 per cent).

The remainder 32 per cent believes that the SME's do have a formal ORM policy in place. Overall the results for this question were negative.

However the previous sub-problem results indicate that SME's do have ORM strategies and implements ORM within the SME's business practices. Surprisingly from the results obtained it is clear that SME's neglect ORM documentation as 68 percent does not have a policy in place.

It appears that SME's are aware of ORM however the required resources are not assigned to even define a policy for ORM.

5.5.4 Fourth secondary objective

In respect of the question “ORM is regarded as an essential tool for competitive advantage in the SME (Question 8), the results were as follow and depicted in figure 4.10: strongly disagree four (18%), disagree three (14%), agree in some cases three (14%), agree six (27%) and strongly agree six (27%).

The result for this question was positive.

A total of seven participants which is 32 per cent of the result (strongly disagree 18% and disagree 14%) of the SME’s did not believe that ORM is an essential tool to have for a competitive advantage.

In contrast 15 participants, 68 per cent (agreed in some cases, agreed and strongly agree) believe ORM is regarded as an essential tool that will benefit the SME as this would enable them to have an advantage over their competitors in the same industry. It is therefore clear that SME’s respondent’s perspective was positive and that ORM is seen as a competitive ability to entrench in the SME tool to have in the SME.

5.5.5 Fifth secondary objective

In respect of the statement “ORM will mitigate losses and optimise business opportunities in the SME” (Question 11), the results were as follow and depicted in figure 4.11: strongly disagree zero (0%), disagree two (9%), agree in some cases three (14%), agree eight (36%) and strongly agree nine (41%).

The result for this question was therefore overwhelming positive.

The results reveal that only two participants which amount to only nine per cent disagreed with the statement.

A total of 20 participants agreed that the ORM will mitigate losses and optimise business opportunities in the future; which totaled an overwhelming 91 percent of respondents (14 per cent agreed in some cases, 36 per cent agreed and an overwhelming 41 per cent strongly agreed).

From these results it is evident from a SME's perspective, ORM is a vital tool to identify any possible event that could mitigate losses and might optimize business opportunities.

It appears that SME's are well aware of advantages ORM will provide them if correctly implemented and managed on a day to day basis.

5.5.6 Six secondary objective

In respect of the statement "ORM awareness levels are actively being discussed in strategic meetings" (Question 12), the results were as follow and depicted in figure 4.12: strongly disagree two (9%), disagree seven (32%), agree in some cases eight (36%), agree two (9%) and strongly agree three (14%).

The result for this question was positive.

A total of 13 participants agreed that the awareness levels are actively being discussed in the SME, which contributed 60 per cent with 36 per cent agreed; nine per cent and 14 per cent respectively agree and strongly agreed.

The results reveal that nine participants' amounts to 41 per cent of the respondents disagreed with the statement.

Therefore the result suggests that the some of the respondents are aware of the importance of ORM, but some of the SME's are lagging behind. This then deduces that SME's are not knowledgeable regarding ORM. It would be recommended that managers and owners of SME's up-skill their knowledge in this regard.

5.6 Open questions - ORM and the management thereof

The information gathered via the interview and questionnaire were summarised and reported within each of the questions. The general perceptions received were reported as per below results.

5.6.1 ORM in the SME's opinion (Question 14)

The SME's had various definitions and interpretations regarding ORM. The most descriptive response obtained was that the SME would take advance precautions against any factor being internal /external that could negatively impact on the profitability and the day to day operations of the company. In summary a total of 15 SME's (68 per cent) had only a general knowledge of ORM; the remainder of seven SME's (32 per cent) had a vague definition thereof. This indicates that the respondents were not clear on the meaning of ORM.

5.6.2 Can ORM contribute to the SME's success (Question 15)

All the respondents believe ORM can contribute to the success of the SME if implemented and managed. However, it does not mean that ORM is actually (at this point in time), contributing to the success of SME's. On completion of the questionnaire the researcher educated the SME's in regards to the importance of ORM. The study therefore still represents the SME perspective prior to any education.

