

**APPLICATION OF RISK MANAGEMENT PROCESSES IN SMALL AND MICRO
RETAIL ENTERPRISES WITHIN THE CITY OF TSHWANE METROPOLITAN
MUNICIPALITY, GAUTENG: A CASE STUDY**

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Date:

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DECLARATION OF OWN WORK AND COPYRIGHT

I declare that “**Application of risk management processes in small and micro retail enterprises within the City of Tshwane Metropolitan Municipality, Gauteng: A Case Study**” is my own work and that all the sources that I have used and quoted have been indicated and acknowledged by means of complete references.

Mashilo Amos Nkwana

Date of signature

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All honour and glory to God. I am the righteousness of God in Jesus Christ. Because of the atonement, I have received favour from God to gain worldly knowledge, however, not wisdom. Hence, what the world offers is still very far from the knowledge and the wisdom found in God's word, and I quote from Hebrew 4:12: "For the word of God is quick and powerful, sharper than any two-edged sword, piercing even to the dividing asunder of the soul and spirit, and the joints and marrow, and it is a discerner of the thoughts and intents of the heart". God's word remains above man's discovered knowledge, which can be disputed, therefore, not conclusive.

To my wife and our children, you are the reason why I have always wanted to redefine standards. Thank you for the support, for caring and being willing to sacrifice your time. I am still of the view that the awards received in life do not equate to success, but success is when the clay achieves the purpose outlined by the potter.

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ABSTRACT

Small and micro retail enterprises share a competitive space with large retailers that are well resourced, have established brands and view risk management as a vital tool for business sustainability. The failure rate of small, medium and micro enterprises (SMMEs) is estimated to be between 70% and 80% (Adeniran and Johnston, 2011). Positioning in the shared competitive space has, therefore, become a challenge for many small and micro retail enterprises due to various obstacles and factors. In reality, the competitive space has contracted. As a result, what used to be a traditionally successful small business in the market space may not be relevant due to the global shift, emerging risks and customer perceptions of price, value and quality.

The world is riskier and risks are inherent. This research study focused on how small and micro retail enterprises in the City of Tshwane Metropolitan Municipality (CTMM) effectively applied risk management processes to manage the obstacles and factors that cause failure. A qualitative research design, using a semi-structured interview tool and observations provided sufficient data on three small and micro retailers in the City of Tshwane (CoT) Central Business District (CBD). The study revealed that the small and micro retailers faced internal and external risks in the CoT. However, the risk management processes consisted of fragmented processes that were reactive, did not consider risks on the total enterprise level, did not conduct risk assessments, did not select appropriate risk responses and did not formulate business objectives. Moreover, the participants of the small and micro retailers lacked risk awareness, types of risk and risk management, and they had not attended training. As a result, they were not aware of the comprehensive benefits of managing risks in their enterprises. The study recommended that in order to improve their chances of survival, the small and micro retailers should implement risk management processes effectively.

TABLE OF CONTENTS

ACKNOWLEDGEMENTS..... iii

ABSTRACTv

DEFINITION OF KEY TERMS xiii

LIST OF TABLESxiv

LIST OF ANNEXURESxv

CHAPTER 1 1

INTRODUCTION..... 1

 1.1 Background to the study..... 1

 1.2 Background to the research problem 3

 1.2.1 Symptoms of strategic risks in SMMEs..... 5

 1.2.2 Symptoms of financial risks in SMMEs 6

 1.2.3 Symptoms of operational risks in SMMEs 7

 1.2.4 In the real world, risk is inherent: Most SMMEs in South Africa are lagging behind 8

 1.3 Research problem..... 9

 1.4 Aim and objectives of the study..... 10

 1.4.1 Aim 10

 1.4.2 Specific objectives 10

 1.5 Research question 11

 1.6 Importance of the proposed study..... 11

 1.7 Abbreviated literature review..... 11

 1.7.1 The risk management processes to managing strategic, financial and operational risks..... 12

1.8	Small, medium and micro retail enterprises	19
1.8.1	Definition of SMMEs	19
1.8.2	SMMEs in the CTMM.....	19
1.8.3	Small and micro enterprises in the retail sector in the 21st century: Complex and competitive environment.....	20
1.8.4	Obstacles and factors that contribute to the failure of SMMEs	22
1.9	Scope and delimitation of research study.....	24
1.10	Introduction of research design and methodology	25
1.10.1	Research design.....	26
1.10.2	Research methodology.....	28
1.11	Limitations of the study	46
1.12	Summary.....	47
CHAPTER 2		49
LITERATURE REVIEW.....		49
2.1	Introduction	49
2.2	Introduction of risk management: National and global context	49
2.2.1	Rapid change of information and technology.....	49
2.2.2	Innovative products and services to gain competitive advantage	50
2.2.3	Global operations influencing supply chain networks and markets....	50
2.2.4	Financial, economic and environmental instability	51
2.2.5	Complex strategies, objectives and goals to attain competitive advantage	52
2.3	The concept of risk.....	52
2.3.1	Definition of risk	52
2.3.2	Types of risks	54

2.3.3	Achievement of an optimal balance between risk and reward	58
2.3.4	Risk and opportunity governance	59
2.4	The concept of risk management	61
2.4.1	Definition of risk management	61
2.4.2	Limitations of risk management	62
2.4.3	Arguments for risk management.....	63
2.4.4	Enterprise Risk Management (ERM).....	65
2.5	Risk management processes and approach	68
2.5.1	Identification of business objectives.....	68
2.5.2	Risk management processes.....	69
2.5.3	Approach to risk management.....	75
2.6	Small and micro retail enterprises	76
2.6.1	SMMEs: National and global context	76
2.6.2	SMMEs in the CTMM.....	79
2.6.3	Small and micro enterprises in retail sector: complex and competitive environment.....	80
2.6.4	Obstacles, factors, signals or conditions that contribute to failure in SMMEs 84	
2.7	Summary.....	93
CHAPTER 3		95
RESEARCH METHODOLOGY		95
3.1	Background	95
3.2	Research design	95
3.2.1	Case study research.....	95
3.2.2	Population target, site and size.....	96

3.2.3	Sampling method and sample size	97
3.3	Research methodology	99
3.3.1	Types of research paradigms	99
3.3.2	Qualitative research approach.....	101
3.3.3	Data-collection method	102
3.3.4	Data instruments, techniques and analysis method.....	105
3.3.5	Data analysis techniques and methods	108
3.3.6	Data validity and reliability	111
3.3.7	Ethical considerations.....	118
3.4	Summary.....	121
CHAPTER 4	123
RESEARCH RESULTS	123
4.1	Introduction	123
4.2	Data analysis, presentation and interpretation of results.....	125
4.2.1	Results of the researcher’s observations.....	125
4.2.2	Analysis, interpretation and results of the semi-structured interviews 131	
4.3	Discussion of results	157
4.3.1	Small and micro retail cases: Business information.....	157
4.3.2	Context risk profiling based on perceptions, experiences and observations	158
4.3.3	Business objectives, market research and business plans.....	164
4.3.4	The application of effective risk management processes	168
4.3.5	The importance of risk management and a need for a better mechanism 173	

4.4	Summary.....	174
CHAPTER 5		177
CONCLUSIONS AND RECOMMENDATIONS		177
5.1	Introduction	177
5.2	Conclusions.....	177
5.3	Limitations of the study.....	180
5.4	Recommendations	182
5.4.1	Recommendations for the retail cases.....	182
5.4.2	General recommendations for government	185
5.5	Summary.....	186
5.6	Recommendations for further studies.....	186
LIST OF REFERENCES		188
ANNEXURE A: Semi-Structured Interview Guide		202

LIST OF ABBREVIATIONS AND ACRONYMS

ABBREVIATION	EXPLANATION
CBD	Central Business District
COSO	Committee of Sponsoring Organisations of the Treadway Commission
CoT	City of Tshwane
CTMM	City of Tshwane Metropolitan Municipality
ERM	Enterprise Risk Management
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
IIA	Institute of Internal Auditors
IIA (SA)	Institute of Internal Auditors South Africa
IRM	Institute of Risk Management
IRMSA	Institute of Risk Management South Africa
ISO	International Standard Organisation
MTSF	Medium Term Strategic Framework
NDP	National Development Plan
SEDA	Small Enterprise Development Agency
SME	Small and Medium Enterprises
SMME	Small, Medium and Micro Enterprises
UNISA	University of South Africa
W&RSETA	Wholesale and Retail Sector Education Training Authority

DEFINITION OF KEY TERMS

Risk; risk management; retail; small, medium and micro enterprises; risk identification; risk assessment; risk response or treatment.

LIST OF TABLES

- Table 1.1:** National Business Act: Description adapted from the Gauteng SMME Policy Framework 2010–2014
- Table 1.2:** Small, medium and micro retail sector
- Table 1.3:** Context of the CoT CBD in which the small and micro retail enterprises operate
- Table 1.4:** Observations of the close proximity of larger retail organisations to the case studies
- Table 1.5:** Observations of the close proximity of other competitors to the case studies (SMMEs in the same industry)
- Table 1.6:** Observations of the location and condition of the small and micro retail cases
- Table 1.7:** Observations of innovative products and processes introduced by the case studies
- Table 1.8:** Number of people employed by the businesses
- Table 1.9:** Period of existence and experience in the type of business
- Table 1.10:** Financial, business or risk management course attendance

LIST OF ANNEXURES

Annexure A: Semi-Structured Interview Guide

CHAPTER 1

INTRODUCTION

The world has become riskier due to changing contexts (Cheese, 2016). According to Berk and DeMarzo (2014: 985), “firms are subject to risk from (a) variety of sources”. Verbano and Venturini (2013) further assert that small and medium enterprises (SMEs) need to adopt a risk management strategy and methodology more than larger organisations, due to a lack of resources to respond promptly to internal and external threats, which lead to potentially huge losses that seriously threaten their survival. Therefore, it is important to manage exposures to risk, regardless of the size of an organisation. This chapter provides a detailed background to the study, the research problem, aims of the study, literature review, the importance of the study, research methodology, ethical considerations, limitations and conclusions. The study is premised on the perception that risk management is not effectively applied by small, medium and micro enterprises (SMMEs) in the riskier world. As a result, many are unable to manage obstacles and factors of failure. The study focuses on the cases of small and micro retailers in the City of Tshwane (CoT).

1.1 Background to the study

According to the Global Entrepreneurship Monitor (GEM) Report (2017), SMEs contributed 36% of the South African Gross Domestic Product (GDP) and in GEM (2016), the SMEs contributed 45% of the 2014 South African GDP. The Small Enterprise Development Agency (SEDA) Annual Report for 2015/2016 indicated that SMEs contributed 32% of the GDP, 59% to employment and 19% to exports (South Africa. SEDA, 2016: 26). The SMMEs are, therefore, essential to the socio-economic development of South Africa (South Africa. SEDA, 2016). The National Development

Plan (NDP) envisioned that 90% of jobs in South Africa would be created in small and expanding firms (South Africa. National Planning Commission, 2011: 93).

The NDP anticipated that the output of the SMEs would consequently grow substantially by 2030, enhancing the economy and employment, with the SMEs being the main creators of employment (South Africa. National Planning Commission, 2011: 93). As such, SMMEs are essential for contributing to poverty alleviation, economic growth or international competitiveness (Berry, Blottnitz, Cassim, Kesper, Rajaratnam & Seventer, 2002: 01). However, there is no clarity on the extent of their contribution (Berry, *et al.*, 2002). As part of implementing the vision of the NDP, the Department of Small Business Development was established in 2014 to put the small enterprises at the forefront, with the mandate and functions of SEDA being transferred from the Department of Trade and Industry (DTI) to the Department of Small Business Development (South Africa. SEDA, 2016: 23). Moreover, the Medium-Term Strategic Framework for the period 2014–2019, encapsulated a target of decreasing the unemployment rate from 25% in the first quarter of 2013 to 14% in 2020 (South Africa. Department of Planning, Monitoring and Evaluation, 2017: 20). Since 90% of the jobs are expected to be created by SMEs, the sustainability of the SMMEs remain vital in decreasing the unemployment rate, creating personal wealth and transforming the South African economy, ultimately the CoT.

However, the global transition intensified the scramble for resources and capital. Businesses are rapidly seeking creative designs, intelligent systems, efficient production and high quality goods (Heizer and Render, 2014) in order to deal with the challenges of the 21st century. These challenges include identifying, developing and deploying resources, capabilities and competencies (Ehlers and Lazenby, 2010: 110) to ensure that products and services are developed and produced at a low cost while balancing the impact of their operations on the environment and society (Crews, 2010: 18). In a real world, opportunities are not static (Porter and Kramer,

2011: 5). As a result, businesses are exposed to emerging risks associated with strategy, rapidly changing information technology, innovative products and services, customer perception of price, value and quality, and shorter product life cycles in their stride to remain competitive.

The SMEs were defined to improve consistency and effectiveness of policies targeting SMEs (European Commission, 2003: 36). The SMEs, therefore, ensure that they meet the set requirements in order to receive the necessary support from government funds, incubators and investors. What is challenging is that by merely meeting the requirements to be defined as SMMEs, in the real and riskier world, it does not absolve them from the impacts of real world events that are exacerbated by the competitive space. Therefore, the survival of SMEs is threatened because of their smaller set of financial and non-financial resources (Falkner and Hiebl, 2015: 123). A bigger challenge is that they are more threatened by their limited understanding of the changing contexts in the real world.

1.2 Background to the research problem

According to Shiels, McIvor and O'Reilly (2003: 312), SMEs are substantial constituents of the global economy. Consequently, they are not exempted from the risks faced by larger businesses, who have adequate capital and resources, and are willing to effectively manage risk exposures in their stride to creating and protecting the stakeholder value. What is challenging is that in many African countries, small and larger enterprises view each other as rivals due to the environment that was created by the pre- and post-independence regimes (Mutalemwa, 2015). Evidently, the South African SMEs do not complement large enterprises. They try to compete in the same product market, but possibly with different consumer segments (Rogerson, 2004: 770 citing Qualmann, 2000). Therefore, with regard to "small and large firms, more and more firms of all sizes share the same competitive space" (Sawers, Pretorius & Oerlemans, 2008: 171). In their strive to compete, many business founders of SMMEs, therefore, underestimate their exposure to risk and

overstate their returns (Fatoki, 2014), while large organisations are better equipped and relatively well structured to deal with risks while maximising benefits (ISO, 2015: 08) in the riskier world (Cheese, 2016).

Risk is inherent (IRM, 2017). However, in their stride to compete for a market niche, many SMMEs take their eyes off managing exposures to risk. As a result, a number of small businesses in South Africa have remained stagnant over a decade (Fatoki, 2014), with the majority of the enterprises remaining in the nascent phase and/or baby business phase (South Africa. DTI, 2008). Competing with large enterprises while still trapped in the old management style (Marivate, 2014a), adversely impacts on the growth of the South African SMMEs. Evidently, the failure rate of small businesses is higher in comparison to large organisations (Adeniran and Johnston, 2011). It is a cause for concern that South Africa has the highest failure rate in the world (van Tonder and van Scheers, 2011; Mutezo, 2013). Therefore, larger enterprises and SMEs are affected by various risks (Falkner and Hiebl, 2015: 123).

Adeniran and Johnston (2011: 05) assert that the failure rate of SMEs in South Africa is estimated to be 70% to 80%. Similarly, van Tonder and van Scheers (2011) accentuate that statistics over the years have indicated that South Africa has the highest failure rate in the world, with approximately 75% of the new businesses not surviving. Furthermore, Brink, Cant and Ligthelm (2003: 01) cite that they (new businesses) do not survive beyond five years. The DTI found that approximately 1% of the enterprises lasted between 1, 5 to 2, 5 years only (South Africa. DTI, 2008). Marivate (2014a) asserts that 46, 14% of SMMEs in the CoT did not survive the five years of the longitudinal study, while Worku (2016) has found that 40% of the businesses in the CoT are not viable. According to Asah, Fatoki and Rungani (2015: 309), "many SMEs do not reach their full potential and fail to grow." Asah, *et al* (2015) further assert that they affect the wealth of their region. This suggests that the CoT loses wealth when the SMEs fail.

The CoT is the capital city, the largest municipality in South Africa (Pellissier and Nenzhelele, 2013). Hence, the SMMEs share a competitive space with large enterprises, which have a “greater variety of options than small enterprises in terms of resources, capabilities and power” (Sawers, *et al.*, 2008: 172). Moreover, more and more township malls are mushrooming (Marivate, 2014a) to occupy competitive space. Conversely, Cant and Wiid (2013) also mention that the SMEs are also faced with the issue of overcoming competitors with well-established brands. Hence, in their stride to compete for the market space, there are perceptions that the SMMEs underestimate strategic, financial and operational risks. As a result, they are often unaware of exposures to risk. The following are examples of the symptoms that signal the risk exposures imminent to SMMEs:

1.2.1 Symptoms of strategic risks in SMMEs

In the real world, many large businesses develop strategies to guide them towards a desired direction. In their attempt to compete, they take risks to grow, design and implement controls, and maintain records to continuously monitor the relevance of the strategy. Growth carries further risk and entails ambiguity (Mahadea and Pillay, 2008). However, being trapped in the free management system or old system (Marivate, 2014 a), many SMMEs do not conduct adequate market research (Fatoki and Garwe, 2010), are not innovative (Neneh and Smit, 2013) and are unable to draw business plans (Marivate, 2014; Fatoki and Garwe, 2010). Moreover, the consideration of the location strategy is doubtful and ultimately impacts on the market potential and growth opportunity of the firm (Fatoki and Garwe, 2010). Seeletse (2012) elucidates that some company managers cannot even explain their businesses, what they do or what they offer to the market segment. Mahadea and Pillay (2008) emphasise that an internal environment demonstrates the need to make strategic decisions on the firm’s available resources. In respect of the SMMEs, it can be suggested that most do not demonstrate the need to make strategic decisions on available insufficient resources. Consequently, they enter the business

environment without a thorough understanding of whether or not there is a demand for the product or services being offered (Fatoki and Garwe, 2010). As a result, they excessively depend on one customer, which increases the risk of their business failing if the customer's business fails (Seeletse, 2012).

Brink, *et al.* (2003) explain that they are unable to act as entrepreneurs, control growth and set strategic goals. GEM (2016) cited that the relatively high level of exits signals the inability to start viable businesses or a lack of ability or inclination to create long-term sustainability for their business. In addition, according to Kim and Vonortas (2014), small businesses also face market risks.

1.2.2 Symptoms of financial risks in SMMEs

Wang (2016) asserts that SMEs perceive finance as the most significant obstacle to growth in developing countries. Correspondingly, Mutezo (2013: 153) argues that "SMEs are unable to access loans from commercial banks due to (a) lack of financial knowledge, collateral and credit history". Closely related to a lack of access to finance and credit, is internal control management in order to ensure an adequate financial audit trail, which can be used to persuade investors. Many small businesses that still use the old management system (Marivate, 2014a) do not keep adequate records of cash flow (Marivate, 2014a). Therefore, the statement of position and performance are often not documented. Similarly, van Scheers (2014) mentions that some respondents in the CoT confirmed that they did not record information and transactions of the business. Moreover, according to Falkner and Hiebl (2015), interest rates on loans may change. Therefore, considering the political and financial instability, many SMEs might suffer from interest rate risks, protests (idle time) or an increase in the price of raw materials. This suggests that many may not be able to meet their financial obligations when they are due.

Moreover, the SMEs are not a version of larger enterprises (Smit and Watkins, 2012). However, in the real world, transparency, fairness and accountability

influence decisions. “It is mandatory for the SMEs to have documentary evidence of cash flow, such as (a) financial statement or payslip” (Mutezo, 2013: 156) when intending to persuade some investors. According to Mutezo (2013) and Kim and Vonortas (2014), SMEs are faced with the challenge of information asymmetries. As a result, many banks contend that they are willing to lend to firms that are investment ready, but they argue poor management of SMEs (Fatoki, 2014 citing Yrle, *et al.*, 2000). Similarly, Luiz (2002: 24) argues that finance for SMEs has become less of a problem. Interestingly, Pretorius (2008: 414) argues that finance is often cited as the cause of failure, while it is not the cause, but the predictor of potential failure. The lack of financial controls in SMEs leads to bankruptcy (Marivate, 2014a). Therefore, the internal controls in many small businesses are weak (Siwangaza, Smit, Bruwer & Ukpere, 2014) to ensure that adequate records are kept and that responsible financial decisions are made and monitored continuously to avoid bankruptcy.

1.2.3 Symptoms of operational risks in SMMEs

Networking, investment in information and technology, cost of production and management skills are some of the obstacles that cause SMEs to fail (Fatoki and Garwe, 2010). Many small businesses are not members of the bodies representing their types of businesses (Zondi, 2016) and they are, therefore, not networking. Moreover, they have limited information technology (Adeniran and Johnston, 2011) and face a challenge of attracting and retaining the correct level of skills (Brink, *et al.*, 2003; Fatoki and Garwe, 2010). What is challenging is that many do not have business management and entrepreneurial skills (Worku, 2014; Seeletse, 2012). This suggests that they operate businesses based on the free and old management systems (Marivate, 2014a) without adequate business and managerial skills (Seeletse, 2012). Many SMMEs, therefore, lack the basic principles of business management. As a result, they have not yet adopted a new way of thinking, including the risk-based approach, they lag behind the innovation curve (Cambridge Technology Partners, 2000) and are unable to pursue opportunities while

maintaining a balance between risks and rewards. What is even more concerning is that technology is able to create an entirely new market (Louw and Venter, 2013). However, many small businesses do not have access to technology (Mahadea and Pillay, 2008). Van Scheers, Botha and Van Scheers (2015) argue that 87% of SMEs in Tshwane experience inadequate access to technology, while Mutalemwa (2015: 173) argues that some SMEs avoid risks of making investments in unproven technologies. In a riskier world (Cheese, 2016), new technology can render existing technologies obsolete (Louw and Venter, 2013), ultimately resulting in the demise of the business. In addition, overregulation and bureaucracy are challenges in the CoT (Worku, 2016).

1.2.4 In the real world, risk is inherent: Most SMMEs in South Africa are lagging behind

According to Mahadea and Pillay (2008: 432), firms operate in the real world and the decision to exploit entrepreneurial opportunities is not made in a vacuum. However, they are influenced by the context in which they operate (Mahadea and Pillay (2008). The real world is riskier. Businesses are expected to act with resilience, adaptability and agility (Cheese, 2016) to attain sustainable competitive advantage. Hence, they take acceptable risks, which is optimal; not more and not less. Naidoo (2009: 234) argues that companies take risks to grow and keep an eye on them to ensure that they are manageable. The risk exposure should, therefore, not lead to an enterprise failing, but an optimal balance being achieved between risk and reward, thereby ensuring adequate controls over uncertain events by balancing risk and return using sufficient accuracy and confidence, which can ensure that a combination of risk and/or reward is captured (Eastburn and Sharland, 2017).

However, entrepreneurs elucidate that risk and expansion pose an ethical dilemma, conflicting responsibilities (Robinson, Van der Mescht & Lancaster, 2003). As a result, some entrepreneurs avoid financial risk, thereby missing out on opportunities (Mahadea and Pillay, 2008) and, therefore, the *“opportunities are not captured”*.

Others avoid unproven technologies (Mutalemwa, 2015) and, therefore, miss out on investing in destructive innovation; *“fear to innovate”*. Some fear taking risks beyond their comfort zones (Mahadea and Pillay, 2008) and remain in the nascent phase; *“no growth”*.

Some consider risk management as an optional activity (Smit and Watkins, 2012) and are ill-prepared; *“unable to adapt to a riskier world”*, while with others, the level of awareness of risk management is low (Chilaya, Rungani, Chilaya and Chikandiwa, 2015) and they are, therefore, *“unskilled”* and the use of risk management is low or weak (Chilaya, *et al.*, 2015; Bentz, 2015). Many are, therefore, *“unstable”*. Ultimately, some underestimate the risks (Fatoki, 2014) and become susceptible to failure; *“imbalance”*. As a result, most SMMEs are reactive and respond by avoidance (Chodokufa, 2016).