5.6.3 Is Near misses recorded in the SME'S (Question 16)

It was established that 86 per cent of the respondents would record the near miss event in order to have a documented incident register. This would enable them to identify re-occurrences in the future. It would appear if respondents did not record near misses at the present point in time.

5.6.4 Methods used to quantify Operational Risk events (Question 17)

A total of 59 per cent of the respondents indicated that the event would predominately be quantified into a financial loss. The remainder 41 per cent indicated that they would only record the event as an occurrence for future reference. It seems as if record keeping is done in a haphazard way. Only financial losses are occasionally recorded. No policy in connection with record keeping seems to exist.

5.6.5 Does the SME's categorise the ORM events and near misses (Question 18)

A total of 64 per cent of the respondents indicated risk events are currently not categorised. The remaining 36 per cent indicated that risk events are categorised per department and or business activity. This correlates with section 5.4.7 and 5.4.8 and would appear that records keeping in SME's regarding ORM is not really standardised.

5.6.6 Record keeping on Operational Risk events (Question 19)

Forty-one per cent of the respondents had records for a period between two and ten years. The remainder 59 per cent indicated that they do not have records; however they will keep records in the future. This corroborates record keeping standards and practices are disparate.

5.6.7 Record keeping on Operational Risk events (Question 20)

Thirty-two per cent of the respondents had records for a period between two and ten years. The remainder 68 percent indicated that they do not have records; however they will keep records in the future. As previously mentioned in the above results 5.6.6 record keeping is not properly done by SME's, especially if it was only a near miss in their perception. This can be important information to amend current practices within the SME.

5.7 Summary of the discussion of the results

In summary this chapter outlined the discussion of the results of the 22 (twenty two) respondents that was interview and have provided answers.

5.7.1 Main objective summary

The purpose was to establish the role of ORM in SME's and if operational risk has and will contribute to the success of the SME's. This research has establish that the SME's gained ORM knowledge during the research process. As a result their perception in regards to ORM has changed and they realised that ORM would be a contributing factor in their SME's success.

Question nine(9) indicated that the SME's were unsure if ORM did contribute to their success.

However in question ten(10) the SME's perception were that ORM will contribute to their success in the future. This would emphasise that ORM is a contributing factor to the success of a SME.

In addition, it was discovered that the SME had implemented ORM to the best of their knowledge. ORM was therefore managed with limited knowledge within the internal departments.

Furthermore it was establish that all the SME's agree ORM can contribute to the success of the SME. However ORM must be implemented and monitored to reap the benefits of such a program.

Finally regarding the main objective, SME's must be able to categorise the different risk and record the events and near misses in order to have a documented incident register. This would enable them to identify reoccurrences in the future. Record keeping should receive more attention to assist in future referencing if events reoccur.

The main research question has therefore been answered successfully. ORM definitely plays a vital role in the survival rate of a SME according to perceptions and might be regarded as a critical success factor for SME's.

5.7.2 Secondary objective summary

The first secondary objective. It was discovered that the majority SME's do have an ORM strategy in place. The result is therefore positive.

Second secondary objective - it was discovered that SME's do have knowledge about ORM as the majority are implementing ORM Strategies. The result is therefore positive.

Third secondary objective- it was discovered that SME's neglect documenting their ORM strategy into policies. It appears that SME's are aware of ORM however the required resources are not assigned to define a policy for ORM. The result is therefore negative.

Fourth secondary objective- it was discovered that ORM can be regarded as an essential tool leading to a competitive advantage over their similar rivals in the market. The result is therefore positive.

The fifth secondary objective- it appears that SME's are well aware of advantages that ORM will provide an SME if correctly implemented and managed on a day to day basis. The result is therefore positive.

Six secondary objective- it was discovered that the awareness levels are being discussed and that ORM awareness will contribute to their success in the long term. The result is therefore positive.

The results suggest the majority of the SME's do have an ORM strategy in place. The results also suggest that the majority of SME's do have knowledge about ORM and that ORM strategies are being implemented.

However SME's neglected documenting their ORM strategies into policies. It appears that SME's are aware of ORM but the required resources are not assigned to define a policy for ORM.

The results further suggest that ORM can be recorded as an essential tool leading to competitive advantage over their survival rivals in the market.

In addition ORM can mitigate potential losses and optimize business opportunities if implemented correctly and managed.

In summary it seems as if SME's do acknowledge the importance of ORM, but is not yet geared to implement it fully. The results therefore indicate that this was an avant-garde study that indicated that ORM is a critical success factor contributes to the SME success.

Chapter 6 CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This study focused on investigating whether ORM has a direct impact on the success of a SME. This would be a unique, new knowledge generating ground breaking finding as ORM was not regarded nor researched as a critical contributing success factor for smaller companies. This was the primary objective and main research question investigated.

The need for this study arose as per chapter one reveals a high rate of SME failures, regardless of various financial assistance programs from government for starting and assisting SME's. In addition, the need to investigate the extent of ORM implementation in SME's and if they have a formal risk frame-work or plan that mitigated the operational risks. This risk could be a constant variable relevant to SME's

The most appropriate research methodology was to conform to a quantitative and exploratory study. Through identifying the perceptions of the owners and managers of SME's regarding ORM, further research can be conducted to identify the extent that ORM can have on the SME's successes.

6.2 Conclusions of the research study

The lack of a comprehensive data base of SME in South Africa restricted the research to the population limited to the geographical area of Kya Sands.

The impact of the scarce data on operational risk is significant. It indicated that ORM concepts are known to SME's however these have not been actively managed with in the SME's.

One must remember that this study depended on the perceptions of the respondents. It could be that some respondents could give more positive answers so as to not place his enterprise in a bad light.

However one can come to the conclusion that the respondents have some knowledge of ORM and the role it plays in the success of SME's. the results revealed that the owners and managers of the selected SME's do realise the importance of ORM, but that much still has to be done to implement ORM fully in the enterprise.

In the literature it was argued that ORM is a success factor for the success of SME's, therefore if ORM is not implemented fully in the SME, it could indicate the non-implementation of ORM could be a reason for the failure rate of SME's.

The conclusion is then that much more has to be done to implement ORM in SME's. This could then help to mitigate the high rate of failures in SME's and contribute to a much greater contribution of SME's to economic growth globally and especially in South Africa.

The study identified that ORM could be critical factor for succeeding as a SME in South Africa, however, the actual implementation thereof needs attention.

The study also argues SME's in South Africa play a vital role to society and the economic wellbeing of the communities where they reside. Assisting in driving a greater success rate for SME's as huge contributor to the job creation. Government must assist SME's to ensure that there will be enthusiastic entrepreneurs that will start up SME's that will create sustainable job opportunities. No research could be found to establish if ORM has any influence to the success of a SME.

This research results indicated from the perceptions of the participants that ORM is a critical success factor in the SME's. In addition it was found that ORM could have an impact on the survival rate of the SME based on the perceptions of the sample size, and that all SME's survived the qualifying criteria being five years. ORM is therefore regarded as a critical success factor and will have a direct impact on the survival of a SME.

6.3 Summary and Recommendations

This research investigated the role of ORM. The research problem and sub problems as described in Chapter one were investigated and answered in the previous chapters. The results obtained from the research, created the opportunity for further discussions and research in the area of success drivers through risk mitigation in SME's. Recommendations are made as a conclusion to this chapter.

6.3.1 Training

ORM training courses are currently not actively promoted in SME's. ORM is still seen as a risk that is only applicable to the Banking Industry as regulated and governed by Basel III and enforced by the Reserve Bank of South Africa. In order to embed the ORM culture, practices and system as stipulated by BASEL in the banking industry (BCBS, (2010)), SME should introduce similar principles through training programs, and promote this business practice as per figure 2.4: Operations Risk Management Controls and Components.