Consequently, when reactive without adequate detection controls due to inadequate or a lack of risk identification, risk assessment and treatment processes, the exposures to risk often lead to the failure of the SMMEs. Van Scheers (2010: 221) argues that “millions of rands are being lost on business ventures because of essentially avoidable mistakes and problems.” This emphasises that if risk management is embedded properly and a strong risk management culture is adapted, the organisations will be able to maintain stability in difficult times and pursue sustainable opportunities with limited resources (IRMSA, 2017). According to Verbano and Venturini (2013: 186), “knowing how to identify risks, attribute a value and a priority scale, design actions and mechanisms to minimise risks, and continuously monitor them, are essential to guarantee companies’ survival and create sustainable value.”

1.3 Research problem

Risk management is sometimes cited as an optional activity (Smit and Watkins, 2012), is sometimes weak (Bentz, 2015) or there is a low level of awareness

(Chilaya, *et al.*, 2015) and its reactionary (Chodokufa, 2016). In addition, there is conflicting responsibilities between risk and expansion (Robinson, *et al.*, 2003); sometimes risks are underestimated (Fatoki, 2014) and sometimes avoided (Mahadea and Pillay, 2008). It is evident that a lack of or ineffective risk management processes impact on the decision-making process of SMMEs. Based on the background, the research problem statement is:

The risk management processes in small and micro retail enterprises in the City of Tshwane Metropolitan Municipality in Gauteng, South Africa, are not effectively applied to manage the obstacles and factors that cause failure.

1.4 Aim and objectives of the study

1.4.1 Aim

To evaluate how the small and micro retail enterprises in the City of Tshwane Metropolitan Municipality (CTMM) effectively apply risk management processes and to make appropriate recommendations to implement and/or improve these processes.

1.4.2 Specific objectives

This study has specific objectives, as follows:

1.4.2.1 Literature objective

To identify the obstacles and factors that contribute to the failure of the new and established SMMEs, and assign them to types of risk.

1.4.2.2 Empirical objectives

- To evaluate how the small and micro retail enterprises in the CTMM effectively apply the risk management processes.

- To draw conclusions and make appropriate recommendations aligned to the literature on risk management.

1.5 Research question

How do small and micro retail enterprises in the CTMM in Gauteng, South Africa, effectively apply risk management processes to manage the obstacles and factors that cause failure?

1.6 Importance of the proposed study

- The recommendations made to small and micro retailers might contribute to the awareness of the owner-managers of five small and micro retail enterprises, resulting in them being able to identify objectives and risks, and conduct risk assessments and risk treatments. This might assist in managing the exposures of risk from various obstacles and factors of failure.
- Risk management in small and micro enterprises is not conclusive. Therefore, the study will add to literature and will be beneficial to students, academics and researchers in the field of risk management, entrepreneurship and small business development.

1.7 Abbreviated literature review

Welman, Kruger and Mitchell (2005: 06) argue that a literature review is the classic way to identify a research problem. Blumberg, Cooper and Schindler (2014: 68) emphasize that the examination of recent research studies, including company and industry data, act as the basis for a proposed study. In the abbreviated literature review, the primary, secondary and tertiary sources relating to risk management, SMMEs and the retail sector will be considered. The literature review will deal with research relevant to the SMMEs and risk management (Welman, *et al.*, 2005) and will explain the need for the proposed topic with a brief description of sources of information (Blumberg, *et al.*, 2014). The theory of risk management and risk is

succinctly explained, which is the key focus of the research study. The literature review is presented as follows:

1.7.1 The risk management processes to managing strategic, financial and operational risks

1.7.1.1 Definition of risk

Risk is part of our lives, hence, it is inherent in everything we do (IRM, 2017). Similarly, “risks are omnipresent in most human activities” (Tchiehe and Gauthier, 2017: 138) and intrinsic to doing business (ISO, 2015: 08). “Risk is inherent in all business functions and in every kind of activity” (Verbano and Venturini, 2013: 01). Correspondingly, “firms are subject to risk from (a) variety of sources” (Berk and DeMarzo, 2014: 985). The AS/NZS ISO 31000:2009 defines risk as the “effect of uncertainty on objectives” (Finance, 2010). It is “something that might happen and its effect on the achievement of objectives” (Blunden and Thirlwell, 2010: 5). Risks could be caused by poor strategic position, strategic resources (Eastburn and Sharland, 2017) or the inability to read or act on signals of environmental change and moral hazard (Reeves and Daimler, 2011; Macquire, 2009 cited by Eastburn and Sharland, 2017). Risk can, therefore, inhibit satisfactory achievements of the entity’s objectives, if ignored or not managed effectively. In small enterprises, risk may ultimately lead to failure or the inability of small enterprises to advance to the next level of Schedule of the National Business Act, 1996 (Act No. 102 of 1996), amended by Act No. 26 of 2003 and 2004 (Government Gazette of South Africa, 2003: 2004). Risk can be categorised as historical events that have occurred and continue to occur or new events which were never observed before (McGaughey, Jr., Snyder & Carr, 1994). In the environment of small enterprises, historical events can represent obstacles and factors that have occurred and new events are key emerging risks, which can be exacerbated by socio-economic and politico-legal instability.

1.7.1.2 Types of risk

The literature on types and titles of business risks is pending (Kim and Vonortas, 2014). Naidoo (2009) categorises risk as market, credit, operational, reputational, business volume and country risk. Conversely, Kim and Vonortas (2014) categorise risks into financial, information technology, market risk and operational risks for SMEs. In contrast, Falkner and Hiebl (2015) categorise risks into varieties, which include interest rate risk, raw material risk, E-business and technology risk, supply chain risk, among other categories. The types of risks relevant for this study are strategic, financial and operational risks. The explanations are as follows:

1.7.1.3 Strategic risk

Fatemi and Luft (2002: 30) argue that “strategic risk encompasses macro factors that affect the firm and, by extension, the value to its shareholders”. It can quickly erode competitive advantage if an organisation is managed it poorly (Drew, Kelly & Kendrick, 2006: 128). The Harvard Business School review (1999: 01) describes strategic risk as “an unexpected event or set of conditions that significantly reduces the ability of managers to implement their intended business strategy”. Strategic risk is the risk of not achieving objectives and it is identifiable when one familiarises themselves with the strategic plan and the operations of the specific entity being evaluated (University of South Africa, 2016). Some of the obstacles, factors, conditions or causes of failure in SMMEs suggest that strategic risk is inadequately managed and this includes a lack of or inadequate business plans (Marivate, 2014a), inadequate location (Fatoki and Garwe, 2010), inadequate market research (Van Scheers, *et al.*, 2015) or gap analysis, a lack of innovation (Neneh and Smit, 2013), inability to start viable businesses or a lack of ability or inclination to create long-term sustainability for their business (GEM, 2016).

If these obstacles are ignored over time, they often lead to the demise of businesses of all sizes. As argued, “(i)nnovation can make new demands of existing customers”

(McElheran, 2013: 02), failure to plan can harm the business (Seeletse, 2012) and reliance on yesterday's models (Speculand, 2009: 170) is risky. Drew, *et al.* (2006) emphasise that strategic risk can threaten the long-term competitive success of an entity, including its ability to innovate and grow, position in the market and the use of critical resources. Marcelino-Sadaba, Perez-Ezcurdia, Lazcano and Vallanueva (2014) describe strategic risks as those risks whose materialisation can lead directly to project failure and even jeopardise the survival of the company. Moreover, strategic risk can also include market risks, which according Kim and Vonortas (2014), refer to the competitors, the product they offer, potential future competitors and their strategies and tactics.

1.7.1.4 Financial risk

Kim and Vonortas (2014) describe financial risks as the value the investor loses if the business fails. Fatemi and Luft (2002: 31) assert that financial risk arises from adverse changes over relatively shorter time horizons in factors such as interest rates, commodity and equity prices, and foreign currency values. According to Fatemi and Luft (2002: 31), any "adverse changes in these factors translate into real losses in shareholder value". Similarly, Gitman (2009: 229) defines financial risk as "the chance that an organisation will be unable to cover its financial obligations".

In the current world turmoil, businesses have restructured, closed shops and moved due to financial losses suffered or the inability to cope with the political risks that often translate into changes in commodity prices, weak currency, idle time and high interest rates. Some of the obstacles in SMMEs suggest that financial risk in SMMEs is managed inadequately. This includes examples, such as a lack of access to finance and credit due to a lack of financial knowledge (Mutezo, 2013), poor records, poor management of cash flow (Marivate, 2014a) and a lack of or weak internal controls (Siwangaza, *et al.*, 2014), and bankruptcy (Marivate, 2014a). However, it is also argued that young and small firms face difficulties in raising investments ascribed to the high level of perceived risk (Kim and Vonortas, 2014: 456).

1.7.1.5 Operational risk

Operational risk is about the failure of controls or lack of controls and it overlaps with other risks (Blunden and Thirlwell, 2010: 11-12). The Harvard Business School review (1999: 01) defines operational risk as a “risk that result(s) from the consequence of the breakdown in a core operating, manufacturing or processing capability”. Naidoo (2009: 227) argues that operational risk is an exposure due to inadequate internal processes, systems and external events. Blunden and Thirlwell (2010) assert that operational risk can include inadequate training and supervision, loss or lack of personnel, failure to pay or settle obligations, documentation which is not fit for the purpose, errors in valuation/pricing models or even processes, inadequate resources, external crime, competition, utilities and infrastructure failures, political risk, natural and other disasters, including the failure of systems or failure during the system development and implementation phase.

This resembles obstacles, factors and conditions often reported by SMMEs, such as a lack of information technology (Fatoki and Garwe, 2010; Van Scheers, *et al.*, 2015), high cost of production, such as electricity and petrol (Fatoki and Garwe, 2010), a lack of relevant skills and the inability to procure vocational training (Worku, 2014; Marivate, 2014 b), crime and corruption (Mahadea and Pillay, 2008), poor networking (Zondi, 2016; Fatoki and Garwe, 2010), a lack of supervision (Worku, 2014), utility challenges and a lack of understanding of business needs by the CoT (Khale, 2015), and poor management and business skills (Seeletse, 2012). It is critical to understand the chain of causality or the root causes in operational risk (Blunden and Thirlwell, 2010: 15) and, therefore, risk management processes are vital.

1.7.1.6 Definition of risk management

According to Kuselman, Pennechi, Da Silva and Hibbert (2017: 189), risk management is often defined as a “product of probability of an event and severity”.

It “involves tracking market and non-market, long-range risks, understanding their adverse impact on the business environment and managerial responses to reduce risk exposure” (Van Wyk, Dahmer & Custy, 2004: 01). It “implies that something can be done to reduce the risk, if not to eliminate, the likelihood and impact of danger and uncertainty” (Blunden and Thirlwell, 2010: 5). This means that controls must be implemented to manage the exposure to various types of risk.

Mills, Gerber and Terblanche-Smit (2016: 06) emphasise that one of the “attempt(s) to reduce risk is the availability of and access to effective and efficient systems of internal controls”. Hence, measures to identify, assess and treat the exposures to risk must be implemented, which includes internal controls. Monitoring of risk should take place afterwards. It “is about identifying things that could go wrong, stopping them from going wrong, reducing the consequences and recovering after things went wrong” (Slack, Brandon-Jones & Johnston, 2013: 612). “Risk is considered on a total enterprise level” (Moeller, 2013: 52). However, it starts with the identification and evaluation of the way the company manages the risk (Naidoo, 2009). Risk management involves understanding, analysing and addressing risk. To enable the organisations to achieve their desired objectives, it must consider the complexity and type of organisation involved (IRM, 2017). Moreover, risk management “does not mean eliminating risk, but rather seeking to mitigate and minimize its impact” (Mutezo, 2013: 158). Therefore, risk management involves understanding the risks that may have an adverse impact on the achievement of objectives, how they **will** impact the business and to what extent and what can be done to reduce, transfer or prevent the impact.

1.7.1.7 Identification of objectives

Power (2009: 849) **affirms** that an organisation “should seek to identify all material risks to their objectives and sub-objectives.” Correspondingly, Rebelo, Silva and Santos (2017: 395) reason that organisations must identify the activities that are critical to the achievements of the business objectives and be aware of how a

disruption of these critical activities would adversely impact their objectives. The SMMEs must identify the obstacles and factors which inhibit the satisfactory achievements of the objectives. However, they first need to identify and develop the objectives for the business. Power (2009: 849) asserts that risk management and mitigation processes should be connected to organisational and suborganisational objectives.

1.7.1.8 Risk management process

“Risk management is an essential business activity for enterprises of all sizes” (ISO, 2015: 11). According to Uher and Toakley (1999: 161), the steps recognised in risk management entail risk identification, risk analysis and risk response. Conversely, Naidoo (2009) emphasises that risk management is a process by which the board must decide which risk should be terminated, accepted, reduced and transferred. According to Verbano and Venturini (2013: 187), “risk management is defined as the process intended to safeguard the assets of the company against losses that may hit.” If the risk management process is inadequate or ineffective, it often leads to various critical risks not being identified, assessed, correctly classified and appropriately responded to, leading to the demise or slow growth of businesses of all sizes in any industry.

Moeller (2011: 56-86) asserts that the risk management process of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) includes “internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication and monitoring.” Correspondingly, Mutezo (2013: 158) asserts that “risk management seeks to identify, assess, and measure risk and then develop treatment measures to handle it.” Without completing the risk identification and treatment, decisions made and undertaken are likely to be suboptimal, which will lead to the organisation being less competitive (Alessandri, Ford, Lander, Leggio & Taylor, 2004: 752).

1.7.1.9 The approach to risk management

According to Naidoo (2009: 228), there are four basic approaches to risk management which are to terminate, accept, reduce or transfer the risk. When applied, these approaches can assist an organisation in developing adequate response to identified strategic, financial and operational risks. The risk management processes mentioned above are applied to determine whether or not the risk should be terminated, accepted, reduced or transferred. Naidoo (2009) further explains the approaches as follows:

- **Terminate:** Terminating the activity that is being undertaken where the activity represents such a great risk that there is no way that it can be controlled and the possible risk outweighs the potential benefits.
- **Accept:** Accepting the risk where no further effective and efficient controls are possible. However, risk must be accepted after all the relevant factors have been considered and not merely accepting the risk by default. Hence, adequate assessment must be conducted.
- **Reduce:** Reducing the risk by developing appropriate or adequate business controls. This is the approach used most often to minimise the risk.
- **Transfer:** Transferring the risk to another party, for example, this could include the use of insurance cover against any risk that may materialise.

1.7.1.10 Enterprise Risk Management (ERM) frameworks

The “ERM framework was initiated by COSO in order for management to effectively identify, assess and manage risks down to an acceptable level” (Siwangaza, *et al.*, 2014:168). As a structured approach, ERM provides a detailed framework for risk management in any organisation. It is an integrated approach for managing risk across an organisation (IRM, 2017). The definition will be explored further in the detailed literature review.

1.8 Small, medium and micro retail enterprises

1.8.1 Definition of SMMEs

Small businesses can be categorised as micro, very small, small or medium enterprises (SMMEs) (South Africa. DTI, 2008). This also includes formally registered and those not registered (Government Gazette of South Africa, 2004). The National Business Act, 1996 (Act No. 102 of 1996), amended by Act No. 26 of 2003 and 2004, defines the SMMEs as “small enterprise which means a separate and distinct business entity, including cooperative enterprises and non-governmental organizations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy” (Government Gazette of South Africa, 2004:04). The Act further emphasises that SMMEs can be classified as a micro, a very small, a small or a medium enterprise. The South African definition of SMMEs also embrace SMEs, which is a term commonly used by many countries. However, they differ in terms of size of class, gross turnover and gross asset value. Refer to **Table 1.1**, which was extracted from the Gauteng SMME Policy Framework 2010-2014 (Ecodev, 2010) and describes SMMEs.

1.8.2 SMMEs in the CTMM

According to van Scheers, *et al.* (2015), the CoT municipal area had a disadvantaged population of around 1, 2 million in 2007, which grew to 1, 7 million in 2014. In respect of the business in the CoT, Khale (2015) asserts that the CoT ensures that services, such as sanitation and health inspection, are provided to businesses in environments of food processing and packaging, restaurants, cafeterias, hotels and supermarkets. This is done to ensure compliance with the rules of the city. Van Scheers, *et al.* (2015), citing van Scheers (2009), assert that the small business failure rate is predominantly high in the Tshwane area.

Similarly, Marivate (2014) elucidates that in his longitudinal study, 46, 14% of the SMMEs failed over the period of the study. In the study by Worku (2016), it was found that 40% of businesses were not viable. As the capital city of South Africa, this suggests that the environment is complex and requires small and micro retail enterprises that can act with resilience, adaptability and agility (Cheese, 2016). As a result, most viable businesses in the CoT are operated by owner-managers with relatively higher levels of entrepreneurial skills (Worku, 2016). Therefore, those that lack skills in risk management, finance and entrepreneurship, are susceptible to failure.

Marivate (2014a: 21) further recognises that the “effect of township mall establishment and mushrooming in a township and rural settlements forced the small business to be of a survival nature as their management style is more of a reactionary ‘reactive’ than systematic order”. This suggests that many small businesses apply a reactionary style of management, even when they manage exposures to risk. Moreover, the relaxation of bylaws by CoT has also resulted in an increase of home-based small businesses and an influx of foreign-owned businesses (Ligthelm, 2011 cited by Marivate, 2014a). As accentuated by Dlodla (2014), many foreign businesses are better run than their local counterparts.

1.8.3 Small and micro enterprises in the retail sector in the 21st century: Complex and competitive environment

The small and micro enterprises are a subset of SMMEs. The small enterprises have less than 100 employees, they are formal and registered and have some fixed premises (refer to Table 1.1). A very small enterprise forms part of the formal economy and uses technology (refer to Table 1.1) while the micro enterprises are usually informal with a turnover of less than R300 000,00 per year (refer to Table 1.1).

The DTI (South Africa. DTI, 2008) indicated that the most economically active enterprises based on annual turnover in March 2007 were 36% micro enterprises, 46% were very small enterprises and 11% were small enterprises, equating to an estimate of 93% when combined. Therefore, micro and very small enterprises were the most active enterprises. South Africa is classified as an efficiency-driven economy (GEM, 2017). Therefore, “wholesale and retail is regarded as a significant sector of the South African economy and a major employer” (Sewell, *et al.*, 2016: 61). Retailing sits at the end of the supply chain, where products and services are marketed to the consumer (Grewal and Levy, 2010). “Retailing is a set of business activities that add value to the products and services sold to the consumers for the personal use” (Grewal and Levy, 2010: 488). This emphasises that retailers sell products and services directly to consumers. Supply chain, effective customer services, networking and innovation are, therefore, important for retailers.

“Around half of the entrepreneurs in factor- and efficiency-driven economies operate in the wholesale/ retail sector” (GEM, 2017: 10). In a study that the DTI conducted (South Africa. DTI, 2008), the retail trade was one of the industries with the highest liquidation of businesses. Therefore, in order to be viable, firms need to have a clear understanding of the opportunities and challenges presented by the retail environment (Jere, Jere & Aspeling, 2015). GEM (2017) asserts that the competition in this market will threaten the sustainability of the retail businesses. This is ascribed to the fact that the retail industry is becoming competitive due to complex rapid technological changes and diffusion (Pantano, Priporas, Sorace & Lazzolino, 2017: 88), and possible concentration in South African retail segments of durable and semi-durables (Berry, *et al.*, 2002: 87). Online retail offers the same product and service as offline retail (Kim, Nam & Stimpert, 2004: 573), sustainable products are requested by major retailers (White, 2009: 386), supply chain risks and creation of value from different means of innovation, are imminent (Cambridge Technology Partners, 2000). Moreover, there is a greater possibility of cost and first advantage enjoyed by industry incumbents, brand preference and a high degree of loyalty in

the retail sector. Movement towards mall-based retailing has a negative impact on small retail traders (Muller, 2013; Charles, 2013 cited by Sewell, Steyn, Venter & Mason, 2016). Moreover, there is an influx of foreign businesses, which are run better than their local counterparts in the townships, making competition for spaza shops very tough (Dludla, 2014). What is challenging is that we are in an era of change in tastes and technologies, hence marketers must sell many new products, such as new styles of apparel, models of cars, cell phones and computers, toys and so on in a very short period of time where there is uncertainty of demand for the new products (Subrahmanyam, 2000). Hence, the retailing environment is very competitive (Jere, *et al.*, 2015).

The National Business Act, 1996 (Act No. 102 of 1996), amended by Act No. 26 of 2003 and 2004 (Government Gazette of South Africa, 2003: 2004) categorises the small and micro retail enterprises in terms of the sector or subsector in accordance with the standard industrial classification, size of class, the total full-time equivalent of paid employees, total turnover and total gross asset value (fixed property excluded). The retail sector (excluding motor trade and repair services in terms of the Schedule of the National Business Act, 1996 (Act No. 102 of 1996), amended by Act No. 26 of 2003) is categorised in **Table 1.2**.

1.8.4 Obstacles and factors that contribute to the failure of SMMEs

The DTI (South Africa. DTI, 2008) indicated that the rate of liquidation is high and further highlighted that in the 2006/2007 financial year, 90% of the liquidations were voluntary. Moreover, the DTI (South Africa. DTI, 2008) cited that the high rate of liquidations, as well as large numbers of registered, but inactive enterprises and shifting business focus in the first three years of enterprise existence, further corroborates the evidence that performance is less than satisfactory in the SMME environment. “The level of exits is very high in relation to the number of startup efforts” (GEM, 2016:21). GEM (2014) reported poor profitability, as a reason sharply rising for discontinuance. According to the DTI (South Africa. DTI, 2008), the

wholesale and retail trade and financing, insurance, real estate and business services had the highest liquidations in the 2006/2007 financial year with the wholesale and retail at 31% and financing, insurance, real estate and business services at 40%.

Hence, more retail SMMEs are being liquidated and/or discontinued for various reasons. The primary causes for failure of the new SMEs include, but are not limited to the lack of management skills, poor product design, the lack of technical skills and lastly inadequate capitalisation, poor market research and planning, infrastructure and many more (Berry, *et al.*, 2002; Brink, *et al.*, 2003; Mahadea and Pillay, 2008; Fatoki and Garwe, 2010; Fatoki and Smit, 2011; Fatoki, 2014; Neneh and Smit, 2013; Marivate, 2014a; Marivate, 2014b; Worku, 2016; GEM, 2014, 2015 and 2017; Seeletse, 2012). These obstacles, factors or conditions will be analysed and assigned to the various risks in the detailed literature review.

In CTMM, Marivate (2014a) argues that the SMMEs are still trapped in the old management style of not keeping adequate records. This is also exacerbated by a lack of knowledge. Worku (2014) argues that the survival of small businesses is negatively affected by a lack of entrepreneurial skills, a lack of supervision and the inability to acquire vocational skills. Falkner and Hiebl (2015) assert that owners of SMEs seem reluctant to invest in knowledge-building activities, which may help in mitigating knowledge risks.

The typical hindrances towards small businesses obtaining finance, have been cited and ascribed to inadequate collateral on the part of the entrepreneur, a lack of credit history, the inability to produce an acceptable business plan according to financial institutions, poor market research, the absence of a viable business idea and a lack of access to vibrant markets (Marivate, 2014a, Marivate, 2014b, Berry, *et al.*, 2002, Fatoki, 2014; Mutezo, 2013). GEM (2014: 10) asserts that everywhere around the globe, opportunities can be captured for development, but their transformation into

venturing depends on individual attributes (skills, intentions), social values and the entrepreneurship ecosystem. Correspondingly, Rogerson (2007c: 29), as quoted by the DTI (South Africa. DTI, 2008) on South African SMMEs, emphasises that a “lack of technical and managerial skills can no longer be a reason for SMME business failure, and this should be addressed in policy development”. This will be dealt with in the detailed literature review.

1.9 Scope and delimitation of research study

According to Tracy (2010: 840), “worthy topics often emerge from disciplinary priorities”, therefore, they are “theoretically or conceptually compelling”. The researcher anticipates to evaluate how small and micro retail enterprises in the CTMM in Gauteng, South Africa, effectively apply risk management processes to manage the obstacles and factors that cause failure.

Welman, *et al.* (2014) argue that the case should be defined. Similarly, Blumberg, *et al.* (2014) accentuate that the researcher should define the aspect of the process that the researcher wants to investigate in a case. In this research study, risk management processes will refer to a process that comprises of (1) the identification of business objectives (2) risk identification (3) risk assessment and (4) risk treatment. Moreover, the study focuses on very small and micro retail enterprises, a subset of SMMEs.

To ensure that the phenomenon is investigated and studied in-depth, the literature on concepts of risk, types of risk (strategic, financial and operational risk), risk and opportunity governance, achievement of an optimal balance between risk and reward, risk management processes and approaches, arguments for risk management, limitations of risk management and overview of small and micro enterprises and obstacles, factors, signals, conditions and constraints of failure, will be discussed in the literature. The literature will briefly explain the ERM frameworks. The context of the case studies will be the CoT Central Business District (CBD).

Rowley (2014: 309) argues that in “research in organizational studies, management, and business, the participants may be selected either as an individual or as a representative of their team, organization, or industry”. The study will focus on five small and micro retail enterprises in the CTMM in Gauteng, South Africa, under the direction or leadership of owner-managers of different genders, age and race. The owner-managers will be referred to as the informants/participants for the research study. The small and micro retail enterprises are sometimes informal and formal types of enterprises, meaning that some are registered and others are not registered businesses. However, the five cases will meet the definition of small and micro retail enterprises in terms of the National Business Act, 1996 (Act No. 102 of 1996), amended by Act No. 26 of 2003 and 2004 (Government Gazette of South Africa, 2003: 2004). This research study will exclude the medium and small enterprises and locations other than the Tshwane CBD. It will also exclude risk management processes other than those defined by the study.

In conclusion, Blumberg, *et al.* (2014) argue that the researcher must formulate the theoretical proposition for generalisation. The phenomenon investigated in the very small and micro retail enterprises will be the application of risk management processes. The study will focus on the evaluation of how risk management processes are effectively applied in small and micro retail enterprises in the CTMM in Gauteng, South Africa. The aim is to investigate the theoretical dispositions of risk management processes in the current riskier world. Hence, theoretical disposition is central to the study (Blumberg, *et al.*, 2014). Each of the researcher’s questions will be answered from the perspectives of the owner-managers or entrepreneurs.

1.10 Introduction of research design and methodology

This chapter provides a synopsis of the focus of the study, the research methodology, the research design, ethical considerations, limitations of the study and the conclusion. With regard to the types of research methods, the researcher

will contrast quantitative and qualitative methods to conclude which method is most suitable for the study. Furthermore, the population will be elaborated on in order to decide on the analytical methods and techniques that are most suitable for the study. The following summary will be followed for the research methodology:

1.10.1 Research design

1.10.1.1 Case study research

Welman, *et al.* (2005: 193) assert that the term “case study pertains to the fact that a limited number of units of analysis is studied intensively”. Blumberg, *et al.* (2014) argue that a case study is suitable for explanatory, descriptive and exploratory research. According to Bertram and Christiansen (2014: 42), case study “describes ‘*what (it) is like*’ to be in a particular situation”. Bertram and Christiansen (2014) elucidate that case studies are generally descriptive in nature. The unit of analysis for the research study will be risk management processes in small and micro retail enterprises. Welman, *et al.* (2005) emphasise that when we investigate an institution, we often use fieldwork, which is to conduct an investigation immediately under the natural circumstances of the specific case. Moreover, Blumberg, *et al.* (2014) argue that case studies take a broader view on a problem and they focus on the contemporary phenomenon. The contemporary phenomenon will be risk management processes in the research study. According to Park and Park (2016), the researcher in the case study attempts to understand and report the uniqueness of individual cases. Risk management is a process affected by people, costs, knowledge and other unknown factors in very small and micro retail enterprises.

Five small and micro retail enterprises have been selected for investigation. The enterprises are, therefore, deemed worthy for the analysis (Park and Park, 2016). Moreover, the research study is considered to be multiple case studies (Blumberg, *et al.*, 2014). Similarly, Bertram and Christiansen (2014) assert that several cases can be studied in a single project. Moreover, Blumberg, *et al.* (2014: 306) elucidate

that “investigating an issue in more than one context is usually better than basing the results on just one case”. In conclusion, the application of risk management processes in small and micro retail enterprises will be evaluated to gain a more comprehensive understanding of a phenomenon (Bertram and Christiansen, 2014). Blumberg, *et al.*, (2014) argue that case studies permit the assessment of a theory. In this research study, the theory will be risk management. Therefore, small and micro retail enterprises will provide a critical perception of how risks are managed in their enterprises. A case study is being used because it is more focused and it allows the researcher to understand the risk management processes from the perspective of the owner-managers (informants).

1.10.1.2 Population target, site and size

According to Welman, *et al.* (2005), population is the study object which can consist of individuals, groups, organisations, human products or the condition to which they are exposed. The study object for the research study is enterprises, as defined by the National Business Act, 1996 (Act No. 102 of 1996), amended by Act No. 26 of 2003 and 2004. Welman, *et al.* (2005: 52) further elucidate that “a population is the full set of cases from which a sample is taken”. The full set of cases in this regard refers to SMMEs. Of the SMMEs, the research study focuses on small and micro retail enterprises, which is a subset of SMMEs. The population target is very small and micro retail enterprises in the CTMM, specifically Tshwane CBD representing the site of the target.

1.10.1.3 Sample method, size and justification

Due to little variation in the population since the sample of cases is specifically selected from the small and micro enterprises in the retail sector, convenience and snowball sampling will be appropriate. With convenience sampling, the small and micro retail enterprises in the CTMM will be chosen for their accessibility and availability for the research study, while snowball sampling will be used, because the

researcher does not know where the additional enterprises are situated. Moreover, snowball sampling will be appropriate when dealing with informal enterprises that may not be registered or do not have shop numbers.

Hence, the researcher will use a convenience sample method to identify small and micro retail cases. Thereafter, snowballing will be used for referrals. However, after identification, the researcher will consider a mix of retail cases to ensure that focus is not merely on the retail cases selling the same products. The selection of the five cases is not based on sample logic, but on replication logic (Blumberg, *et al.*, 2014). Hence, the researcher expects that the “same phenomenon occurs under the same or similar conditions or that the phenomenon differs if the circumstances change” (Blumberg, *et al.*, 2014: 306). Therefore, the researcher believes that risk management processes will occur in the five small and micro enterprises. However, it may be different based on the influence and skill of the owner-manager and the complexity of the location in which the enterprise operates. The owner-managers or entrepreneurs of the small and micro enterprises are the informants to provide perceptions into the risk management process and can also refer the researcher to other evidence necessary to support the risk management process. Moreover, the researcher selected a sample of five cases, because they may fail.

1.10.2 Research methodology

1.10.2.1 Types of research paradigms

There is a need to obtain a direct understanding of how the risk management processes are applied. It is appropriate to conclude, based on realities encountered by small and micro retail enterprises. As a result, an anti-positivist research study is suitable for the research study in an unstructured environment, such as small and micro retail enterprises.

1.10.2.2 Qualitative approach

Blumberg, *et al.* (2014) argue that case study research is much more an approach to investigate a phenomenon rather than a specific method to collect information. According to Park and Park (2016: 05), a “qualitative approach is holistic in orientation, treating the phenomenon as a whole system and searching for patterns that lie within its bounds.” Welman, *et al.* (2005) elucidate that an anti-positivist researcher becomes absorbed in the research situation. While Blumberg, *et al.* (2014) further argue that a theoretical idea is developed before data is collected when theoretical dispositions are central to a case study. It has been argued that people make decisions on behalf of the entities on risks (Phippen and Ashby, 2013). Most micro enterprises are mainly comprised of survivalists with businesses that are not registered. As a result, Sewell, *et al.* (2016) report that only 65% of the businesses in the wholesale and retail sector are formally registered. Therefore, it is difficult to understand the phenomenon without appreciating the context in which it takes place (Welman, *et al.*, 2005: 191).

Moreover, it has been argued that managers do not understand risk well (Hagigi and Sivakumar, 2009). As a result, a qualitative approach is suitable for the research study in order to focus on the evaluation of how risk management processes are applied from the perspectives of the small and micro retail enterprises, and to collect various types of data from the owner-managers (informants) who influence or take decisions on behalf of the risk management process in the enterprises.

1.10.2.3 Data collection method

According to Welman, *et al.* (2005), unstructured interviews purposefully do not use an interview schedule. In contrast, in a structured interview, the interviewer puts a collection of questions from a previously compiled questionnaire, known as a schedule, to the participants face-to-face and record the responses (Welman, *et al.*, 2005). In semi-structured interviews, the researcher covers a list of themes and

questions (Welman *et al.*, 2005: 167) and interview guides are used. The researcher will use semi-structured interviews, because it is more focused and limits the time. The semi-structured interviews will be held with five owner-managers or the relevant person delegated by the owner-manager of the small and micro retail enterprise. Blumberg, *et al.* (2014) argue that the main advantage of case studies is that they permit the combination of different sources of evidence. Therefore, data will be collected throughout the research study from different sources. In addition, Tracy (2010: 841) asserts that a “qualitative methodology is as much art as it is effort, piles of data, and time in the field.”

1.10.2.4 Primary data collection procedures

According to Blumberg, *et al.* (2014: 204), conducting empirical research in business requires data. Similarly, Albers (2017) accentuates that any empirical research involves collecting and analysing data. The primary data will be collected from the following locations, namely, the Tshwane CBD. The researcher will obtain the participants' contact details face-to-face from the five small and micro retail enterprises who are interested in participating in the research study. At the time of collecting primary data, an agenda for the interview will be developed and emailed to the participants a day before the interview. Therefore, the researcher will make appointments before conducting the interviews.

The researcher and the participants will sign the attendance register on the day of the interview. It will contain the date, time of interview and the individual being interviewed. The researcher will interview the owner-manager or the individual delegated by the owner-manager who is conversant with the case in question. Five small and micro retail enterprises will be interviewed and there is a greater possibility of follow-up interviews. Therefore, the researcher anticipates that follow-up interviews may be held if necessary. It is anticipated that the interviews will take 45 minutes to 1 hour, hence the length of the interviews may vary depending on the

level of the awareness of the participants on the case under investigation. The interviews will be conversational and open-ended.

The questions may start with an unstructured question of “ How does it feel to be a small business in the retail sector in the CoT?” It is also anticipated that occasionally a question from the researcher will be asked for clarification purposes (if not by the interviewee). The researcher anticipates that a variety of topics that affect the small and micro retail enterprises may be discussed during the interview. The interviews will also be audiotaped (tape-recorded), which will afford the researcher the opportunity to listen to the answers to the questions in order to reflect, reference and ensure that accurate data is collected for analysis, but after obtaining the participants’ permission. The audio-taped interviews will be transcribed.

During the research study, the researcher anticipates that other evidentiary sources might be presented by the participants. This is information that the participants may find useful and/or feel the need to give to the researcher for the phenomenon under investigation. Therefore, ongoing collection of data will take place during the study and the information will be disclosed and filed separately in a database, which includes any hard copies which have been gathered as evidence.

Data will also be collected through observation of the environment to ensure that all other factors that have an impact on the phenomenon are noted. All the primary data collected in the form of audiotapes, memoranda and field notes will be saved on a computer. To analyse the data, the researcher will look for recurring patterns and consistent regularities when the participants answer the questions. The researcher will discern various patterns in the answers. Triangulation will be used in order to determine the correct position of the phenomenon by comparing it to others and literature. This will help to validate the data and make the study reliable.

1.10.2.5 Secondary data collection procedures from literature sources

Blumberg, *et al.* (2014: 264) describe secondary data as the data that has already been collected and recorded by someone else, usually for other purposes. The study uses secondary data, such as journals, books, research reports, annual reports, strategic plans, policy frameworks, Acts, development plans, print sources, study guides, theses and company websites. All the sources will be acknowledged in the research study. Blumberg, *et al.* (2014: 271) argue that the use of “information from external sources is also a good strategy for enriching any primary data collected.” Some of secondary data sources, such as newspaper articles, website and annual reports, provide current data on the phenomenon and any changing patterns critical to the study.

Blumberg, *et al.* (2014) further explain that the sources of external data can be internal and external, which can include publishers of books and periodicals, government and supranational institutions, such as, for example, the Organisation for Economic Cooperation and Development (OECD) and GEM. The study also considers data from supranational institutions and government. The study only considers secondary data that is made available to the general public. However, secondary data is not the main source of data for the research study, but it will be used as a source of evidence next to interviews (Blumberg, *et al.*, 2014).

1.10.2.6 Data instruments, techniques and analysis method

i. Data collection tool

Bertram and Christiansen (2014) note that the advantages of interviews are that the researcher is present during the interview with the respondent, that the researcher can ask more questions, that it is easier for the respondent to talk to the researcher than to write long responses in a questionnaire, that the researcher can collect detailed descriptive data and it is a good tool for gaining in-depth data from a small number of people. This research study uses semi-structured interviews. Blumberg,

et al. (2014) elucidate that semi-structured interviews usually start with a specific question, but allows the interviewee to follow his or her own thoughts later on. The researcher will develop structured questions or topics to guide the interview and others questions are anticipated during the interview.

The participants will be asked the same questions with the same topics, however, the interviewer may adapt the formulation, including the terminology, to fit the background of the enterprise and educational level of the owner-managers or entrepreneurs (Welman, *et al.*, 2005). Moreover, small businesses are susceptible to failure, as adduced that the failure rate is 75%. Semi-structured interviews are the most suitable in case the enterprise chosen is no longer in the business. Hence, the researcher may still fit the background to the participants of the failed case to elaborate on some of the questions and provide his perspective. The researcher wants to understand the informant's perspective on the application of risk management processes and to confirm the insights and theory of risk management from the informant's perspective.

ii. Administration of interview procedures

Blumberg, *et al.* (2014) emphasised that interviews are the most widely used source for collecting information for evidence. The interviews will take place at the owner-managers' site of business during the month of data collection. The participants will be reminded of the interview three days before it will be conducted and a day before the interview by email. The participants will be informed telephonically of the scheduled interview and the email which will be sent to them.

The interview schedule will be piloted to at least five employees in the environment of risk and compliance audit to ensure that the questions asked are clear, understandable and will provide the researcher with the necessary feedback to achieve the objectives of the study. Once the interview schedule has been received,

it will be refined to make sure that the questions are clear in order to conduct the interviews.

If there is any postponement and/or cancellation due to various reasons by the interviewee, evidence of such will be documented as part of the data collection. A case study is focused and in an environment of this nature, that being small and micro retail enterprises that are susceptible to failure, the risk of failure is imminent. Hence, in cases of closure of business due to various reasons, the researcher will attempt to contact the informant to share his perspective on the causes of failure and how the risk management processes were implemented to manage the causes. This will also be valuable for the study.

On the day of the interview, the interviewer and the interviewee will sign the Attendance Register and it will be filed for evidence purposes. In case of cancellation or postponement, the evidence of such postponement will be documented. All other documents collected during the interview or throughout the research study will be kept separate from the primary data collected using the interview as a tool. The notes during the interview will be part of the database. A folder or a database will be created on a computer for evidentiary purposes.

iii. Data analysis techniques and methods

a. Qualitative data analysis

“The key components of qualitative data analysis are organizing the data set; getting acquainted with the data; classifying, coding and interpreting the data; and, presenting and writing up the data” (Rowley, 2014: 326). Similarly, Tracy (2010: 841) argued that “rigorous data analysis may be achieved through providing the reader with an explanation about the process by which the raw data are transformed and organized into the research report”. The following are the data analysis techniques relevant to this study:

b. Field notes and transcripts

According to Welman, *et al.* (2005), field notes need to be converted into write-ups which can be read, edited for accuracy, commented on and analysed. All the field notes recorded by the researcher will be converted into write-ups, which will allow the researcher to reflect on and recall some of the missing content. The recorded tape or audiotapes will be transcribed to text before it can be subjected to the same processing as handwritten notes (Welman, *et al.*, 2005). The researcher will be able to note missing information, pauses and other relevant information for patterns.

c. Theme identification method

To identify the theme; count words and repetitive words, indigenous categories and keywords in contexts; compare and contrast; search for missing information, metaphors and analogies, transitions and connectors, and unmarked texts; pawing, cutting and sorting will be used (Welman, *et al.*, 2005). Owing to five cases being investigated, the researcher will also use comparisons and contrast to compare the answers provided by various owner-managers in relation to the awareness of and application of risk management processes. In order to determine the causes, transitions and connectors, which may indicate the causes, will be considered (Welman, *et al.*, 2005; Ryan & Bernard (nd) as quoted by Welman, *et al.*, 2005). The researcher will use semi-structured interviews, which will include open-ended questions that seek to test the behaviour of the owner-managers under a specific theme. In instances where new themes are identified for the data, the text may be manipulated physically a few times to identify the new theme and sorting, pawing and cutting will be used to sort out the data.

d. Coding the data

According to Blumberg, *et al.* (2014: 289), the cornerstone of qualitative data analysis is the coding of the interview transcripts or any other documents. After the

process of obtaining all the information, the researcher will reduce the amount of data to manageable and understandable text by coding and creating codes (Welman, *et al.*, 2005). Codes and tags or labels that attach a meaning to raw data or notes collected during the fieldwork are descriptive codes, interpretative codes, pattern codes and reflective remarks, marginal remarks and revising codes (Welman, *et al.*, 2005). Blumberg, *et al.* (2014: 313) assert that “pattern matching is to form a general picture of the case by detecting patterns in the information”. Codes will be created by using the conceptual framework of the research question, divide the field notes into different segments afterwards, create codes for various conditions in the field notes, for definition of the interview situation, and process events, relationships and social structures (Welman, *et al.*, 2005). Moreover, Blumberg, *et al.* (2014) argue that it is possible to code with themes from prior ideas, such as pre-existing theories.

e. Observation

The researcher will also use observation during the interviews. The researcher will also observe the environment (context) in which the small and micro enterprises operate, such as the close proximity of large organisations and other competitors to the case study. The researcher will also observe the location of the retail enterprises, the conditions of the retailer and any innovative products and processes recently introduced by the owner-managers.

f. Displaying data

If need be, the researcher may perform frequency data analysis. Data display is a systematic and aims to provide a descriptive explanatory framework of investigation (Welman, *et al.*, 2005). The research study uses matrix and network displays. Matrix display displays the risk management process, as defined by the research study and the topics of awareness that the investigation intends to confirm. The network display will show the relationship in the form of errors. Blumberg, *et al.* (2014) argue that

graphs, tables and figures are useful devices for summarising the findings. The researcher will use graphs, figures and tables to summarise some the findings.

g. Data results

The results will be presented using text. However, if the researcher considers frequency, the data will be presented in graphs and tables, such as cross-tabulations and statistical summaries, such as bar diagrams and pie charts. The data will be edited and coded.

1.10.2.7 Data validity and reliability

i. Credibility

According to Tracy (2010: 842), “credibility refers to the trustworthiness, verisimilitude, and plausibility of the research findings”. In a quantitative study, Laher (2016: 322) asserts that “without examining the reliability, validity, and lack of bias in instruments, it is not possible to draw any conclusions based on the instruments”. According to Morrow (2005: 251), “credibility in qualitative research is said to correspond to internal validity in quantitative approaches”. Park and Park (2016) argue that qualitative is value-laden and biased. Therefore, the trustworthiness and validity of the findings are critical in a qualitative research study. Morrow (2005: 252) argues that credibility is “achieved by prolonged engagement with the participants, persistent observation in the field; the use of peer de-briefers or peer researchers; negative case analysis; researcher reflexivity; and participant checks, validation, or co analysis”. In order to ensure that the research is a true reflection of the study, the researcher will document a sufficient audit trail of data and all findings will be written around the specific evidence, therefore, guiding the reader to the type of evidence collected (source of data). Moreover, self-reflexivity plays a key role in the phenomenon under investigation. The researcher has experience in the field of auditing, accounting and risk. However, the researcher will also prepare himself spiritually and emotionally prior to the engagement. Moreover, the literature review

will be detailed to ensure awareness and exposure of the researcher, which will ensure that the researcher makes appropriate judgements on views. Credibility in this study will be earned by the use of thick description (Tracy, 2010). The researcher will be detailed in the explanation of the events, interactions and conversations. Moreover, Morrow (2005) argues that rich description should not only be premised on the participants' experience of the phenomenon, but also on the context in which those experiences occur. The researcher will show more details to persuade the reader, including the participants' experience and the context in which the experience happened. Moreover, observation will be used to also provide feedback on the context.

According to Tracy (2010: 843), "good qualitative research delves beneath the surface to explore issues that are assumed, implicit, and have become part of participants' common sense. As a result, the researcher will take note of tacit knowledge of the participants during the interview by observing comments and statement, including actions". This also includes when questions are asked, but not answered. The researcher will use triangulation. "Triangulation in qualitative research assumes that if two or more sources of data, theoretical frameworks, and types of data collected, or researchers converge on the same conclusion", the research study is credible (Tracy, 2010: 843 citing Denzin, 1978). Triangulation will be applied whereby different sources of evidence will be considered to provide a variety of measurements for the phenomenon and increase the construct validity (Blumberg, *et al.*, 2014). This will ensure that data is not generalised beyond what the five cases warrant. Multivocality will be considered, which includes varied voices in the qualitative report and analysis, and this will provide a space for a variety of opinions (Tracy, 2010). The participants' voices validate their responses in respect of the phenomenon. A member reflection will be considered during the process of data analysis and report writing to ensure credibility.

ii. Dependability

According to Morrow (2005), dependability is said to correspond to reliability in a quantitative approach. Similarly, Welman, *et al.* (2005) elucidate that reliability relates to credibility of the research finding. Morrow (2005: 252) accentuates that “dependability is the process through which findings are derived should be explicit and repeatable as much as possible. This is accomplished through carefully tracking the emerging research design and through keeping an audit trail, that is, a detailed chronology of research activities and processes; influences on the data collection and analysis; emerging themes, categories, or models; and analytic memos”. Correspondingly, according to Tracy (2010), the researcher may evaluate the number of pages of field notes, the time gap between fieldwork and the development of field notes. The researcher will record notes during the interview to avoid time gaps between the time when field notes were written and the time of the interview. This will ensure that critical information is not missed or lost. All field notes will be numbered to ensure that all the pages are included as evidence or as part of the audit trail. Moreover, the field notes will be scanned onto a disc for proper documentation and filing to ensure safekeeping of the audit trail.

Moreover, the researcher will also use audiotapes after obtaining permission from the participants, in order to reflect on the interview and make additional memoranda (transcripts), which will be scanned onto a disc for evidentiary purposes. Tracy (2010) further argues that the length of interviews, the types of questions being asked and the critical procedures for ensuring that transcripts are accurate, demonstrate rigor. The transcripts will be supported by the audiotapes, which will be filed together for evidence for those participants who gave their permission. The semi-structured interview is anticipated to take 45 minutes to 1 hour to ensure that all kinds of data are collected. The types of questions will be informed by theory, hence the interview will be guided by the theory the researcher intends to investigate. This will ensure that the study meets research dependability.

iv. Conformability

According to Morrow (2005), conformability is said to correspond to objectivity in a quantitative approach. All the research processes will be disclosed to ensure that the process conforms to the qualitative study methodology. Morrow (2005: 252) describes that conformability is “based on the perspective that the integrity of findings lies in the data and that the researcher must adequately tie together the data, analytic processes, and findings in such a way that the reader is able to confirm the adequacy of the findings”.