Government assistance programs also do not include ORM as a learning tool to assist upcoming SME's. They only provide the Capital assistance, and the rest is up to the SME's to discover on a trial and error basis.

It is therefore recommended that the South African government, universities, higher learning institutions and financial service providers incorporate additional simplified short course training programs that will include ORM in their curriculum. The inclusion of this will certainly assist in the survival and growth of SME's in South Africa.

In addition the banking sector in South Africa can introduce ORM in their financial support programs (conferences and training workshops) as this will enhance the SME's level of business knowledge and skills.

Likewise, students at higher learning institutions should be encouraged to start up their own businesses. It is further recommended that these institutions hold mid-yearly workshops and events that can assist entrepreneurs SME's in practical advice and business education.

6.3.2 Implementation

6.3.2.1 Operational framework

Operational Risk Management is an integral part of any SME. It is recommended that the Operational Risk Management Framework is implemented in each business practices and activity. In order to have an effective Operational Risk Management Framework the following would be recommended for all SME's based on the COSO framework (COSO, 2013).

The SME Management team

The SME must do a self-assessment in regards to:

- Which recent strategic, business, or operating decisions have introduced new risks and can be exposed to these risks?
- How do our controls adapt to developments and change?
- Is our SME prepared to respond and to adapt to the change they encounter?
- Do they apply controls to objectives relating to internal reporting, non-financial reporting, operations, and compliance?
- Can any of their controls be applied to more reporting, compliance, or operational objectives? Have they considered all the aspects of the SME?

Learning from the past

The SME must always have historical documentation available to assist them with:

- To take a fresh look at historical and existing controls
- What breakdown or down time have they experienced with the existing controls. In other words what went wrong in the processes ?
- What could have been prevented or mitigated, if they had greater internal controls at the root cause?
- How can they ensure that their systems and internal controls are updated and connected to their SME's objectives, risk, and internal controls?

Look at controls through the Update of COSO

- Compare and map relevant business activities and principals to existing controls.

Lead the team

- How can they use the COSO framework to encourage all staff in all the SME's departments and activities to strengthening their systems of internal control?

6.3.3 ORM Policy

An ORM Policy that will guide all employees including the risk reporting structures to the management team. By implementing the policy an operational risk culture will be created.

6.3.4 Strategic Planning

Strategic planning should incorporate the operational framework and be more open to link possible operational risk events that could occur through risk assessment and identification. Furthermore this will introduce operational risk structures, controls, roles, responsibilities and reporting within the SME.

6.3.5 Documentation and retention thereof

It is recommended that SME's introduce governance of guiding documentation in each business unit. This would force each business practice to record any event or near misses. As a result of this record keeping, it will enable the SME's to have data on risks that occurred. The audit trail of data would assist them in re-assessing the operational risks that occur and could occur in the future. This could also have an impact in strategic planning of the SME.

In conclusion, based on the results and feedback received from SME's there was strong evidence to suggest that Operational Risk Management did not receive the appropriate attention.

Furthermore of 91 per cent all respondents agreed that operational risk will contribute to their success in the future. Therefore, Operational Risk management is perceived a critical success factor in any SME.

6.4 Suggestions for further studies

- Potential areas for further exploration could be performed and compared to the results to various other SME's in different geographical areas and sectors.
- This study focused on the owners and managers of the SME. It would be interesting to obtain other employees within the SME perception regarding ORM.
- Additional main and sub problems can be investigate in regards to ORM.
- Does the education level of Owners and Managers have an influence on their perception in regards to ORM?
- How ORM can influence the SME strategic decision making process.
- How would ORM assist in a crises management event?
- Further studies could be conducted to establish to what extend ORM can contribute to the success of the SME's.
- If ORM has the support of the management team how can this effect ORM implementation.
- Future study on the effectiveness of their Operational Risk Framework as per the literature in chapter three.
- What is the correlation factor between the level of implementation of ORM and the financial performance of the SME?
- Lastly, future research could also be conducted on what strategic alternatives can be put in place to implement ORM in SME's.