The research design will be informed by the literature as the basis for the decisions taken by the researcher, which will ensure objectivity. The choices taken by the researcher will be disclosed for research purposes. There is too much information in a case study. The researcher will determine and separate the main findings of the research from the additional findings. A proper audit trail will be kept for replication.

v. Transferability

According to Tracy (2010: 845), transferability is “achieved when readers feel as though the story of the research overlaps with their own situation and they intuitively transfer the research to their own action”. The researcher will review all the data and findings in order to determine which cases can be or not be transferred. The researcher will also disclose those findings that contradict the proposition. According to Morrow (2005), transferability is said to correspond to external validity or generalisation in a quantitative approach. Blumberg, *et al.* (2014) emphasise that a qualitative study generalises to a proposition, not a population. Therefore, it is critical to resist to generalise the results from the case study to populations. In order to ensure transferability, the claims will not be generalised beyond what the case can warrant. Morrow (2005: 252) elucidates that transferability “is achieved when the researcher provides sufficient information about the self (the researcher as instrument) and the research context, processes, participants, and researcher-

participant relationships to enable the reader to decide how the findings may transfer”. The researcher will, however, seek to identify ideologies, experience and provide a rich description of the phenomenon to ensure that other small and micro retail enterprises can familiarise themselves with them in order to ensure transferability. In the literature review, the researcher identified obstacles, factors, signals, conditions and constraints that are suggested as the causes of failure in order to ensure that the risk management processes are described in the context of the challenges faced by SMMEs. Tracy (2010: 845) emphasises that “researchers may create reports that invite transferability by gathering direct testimony, providing rich description, and writing accessibly and invitational”. The qualitative report will be detailed in order to invite transferability.

vi. Authenticity

Tracy (2010) relates sincerity to the notion of authenticity and genuineness. This suggests that authenticity refers to either honesty, disclosure of biasness or limitation in the study as the relevant dimensions (Blumberg, *et al.*, 2014). The researcher’s biases, goals and any limitation that could have an impact on the study will be disclosed in the study. The writer will be honest about his shortcomings and strengths, including awareness of the phenomenon (self-reflexivity) (Tracy, 2010). In respect of transparency, the researcher will be honest about the research process. Information on the process will be disclosed in the permission letters, which will be submitted to the Ethics Committee. This will be encapsulated in the application for ethical clearance. Moreover, Morrow (2005: 252) emphasises that “authenticity criteria include fairness, ontological authenticity, educative authenticity and catalytic authenticity”. The researcher will interrogate and explore the participants’ opinions and ask for feedback from the participants where necessary, however, will avoid forcing information out of the participants. This will ensure that fairness authenticity is achieved and the information will be disclosed in the qualitative report. Those involved will be acknowledged (honoured).

Moreover, Tracy (2010: 842) argues that “transparent research is marked by disclosure of the study’s challenges and unexpected twists and turns and revelation of the ways research foci transformed over time”. The researcher will disclose any twists related to the study in the research report to ensure transparency. The twists and opinions of the participants will be expanded, matured and elaborated upon in the research. Moreover, the researcher anticipates that the participants’ knowledge and understanding will be enhanced during the research study. Moreover, the topic will stimulate the participants’ interest as most of the small businesses continue to fail, therefore, they seek a mechanism to ensure sustainability in the current world turmoil.

1.10.2.8 Ethical considerations

According to Blumberg, *et al.* (2014), the benefits of the research study are weighed against the costs of harming the people involved. This infers that ethical consideration is important in research (Welman, *et al.*, 2005). Laher (2016) mentions other ethical considerations, such as informed consent, confidentiality, anonymity, invasion of privacy, feedback and debriefing. According to Welman, *et al.* (2005), ethical issues arise, such as plagiarism and honesty in the reporting of results, including issues that arise when research involves human subjects, when the research study is being conducted. In ethical considerations, the rights of the humans and/or any animal involved in the research must be protected (Welman, *et al.*, 2005). According to Welman, *et al.* (2005: 181), “ethical considerations come into play at three stages”:

- When participants are recruited
- During the measurement procedure to which the participants are subjected.
- In the release of the results that are obtained.

Welman, *et al.* (2005) further emphasise that other ethical issues include the competence of the researcher in the chosen topic, which may harm the subjects;

abusing the subject's goodwill and damaging their reputation; an inadequate thorough review of the literature review to ensure that the research was not done elsewhere; and plagiarism, which is the use of other's information without due acknowledgement and permission.

i. Ethics when participants are recruited

Informed consent will be obtained from the owner-managers or entrepreneurs of the five small and micro retail enterprises. Informed consent is a matter of fully disclosing the procedures of the proposed semi-structured interview or other research design before requesting permission to proceed with the study (Blumberg, *et al.*, 2014). Welman, *et al.* (2005) assert that the subject should participate freely. Hence, participation must be voluntary, with no obligation or conditions to be met. Each informant who participates will be asked to sign a consent form before participating and they are promised anonymity and confidentiality during the process.

Rowley (2014) elucidates that early in the process a covering email is important to explain the research, who you are and why you would like their help. In order to persuade the owner-managers or entrepreneurs of the small and micro enterprises to participate in the research study, the researcher will approach the owner-managers and explain the purpose, aim, benefits of the research study, anonymity and confidentiality. The researcher will inform the participants of the type of data-collection method, being semi-structured interviews, which will be conducted and inform them to decide on a time suitable for the interview during the month anticipated for data collection.

After the face-to-face engagement with the participants, the contact details of the five small and micro retail enterprises that are interested in the study will be obtained and an email confirmation will be sent, introducing the research, the researcher and his contact details. This will ensure that an audit trail is maintained.

Furthermore, Rowley (2014) asserts that assurance of confidentiality should be offered, the researcher should also capture their interest and be clear on the amount of the participants' time that will be used. The researcher will explain to the participants the time needed for the interview in order to resolve any issue that may arise from the amount of their time expected to be used by the researcher. Moreover, the researcher will also request permission from the participant to audio record the interview and that procedure will be explained to the researcher.

The participants will be informed of the anonymity and confidentiality of the research study in the request-for-permission letters and a copy of a request for permission letter signed by the researcher and acceptance letter will be submitted to the case study owner-manager or entrepreneur for approval.

The acceptance letter will have a letterhead of the enterprise where necessary, however, in instances where the enterprise is informal, the letter of acceptance will be signed by the owner-manager without any letterhead. The researcher will collect the original or an emailed copy of the acceptance letter for submission to the Ethics Committee.

ii. Ethics during the measurement procedure

Blumberg, *et al.* (2014) elucidate that research must be designed in such a way that the participants do not suffer physical harm, discomfort, pain, embarrassment or loss of privacy. According to Tracy (2010: 847), "procedural ethics also suggest that research participants have a right to know the nature and potential consequences of the research and understand that their participation is voluntary". In order to ensure protection from harm and right to privacy, the participants will be informed of their rights not to participate in the research study. Anonymity and confidentiality of the information will be protected. Ethical privacy involves informing the participants of the right to refuse to answer any question or participate in the study (Blumberg, *et al.*, 2014: 125). Privacy issues can be critical in a case study, however, the

researcher will ensure that the benefits of the study are clearly described to obtain the buy-in of the participants during the request for permission and face-to-face engagement.

This includes restriction of access to their information, such as identification, business address and anonymity. Moreover, information on the informant will not be disclosed in the report for privacy and confidentiality purposes. Moreover, only the researcher and the supervisor will have access to the data. The field notes, memoranda, data on the audiotapes and all data analysis will be stored on a disc, which will be filed. A database will be developed. Due to limited space, the physical data (hard copies) will be scanned and stored on the disc as well. The data will be retained for five years and will be deleted from the file and destroyed on the disc.

The researcher will conduct face-to-face interviews with the participants to ensure that confidentiality is maintained. All email correspondence between the researcher and the participants will be kept as part of the data that will be collected on the disc. This includes data that the participants makes available throughout the research study.

iii. Release of the results

“Ethical considerations continue beyond the data collection phase to how researchers leave the scene and share the results” (Tracy, 2010: 847). Integrity in research is vital (Blumberg, *et al.*, 2014). Similarly, Welman, *et al.* (2005) emphasise that the falsification of the results or misleading is unethical. The researcher will be honest in the assessment of and interpretation of the information data accessed. Moreover, Blumberg, *et al.* (2014) accentuate that the review boards help researchers examine their research proposals for ethical dilemmas. The research study will be undertaken after approval from the Ethics Committee has been sought. This will include an approval of the research proposal, literature review, and the assessment of the researcher’s competency in the chosen topic and methodology.

In the research results, to ensure transparency, credit will be “given where due in terms of author order and acknowledgements to participants, funding sources, research assistants, and supportive colleagues” (Tracy, 2010: 842).

1.11 Limitations of the study

The study is limited to five small and micro retail enterprises in the CTMM; the five very small and micro retail enterprises in the Tshwane CBD. Hence, the research results cannot be generalised to all the small, medium and micro retail enterprises in other areas and those enterprises in other sectors. Moreover, the study focuses on very small and micro retail enterprises and, therefore, excludes the medium and small enterprises, which are sometimes more established. However, they are excluded because the researcher wants to establish how risk management is applied in very small and micro enterprises. These are enterprises that may find it challenging to graduate to the various categories in the Schedule of the National Business Act, 1996 (Act No. 102 of 1996), amended by Act No. 26 of 2003 and 2004. They may contribute to the high failure rate. Therefore, the researcher deemed it non-beneficial to direct constrained resources in enterprises that may have reached the last stage in the growth cycle of the Schedule of the National Business Act, 1996 (Act No. 102 of 1996).

In addition, because most studies focus on newly and established SMEs and others used the term SMMEs interchangeably, the obstacles, factors, signals, conditions and constraints cut across new and established small, medium and macro enterprises. For the purpose of establishing which type of risks may be imminent in the small and micro retail enterprises and what should be focused on, the researcher considered all the obstacles, factors, conditions, constraints and signals that cut across new and established SMEs (and interchangeably SMMEs) in the literature review. Moreover, the researcher also takes note that there are structured approaches to risk management, such as ERM frameworks, which can be tested, however, for the purpose of the research, the literature is sufficient to provide

feedback on the phenomenon. This is because the ERM frameworks must also be augmented to suit the context of SMEs. All the limitations are ascribed to various constraints, such as time and funds, and consideration that the research study is a mini research report.

1.12 Summary

If small and micro retail enterprises do not effectively manage risks in the current riskier world, the failure rate may increase significantly. In the real world, risk is inherent and it can be caused by various sources. Effective risk management strategies should, therefore, be implemented to treat exposures to risk. This will ensure that the businesses are sustainable over time. Moreover, the SMMEs were defined to receive attention from government funders, incubators and investors, however, the definition does not absolve them from competing for a market space. Hence, in order to achieve sustainable enterprises, processes, such as risk management, which are proven to be beneficial for larger enterprises, must be embedded or improved to ensure sustainability. However, it starts with understanding how the risk management processes are performed in SMMEs.

This chapter explained the research problem, and importance and objectives of the study. Moreover, it also highlighted the research methodology, the research design, ethical considerations, limitation of the study and summary. The research paradigm for the study is an anti-positivist qualitative method. Moreover, the study is a case study and uses a semi-structured interview tool. The credibility, transferability, conformability and dependability are elaborated upon to ensure rigor. Data that will be collected from the research, will be confidential, treated with anonymity and privacy, hence the ethical considerations elaborate further on the topic. The limitation of the study was elaborated upon to ensure fair representation of the study. This also included exclusion and inclusion criteria, and the logic behind this decision.

The next chapter focuses on the literature reviewed in this study.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

In this Chapter, the current and relevant literature on the concept of risk and risk management; risk management process and approach; and small, medium and micro enterprises (SMMEs) are critically reviewed. The basic supposition to this study is that risk management processes in small and micro retail enterprises can be implemented or improved to treat, accept, transfer and terminate the exposure of obstacles, factors, signals, constraints and conditions affecting these enterprises. The terms SMMEs and small and medium enterprises (SMEs) are used interchangeably in the literature review. The obstacles and factors of failure cut across new and established SMMEs in South Africa, including the City of Tshwane (CoT).

2.2 Introduction of risk management: National and global context

Businesses in the 21st century are faced with the challenge of ensuring that their processes integrate risk management, social, strategy, internal control, including sustainability and human rights issues. Therefore, the processes are becoming more and more interdependent. A detailed background on interdependency and some examples of the related risks in the 21st century follow:

2.2.1 Rapid change of information and technology

Technology, being core to the effective implementation of processes in almost all organisations (Louw and Venter, 2013: 478), has attracted complex information and

technology risks, such as cyber and security risks. Eling and Schnell (2016: 477) reason that the “global interconnection of different IT systems causes geographical boundaries that would potentially provide some segmentation to vanish.” Similarly, Cheese (2016: 325) argues that “technology is a huge enabler of positive change but it is also a significant threat and area of risk to all businesses.” Therefore, technology and information have attracted various risks, which require adequate and effective risk management, if not managed, they may disrupt the existing market in and outside South Africa, and exacerbate existing risk exposures for SMMEs. As emphasised by Louw and Venter (2013), technology can create a whole new market. Therefore, it can introduce emerging risks for enterprises of all sizes. Moreover, emerging risks associated with cyber and security have challenged many organisations in the global economy, including South Africa. Eling and Schnell (2016) report that from a global perspective, the cost relating to cyber risks are projected to be above US\$100bn.

2.2.2 Innovative products and services to gain competitive advantage

In the 21st century, some enterprises have based their success on innovation (Louw and Venter, 2013). Cambridge Technology Partners (2000) argues that successful innovation can lead to value creation. However, innovation has also presented risk and opportunity. Cambridge Technology Partners (2000) asserts that innovation requires upfront investment in research and development, and customer acquisition. Yet, falling behind the innovation curve (Cambridge Technology Partners, 2000), has proven to be suicidal for many SMMEs. According to IRMSA (2017), innovation is the third industry risk in South Africa.

2.2.3 Global operations influencing supply chain networks and markets

Globalisation has made it difficult to differentiate between internal and external features of risks (Hagigi and Sivakumar, 2009). It, therefore, makes it difficult to compete in the competitive space. Consequently, global operations have also made

the supply chain more susceptible to abundant risks (Zeng and Yen, 2017). Some of the risks have the potential to impact relations from one country to another, which increases the risk of reputation if not monitored. The risks not only affect one entity, but integration and partnerships across the various organisations and countries. This indicates that risk management in the global economy has become complex. According to Hagigi and Sivakumar (2009), the exogenous risk elements are becoming more numerous and interdependent.

2.2.4 Financial, economic and environmental instability

What is challenging from a financial perspective is that, according to Mulvey, Rosenbaum and Shetty (1997: 03), the global financial markets have introduced products that are complex, such as exotic derivatives, which have increased volatility and risks. According to Drew, *et al.* (2006: 128), “risk management is more complex today than before.” Therefore, all types of businesses, size, industry and location are faced with the challenge of implementing effective risk management. According to Cheese (2016), the world has become riskier due to changing contexts, further explaining that societal, geopolitical and environmental risks have led to economic risks being the greatest concern. Similarly, Kim, Patro and Pereira (2017) elucidate that the economic recession of 2007 has impacted on various corporate profits and increased the risk of liquidity throughout the world. According to Kim, *et al.* (2017), the recession caused a significant shock globally. As a result, some of the countries are still recovering from this shock. Therefore, financial and political instability also contribute to various risks faced in and outside South Africa. Therefore, “dimensioning risks in terms of potential losses requires businesses to be mindful of any potential uncertainties bounding their future performance” (Eastburn and Sharland, 2017: 23).

2.2.5 Complex strategies, objectives and goals to attain competitive advantage

The concept of risk has become more complex than ever before due to the complexity of the goals and objectives set by organisations, and the context in which enterprises operate. Subsequently, organisations are expected to achieve a balance between risk and reward, and capture opportunities, thereby exerting pressure on the oversight, capacity and capability of human capital, entrepreneurs and leaders employed to take such risky decisions. Hence, leaders are now expected to take a decision relating to risk while considering the benefits. What is challenging is that most investors assess the effectiveness of risk management processes to determine if an entity is investment ready. Therefore, organisations that effectively manage exposures to risk and capture opportunities, are appealing to investors. If failure is indeed central to the entrepreneurial thrust of ventures (Pretorius, 2008: 409). Therefore, the SMMEs need effective risk management more than their larger counterparts. Consequently, they need to start developing smart objectives. Naidoo (2009: 225) emphasises that risk management is more important for smaller companies, which traditionally have a higher rate of business failure. With the playing field altered by globalisation (Hill, 2014), the owner-managers of SMMEs are expected to capture opportunities and counter global threats. As a result, risk management processes and practices are a necessity for survival of SMMEs as it is for larger enterprises. Kaplan (2010: 31) stresses that there is a necessity to formally embed the practice of enterprise risk management (ERM) in the Strategy Map and Balanced Scorecard. Effective risk management should, therefore, form part of any strategy pursued by organisations of all sizes.

2.3 The concept of risk

2.3.1 Definition of risk

Risk is part of our lives, hence it is inherent in everything we do (IRM, 2017). Similarly, Tchiehe and Gauthier (2017) argue that risk is omnipresent in most human

activities and it is “intrinsic to doing business” (ISO, 2015: 08). Therefore, daily activities or tasks, whether they are business or human activities, attract various types of risk. The AS/NZS ISO 31000:2009 defines risk as the “effect of uncertainty on objectives” (Finance, 2010). Therefore, risk can inhibit satisfactory achievements of the entity’s objectives if ignored or not managed effectively. Naidoo (2009) argues that risks are uncertain future occurrences, which could influence the achievements of a company’s business objectives, if not treated or checked. Therefore, risk cannot be viewed without considering the entity’s objectives, whether the objectives are formally or informally documented by small, micro, medium or large enterprises, risk is inherent in those objectives. Eastburn and Sharland (2017) argue that risks can be caused by poor strategic position and strategic resource, while Reeves and Daimler (2011) and Macquire (2009), cited by Eastburn and Sharland (2017), argue that the inability to read or act on signals of environmental change and moral hazard can also cause risks. This suggests that with the current political and financial instability, organisations need to read and act on signals to ensure survival. Moreover, they need to consider strategic resources and position themselves to attain competitive advantage. Therefore, in small and micro retail enterprises, the risk may lead to failure or the inability of small enterprises to grow.

According to McGaughey, Jr. *et al.* (1994), risk can be categorised into risk exposures that relate to the past and are recurring or new events which were never observed before. Therefore, in the environment of SMMEs, the historical events can represent the obstacles and factors that have occurred and new events, can represent key emerging risks. Borghesi and Gaudenzi (2013) argue that there are internal risks and external risks. Similarly, Pretorius and Le Roux (2012) explain that in order to identify risks and to capture opportunities, leaders use internal and external sources.

The word ‘risk’ was translated into English from the Italian word ‘risco’ or ‘rischio’ and it refers to hazard or danger (Blunden and Thirlwell, 2010). The proponents of

operations management argue that “risk is caused by some type of a failure” (Slack, *et al.*, 2013: 612), while Gitman (2009: 228), from a financial perspective, defines “risk as a chance of financial loss”. Conversely, the decision-making theorists in cost and management accounting discern between risk and uncertainty. They associate risk with past experience, having sufficient evidence in the form of statistics, while they argue that uncertainty lacks evidence from the past (Drury, 2011; Skae and Vigario, 2011). Moreover, Blunden and Thirlwell (2010) accentuate that risk management also involves the capturing of opportunities, as much as it refers to threats. This suggests that if risk is negative to an objective, a positive (or opportunity) can also be captured. Hence, risk should not only be viewed as an adverse event or hazard, but as an effect of uncertainty. It is noted that risk has been defined in various ways by many authors, but they all agree that it is the “effect of uncertainty on the business objectives.” There is also no entity, industry or humans who are exempted from risks accordingly. It is inherent.

2.3.2 Types of risks

The types of risks relevant for the study are strategic, financial and operational risks. However, the focus is on how the risk management process manages their exposure (refer to Section 1.7.2.2 of Chapter 1). The explanations are as follows:

2.3.2.1 Strategic risks

According to Louw and Venter (2013), managing an entity in the competitive landscape is complex and affects leadership, strategies and organisational architectures. Hence, tactics also “play a crucial role in determining how much value is created and captured” (Casadesus-Masanell and Ricart, 2010: 202). Speculand (2009) argues that the complexities often require a shift from the traditional way of strategic management towards formulating and implementing new strategies twice a month or more often than ever before. As a result, managing strategic risk has become essential in sustaining competitive advantage for businesses of all sizes,

especially when the competitive space is shared. According to Venter (2014), understanding strategic risk faced by organisations is becoming increasingly important. After all, Seeletse (2012) argues that there is no company that can “guarantee lifelong relationship since aggressive competitors can displace existing clients.” Excessive reliance on yesterday’s models (Speculand, 2009) in the riskier world can lead to failure of an organisation, hence a consistent review of strategies and the continual monitoring of risks relating to the strategy can be the only way of survival. According to Seeletse (2012), “it is risky to assume that past patterns will always work.” According to Fatemi and Luft (2002), strategic risk involves factors which are macro to a firm, which can ultimately affect the value of the shareholders. Drew, *et al.* (2006) argue that if strategic risk is poorly managed by an organisation, it can result in the organisation drastically losing advantage in the competitive space. According to the University of South Africa (2016), strategic risk is described as a risk of not achieving objectives and it is identifiable when one familiarises themselves with the strategic plan and the operations of the specific entity being evaluated.

Drew, *et al.* (2006) assert that strategic risk can threaten the long-term competitive success of an entity, including its ability to innovate and expand, its position in the market and the use of critical resources. Strategic risk can, therefore, affect the ability of the organisation to innovatively compete and position in the market or competitive space. This poses a risk since according to McElheran (2013), innovation can make “new demands of existing customers.” Moreover, strategic risks can also give rise to market risks. According to Kim and Vonortas (2014), SMEs face market risks, which refer to risks relating to the competitors, the products they offer, potential future competitors and their strategies and tactics. According to Marcelino-Sadaba, *et al.* (2014), strategic risks are those exposures that can lead directly to project failure, ultimately threatening the sustainability of the company. Therefore, strategic risks generally have an impact on the survival of any enterprise if not well managed. It can also involve the risk of not taking risks, pursuing opportunities, as well as the inability to identify opportunities or the need for change in a timely and

efficient way when the context changes. Borghesi and Gaudenzi (2013) explain that a strategic observation perspective can be used to gather evidence of whether and how the risk based on evolution scenarios and internal processes influence or inhibit the achievements of the strategic objectives.

2.3.2.2 Financial risks

Kim and Vonortas (2014) describe financial risks as the value the investor loses if the business fails. Fatemi and Luft (2002: 31) assert that “financial risk arises from adverse changes over relatively shorter time horizons in interest rates, commodity prices, equity prices, and foreign currency values”. According to Fatemi and Luft (2002), any negative changes in interest rates, commodity and equity prices, including the value of foreign currency translated into real losses in shareholder value. Similarly, Gitman (2009: 229) defines financial risk as “the chance that an organisation will be unable to cover its financial obligations.” Financial risk involves various risks that affect the financial performance and position, including the cash flow of an entity. It includes risks relating to gearing (debt), liquidity, credit, underwriting, risk associated with changes in market or commodity prices, exchange rate fluctuations and interest rate movement (Berk and DeMarzo, 2014: 986; Naidoo, 2009; Skae and Vigario, 2011; Blunden and Thirlwell, 2010: 11). Skae and Vigario (2011:09) argue that financial risk is never advantageous, as the financial benefit is often equal to the risk advantage. Financial risks can also consider various financial ratios, such as return on investments, cash ratio and liquidity ratios, profitability and whether there is any return on equity.

According to Pretorius (2008: 414), finance is often cited as the cause of failure, however, it is not the cause of failure, but the predictor of potential failure. Hence, financial risk often results from other failures arising from the business, such as a lack of innovation, poor product design, poor customer service and training of staff, poor market research, inadequate credit management and/or a lack of strategic leadership. Hence, the level of added value that is created by the enterprise,

including its structure, profitability, solvency and liquidity influence its financial health (Cultrera and Brédart, 2016).

Regardless of finance being the predictor, there is no doubt that finance is critical for the sustainability of any enterprise. Kaplan (2010) emphasises that financial performance is essential to the success of an organisation. Similarly, Louw and Venter (2013) cite that financial perspective is an important objective for every organisation. Therefore, an organisation's attitude towards how financial risks are managed, is vital. Decisions that have significant financial implications to an entity must be taken responsibly. If not, they can lead to the demise of a business or early exit of a small business. In the current world turmoil, businesses have restructured, closed shop and moved due to financial losses or the inability to cope with the political and economic risks, which often translate into changes in commodity prices, weak currency and high interest rates. Many young and small firms face difficulties in raising investments funds ascribed to the high level of perceived risk (Kim and Vonortas, 2014). Therefore, managing financial risk is critical for persuading investors. According to Borghesi and Gaudenzi (2013), an organisation uses financial observation to observe the consequences that a risk system can have on the short- and long-term liquidity of the business.

2.3.2.3 Operational risks

Kim and Vonortas (2014) describe operational risk as a risk referring to the "internal organization and management of own operations team for development, production, supply and distribution." Blunden and Thirlwell (2010: 11-12) assert that operational risk is about the failure of controls or lack of controls and it overlaps with other various risks. Naidoo (2009) emphasises that it is exposure that results from internal processes that are inadequate, external events and systems. Therefore, operational risk refers to failure of processes, systems and people. Blunden and Thirlwell (2010: 08) elucidate that the Basil "Committee on Banking defined operational risk as the risk of loss resulting from inadequate or failed internal processes, people and

systems or from external events.” The vast majority of “failures are caused by something that could have been avoided” (Slack, *et al.*, 2013: 613).

Operational risk can include inadequate training and supervision, loss or a lack of personnel, failure to pay or settle obligations, documentation which is not fit for the purpose, errors in valuation/pricing models or even processes, inadequate resources, external crime, competition, utilities and infrastructure failures, political risk, natural and other disasters, including failures of systems or failure during the system development and implementation phase (Blunden and Thirlwell, 2010). It is critical to understand the chain of causality or the root causes in operational risk (Blunden and Thirlwell, 2010). Moreover, operational risk overlaps, for example, not having a sufficient audit trail or appropriate documentation also poses an information risk and may undermine the reliability and integrity of the financial information useful for preparing the annual financial statements. Ultimately, it may have an impact on the potential investor when deciding to fund the business or it may impact on the credit history of the business. However, operational risk is not transaction based (Blunden and Thirlwell, 2010). According to Borghesi and Gaudenzi (2013), in this perspective the entity observes how the system of risk may inhibit the pursuit of efficiency and effectiveness in processes.

2.3.3 Achievement of an optimal balance between risk and reward

According to Tchiehe and Gauthier (2017), it is critical to determine the extent to which the generated benefits offset the potential negative consequences of the risk. Therefore, a balance between risk and reward is necessary if an organisation intends to survive economic, social and political instabilities. The IIA (2013) argues that risk relates to preventing a bad thing from happening or the inability to pursue good things. Whereas, Hagigi and Sivakumar (2009: 286) emphasise that “there are two sides to risk: the potential for loss (downside) and the opportunity for higher profit and growth (upside).” Therefore, not more or less of a risk should be taken in the stride to gain a sustainable competitive advantage. Moreover, opportunities should

be identified and captured. According to Robinson, *et al.* (2003), the entrepreneurs live in competition threats and business failure risk. Therefore, the exposure to failure is high. However, in a knowledge-based economy, a strategic entrepreneur must be knowledgeable of the risks that are acceptable and the benefits to be derived from taking those risks. Not all the risks taken may inhibit satisfactory results, but some risks may lead to value creation and/or identification of a market which was never explored. On the contrary, some risks may lead to the demise of the business or exposure which may slow down the growth lifecycle of a business. Therefore, businesses need to strive to achieve an optimal balance between risk and rewards. However, Naidoo (2009) argues that a balance between taking the risk and defining the limits is a great challenge for many organisations.

According to Fatoki (2014), over-optimism of new small business founders often fuel overestimation of return and underestimation of the risks involved. Therefore, some businesses are even discouraged before adequately weighing the risk and benefits that will be derived. Others do not take the risk at all, therefore, they never grow, while others underestimate the business risks giving rise to financial risks. According to Naidoo (2009), when pursuing a certain market niche or to win an industry, an acceptable level of risk must be taken. However, as a risk taker, one must win more than one loses. Therefore, the risk interactions can improve or cause significant damage to small businesses. According to Naidoo (2009), it is vital to assess interfaces to determine whether they create value or have the potential to impair value. This may suggest that the small businesses need to adequately assess the exposures to risk as a means of achieving a risk-and-reward optimal balance.

2.3.4 Risk and opportunity governance

In terms of section 94(7)(i) of the Company's Act, 2008 (Act No. 71 of 2008), the audit committee has a function over the development and implementation of a policy and plan for a systematic and disciplined approach to evaluate and improve the

effectiveness of risk management in a company (Government Gazette of the Republic of South Africa, 2008). Hence, section 94(7)(i) of the Company's Act, 2008, does, to some extent, recognise that an oversight over risk management processes is necessary for the sustainability of a company, further forming a notion that risk governance is integral for growth and the protection of stakeholder value in large organisations. For this reason, risk management forms a culture of most of the larger organisations. According to Cheese (2016), risk governance and oversight is an essential role. Albeit, SMMEs are not a version of larger enterprises (Smit and Watkins, 2012). However, most SMMEs in South Africa share competitive space with larger counterparts that continually receive expert advice on risk and risk management. Therefore, in order to position for a market space, the small and micro retail enterprises need to govern risk and opportunity. However, it is noted that the SMMEs lack the resources to invest in risk management systems compared to large organisations. However, according to Naidoo (2009), risk governance is not limited to large organisations. As a result, authors such as Yiannaki (2012) propose the use of a tailored model of Balance Scorecard for handling risk and crisis management in the SMEs. While the ISO introduced risk management - practical guide for SMEs. Moreover, Falkner and Hiebl (2015) argue that SMEs are also affected by risks, because enterprises exist to create returns, provide services and products to consumers (Cheese, 2016). This suggests that every business setting has an objective, whether or not the enterprise is small or formalised. However, there is an objective to create some kind of value to a certain market segment. Therefore, where there is an objective, there is always a risk of not achieving the desired objective or an opportunity to be captured, hence an oversight is necessary.

Tchiehe and Gauthier (2017: 139) argue that tolerable risk is a "risk that is worth taking based on the expected benefits, but that remains under surveillance, and for which attenuation means continue to be sought." This suggests that the small and micro retail enterprises should determine the risk that they can tolerate and set the risk appetite when governing risk and opportunity. Whether risks can be tolerated

depends on the benefits that could be derived (Tchiehe and Gauthier, 2017). According to Moeller (2011: 32), small “enterprises should also designate people to be responsible for managing their enterprise-wide risk assessment process.” Moreover, Clune and Hermanson (2005) argue that the absence of corporate governance to manage the ever-changing portfolio of risk facing an enterprise, puts the shareholder value at risk. Therefore, effective corporate governance ensures that imminent risks are well managed for businesses of all sizes.

2.4 The concept of risk management

2.4.1 Definition of risk management

According to Kuselman, *et al.* (2017: 189), risk management is often defined “as a product of probability of an event and its severity.” Van Wyk, *et al.* (2004: 01) argue that it “involves tracking market and non-market long-range risks, understanding their adverse impact on the business environment and managerial responses to reduce risk exposure.” This “implies that something can be done to reduce the risks, if not eliminate, the likelihood and impact of danger and uncertainty” (Blunden and Thirlwell, 2010: 05). Equally, Mutezo (2013) asserts that the aim of risk management is to identify risk and provide an assessment and treatments to handle the risk. According to Verbano and Venturini (2013), the intention of the process of risk management is to safeguard the assets of the company against losses. Therefore, risk management plays a pivotal role in protecting the company’s assets, which are used in day-to-day operations to create value for the stakeholders. Ultimately, it plays a role in protecting the company against failure. Even though it does not eliminate failure, when adequately implemented, it can reduce the consequences.

Hence, measures must be implemented to identify, assess and treat the exposures to risk. The monitoring of risk should take place afterwards. This implies that obstacles and factors that could cause failure must be identified by the small and micro retail enterprises, either be stopped or consequences (impact) reduced to

ensure that they recover. The small and micro retail enterprises should identify all possible risks to the enterprise. They must, therefore, look at their enterprises holistically. However, it starts with the identification and evaluation of the way the company manages the risk (Naidoo, 2009). It is about ensuring that the organisation is able to achieve its intended objectives, by identifying what could stop it from attaining the desired results, assessing the possibilities and implementing a mechanism to appropriately address or minimise the potential impact. It must, therefore, be tailored to suit the complexity, size and type of an entity. If adequately managed, “risk management could enhance the ability to successfully manage all stages of the innovative projects” (Verbano and Venturini, 2013: 187).

2.4.2 Limitations of risk management

According to Tchiehe and Gauthier (2017), risk limitations are often not understood, however, when using risk management methods, you can define them. Although the emphasis of the study is not to investigate the limitations of risk management, it is appropriate to acknowledge that there are limitations noted in the literature of risk management. Firstly, Moeller (2011) argues that risk management provides reasonable assurance. Similarly, Blunden and Thirlwell (2010) assert that not all the risks may be identified during the risk identification and assessment and that it is about establishing a level of tolerance. Therefore, risk management cannot provide definite assurance that all the risks will be identified, assessed and dealt with.

Secondly, Phippen and Ashby (2013) argue that people make decisions on behalf of an entity on risk, control and governance. Therefore, people take decisions on behalf of risk management, not risk management. This further implies that awareness of how, when, why and based on what is critical in risk management. Thirdly, a lack of understanding of risk and risk management by managers complicates risk management. According to Hagigi and Sivakumar (2009: 286), risk is “poorly understood by managers”. Without understanding, the implementation of

the risk management strategy can become frustrating for managers, especially those who are used to an old or free style of management. As a result, risk management is often reactive in most organisations or it is implemented as a reactive tool. According to Chodokufa (2016), risk management is reactionary in SMEs.

Fourthly, risk management can limit the risk exposure to an entity, currency, maturity and so on in other types of risk other than some of the operational risks where events just happen. Therefore, risk management is unable to prevent the occurrence of certain risky events, such as natural disasters, such as floods and hurricanes. No commonly accepted definition exists for risk management (Moeller, 2011, quoting John Flaherty).

2.4.3 Arguments for risk management

According to Verbano and Venturini (2013: 188), the “adoption of a risk management methodology can lead firms to reduce the uncertainty in enterprise management, to ensure continuity in production and trading in the market, to decrease the risk of failure, and to promote the enterprise’s external and internal image,” while Naidoo (2009) and Fatemi and Luft (2002) argue that risk is necessary for enterprises to create profit and grow the shareholder value. Pretorius and Le Roux (2012: 126) argue that businesses that can “identify the opportunities and risks stand to perform best among competitors dealing with the market change.” In a study of the wholesale and retail sector, according to Sewell, *et al.* (2016), risk management is one of the national research priorities for wholesale and retailers in South Africa. This suggests that risk management is viewed as critical for the success of retail enterprises.

Practically, the recent downgrade of South Africa to junk status is a good example, since it may impact large and small enterprises with the possibility of an increase in interest rates, which might affect the cost of debt. Therefore, political, economic and social decisions taken regularly can directly or indirectly create volatility of the currency and the market, continually influencing the interest rates, commodity prices,

production and other factors, ultimately impacting on investor confidence. In essence, at an industry level, the decisions can give rise to the possibilities of strategic, financial and operational risks for large and SMMEs, thereby increasing the risk of liquidity or the inability of the enterprises to meet their debts. What is interesting is that in the long run, the junk status or unstable economy may affect the cost of production, the cost of finance and credit, resulting in many enterprises shedding jobs, closing shops and/or downsizing to adapt to the changing context. Gernon and Mabuza (2017) further argue that if the rand decreases in value, the price of imported goods may rise and investors may be less inclined to invest in South Africa or industries in South Africa. As evidenced already, banks are cautious in lending money to SMEs (Verbano and Venturini, 2013). In future, large enterprises and SMMEs may face a scarcity of potential investors. Managing risk is, therefore, critical for protecting shareholder value.

According to the IRMSA 2016/17 Report, corruption risk is ranked the highest in South Africa. It also undermines the rule of law and impedes government's efforts (South Africa. DPME, 2017). It, therefore, has widely spread into various business sectors and industries, thereby impacting the competitive space. Consequently, when the risk of corruption is high, it can give rise to other risks associated with compliance, morale or ethics over time. When poorly managed, some of the risks may result in contravention with legislature or even expose the company to contingent liabilities or civil claims. Moreover, because laws are not stagnant, non-compliance with a specific law or operating within a law in an unethical manner, can result in the business being destroyed as the laws reflect social norms (Gallagher, 2005). Therefore, non-compliance can also pose ethical or moral risk to some extent. Hence, in managing compliance risk, an organisation recognises government and the general public as stakeholders in their processes.

At a product and service level, the revised ISO 9001:2015, which is a standard for the management of quality, also emphasises that quality results from the

management of various risks, with risk management going beyond the scope of product and services delivered, but towards continuous improvements (Ramphal, 2015: 12). Similarly, Chiarini (2017) emphasises the requirement of “risk based thinking” in ISO 9001:2015, further confirming that it is more explicit and formal in the 2015 version of ISO 9001. This suggests that risk management has become central in managing the quality of products and services for businesses of all sizes. Therefore, with customers being aware of the quality expected on the products and services available in the market, it is vital to manage the risks associated with quality to avoid unnecessary claims, which may result in reputational risk and/or a decline in profitability, thereby giving rise to financial risks.

These arguments suggest that effective risk management indicates good governance and effective leadership, with sustainability being one of the most important sources of opportunities and risks for business (Ramlall, 2012). The adoption of effective risk management approaches become pivotal. If it is ineffective, it “puts otherwise strong business models in jeopardy” (Drew, *et al.*, 2006: 127). According to Fatemi and Luft (2002), risk management is now critical in all industries and its strategies can enhance shareholder value by lowering the cost of capital or reducing the cost associated with exposure on the organisation’s net cash flow stream.

2.4.4 Enterprise Risk Management (ERM)

Global evolution has resulted in a shift on how risk management is viewed at global, national and industry level. According to Gordon, Loeb and Tseng (2009: 301), a holistic approach towards managing organisational risk referred to as ERM, has emerged. According to the IRM (2017), the ERM provides a detailed framework for risk management in any organisation. It is an integrated approach for managing risk across an organisation. The IIA (2013: 102) defines ERM as “a structured, consistent, and continuous process across the whole organi(s)ation for identifying,

assessing, deciding on responses to, and reporting on opportunities and threats that affect the achievements of its objectives.” The definitions indicate that a structured approach to risk management is relevant to achieving the desired results in enterprises.

There are various types of ERM models globally (IIA, 2013). The Committee of Sponsoring Organizations of the Treadway Commission (COSO) ERM framework, which, according to Siwangaza, *et al.* (2014), was initiated by COSO to ensure that management was able to effectively identify and assess risks in order to manage them down to an acceptable level. Borghesi and Gaudenzi (2013) emphasise that ISO 31000:2009 provides a structured approach to risk management. Therefore, the COSO ERM and ISO 31000:2009 put emphasis on a structured approach to risk management. Different enterprises may prefer different models based on their perception of risk and the maturity of the enterprise.

2.4.4.1 COSO ERM Framework

COSO defines “enterprise risk management as a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be in its risk appetite, to provide reasonable assurance regarding the achievements of the entity’s objectives” (IIA, 2013: 99).

COSO’s risk management objectives are strategic, operational, reporting and compliance, and the components of COSO include the internal environment, for example, tone at the top, attitude toward risk and control; objective setting, for example, strategic objectives, vision and mission; event identification, for example, positive or negative events or occurrences; risk assessment, for example, impact and likelihood of potential risks to strategic objectives/goal; risk response; control activities; information and communication and monitoring (Moeller, 2011).

2.4.4.2 ISO 31000:2009 Risk Management

According to the IIA (2013), ISO 31000:2009 is an international standard framework that is simple and concise. It can be used successfully by any size or type of entity, hence, the entity can adapt the framework to the appropriate scope and business context. Furthermore, Borghesi and Gaudenzi (2013) elaborate that ISO 31000:2009 sets principles, framework and risk management processes. According to the AS/NZS, ISO 31000:2009, there are 11 principles of risk management, namely, “risk management should create and protect value, be an integral part of all processes, be part of your decision making, be used to deal with uncertainty, be structured systematic and timely, be based on the best information, be tailored to your environment, deal with human and cultural factors, be transparent, inclusive and relevant, be dynamic, responsive and iterative and facilitate continual improvement.” (Finance, 2010).

Borghesi and Gaudenzi (2013) argue that the principles now serve as international standards for the implementation and definition of risk management principles. Top or senior managers are critical in the process as it starts at a high level. Borghesi and Gaudenzi (2013) argue that the framework does not prescribe the management system that should be adopted, however, it emphasises the adaptation and customisation by the organisation when implementing the risk management framework. It, therefore, allows the enterprises to be flexible when implementing the risk management processes. According to Borghesi and Gaudenzi (2013), the ISO cycle are to communicate and consult the stakeholders; to establish the unique risk management context; to carry out the risk assessment process consisting of identification, analysis and evaluation; to formulate and implement the risk treatment plan; and to monitor and review the risk management processes.

2.5 Risk management processes and approach

2.5.1 Identification of business objectives

According to Moeller (2011: 51), it is important to understand that every organisation, irrespective of setup of the business, “whether for-profit commercial, not-for-profit, or a governmental agency, exists to provide value for its stakeholders; these include the employees and stockholders for a commercial enterprise or voters for a governmental entity.” Similarly, McNutt and Batho (2005: 658) assert that “each competing firm in a market has its specific value set.” Creating value, therefore, makes risk management an essential business activity for enterprises of all sizes (ISO, 2015). This confirms that every business exists to create value for stakeholders and consumers, including small and micro retail enterprises in the CoT. Setting strategic goals and objectives is a crucial process for risk management. The small and micro retail enterprises in the CoT must set clear business objectives, which specifically outline their intended goals in the market space and the time period that the enterprises expect to achieve the desired goals. Verbano and Venturini (2013) accentuate that the first step is to define the risk management plan and ensure that it is aligned to strategic business objectives.

The ISO (2015) argues that in a less formal environment, such as small enterprises, the objectives are found in documentation from senior management to the staff and they are formulated in many forms. Moreover, the ISO (2015) asserts that in established organisations, objectives are found in strategic plans. They can take many forms, such as sales targets, timely completion of a project or delivery of a product, or performing better than the competitor on a specific product or service. Rebelo, *et al.* (2017) argues that the organisations must identify the activities that are critical to the achievements of the business objectives. Once those objectives are set, Power (2009: 849) asserts that an organisation “should seek to identify all material risks to their objectives and sub-objectives.” Similarly, Rebelo, *et al.* (2017) further explain that an organisation should be aware of how disruptions of these

critical activities will adversely impact their objectives. Hence, after the development of business objectives, it is vital that all material risks or disruptions, which will have a negative impact on the set objectives, are identified and assessed.

2.5.2 Risk management processes

Risk management is an essential business activity for enterprises of all sizes (ISO, 2015). Falkner and Hiebl (2015) emphasise that risk identification, analysis, selection of techniques, implementation of the strategy and control are critical risk management processes for SMEs. According to Uher and Toakley (1999:161), the steps recognised in risk management entail risk identification, risk analysis and risk response. According to Borghesi and Gaudenzi (2013), ISO 31000:2009 includes the establishment of unique risk management context, identifies the risk, analyses the risk, evaluates the risk, treats the risk, monitors and reviews, communicates and consults. Verbano and Venturini (2013) argue that “risk management has the task of identifying risks, measuring the probability and the possible impact of events, and treating risks, eliminating or reducing their effect with the minimum investment of resources.” It, therefore, involves processes, such as risk identification, assessment and risk treatment or mechanism to address the risks. In respect of risk management methodologies, they should include identification, analysing, evaluation and treatment of risk (ISO, 2015). Moeller (2011) argues that it involves risk identification, qualitative or quantitative assessments of documented risks, prioritisation and response planning, and risk monitoring.

Alessandri, *et al.* (2004) argue that without completing the risk identification and treatment, suboptimal decisions are likely to be made, which will lead to the organisation being less competitive. Hence, if the risk management process is inadequate or ineffective, it often leads to various critical risks not being identified, evaluated and correctly classified in a timely manner to ensure that appropriate risk responses are developed. Therefore, the obstacles, factors or conditions that often lead to failure of the small and micro retail enterprises in the CoT must be identified,

analysed, evaluated and treated to minimise the exposure and/or to select the most appropriate response to the identified risk. An effective risk management process ensures that owner-managers of small and micro retail enterprises in the CoT confidently decide on which risks should be terminated, accepted, reduced and/or transferred. Moreover, some of the opportunities may be identified when the owner-managers adequately conduct the assessment. As emphasised by Blunden and Thirlwell (2010: 07), risk and risk management can be about opportunities as much as threats. However, to make the risk management process effective, every enterprise should clearly define risk and it should be understood by everyone involved in the organisational risk assessment (IIA, 2013). Correspondingly, Naidoo (2009) argues that every organisation should define what makes up risk. The following processes elaborate on the risk management processes relevant for the study:

2.5.2.1 Risk identification

According to Hagigi and Sivakumar (2009), it is important for the organisations to define and understand the risks they are faced with. Therefore, risk identification refers to the process of identifying risks that will impact on the entity's objectives and/or goals set by the organisations, including the small and micro retail enterprises in the CoT. Falkner and Hiebl (2015) argue that risk identification is a necessary prerequisite for risk management and they further advise that the SMEs should identify all potential risks but focus on important risks and training of the employees on those risks. According to the IIA (2013), risk identification involves the various methods of recognising possible threats and opportunities. Verbano and Venturini (2013) argue that risk identification aims to identify the risks that an enterprise is exposed to. Therefore, risk identification refers to a process of identifying risks that can affect an organisation or inhibit an enterprise from achieving its objectives, and it is a prerequisite for the risk management process. When risk identification is adequately conducted, the small and micro retail enterprises in the CoT are able to

identify obstacles, factors, signals and conditions that may have an adverse impact or, if possible, opportunities that are available in the competitive space.

Some of the risks are purely random. They are, therefore, difficult to predict (Slack, *et al.*, 2013). However, the gist is to be able to constantly read and act on signs that can cause environmental, political, societal and economical changes. In essence, risk identification is to characterise the nature of the various obstacles, factors and signals from the internal and external sources that affect the enterprises. Pretorius and Le Roux (2012) assert that the identification of risks and opportunities includes industry analysis and the macro environment. In order to identify the risks, Moeller (2011) argues that high-level risk areas of the enterprise can be outlined in a list. According to Moeller (2011), “this is a type of a list that a chief executive officer can jot down a response to the question of *what worries you at the end of the day?*” Therefore, the owner-managers of the small and micro retail enterprises in the CoT must list all the risk areas and ask themselves what worries them the most in their enterprises. Moeller (2011) argues that a team can be assembled to better identify all the related risks in brainstorming. Hence, to achieve a quick identification and shortening of various risks that are listed, the small and micro retail enterprises in the CoT can also brainstorm.