6.5 Summary

This chapter examined the discussions; achievement of objectives, recommendations and areas for further study with respect to the role of ORM.

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PARTICIPANT INFORMATION SHEET

12 September 2015

The role of Operational Risk Management in SME's based in Kya-Sands

Dear Prospective Participant

My name is Ben Allen and I am doing research with Dr Johan Le Roux, a supervisor for M.Tech students in the Department of Business Management towards a M-Tec Business Administration degree at the University of South Africa. We are inviting you to participate in a study entitled: The role of Operational Risk Management in SME's based in Kya Sands.

WHAT IS THE AIM/PURPOSE OF THE STUDY?

The aim of this study is to identify if Operational Risk Management is one of the major contributing success factors and a determining factor in the survival rate of a SME's.

WHY AM I BEING INVITED TO PARTICIPATE?

Small Medium Enterprises in the Kya-sand Industrial Park has been chosen to investigate if Operational Risk Management is a contributing factor for the SME success rate? No research in regards to Operational risk management has been conducted. Your participation in this research will assist the researcher to determine if Operational Risk is a critical success factor for a SME to succeed. Various sources have been selected to obtaining your contact details including the yellow page directory (Trudon) and the National Data base of Business Connect. The target participants would be limited to 80 SME's

WHAT IS THE NATURE OF MY PARTICIPATION IN THIS STUDY / WHAT DOES THE RESEARCH INVOLVE?

The study involves a survey and a possible semi-structured interview if selected to clarify answers from the survey. The survey will consist of questions and options in regards to Operational Risk Management and the awareness thereof in your organisation (SME).

The survey was designed to be completed within 15 minutes and 15 minutes if selected to do an interview for clarification on answers given.

CAN I WITHDRAW FROM THIS STUDY?

Being in this study is voluntary and you are under no obligation to consent to participation. If you do decide to take part, you will be given this information sheet to keep and be asked to sign a written consent form. You are free to withdraw at any time and without giving a reason prior to completing the survey

WHAT ARE THE POTENTIAL BENEFITS OF TAKING PART IN THIS STUDY?

This research will establish if Operational Risk will be identified as a critical success factor and would be vital to their success. The study would hopefully also reveal that owners and managers would have a great influence on awareness and practice of Operational Risk Management procedures and practices and should be implemented in business activities to ensure a competitive advantage above competitors.

WHAT IS THE ANTICIPATED INCONVENIENCE OF TAKING PART IN THIS STUDY?

Time allocated to complete study and different perceptions on Operational Risk Management.

WILL WHAT I SAY BE KEPT CONFIDENTIAL?

Yes all documentation will be confidential. Only the researcher and the supervisor will have access to the data (Questionnaire). Your answers may be reviewed by people responsible for making sure that research is done properly, including the transcriber, external coder, and members of the Research Ethics Committee. Otherwise, records that identify you will be available only to people working on the study, unless you give permission for other people to see the records. A report of the study may be submitted for publication, but individual participants will not be identifiable in such a report.

HOW WILL INFORMATION BE STORED AND ULTIMATELY DESTROYED?

Hard copies of your answers will be stored by the researcher for a period of five years in a locked cupboard/filing cabinet at the researcher residential address for future research or academic purposes; electronic information will be stored on a password protected computer. Future use of the stored data will be subject to further Research Ethics Review and approval if applicable. After five years the information will be shredded and the electronic format will be deleted.

WILL I RECEIVE PAYMENT OR ANY INCENTIVES FOR PARTICIPATING IN THIS STUDY?

No this study will be voluntarily and no incentive payment will be made.

HAS THE STUDY RECEIVED ETHICAL APPROVAL?