In brainstorming, the characteristics of the identified risks are studied to gather sufficient knowledge and understanding of the risks as a means to classify them into various major risks, which can include strategic, financial and operational risks. Moreover, surveys, questionnaires, interviews/focus groups can be used to identify the risks. Borghesi and Gaudenzi (2013: 44) refer to them as “methods based on intra- and inter-company data exchange.” An organisation can use organisational charts, flow charts and checklists. According to Borghesi and Gaudenzi (2013), organisational charts are useful for understanding the interactions and interrelations of functions, a degree of decision making autonomy and centralisations and decentralisation of risk management. In contrast, flow charts provide critical

indications of junctures in the process to be analysed in-depth (Borghesi and Gaudenzi, 2013). Checklists can include any areas that are considered to be susceptible to risks, such as resources, which can include property, plant and equipment, cash, bank and even human capital. Borghesi and Gaudenzi (2013) further argue that it can include consequential categories, such as potential unfavourable situations, such as damages or business losses, revenue losses, liability losses and business interruptions. Other enterprises use strength, weaknesses, opportunities and threat (SWOT) analyses, vulnerability analyses, a matrix of interdependencies and event chain diagrams, and decision trees (Borghesi and Gaudenzi, 2013). It is fruitful for the enterprises in the CoT to understand the risk impacting their environment and augment the risk management framework to suit the size and complexity of their enterprises. According to Naidoo (2009), in order to improve the chance of survival, every company, regardless of size or corporate structure, must at some level anticipate risks that it may face.

2.5.2.2 Risk assessments

According to Falkner and Hiebl (2015), when risk analyses are conducted for SMEs, the risks should be ranked according to its importance to the company. The risk assessment process is a critical process for assessing, analysing and ranking risk according to their likelihood and potential effect on the organisation (Naidoo, 2009: 232). According to Verbano and Venturini (2014: 188), risk assessment and analysis is the second stage, which “aims to determine the probability and the expected magnitude associated with the occurrence of the damage”. Borghesi and Gaudenzi (2013) argue that the risk assessment process is paramount in the risk management process. The IIA (2013: 103-104) defines “risk assessments (analysis) as the identification and measurement of risk and the process of prioritizing risk”. The intention of risk assessment is to understand the potential sources or causes of risk. This includes the positive and negative implications of identified risks. According to the IIA (2013), when risk assessments are conducted, the likelihood and impact are

used for measurements. In the risk analysis, the small and micro retail enterprises in the CoT should, therefore, consider the likelihood and impact of the risks. The IIA (2013) emphasises that a risk map for likelihood and impact can be used to indicate the relationship between impact and likelihood. Other entities use different terms, such as severity, probability and consequences (IIA, 2013). The likelihood is the possibility of risk occurring and the impact is the effect of the risk (IIA, 2013). According to Borghesi and Gaudenzi (2013), qualitative and quantitative methods can be used in risk assessment. McGaughley, Jr. *et al* (1994) argue that in the qualitative approach, risks are explained using descriptive variables, while the quantitative approach attempts to translate the risks to numbers.

The qualitative approach is used when the level of risk is low and the quantitative approach is useful when the events can be quantified (Borghesi and Gaudenzi, 2013). Moeller (2011) accentuates that the idea of risk assessment is to help management better decide which of a series of potentially risky events are most worrying to them. Therefore, the small and micro retail enterprises in the CoT should use either qualitative or quantitative assessments to decide which of the factors or causes of failure worry them the most.

According to Moeller (2011), a questionnaire should be independently circulated to knowledgeable people. Hence, a questionnaire which list risks identified by the small and micro enterprises in the CoT can be circulated back to employees to rate or score the risks. In order to estimate the occurrences and likelihoods, the estimate should be made in the same period of time, normally fiscal year (one year) (Moeller, 2011). Therefore, the small and micro retail enterprises in the CoT should consider at least a fiscal year as a reasonable time period to estimate the occurrence and likelihood. Moreover, risk interdependencies should be considered (Moeller, 2011). Risk should, therefore, also be considered holistically by including other existing units or branches. In instances whereby historical data is lacking or insufficient, such as in SMEs who suffer from information asymmetries, Borghesi and Gaudenzi (2013)

argue that applicable external sources of information should be obtained. This can include published or unpublished public data, and in some instances the external sources of data may be confidential data that is available from independent consultants or insurance brokers. However, the internal and external data sets must be weighted (Borghesi and Gaudenzi, 2013). Once done with risk assessments, Verbano and Venturini (2013) assert that in order to move to the next stage, an acceptable threshold must be defined. It should be premised on the risk appetite of top management and the availability of resources for risk management. Therefore, the small and micro retail enterprises can decide on which risk they want to accept or respond to based on the set risk appetite and tolerance level.

2.5.2.3 Risk treatment or response

The IIA (2013) refers to risk response as the action taken to manage risk. Risk treatment refers to various risk management approaches that are available, taking into consideration the availability of the resources and other constraints, to respond to the identified and assessed risks. Verbano and Venturini (2013: 188) argue that this “stage is the treatment of unacceptable risks, which identifies the most appropriate actions to reduce the risk; and finally the process is supervised”. Mills, *et al.* (2016) emphasise that access to and the availability of internal controls that are effective and efficient, is one of the attempts to reduce risk. Therefore, this stage includes the implementation of various internal controls to reduce the risk, or termination to avoid the risk or the transfer of the risk to a third party, or accepting the risk based on the assessments. However, the nature of the action taken to mitigate the failure is dependent on the nature of the risk (Slack, *et al.*, 2013). Similarly, Power (2009: 849) cites that risk response involves the design of “controls and mitigation to produce a residual risk consistent with a target risk appetite.” Therefore, risk strategies should be dynamic and sensitive to the changing nature of the risks faced by the organisation (Naidoo, 2009: 232). According to Falkner and Hiebl (2015), the selection of technique (treatment) involves tools and methods, such

as insurance, weather derivatives, selection of suppliers by entering into contracts, overcapacity in production to prevent delivery problems and interruptions, emergency plans, networking and cooperative relations with suppliers to manage risky situations, asset securitisation which allows the issuer to transfer types of risks, and strategy implementation which involves implementing the chosen method and controls. Moreover, Woods (2009) argues that there is an interdependency between corporate governance, risk management and internal control. The small and micro enterprises in the CoT should, therefore, develop responses to risks in accordance with their available resources, also taking into account the inter-dependencies of risk, governance and internal controls. According to Marcelino-Sadaba, *et al.* (2014), many SMMEs have been characterised as lacking adequate resources to direct to risk management. Moreover, Siwangaza, *et al.* (2014) assert that the SMMEs have a challenge of internal controls. Therefore, risk treatment is the most critical process for small and micro retail enterprises due to their size and the availability of resources. The decision taken should be able to sustain the enterprises over time. The following approaches can be used.

2.5.3 Approach to risk management

According to Naidoo (2009: 228), there are four basic approaches to risk management, which are to terminate, accept, reduce or transfer the risk. Power (2009) asserts that the process of risk management and that of mitigation should be connected to organisational and suborganisational objectives. Therefore, when the approaches are effectively applied, identified and assessed strategic, financial and operational risks can be treated or responded to appropriately. The objectives and subobjectives may, therefore, be achieved and sustainability ensured. McGaughey, Jr. *et al.* (1994) highlight four methods for handling risk, which are reduction, protection, transfer and financing. Naidoo (2009) further explains the approaches as terminate, accept, reduce and transfer, which are critical for risk treatment or response (refer to Section 1.7.2.9 of Chapter 1 for an explanation).

2.6 Small and micro retail enterprises

2.6.1 SMMEs: National and global context

2.6.1.1 Global landscape: SMMEs

According to Louw and Venter (2013: 161), “the global environment is pervasive and provides a contextual frame of reference for the economies of individual countries.” Thompson, Peteraf, Gamble and Strickland (2014) argue that the environmental forces have the potential to affect the firm’s more immediate industry. Hill (2014) accentuates that the environmental forces can dramatically alter the competitive playing field confronting many businesses. The shift towards a more integrated and interdependent world economy (Hill, 2014), therefore, continues to change the business landscape. As a result, many large and small enterprises are faced with the challenge of rapidly changing information technology, politico-legal landscapes, green growth economic, credit rating and financial instability. This also includes the need for innovative ideas and concepts. The shift has resulted in many small enterprises sharing competitive space, resulting in risks being transversal from large enterprises to smallest enterprises. Cheese (2016) argue that there is a need for resilient enterprises that can also adapt and act with agility in the riskier world. Therefore, to achieve sustainability, the SMMEs must be managed in an efficient and effective manner. According to the Mutalemwa (2015: 167), competition is now “driven by flexibility, reliability, quality, technological competence and networking.” Hence, the traditional way of competing on low cost and prices are being replaced (Mutalemwa, 2015).

2.6.1.2 Global challenges: SMMEs

According to GEM (2016), discontinuance is the highest in the factor-driven economies by 8%, with efficiency-driven and innovation-driven being 5% and 3% respectively. GEM (2016) delineates possible reasons for discontinuance at a global level to a lack of profit or finance, complicated regulatory systems, the possible

inability to start viable ventures and/or a lack of ability or inclination to create long-term sustainability for their businesses. Moreover, GEM (2014) cites similar reasons, such as unexpected events, bad financial results and the possibilities of starting a business venture not well prepared, bad management of the venture or influences of market distortion. For the SMMEs to continuously contribute to economic growth, it is vital for risk management to be understood and embedded in the SMMEs' processes.

The DTI (South Africa. DTI, 2008), cites Rogerson (2007c: 29), emphasising "that with the increasing globalization of economies around the world, including South Africa, the need is growing for 'smart', 'adaptive' and innovative entrepreneurs and enterprises." Therefore, the world is pushing for resilient and flexible enterprises that can capture opportunities when presented and manage exposures to risk. As a result, the small and micro retail enterprises in the CoT are not absolved from the global challenges that the SMMEs face.

2.6.1.3 Definition of SMMEs: Global and national context

In Europe, according to the European Commission (2003: 39), the "SMEs are defined as the category of micro, small and medium-sized enterprises (SMEs) that is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million." The National Small Business Amendment Act, 2004 (Act No. 29 of 2004) defines SMMEs as "small enterprise which means a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy" (Government Gazette of South Africa, 2004: 04). According to the DTI (South Africa. DTI, 2008), small businesses can be categorised as micro, very small, small or medium enterprises (SMMEs). This also includes enterprises that have been formally registered and those not registered

(Government Gazette of South Africa, 2004). This includes self-employed persons classified as micro enterprises often referred to as survivalists. Moreover, the informal enterprises are regarded as important for shaping attitude, economic behaviour and entrepreneurship (Mutamlewa, 2015). Refer to **Table 1.1**, which was extracted from the Gauteng SMME Policy Framework 2010–2014 (Ecodev, 2010) and describes the SMMEs in Gauteng, South Africa.

Table 1.1: National Business Act: Description adapted from the Gauteng SMME Policy Framework 2010–2014. Source: Ecodev (2010)

Category of SMME	Description
Micro enterprises	Between one to five employees, usually the owner and family. Informal - no license, formal business premises, labour legislation Turnover below the VAT registration level of R300 000 per year. Basic business skills and training Potential to make the transition to a viable formal small business.
Very small enterprise	Part of the formal economy, use technology Less than 10 paid employees Include self-employed artisans (electricians, plumbers) and professionals.
Small enterprise	Less than 100 employees More established than very small enterprises, formal and registered, fixed business premises. Owner managed, but more complex management structure
Medium enterprise	Up to 200 employees Still mainly owner managed, but decentralised management structure with division of labour Operates from fixed premises with all formal requirements.

Table 1.1: The micro enterprises are usually informal and have the potential to advance to formal small businesses. They are often run by the owner and the family. In Europe, the micro enterprises are defined as enterprises that employ fewer than 10 persons and with an annual turnover that does

not exceed EUR 10 million. In contrast, the South African micro enterprises employ only five persons and are expected to generate less than R0,20 million. In between micro and small enterprises, there are very small enterprises, which are considered to be formal and usually employ 10 people or less. Then there are small enterprises that employ less than 100 employees, are more established and have more complex structures than very small enterprises. In contrast, the European Commission (2003) describes that the small enterprises employ 50 persons and has a turnover not exceeding EUR 10 million. The medium enterprises, which employ 200 persons, is excluded from the research. However, they are more established. (*Sources*, SA National Business Act, 2003: 2004), European Commission, 2003 and Gauteng SMMEs Policy Framework, 2010-2014)

According to the DTI (South Africa. DTI, 2008), in March 2007, micro enterprises, very small enterprises and small enterprises were considered to be the most economical in terms of their annual turnover at 36%, 46% and 11% respectively.

2.6.2 SMMEs in the CoT

The CoT poses challenges and benefits for the enterprises operating in it. However, for many smaller enterprises, the challenges overshadow the benefits. In the study by Cant and Wiid (2013), it was established that 93,2% of the respondents agreed that crime affected the SMEs in CoT. Moreover, according to Cant and Wiid (2013), 77,4%, of the respondents in the CoT agreed that inflation influenced the businesses and 75,8% cited interest rates as an influencer of the SMEs. This further indicates that crime, inflation and interest rates impact on the small businesses in the CoT. According to van Scheers (2014), finance is regarded as a restriction of growth for businesses in the CoT. However, Worku (2016) emphasises that some businesses fail because of the inability to use the finances in accordance with the business plan. Hence, those that have reasonable funds are also not able to manage the funds in line with their plans, increasing the risk of failure or bankruptcy.

Van Scheers (2014) reported that 80% of SMEs in the CoT agreed that market knowledge was a constraint. Therefore, the knowledge of the market for which the products or services are intended, is often not known or not clearly researched by

the SMMEs. Cant and Wiid (2013) further found that the majority of the SMEs in the CoT agreed that government legislature played a pivotal role. While Worku (2016) reported that 74% of the enterprises that had failed, had a perception of overregulation and too much bureaucracy. Hence, the SMMEs in the CoT perceived over-regulation as a barrier to success or sustainability. In addition, Van Scheers, *et al* (2015) reported that a problem relating to the security of information was experienced by at least 92% of the respondents in her study, with 76% indicating a lack of resources in the CoT. Hence, the risk relating to the security of information and inadequate resources to run operations is imminent for the SMMEs in the CoT. (refer to Section 1.8.3 of Chapter 1 for further details)

2.6.3 Small and micro enterprises in retail sector: complex and competitive environment

2.6.3.1 Description of a retail enterprise

Grewal and Levy (2010: 488) accentuate that “retailing is defined as the set of business activities that add value to the products and services sold to consumers for their personal or family use.” According to the Statistics South Africa Retail Trade Sales Report (2015), the type of retailers in South Africa include general dealers, food, beverages and tobacco in special stores, pharmaceutical and medical goods, cosmetics and toiletries, textiles, clothing, footwear and leather goods, and household furniture. Moreover, Grewal and Levy (2010:488) argue that retailing also included products that were sold from stores, either through catalogues, over the Internet and the services rendered by fast-food restaurants. Any very small and micro enterprise can be involved in any type of retail business.

2.6.3.2 South African retail sector landscape

GEM 2017 emphasises that “around half of the entrepreneurs in factor- and efficiency-driven economies operate in the wholesale/retail sector” (GEM, 2017: 10). GEM (2017) also asserts that South Africa has been classified as an efficiency-

driven economy. According to Sewell, *et al.* (2016: 61), “wholesale and retail is regarded as a significant sector of the South African economy and a major employer.” Sewell, *et al.* (2016) further accentuates that Gauteng is one of the provinces with the highest density of retail enterprises. Hence, there are more retail enterprises in Gauteng compared to the other provinces. Sewell, *et al.* (2016) cites Wholesale and Retail Sector Education Training Authority (W&RSETA) (2011), explaining that the retail sector comprises 87% of small businesses. According to Marivate (2014a), retail is one of the most dominant businesses in the township, with an estimate of 85% when compared to manufacturing and services. Hence, most of the SSMEs in South Africa sit at the end of the supply chain, thereby creating value for consumers. According to Jere, *et al.* (2015: 622), “to succeed, retailers increasingly rely on the provision of better value than their competitors.” Retailers, therefore, compete by creating better value for consumers than its competitors. Thus, innovation, efficient operations and strategic positioning are critical for the retail set-up businesses and for profitability.

2.6.3.3 Retail sector challenges: Global and national contexts

In a study that was conducted by the DTI (South Africa. DTI, 2008), retail trade was one of the industries with the highest liquidation of businesses. Therefore, viability “depends on the firms having a clear understanding of the challenges and opportunities presented by the retail environment” (Jere, *et al.*, 2015: 621). According to the DTI (South Africa. DTI, 2008), the highest shares of liquidations in the 2006/2007 financial year in South Africa, was the wholesale and retail trade with 31%. This indicates that many retail enterprises are failing. Moreover, GEM (2017) assert that the competition in this market will threaten the sustainability of the retail businesses. This is ascribed to the fact that the retail industry is becoming competitive. Pantano, *et al.* (2017: 88) argue that it is competitive due to complex rapid technological changes and diffusion. Moreover, Kim, *et al.* (2004) argue that online retail is offering the same product and service as offline. Therefore, rapidly

changing technology impacts on how retail enterprises render services to their customers.

Berry, *et al.* (2002) suggest that there is a possible concentration in South African retail segments of durable and semi-durables, such as clothing and furniture. Hence, there is a high risk of unacceptable competitive behaviour, which may continuously disposition the small retail enterprises. According to White (2009), Procter and Gamble (P&G) cites that, some major retailers are now requesting sustainable products. This suggests that larger retailers are considering going green to attract customers and attaining a competitive advantage. In contrast, many small businesses consider environmental management as costly (Viviers, 2009). Therefore, some small and micro retail enterprises are challenged with migrating to sustainable products due to costs involved, which further dispositions the smaller enterprises in the market space. Cambridge Technology Partners (2000) argues that retailers create value from different means of innovation. According to Subrahmanyam (2000), we are in an era of change in tastes and technologies, hence marketers must sell many new products, such as new styles of apparel, models of cars, cell phones, computers and toys in a very short period of time and where there is uncertainty of demand for the new products. Retail is, therefore, challenged by innovation, agility and adaptability. Moreover, there is a greater possibility of cost and first advantage enjoyed by industry incumbents, brand preference and a high degree of loyalty in the retail sector. The retailing environment is, therefore, very competitive (Jere, *et al.*, 2015).

Moreover, according to Sewell, *et al.* (2016), the move by South Africa towards mall-based retailing, has implications for the sustainability of small, medium and micro retail traders and their job creation potential. Hence, the challenges faced by small and micro retail enterprises are also exacerbated by large enterprises penetrating low-cost markets using low-cost strategies, with adequate resources and the ability to bargain from supply chain networks and economies of scales. According to Dlodla

(2014), the “township spaza shop competition is tough and the subject of foreign-owned spazas is a thorny one for many local spaza shop owners.” However, Dlodla (2014) mentions five reasons why foreign businesses are better run than their local counterparts, which include ownership dynamics (collective or cooperative ownership), stock procurement (use of supply chain networks and benefit from price discounts), capital investments, business operations (employ casual workers) and product diversification (careful positioning of a business, variety of products and innovation). The lack of skills and awareness of SMMEs, therefore, adversely impact their competitive space.

2.6.3.4 Categorisation of the retail sector in the National Small Business Act

The National Small Business Amendment Act, 2003 (Act No 26 of 2003) categorises the small and micro retail enterprises in terms of the sector or subsector in accordance with the standard industrial classification, size of class, the total full-time equivalent of paid employees, total turnover and total gross asset value (fixed property excluded) (Government Gazette of South Africa, 2003). The retail sector (excluding motor trade and repair services as per the Schedule to the National Small Business Amendment Act, 2003 (Act No 26 of 2003)) is categorised as follows in the Act:

TABLE 1.2: Small, medium and micro retail sector. Source: Small Business Amendment Act, 2003.

Sector or subsector in accordance with the standard industrial classification	Size of class	The total full-time equivalent of paid employees	Total turnover	Total gross asset value (fixed property excluded)
Retail	Medium	200	R39 m	R6 m
	Small	50	R19 m	R3 m
	Very Small	20	R4 m	R0,60 m
	Micro	5	R0,20 m	R0,10 m

2.6.4 Obstacles, factors, signals or conditions that contribute to failure in SMMEs

According to Pretorius (2008: 408), “failure is a phenomenon that ventures face during all the stages of the lifecycle.” Fatoki (2014: 924) argues that “failure occurs when a small business liquidate or in case of an informal or unincorporated enterprise, the owner becomes bankrupt for business reasons.” This suggests that failure is an outcome which is influenced or informed by various processes, causes and factors. Furthermore, Pretorius (2008) reiterates that failure can be caused by many factors, which can include human causes, internal and external causes, structural causes and financial causes. The SMMEs are faced with a high rate of failure. According to GEM (2016: 21), “the level of exits is very high in relation to the number of startup efforts.” Fatoki and Smit (2011) restate that the failure rate of new SMEs is very high. The DTI cites that there is evidence that performance is less satisfactory and further confirms that it has been indicated by the high rate of liquidations, including large numbers of registered, but inactive enterprises and shifting business focus in the first three years of enterprise existence (South Africa. DTI, 2008). According to Pretorius (2008), most businesses fail because of internal factors affected by managerial action or non-action by management and discipline. Some of the factors are manageable and require that regular feedback control be in place. Other enterprises fail because of external factors. Cant and Wiid (2013) argue that the SMEs fail regardless of receiving the necessary support from government and private institutions. In essence, this proves the need for effective risk management to identify, assess and treat exposure to risk. The following are the obstacles, factors, conditions and signals often reported as the causes of SMMEs failing.

2.6.4.1 Internal obstacles and factors of failure assigned to types of risks

- i. Symptoms of strategic risks: Inadequate market research, setting of strategic goals, lack of or poor business plans, innovation and location*

According to van Scheers, *et al* (2015), 87% of the SMES in the CoT experience limited market research. Moreover, Fatoki and Garwe (2010) list inadequate market research as one of the obstacles faced by small businesses. In addition, Brink, *et al.* (2003) argue that the inability to act as entrepreneur, to control growth and set strategic goals is also a cause of failure. Therefore, SMMEs have a challenge of conducting market research and setting strategic goals. What is challenging is that, according to Marivate (2014a), small businesses in the CoT are characterised by a lack of or poor business plans. Hence, many small enterprises are unable to draw business plans (Marivate, 2014a; Fatoki and Garwe, 2010). This makes it difficult to determine the direction that the business intends to take. Moreover, Marivate (2014a) accentuates that 63% of the small businesses in the CoT fail to acquire loans with business plans. This further indicates that they are unable to attract investors. Despite the inability to draw up business plans, according to Seeletse (2012), some company managers cannot even explain their businesses, what they do or what they offer to the market segment. Hence, they do not know where they are headed and what they offer to their potential customers. Seeletse (2012: 10996) accentuates that “if managers do not know where the company is going, the company will not get there.” The SMMEs, therefore, do not draw up and/or draw up poor business plans and market research, which often informs the business plans, is also inadequate. Ultimately, they enter the business environment, which is driven by real consumer demands, without determining whether or not there is a demand for their product or service offerings. Therefore, they do not strategically position the enterprise in the competitive space and do not set strategic directions. Cant and Wiid (2013) also mention wrong pricing strategies and the inability to meet the customers’ needs as some of the marketing factors that impact the SMEs.

According to Neneh and Smit (2013), innovation is an impediment to growth and survival of the SMEs in South Africa. Similarly, Marivate (2014a) asserts that 96,82% of the SMMEs in the CoT that were interviewed during the five-year longitudinal study that was undertaken, never introduced new products, efficient operating

systems and processes that will enable the business to grow in the long term. According to Dlodla (2014), one of the reasons why foreign-owned enterprises are better run than their local counterparts is product diversification, which is evident in the careful positioning of a business and innovation. Mahadea and Pillay (2008) argue that many entrepreneurs lack the tenacity or self-confidence to push innovative ideas. Therefore, many SMMEs are not innovative. With innovation rated as the third industry risk by IRMSA (2017), many small businesses who are unable to innovate, may face the challenge of attaining competitive advantage. In addition, Fatoki and Garwe (2010) argue that the location of a business has an impact on the market potential and growth opportunity of the small firm. Hence, the location is also identified as a cause of failure. Moreover, there is a possibility that the cost of the location in the CoT gives rise to financial risks and adversely impacts on the positioning of small enterprises. A combination of a lack of innovation and poor location can impair the competitive advantage of any business, irrespective of the size.

ii. Symptoms of financial risks: Lack of access to finance and credit, bankruptcy, poor cash flow management and other financial problems

According to Wang (2016), the most significant obstacle that is perceived to hinder growth, as highlighted by SMEs, is access to finance. Conversely, according to Fatoki and Garwe (2010), all businesses require access to finance to start trading and to grow. They further cite that a “lack of financial support is the second most reported contributor to low new firm creation and failure, after education and training in South Africa” (Fatoki and Garwe, 2010: 731). Similarly, Berry, *et al.* (2002: 65) assert that the issue of access to finance is critically important, specifically for firms that show entrepreneurial talent and skills to grow. Therefore, a lack of access to finance is perceived to be the cause of failure for many SMMEs. However, closely related to the lack of access, is the lack of adequate information to persuade or attract investors. Mutezo (2013) and Kim and Vonortas (2014) argue that SMEs are faced with the challenge of information asymmetries, Mutezo (2013) further argues

that inadequate financial knowledge, collateral and credit history inhibit the SMEs from accessing loans from the commercial banks. However, Yrle, *et al.* (2000), cited by Fatoki (2014), argue that the firms are contending that they are willing to lend to new firms that are investment ready. Luiz (2002) also elucidates that the area of finance for SMEs has been significantly addressed and is no longer considered to be a problem. Marivate (2014a) argues that many SMMEs in the CoT are trapped in the old management or free management system. Therefore, most do not keep adequate financial records and manage cash flow. As a result, they are unable to provide sufficient evidence to persuade potential investors. This is exacerbated by a lack of financial knowledge, which ultimately impacts on access to finance and credit. This suggests that the lack of access to finance and credit is partly influenced by the lack of or inadequate knowledge and an audit trail to support the financial position and performance of the firms. Hence, this coupled with a lack of or poorly drawn business plans, which is often supported by inadequately conducted market research, makes it difficult to pursue or persuade potential investors. In addition, Brink, *et al.* (2003) argue other financial problems for SMMEs, such as bookkeeping, a lack of financial planning, and a lack of management of working capital and income generation. Similarly, Marivate (2014a) emphasises that cash-flow is poorly managed in the SMMEs in the CoT. Marivate (2014a) further asserts that many SMMEs end up being bankrupt due to a lack of control. Hence, they do not survive in the long-term. According to Cultrera and Brédart (2016), very few studies are concerned with bankruptcy prediction of SMEs in comparison to large organisations. Hence, less attention is paid to financial risk suffered by SMMEs due to their size or the unavailability of a financial audit trail due to inadequate financial controls. However, financial risk is imminent to the SMMEs.

GEM (2014) reports poor profitability as a reason sharply rising for discontinuance. Therefore, many small enterprises fail due to a lack of profitability, or a lack of adequate measures to reduce the risk of bankruptcy, which often results in failure. Siwangaza, *et al.* (2014) argue that there is a lack of or weak internal controls in the

SMEs. Similarly, Bentz (2015) accentuates that most of the SMEs in the CoT do not have financial controls. Therefore, inadequate or a lack of financial controls adversely impact on the SMMEs. Mahadea and Pillay (2008: 433) elucidate that the lack of “finance is partly because of financial institutions view many small firms as high-risk ventures with poor collateral.” However, it is critical to also note that a lack of innovation, poor product design and excellent services, poor customer service and training, inadequate market research, inadequate credit management and/or a lack of strategic leadership, can influence the financial performance, position and cash flow of an organisation. This can ultimately result in poor financial performance or exposure to financial risk.

iii. Symptoms of operational risks: Inadequate investment in and use of information technology, management skills and shortage of staff, networking and cost of production

According to Mutula and van Brakel (2006), access to timely, relevant, current and adequate information for informed decision-making is a notable obstacle for the SMEs. According to Adeniran and Johnston (2011), SMEs are characterised as having limited information and communication technology capabilities. Similarly, Mahadea and Pillay (2008) assert that owner-managers of small businesses perceive technology as a constraint. Bentz (2015) elucidates that many SMEs in the CoT do not have access to information technology. Similarly, van Scheers, *et al.* (2015) argue that 87% of the SMEs in the CoT experience inadequate access to technology. Therefore, investment in information technology significantly impacts the SMMEs. Moreover, Falkner and Heibl (2015: 130) argue that the “SMEs are exposed to a variety of online threats, such as identity theft, credit card fraud, e-mail abuse and cyber-attacks.” Hence, those who have access, face other information technology risks, such as cyber and information risks. Falkner and Hiebl (2015) argue that installation requires resource commitment or investment in technology.

Moreover, Seeletse (2012) emphasises that communication is important in small businesses. However, van Scheers, *et al.* (2015) found that 87% of the respondents in the CoT considered cost and internet marketing as a challenge for using social media and internet marketing. Therefore, some of the SMMEs are not using the Internet or any social media platforms to advertise their product or service offerings. Moreover, van Scheers (2014) emphasises that 90% of the SMEs confirm that they do not know how their business information should be managed. Therefore, the SMMEs do not manage information adequately.

According to Fatoki and Garwe (2010), management skills are critical for the survival of small businesses. It has been cited that many owner-managers lack the skills to run their businesses. As a result, they often plan badly or they are unable to plan. According to Fatoki (2014), bad business planning easily leads to failure. Moreover, Seeletse (2012) asserts that many businesses have thought that having money to start a business is adequate to manage a business. The owner-managers, therefore, overlook the importance of business knowledge, planning and acquiring relevant business skills. However, Worku (2014) also argues that some are unable to acquire the vocational skills. Similarly, Falkner and Hiebl (2015) further argue that owners of SMEs seem reluctant to invest in activities that build knowledge and which may help in alleviating knowledge risks. Therefore, inadequate funds partly impact on access to the relevant skill sets, however, some are reluctant to invest in new skill sets. Kim and Vonortas (2014) argue that small businesses face a challenge of attracting top job candidates, while Brink, *et al.* (2003) elucidate that SMEs face the challenge of retaining and attracting key staff, low productivity and training. Hence, management skills, retention, attracting staff and training remain a critical challenge for SMMEs, which increases operational risks for the enterprises.

According to Fatoki and Garwe (2010), networking is important for every business. It can build long-term relations that can ensure that products and services are well

positioned in the market space and that costs are reduced when proper supply chain networks are used. Hence, networking is important for new and established SMEs. Zondi (2016) accentuates that networking also involves sharing information and keeping abreast of technological changes. However, Zondi (2016) accentuates that many small businesses are not members of the bodies representing their types of business. Therefore, many SMMEs are not networking with other businesses or relevant institutional bodies where they can benefit from training, strategies and funding. Conversely, Dlodla (2014) mentions that foreign-run businesses favour the use of supply chain networks and, therefore, benefit from price discounts and other rebates. As a result, their businesses are able to survive over time, due to the effective use of supply chain networks and the use of cooperatives for funding. According to Falkner and Hiebl (2015), the increase in the wide range of products to be offered to customers has increased the dependency of the SMEs on the supply chain, and the SMEs are often limited to one supplier. Seeletse (2012) argues that many rely on one customer, to an extent that when the customer's business fails, their business also fails. Therefore, the SMMEs do not adequately use their networks, which increases supply chain risks. Moreover, a lack of networking also impacts on risk management, since the stakeholders, such as government, incubators, staff and other finance institutions, may not be considered in the SMMEs' processes.

In addition, the SMMEs are also affected by challenges relating to production costs. According to Fatoki and Garwe (2010), the cost of production is a constraint that needs to be monitored in South Africa, giving reference to inputs such as electricity and petroleum. This is also indicative of symptoms of operational risks.

2.6.4.2 External obstacles and factors of failure assigned to types of risks

i. Symptoms of financial and strategic risks: Economic variables and markets

High interest rates, the inflation rate, equity prices, commodity prices, currency exchange and the unemployment rate can negatively impact the business. According to Cant and Wiid (2013), the SMEs must be aware of the external environmental changes, similar to any other business enterprise. Therefore, they pose financial risks for the SMMEs, especially in an unstable economy or a recession. According to Mahadea and Pillay (2008), these are environmental factors that make running a business prohibitively onerous and raise the transaction costs. According to Fatoki and Garwe (2010: 732), “economic factors have a direct impact on the potential attractiveness of various strategies and consumption patterns in the economy.” They include the fiscal and monetary policies of government, foreign exchange rates, inflation and interest rates (Fatoki and Garwe, 2010). Falkner and Hiebl (2015) argue that SMEs face interest rate risk and raw material price risks due to the volatility of raw material prices and competitive markets. Therefore, the economic variables and markets can have an impact on how consumers react to and acquire certain products and services. In some instances, they influence the customer’s decision in respect of price and derived value. As a result, those items not considered to be critical may be sacrificed for those that are critical, especially when prices are perceived to be high.

According to Fatoki and Garwe (2010), the current economic environment is perceived to have a low growth rate (and consumption), with a high inflation rate and declining exchange rates. Therefore, it is important to read the signals and adequately act when the risk is imminent. According to Kim and Vonortas (2014), the SMEs face market risks that reflect the difficulty of assessing the market potential for a specific product. Therefore, an understanding of the changes in the market is critical for SMMEs. Moreover, political and social decisions can also increase operational risks.

ii. Symptoms of operational risks: Regulations, laws and contracts

The regulations and laws are often cited as external forces, however, non-compliance can be caused by inadequate documentation or documentation not fit for the purpose, which is influenced by management. These activities are influenced by managerial inadequacies, which include compliance with legal restrictions, contracts and service-level agreements. However, non-compliance can also result from policy red tape and over-regulation. Mahadea and Pillay (2008: 436) elucidate that the “costs of doing business in Africa are prohibitive because of burdensome laws and regulations, difficulties in securing property rights, ineffective courts, weak institutions and infrastructure, more reform is needed there,” while Worku (2016) argues that over-regulation is an obstacle for SMEs in the CoT.

iii. Symptoms of operational risks: Crime

Crime is an obstacle faced by many enterprise in CoT and South Africa. According to Mahadea and Pillay (2008: 436), “crime is a costly burden to individuals and firms.” Crime, therefore, affects new and established SMMEs in South Africa. Fatoki and Garwe (2010) accentuate that business owners focus more on dealing with operational matters due to the high crime rate. This increases operational costs for the enterprises and pose operational risks. Fatoki and Garwe (2010) argue that entrepreneurs focus less on the strategic positioning of their businesses to grow the market share and outpace their competitors, however, they channel their resources to deal with the high crime rate. Therefore, crimes from an external environment, such as burglary, theft, malicious damage to property and business robbery, can be committed against the business, thereby increasing the risk of disruptions in operations and a loss of critical resources, such as equipment, computers, time and stationery. This can also affect the productivity of the employees in SMMEs. According to Cant and Wiid (2013), due to a high incidence of crime, some businesses also incur costs for protecting their customers, in addition to goods held in the business. Therefore, consumers who are aware of the high crime rate in the

area where these businesses are located, may be reluctant or discouraged to visit businesses where crime is considered to be high. This may not be good for the profitability of the businesses.

2.7 Summary

The identification of risk is the first step towards developing action plans. Afterwards, various techniques and plans can be chosen to address the risks. It is important for the term 'risk' to be defined and identified when thriving to achieve an effective risk management process. The literature review revealed that risk affects all types of businesses, irrespective of the size. Risk is, therefore, inherent. Furthermore, there is a need for adequate risk and opportunity governance for any business that intends to survive in the current economic turmoil. Businesses do not face the same kinds of risk, therefore, they have to assess the risk exposure and take appropriate actions. Hence, effective risk management is critical.

Moreover, resilient and adaptable businesses are needed in the changing global context. This chapter addresses the concept of risk and risk management, the arguments for risk management, limitations and the risk management processes and approach. In the section of SMMEs, the global and national contexts of the SMMEs are highlighted, including the definition, context of the CoT and the obstacles and factors that are assigned to risks.

The next chapter focuses on the research design and the methodology followed in this study.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Background

This chapter provides insight into the research design and methodologies applied to collect and analyse data. It details the research paradigms, design, population and sample size framework, data instrument, techniques and analysis, and data validity and reliability. Quantitative and qualitative methods are contrasted to conclude which method is appropriate for the study. Furthermore, the population and sample selection methods are elaborated on in order to decide on the analysis methods and techniques suitable for the study. Data validity and reliability are also discussed.

3.2 Research design

According to Blumberg, *et al.* (2014: 57), “research design is the blue print for fulfilling objectives and answering questions.” The research design requires the researcher to decide on the appropriate methods to collect sufficient, reliable and accurate data on the phenomenon. It also informs the decisions regarding the population, sample, size and target. Different designs are used for qualitative and quantitative methods. In this study, the qualitative method was considered to be appropriate to answer the question of ‘how’ in order to achieve the desired objective of the proposition. The research design is explained below.

3.2.1 Case study research

The study was conducted using the case study design. Blumberg, *et al.* (2014: 304) argue that “case study is widely used and very effective in business and management research.” Therefore, case study research was appropriate since risk management forms part of management systems. Welman, *et al.* (2005: 193) assert

that the term “case study pertains to the fact that a limited number of units of analysis is studied intensively.” It is emphasised that case study does not necessarily have to be human, but it can also involve documents and records (Welman, *et al.*, 2005). Therefore, the unit of analysis for the research study was a risk management process in small and micro retail enterprises.

According to Park and Park (2016), the researcher in a case study tries to understand and report the uniqueness of individual cases. Risk management is a process affected by people, costs, knowledge and other unknown factors in small and micro retail enterprises. The small and micro retail cases were interviewed in order to investigate risk management processes and to understand the uniqueness of the individual cases which are led by different owner-managers. The retail cases were deemed worthy for the analysis (Park and Park, 2016). Moreover, the research study was considered to be a multiple case study (Blumberg, *et al.*, 2014). This was done to obtain a variety of perceptions and experiences on the phenomenon and to collect sufficient evidence to compare and contrast perceptions. The small and micro retail enterprises provided critical perceptions of how risks were managed in their enterprises. The case study design was, therefore, used, because it was more focused and it allowed the researcher to understand the risk management processes from the perceptions of the owner-managers (informants) (refer to Section 1.10.1.1 of Chapter 1).

3.2.2 Population target, site and size

According to Welman, *et al.* (2005: 52), population is a study object which can consist of individuals, groups, organisations, human products or the condition to which they are exposed. The study object for the research study was enterprises, as defined by the National Business Act, 1996 (Act No. 102 of 1996), amended by Act No. 26 of 2003 and 2004. Welman, *et al.* (2005) further elucidate that a population is the full set of cases from which a sample is taken. The small, medium and micro enterprises (SMMEs) represented a full set of cases in this regard. The

research study focused on small and micro retail enterprises, which were a subset of SMMEs. The population target was very small and micro retail enterprises in the City of Tshwane Metropolitan Municipality (CTMM) with the Tshwane Central Business District (CBD) representing the site of the target.

It should be noted that the total population of SMMEs was unknown. Sewell, *et al.* (2016) reported that only 65% of the businesses in the wholesale and retail sector had been registered formally. This revealed that some small businesses were not formally registered with the Companies and Intellectual Property Commission (CIPC) and it suggested that any register or lists of SMMEs could not be confirmed with certainty that it was complete. Rowley (2014) argues that if the population is vague, it is often very difficult to compile a complete sampling frame, even though there may be a variety of partial lists of members of the population held by various organisations or government agencies. Hence, the use of and/or to construct a database might have defeated the purpose of the study and impacted on its reliability. Other research studies, which cited similar challenges in respect of the population size, included Bentz (2015), Siwangaza, *et al.* (2014) and Mutezo (2005). Therefore, non-probability sampling was used to ensure that the target represented the small and micro retail enterprises.

3.2.3 Sampling method and sample size

Laher (2016: 319) elucidates that sampling is complex. The author emphasises that one needs to consider the composition of the sample, representativeness of the sample and the size of the sample. Welman, *et al.* (2005) distinguish between two sample methods, namely probability and non-probability sampling. In case of probability sampling, according to Welman, *et al.* (2005), any element or member of the population will be included in the population. It has been acknowledged that the process of probability sampling is complex, time consuming and sometimes impossible (Laher, 2016). Conversely, Welman, *et al.* (2005) assert that in non-probability sampling, one cannot specify the probability. However, Blumberg, *et al.*

(2014: 191) elucidate that in some situations where the researcher uses a random selection of elements to reduce or eliminate sampling bias, there is substantial confidence that the sample is a representative of the population from which it was drawn.

There was little variation in the population since the sample of cases was specifically selected from the small and micro enterprises in the retail sector. This was done to provide comfort that the sample represented the population, as defined in the National Business Act, 1996 (Act No. 102 of 1996), amended by Act No. 26 of 2003 and 2004. Blumberg, *et al.* (2014) emphasise that non-probability sampling may be the only feasible alternative if the relevant population remains vague and it is difficult to define or the population may not be available for the study. The research study used a non-probability sampling method. This was used because the total population of the SMMEs was unknown. It could, therefore, provide better results. Moreover, the advantage of non-probability sampling include cost, time effectiveness and it can meet the sampling objectives satisfactorily (Blumberg, *et al.*, 2014).

Convenience and snowball sampling were appropriate for the research study. Convenience sampling involves selecting haphazardly those cases that are easiest to obtain for our sample (Welman, *et al.*, 2005). These cases are accessible (Rowley, 2014: 318). With convenience sampling, the small and micro retail enterprises in the CTMM were chosen for their accessibility and availability for the research study. In respect of the first phase of snowball sampling, according to Welman, *et al.* (2005), a few participants from the relevant population were approached. The participants then acted as informants or referrals for an additional sample (Blumberg, *et al.*, 2014). Hence, snowball sampling was also used, because the researcher did not know where those additional enterprises were situated. The participants, therefore, acted as referrals. The participants were approached using convenience sampling and snowball sampling afterwards. Snowball sampling and convenience sampling

were used, because they complement each other. According to Rowley (2014), snowballing can be viewed as a mixture of purposive and convenience sampling. Moreover, with only 65% of the small businesses being formally registered, snowball sampling was appropriate to deal with the informal enterprises which were neither registered anywhere, nor did they have shop numbers. The risk management processes were selected based on sample logic, replication.

After the small and micro retail enterprises were identified, the researcher considered a mix of retail cases to avoid focusing on the retail cases that sold the same products or services.

3.3 Research methodology

According to Blumberg, *et al.* (2014), “new research has to be methodologically rigorous”. Methodology is, therefore, important for rigor. A distinction must be made between the qualitative and quantitative methods to be used to conduct research in order to collect the relevant data that meets the method selected for the study. The type of methods also informs the tools, techniques and analysis that can be used to answer the questions and collect data to disprove or prove the research problem. This research study used qualitative research methods, as follows:

3.3.1 Types of research paradigms

According to Park and Park (2016: 03), there are two ways of analysing a phenomena in a social science context; quantitative and qualitative methods. Similarly, according to Blumberg, *et al.* (2014: 148), a research problem can be investigated qualitatively and quantitatively. The goal of the qualitative method is to explore the descriptive accounts and differences of various social events. It focuses on discoveries based on research questions (Park and Park, 2016). Welman, *et al.* (2005: 06) accentuate that the qualitative approach emphasises that it is inappropriate to follow strict natural-scientific methods when collecting and

interpreting data. Therefore, the qualitative approach is concerned with the experience and perceptions of participants about the phenomena. Park and Park (2016: 03) reasons that the basic characteristics of qualitative methods include subjectivity, that the researcher interacts with the research, that it is value-laden and biased, that it involves a personal voice and follows an inductive process, accuracy and reliability through verification and develops a theory. This emphasised that subjectivity, the fact that it was value-laden and biasness often had an impact on a qualitative study, therefore, they had to be managed throughout the research study.

In contrast, Welman, *et al.* (2005) argue that the goal of the quantitative method is to evaluate objective data consisting of numbers and is limited to what we can observe and measure. Welman, *et al.* (2005: 06) refer to the quantitative approach as the positivist approach, which is based on a philosophical approach known as logical positivism. A quantitative study relies on numbers and figures (Blumberg, *et al.*, 2014). Park and Park (2016: 03) argue that the basic characteristics of the quantitative method include objectivity, the researcher being independent of the research, it being value-free and unbiased, it having an impersonal voice, it being a deductive process, structured, accuracy and reliability through reliability and validity testing, and that it tests a theory. The quantitative method, therefore, avoids engaging with the participants, but bases its conclusion on statistics. According to Schedler and Mudde (2010), a discreet thin line separates the qualitative and quantitative research approaches. Similarly, Park and Park (2016) argue that qualitative and quantitative methods begin with a concrete world and step into another world of abstraction.

Based on the contrasts that have been presented, the qualitative method was appropriate for this research study. The research problem could not be answered by statistical data. In addition, it was complex to determine the total population, in other words, the sample frame. Therefore, an anti-positivist research study was appropriate to answer the question of 'how'. A qualitative study is also appropriate

for an unstructured environment, such as small and micro retail enterprises, which are often not formally registered, have a challenge of skills and possibly training, and may have different views on the context in which their businesses operated. The study focused on understanding risk management processes from the informants' perspectives. This required the researcher to interact with the research participants and to observe their behaviour and attitude in order to determine the awareness of the phenomenon and confirm the context in which the phenomenon took place. This also provided feedback on some of the root causes and contributing factors. Therefore, the study required the researcher to use the qualitative research approach. The qualitative research approach is explained in detail below.

3.3.2 Qualitative research approach

According to Park and Park (2016: 04), a “qualitative study is focused on applied and theoretical findings or discoveries.” Welman, *et al.* (2005) argue that qualitative studies can study cases that do not fit into particular theories. According to Blumberg, *et al.* (2014), qualitative studies base their accounts on qualitative information, such as words, sentences and narratives. A qualitative study was appropriate for this research study. The research study wanted to investigate how the risk management processes unfolded in the small and micro retail enterprises. The participants' perceptions and experiences regarding the risk management processes were, therefore, critical in providing evidence on the research problem. This allowed the researcher to probe and use words, sentences and narratives to explain the phenomenon. The research study had to consider that the risk management processes were also informed by the quality of management, systems and the context in which the businesses operated. Context was important for risk management, therefore, the qualitative research method was appropriate to answer the question of 'how' and to establish the various causes of effective or ineffective application of risk management. Welman, *et al.* (2005) emphasise that anti-positivists usually favour emergent designs, further emphasising that the researcher

may adapt their data-collection procedures during the study to benefit from the collected data. Therefore, the qualitative research approach was flexible and allowed the researcher to collect, assess and continue to engage the participants on the collected data.

3.3.3 Data-collection method

According to Rowley (2014), interviews have the potential to generate a variety of insights and understanding that might be useful. Welman (2005: 167) distinguishes between unstructured, structured and semi-structured interviews. Unstructured interviews purposefully do not use an interview schedule (Welman, *et al.*, 2005). In contrast, in a structured interview, the interviewer puts a collection of questions from a previously compiled questionnaire, known as a schedule, to the participants face-to-face and record the responses (Welman, *et al.*, 2005). While in semi-structured interviews the researcher must have a list of themes and open-ended questions (Welman *et al.*, 2005: 167), referred to as interview guides. Based on the above, the data-collection method for this research study was semi-structured interviews. This was selected to ensure that the insights, perceptions and experiences of the informants were collected. The researcher used semi-structured interviews, because it is more focused, limited the time and allows the researcher to discuss and engage on other topics related to the phenomenon. Rowley (2014: 310) argues that “interviews are preferable over questionnaires when it is possible to identify people who are in key positions to understand the situation”. Interviews were, therefore, able to provide an understanding of a situation, including an understanding of the owner-managers who were implementing risk management processes. Moreover, it was able to provide feedback, important facial expressions, reflective remarks and other critical remarks and attitudes which may not be indicated on a questionnaire/survey.