This study has received written approval from the Research Ethics Committee of the College of Economic and Management Sciences, Unisa. A copy of the approval letter can be obtained from the researcher if you so wish.

HOW WILL I BE INFORMED OF THE FINDINGS/RESULTS?

If you would like to be informed of the final research findings, please contact Ben Allen on mobile number 0834475938 or Benallen@absamail.co.za. Or Ballen@witshealth.co.za

The findings are accessible for 30 days after the completion of the MTech degree.

Should you require any further information or want to contact the researcher about any aspect of this study, please contact Ben Allen on 0834475938 or E-Mail : benallen@absamail.co.za. Should you have concerns about the way in which the research has been conducted, you may contact Dr Johan le Roux on 0837834403

Thank you for taking time to read this information sheet and for participating in this study.

Thank you.

Ben Allen

Annexure B Consent to Participate in this study

CONSENT TO PARTICIPATE IN THIS STUDY

I, _____ (participant name), confirm that the person asking my consent to take part in this research has told me about the nature, procedure, potential benefits and anticipated inconvenience of participation.

I have read (or had explained to me) and understood the study as explained in the information sheet.

I have had sufficient opportunity to ask questions and am prepared to participate in the study.

I understand that my participation is voluntary and that I am free to withdraw at any time without penalty (if applicable).

I am aware that the findings of this study will be anonymously processed into a research report, journal publications and/or conference proceedings.

I agree to the recording of the interview if selected to clarify any uncertainties to the survey questions.

I have received a signed copy of the informed consent agreement.

Participant name & surname..... (please print)

Participant signature.....Date.....

Researcher's name & surname.....(please print)

Researcher's signature.....Date.....

Witness name & surname.....(please print)

Witness's signature.....Date.....

Questionnaire/ Survey

SECTION A: BUSINESS DETAIL- Name _____

1. What sector of industry does your company operate in?

Textiles	Paper/Furniture	Mining/Oil/ Gas	Automotive/ Equipment	Electronics/ Phones
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Other: _____

2. What is the size of your organisation?

0- 9 Employees	10- 49 Employees	50-100 Employees	100- 200 Employees	Above 200 Employees
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3. Origin date of registration?

This year 2015	Last four years 2011- 14	2011	2005- 2010	Prior to 2005
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4. What is your position in the organisation?

Owner	Manager	Supervisor	Clerk	Member
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SECTION B: QUESTIONS ON PERCEPTION

Use this attitude scale to indicate your perception of the implementation of an Operational Risk Management strategy in your company.

1 = Strongly disagree

2 = Do not agree

3 = Agree in some cases

4 = Agree

5 = Strongly agree

5. My company has an Operational Risk Management (ORM) strategy in place.
6. ORM implemented and managed in the organisation.
7. My organisation has a well-defined documented ORM Policy
8. ORM is seen as an essential tool for competitive advantage in my organisation.
9. ORM has contributed to the success of the organisation.
10. ORM will contribute to the success of the organisation.
11. ORM will mitigate losses and optimise business opportunities.
12. ORM awareness levels are actively being discussed in strategic meetings

1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5

Internal Risks of an organisation can be classified into various departments and sectors.

13. Is operational risk management currently embedded into the following departments?

Strategic Risk	YES	NO
Employee Risk	YES	NO
Environmental Risk	YES	NO
Health and Safety Risk	YES	NO
Product Risk	YES	NO
Financial Risk	YES	NO

SECTION C: OPEN QUESTIONS

14. What is Operational Risk Management in your opinion?

15. Can Operation Risk Management contribute to the organisation successes?

16. If ORM is implemented does it capture the near misses in day to day management activities?
(near misses: is a risk event that has occurred but has not resulted in a loss)

17. What are the methods used to quantify the operational risk events and near misses that have occurred?

18. Does your undertaking categorise the operational risk events and near misses? If yes, in what categories?.

19. How far back do the records go on operational risk events that have occurred?

20. How far back do the records go on near misses that have occurred?

END OF QUESTIONNAIRE