The semi-structured interviews were held with the owner-managers or the relevant person delegated by the owner-manager of the small and micro retail enterprises. Blumberg, *et al.* (2014) argue that the main advantage of case studies is that they

permit a combination of different sources of evidence. The research study also used observations to collect other evidence to support the conclusions. Therefore, triangulation was applied as data was collected throughout the research study from different sources to address validity and reliability issues.

3.3.3.1 Primary data-collection procedures

According Blumberg, *et al.*, (2014: 204) conducting empirical research in business requires data. Similarly, Albers (2017) accentuates that any empirical research involves collecting and analysing data. The primary data was collected from the Tshwane CBD. The contact details of the participants from the small and micro retail enterprises, who were interested in participating in the semi-structured interviews, were obtained face-to-face by the researcher. At the time of the collection of primary data, an agenda for the interview was developed and emailed to the participants a day before the interview. The researcher, therefore, made an appointment before conducting the interview. Appointments were also made by telephone before the interview. This also included telephonic messages to confirm the appointments.

The researcher and the participants signed the Attendance Register on the day of the interview. It contained the date, time of interview and the individual being interviewed. The interviews were held on different dates. The researcher interviewed two owners and one manager who had been delegated by the owner.

The remaining two cases could not continue with the interviews. One case had moved from the business location in the CBD, because the business was not attracting customers due to a poor location in the CBD. Hence, the issue of location affected the small business. The other case could not schedule an interview for various reasons. Only three small and micro retail enterprises were interviewed instead of five. No follow-up interviews were conducted. It was anticipated that the interviews would take 45 minutes to 1 hour, however, they took an estimate of 1 hour and 30 minutes. It was anticipated that the length of the interviews may vary

depending on the level of the awareness of the participants on the issue under investigation. Moreover, the interviews were conversational and open-ended. The participants asked questions and clarified their answers. In some instances where they were unable to answer, they indicated so. However, some also tried to provide answers or reflective remarks to avoid unanswered questions. A variety of topics that affect the small and micro retail enterprises were also discussed during the interviews.

Two interviews were audiotaped (tape-recorded), which afforded the researcher an opportunity to listen to the answers to the questions and to reflect, reference and ensure that accurate data was collected for analysis purposes. The signatures were appended by the participants, giving permission for audiotaping the interviews. The records from listening to the audio-taped interviews were later transcribed. Field notes were taken in one interview. No additional hard copy evidence was collected for the study.

Data was also collected through observation of the environment to ensure that all other factors that had an impact on the phenomenon, were noted. The researcher observed the proximity, location, products and services of other similar large and small retailers. A checklist with space for comments was used to collect the data for the observations. This was then saved on the computer and the disc separately.

All the primary data was collected in the form of audiotapes, memoranda and field notes, which were saved on a computer. To analyse the data, the researcher looked for recurring patterns and consistent regularities when the participants answered the questions during the interview. The researcher reviewed the various patterns in the answers. To reiterate, triangulation was used in order to determine the correct position of the phenomenon by comparing it to the other small and micro retailers, literature sources and the researcher's observations. This helped the researcher to validate the data and make the study reliable.

3.3.3.2 Secondary data-collection procedures from literature sources

Blumberg, *et al.* (2014: 264) describe secondary data as the data that has already been collected and recorded by someone else, usually for other purposes. This study used secondary data, such as journals, books, research reports, annual reports, strategic plans, policy frameworks, Acts, development plans, print sources, study guides, theses and company websites. All the sources were acknowledged in the research study. They were used to enrich the primary data that was collected (Blumberg, *et al.*, 2014: 271). Some of the secondary data sources, such as newspaper articles, websites and annual reports were used to provide current data on small and micro retail enterprises, risks and any changing patterns critical to the study. However, secondary data was not the main source of data for the research study, but it was used as a source of evidence next to the interviews (Blumberg, *et al.*, 2014). This data was used to also ensure triangulation.

3.3.4 Data instruments, techniques and analysis method

3.3.4.1 Data-collection tool

Blumberg, *et al.* (2014) elucidate that semi-structured interviews usually start with a specific question, but allows the interviewee to follow his or her own thoughts later on. Bertram and Christiansen (2014) note the advantages of interviewing as being that the researcher is present during the interview with the respondent, the researcher can ask more questions, it is easier for the respondent to talk to the researcher than to write long responses in a questionnaire, the researcher can collect detailed descriptive data and it is a good tool for gaining in-depth data from a small number of people. This research study used semi-structured interviews. The structured questions or topics were developed by the researcher to guide the interview and they were based on Chapter 2's reviewed literature. Other questions were anticipated during the interview to probe for more answers. The participants were asked the same questions or guided through the same topics. However, the

interviewer adapted the formulation, including the terminology, to fit the background of the enterprise and educational level of the owner-managers or entrepreneurs (Welman, *et al.*, 2005).

The researcher wanted to understand the informants' perspectives on the application of risk management processes and to confirm the insights and theory of risk management from the informants' perspectives. The semi-structured interview guide consisted of the following sections aligned with the literature reviewed in Chapter 2:

- **Section A: Business context:** This section covered the perceptions on critical challenging factors or obstacles faced by the small and micro retailers. The aim of the section was to understand whether the owner-managers were able to identify and discern between internal and external factors, to confirm the challenges with those in literature sources and those observed by the researcher, and identify possible risks based on the perceptions. It assisted with credibility and dependability.
- **Section B: Business information:** This section covered the perceptions of the number of people employed, period of existence, experiences and skills acquired. The aim of this section was to obtain perceptions in order to categorise the cases, confirm their training on risk management and the availability and shortage of skills for their enterprises.
- **Section C: Business objectives:** This section covered the intentions, objectives, business plans, market research, innovation, networking and location. The aim of this section was to obtain perceptions on the objectives formulated by the business and to confirm whether the participants used tools, such as market research, business plans, innovation, location strategy and networking. The tools are interrelated, thus, when they are put in a sequential form, they can validate or invalidate the existence or the adequacy of the other related tools.
- **Section D: General knowledge on risk and risk management:** This section related to the awareness of risk and risk management. It related to the definition

of risk, types of risk and risk management, the perceptions of risk and governance for small businesses, and views on their importance.

- **Section E: Risk management process (identification, assessment and treatment):** This section covered the perceptions related to risk identification, assessment and treatment. The aim of this section was to collect data that could provide feedback on the effectiveness of the application of risk management.

3.3.4.2 Administration of interview procedures

Blumberg, *et al* (2014) emphasise that interviews are the most widely used source for collecting information for evidence. Two interviews took place at the owner-managers' site of business, while one interview took place at a place that was convenient for the participant. The participants were reminded of the interview days before and a day before the interview by email. The participants were telephonically informed in advance of the scheduled interview in addition to the email that was sent in this regard.

The interview schedule/guide was piloted to at least five employees in the environment of risk and compliance audit to ensure that the questions asked were clear and understandable. It provided the researcher with the necessary feedback to achieve the objectives of the study. The piloted interview schedules were received back with coaching notes on some of the questions and layout. Once received, the interview schedule/guide was refined to make sure that the questions were clear for conducting the interview. This was done to reduce the risk of errors, irrelevant questions and to address ambiguity.

On the day of the interview, the participants signed the Attendance Register. This also confirmed the existence of the participants, therefore, the source of the data. English was used for all the discussions, however, the researcher could not stop any remarks made by the participants using their language of choice, especially when they were unable to answer the question or when they wanted to indicate the

seriousness of the challenge or issue faced. However, such remarks were disclosed in the evidence collected. In some instances, questions could not be answered logically and with clarity, hence, some of the cases struggled with providing answers, especially on risk and risk management. The researcher had to explain some of the questions as a means of providing clarity and to probe the answers that were provided. This prolonged the engagements, but addressed credibility at the same time. The participants also asked questions in order to get clarity on the questions being asked by the researcher. Primary data was kept separate from the data collected during the observations. A folder or a database was created on the computer for evidentiary purposes.

Field notes were taken on the same day of the interview and all the field notes were numbered to ensure a complete number of pages. After the interview, the field notes were converted into write-ups. Field notes were documented for each interview. When the audiotape was used, the interview was transcribed into text before it could be subjected to similar processes of field notes. After all the audios were converted into write-ups and transcripts, the content of the three documents were then put in one MS Word document, which allowed the researcher to compare the similarities and differences in the answers to specific questions. This was documented and saved for audit trail purposes.

3.3.5 Data analysis techniques and methods

3.3.5.1 Qualitative data analysis

“The key components of qualitative data analysis are: organizing the data set; getting acquainted with the data; classifying, coding and interpreting the data; and, presenting and writing up the data” (Rowley, 2014: 326). Similarly, Tracy (2010: 841) argues that “rigorous data analysis may be achieved through providing the reader with an explanation about the process by which the raw data are transformed and

organized into the research report". Qualitative research collects a variety of data for analysis. The following data analysis techniques were used for the study:

3.3.5.2 Field notes and transcripts

According to Welman, *et al.* (2005), field notes must be converted into write-ups that can be read, edited for accuracy, commented on and analysed. All the researcher's field notes were converted into write-ups. This gave the researcher an opportunity to reflect on and recall some of the missing content. The field notes were converted on the day of the interview to avoid a loss of information and time gaps, and to ensure that any missing information could still be recalled. The tape recorded or audiotapes were transcribed to text for further analysis. The write-ups and transcripts were captured into one document for analysis purposes. When listening to the audio, the researcher was able to note missing information, pauses, reflective remarks and other relevant information for patterns. This was included in the write-ups and transcripts.

3.3.5.3 Theme identification method

To identify the theme; counting words and repetitive words; indigenous categories and keywords in context; comparison and contrast; searching for missing information; metaphors and analogies; transitions and connectors; unmarked texts; pawing, cutting and sorting (Welman, *et al.*, 2005) were used where necessary. Three cases were interviewed, which made it possible for the researcher to use comparisons and contrast. The answers provided by different owner-managers were compared. Causes, transitions and connectors which may indicate the causes, were considered (Welman, *et al.*, 2005; Ryan & Bernard (nd) as quoted by Welman, *et al.*, 2005) and noted in the write-ups and transcripts. In instances where new themes were identified, the text was physically manipulated a few times to identify the new theme. In some instances, answers were provided, but were not relevant to the question being asked. This required the researcher to cut and move to the relevant theme.

The owner-managers' answers indicated the difficulty of engaging on the topic of risk management, but revealed other themes. As a result, sorting, pawing and cutting were used to sort out the data collected to arrive at some conclusions. The themes were put in sequence to enable the researcher to identify possible gaps in the risk management processes.

3.3.5.4 Coding the data

According to Blumberg, *et al.* (2014: 289), the cornerstone of qualitative data analysis is the coding of the interview transcripts or any other documents. After the process of collecting all the information, the researcher reduced the amount of data to manageable and understandable text by coding and creating codes (Welman, *et al.*, 2005). Codes and tags or labels attach a meaning to raw data or notes collected during the fieldwork and they are descriptive codes, interpretative codes, pattern codes and reflective remarks, marginal remarks and revising codes (Welman, *et al.*, 2005). The researcher coded the write-ups and transcripts. Reflective remarks and marginal remarks were included in the write-ups and transcripts. Some codes were revised afterwards. Blumberg, *et al.* (2014) argue that it is possible to code with themes from prior ideas, such as pre-existing theories. Codes were created using the concepts in the research questions and the theory in the reviewed literature.

3.3.5.5 Observations

Blumberg, *et al.* (2014) accentuate that the researcher must be well informed of the context and the observation target when conducting observations. For the purpose of the study, the researcher observed the environment (context) in which the small and micro enterprises operated, which was the CoT CBD. The researcher also observed the close proximity of large retail organisations and other competitors to the case study. The researcher also observed the location or position of the retail enterprises in the CBD and the conditions of the retailer and any innovative products and processes recently introduced by the owner-managers. A checklist was created

and it was taken regularly when observations were conducted. Observations were done to gain familiarity with the context in which the businesses operated and for triangulation and multivocality. It also provided feedback that could be used to compare and contrast answers, and to assist in adding the researcher's own voice to the research.

3.3.5.6 Displaying the data

Blumberg, *et al.* (2014) argue that graphs, tables and figures are useful devices for summarising the findings. The researcher used tables to summarise some of the findings and used text to present the findings.

3.3.5.7 Data results

The results were presented using text forms and tables. The data was edited and coded. The text was indicated in tables for some of the themes.

3.3.6 Data validity and reliability

3.3.6.1 Credibility

According to Tracy (2010: 842), "credibility refers to the trustworthiness, verisimilitude, and plausibility of the research findings." The quantitative study of Laher (2016: 322) asserted that "without examining the reliability, validity, and lack of bias in instruments, it is not possible to draw any conclusions based on the instruments." According to Morrow (2005: 251), "credibility in qualitative research is said to correspond to internal validity in quantitative approaches." Park and Park (2016) argue that qualitative is value-laden and biased. Therefore, the trustworthiness and validity of the findings are critical in a qualitative research study. To **avoid biasness**, the researcher documented a sufficient audit trail of data and all findings were written around the specific evidence, thereby guiding the reader to the type of evidence collected, such as quotations, reflective remarks, behaviour and

attitudes noted during the interview and the researcher's observations. The researcher probed answers and compared them to the literature reviewed in Chapter 2 to identify gaps. The researcher used the perceptions and experiences of the cases to identify possible risks faced by the selected cases to confirm the possible exposure to risks in the CoT. In the first phase of the proposal, the exposures to risk were based on 'symptoms' identified in the abbreviated literature (refer to Chapter 1, Section 1.2) and when the results were presented, the profiling of risks was also done based on the participants' perceptions and experiences to confirm the risk exposure (refer to Section 4.3.2 of Chapter 4). This also ensured triangulation and avoided biasness.

Morrow (2005: 252) argues that credibility is "achieved by prolonged engagement with the participants, persistent observation in the field; the use of peer de-briefers or peer researchers; negative case analysis; researcher reflexivity; and participant checks, validation, or co analysis." The engagement with the participants took longer than anticipated. The estimated time for engagement was 1 hour and 30 minutes. The researcher and the participants, therefore, had enough time to ask questions and answers where necessary. However, the researcher avoided forcing information out of the participants, but noted their reflective remarks during the analysis. The context was observed on several occasions. The researcher even noted new developments in the CoT and even visited similar shops to observe the kind of products and services being sold by those enterprises (refer to Section 4.2 of Chapter 4). **Self-reflexivity** plays a key role in the phenomenon that was investigated. The researcher has experience in the field of auditing, accounting and risk. However, the researcher prepared himself spiritually and emotional before each engagement. Moreover, the literature reviewed in Chapter 2 was detailed. It ensured that the researcher made appropriate judgements on views. Credibility in this study was also earned by the use of thick description (Tracy, 2010). The researcher was detailed in the explanation of the events, interactions and conversations, more words than telling. The researcher noted reflective remarks and questioned various

processes to avoid incorrect conclusions. Moreover, Morrow (2005) argued that a rich description should not only be premised on the participants' experience of the phenomenon, but also on the context in which those experiences occurred. The researcher showed more details to persuade the reader, including the participants' experiences and the context in which the experience happened. Moreover, the researcher's observations were used to provide feedback on the context. This ensured that the researcher could add his own voice and not solely rely on the participants' perceptions and experiences. According to Tracy (2010: 843), "good qualitative research delves beneath the surface to explore issues that are assumed, implicit, and have become part of participants' common sense." As a result, the researcher took note of the tacit knowledge of the participants during the interview by observing comments and statements, including actions. This also included questions which were asked, but not answered or even avoided.

Triangulation in qualitative research assumes that if two or more sources of data, theoretical frameworks, and types of data collected, or researchers converge on the same conclusion", the research study is creditable (Tracy, 2010: 843, citing Denzin, 1978). Triangulation was applied whereby different sources of evidence was considered to provide a variety of measurements for the phenomenon and to increase the construct validity (Blumberg, *et al.*, 2014). The researcher considered literature sources (refer to Chapter 2), own observations (refer to Section 4.2 of Chapter 4), perceptions and experiences of the participants (refer to Section 4.2.2 of Chapter 4) to arrive at a conclusion. In some instances, the researcher applied self-reflexivity by analysing the participants' experiences and perceptions in order to explore issues or delve beneath what had been communicated by the participants. This was done to ensure that the data was not generalised beyond what the cases warranted. **Multivocality** include varied voices in the qualitative report, analysis and it provides a space for a variety of opinions (Tracy, 2010). Observations were made to avoid excessive reliance on the participants' experiences and perceptions, which ensured multivocality. It allowed the researcher to compare and contrast views while

adding his voice or familiarity with the text. The voices of the participants in the form of quotations validated the responses of the participants in respect of the phenomenon.

3.3.6.2 *Dependability*

According to Morrow (2005), dependability is said to correspond to reliability in the quantitative approach. Similarly, Welman, *et al.* (2005) elucidate that reliability relates to the credibility of the research finding. Morrow (2005: 252) accentuates that “dependability is the process through which findings are derived should be explicit and repeatable as much as possible. This is accomplished through carefully tracking the emerging research design and through keeping an audit trail, that is, a detailed chronology of research activities and processes; influences on the data collection and analysis; emerging themes, categories, or models; and analytic memos.” Correspondingly, according to Tracy (2010), the researcher may evaluate the number of pages of field notes, the time gap between fieldwork and the development of field notes. The researcher recorded notes during the interview to avoid time gaps between the time when field notes were written and the time of the interview. This ensured that critical information was not missed or lost. All field notes were numbered to ensure that all the pages were included as evidence or part of the audit trail and they were scanned onto a disc for proper documentation.

The researcher used audiotapes for two cases after obtaining permission from the participants in order to reflect on the interview and make additional memoranda (transcripts). The transcripts were scanned onto a disc for evidentiary purposes. For one case, only field notes were taken on the same day of the interview. The write-ups of the field notes were documented on the computer for evidentiary purpose. Tracy (2010) further argued that the number of and the length of the interviews, the types of questions being asked and the critical procedures for ensuring that transcripts were accurate, demonstrated rigor. The interview took longer in order to

gather all the necessary evidence. The types of questions on the interview schedule/guide were based on the theory reviewed in Chapter 2.

3.3.6.3 Conformability

According to Morrow (2005), conformability is said to correspond to objectivity in the quantitative approach. All the research processes were disclosed to ensure that the process conformed to the qualitative study methodology. Morrow (2005: 252) describes conformability as being “based on the perspective that the integrity of findings lies in the data and that the researcher must adequately tie together the data, analytic processes, and findings in such a way that the reader is able to confirm the adequacy of the findings.” The researcher tied the collected data, which was also supported by quotations from the participants’ perceptions and experiences.

The research design was informed by the literature as the basis for the decision taken by the researcher, which ensured objectivity. The choices taken by the researcher were disclosed for the research purpose and in the report. Comments were made on the transcripts and the write-ups to indicate the different views of the researcher and the participants, and between participants themselves. As there was too much information, the researcher had to separate the main findings of the research from the additional findings and focus on critical issues that indicated material gaps in the risk management processes. A proper audit trail was kept to identify replication.

3.3.6.4 Transferability

According to Tracy (2010: 845), transferability is “achieved when readers feel as though the story of the research overlaps with their own situation and they intuitively transfer the research to their own action.” The researcher reviewed all the data and findings in order to determine which cases could be or could not be transferred. The participants’ perceptions and experiences and researcher’s observations were

similar for some of the challenges raised by the retail cases. Hence, a certain portion of the findings may be transferred. Moreover, the similarity of some of the findings could be related to some of the findings identified in the literature, which was reviewed in Chapter 2. The researcher disclosed those findings that contradicted the proposition. Blumberg, *et al.* (2014) emphasise that a qualitative study generalises to the proposition, not a population. It was critical to resist to generalise the results from the case study to a population. In order to ensure transferability, the claims were not generalised beyond what the case could warrant. The researcher disclosed in the limitations to avoid generalisation on the population of the small and micro retail enterprises. In most instances, the researcher referred to the specific cases. The researcher sought to identify ideologies, experiences and provide a rich description of the phenomenon to ensure that other small and micro retail enterprises could familiarise themselves with them in order to ensure transferability. The researcher linked to the challenging factors in the literature review relating to the small and micro retailers to the various types of risk. The researcher identified obstacles, factors, signals, conditions and constraints that were suggested as the causes of failure in order to ensure that the risk management processes were described in the context of the challenges faced by SMMEs. This ensured that the participants could familiarise themselves with the topic and made it easy for the researcher to explain some of the questions asked during the interview. Tracy (2010: 845) emphasises that “researchers may create reports that invite transferability by gathering direct testimony, providing rich description, and writing accessibly and invitational”. The qualitative report was detailed in order to invite transferability. The researcher used detailed quotations and shortened quotations to emphasise his observations and perceptions, and the participants’ experiences.

3.3.6.5 Authenticity

Tracy (2010) relates sincerity to the notion of authenticity and genuineness. This suggests that authenticity refers to either honesty, disclosure of biasness or limitation

in the study as the relevant dimensions (Blumberg, *et al.*, 2014). The researcher's biases, goals and any limitations that had an impact on the study, were disclosed in the study. The writer was honest about his shortcomings and strengths, including awareness of the phenomenon (self-reflexivity) (Tracy, 2010). The researcher provided details of instances in which the participants were struggling to eloquently engage on some topic, although it was viewed as a finding relating to awareness. However, such disclosure was required, because it affected the quality of the information to be collected. In respect of transparency, the researcher was honest about the research process. The information on the process was disclosed in the application for ethical clearance. In some instances, the researcher was transparent on the interview conducted with a manager instead of an owner. Even though it met the proposition, the possibility of differing perspectives or views between the manager and the owner could not be excluded. Morrow (2005: 252) emphasises that "authenticity criteria include fairness, ontological authenticity, educative authenticity and catalytic authenticity." The researcher interrogated and explored the participants' opinions and in some instances where opinions contradicted those that they had mentioned before, the researcher reviewed the opinions in line with the theory to arrive at a conclusion. However, the researcher avoided forcing information out of the participants. This is evident in unanswered questions or questions answered with remarks. This ensured that fairness authenticity was achieved and that the information was disclosed in the qualitative report. Those involved were acknowledged (honoured) in the report.

Tracy (2010: 842) argues that "transparent research is marked by disclosure of the study's challenges and unexpected twists and turns and revelation of the ways research foci transformed over time". The researcher disclosed any twist related to the study in the research report to ensure transparency. The twists and opinions of the participants were expanded, matured and elaborated upon in the research. The researcher aligned the opinions with the theory. The researcher anticipated that the knowledge and understanding of the participants would be enhanced during the

research study. The cases indicated that they were willing to take advice on risk management and confirmed that they viewed it as important. Hence, the topic stimulated the participants' interest since most of the small businesses continued to fail, therefore, a mechanism was sought to ensure sustainability in the current world turmoil.

3.3.7 Ethical considerations

According to Blumberg, *et al.* (2014), the benefits of the research study are weighed against the costs of harming the people involved. This inferred that ethical consideration is important in research (Welman, *et al.*, 2005). Laher (2016) mentions other ethical considerations, such as informed consent, confidentiality, anonymity, invasion of privacy, feedback and debriefing.

3.3.7.1 Ethics when participants are recruited

Informed consent was obtained from the owner-managers or entrepreneurs of the five small and micro retail enterprises. However, only three participated in the interview. Informed consent is a matter of fully disclosing the procedures of the proposed semi-structured interview or other research design before requesting permission to proceed with the study (Blumberg, *et al.*, 2014). Participation was voluntary with no obligations or conditions to be met. Each informant who participated were asked to sign a consent form before participating and they were promised anonymity and confidentiality in the process in order to persuade the owner-managers or entrepreneurs of the small and micro enterprises to participate in the research study. The researcher approached the owner-managers and explained the purpose, aim, benefits of the research study, anonymity and confidentiality. They were also informed of the type of data-collection method, namely the semi-structured interview. The researcher also informed them to decide on the time suitable for the interview during the month anticipated for data collection.

After the face-to-face engagement with the participants, the contact details of the five small and micro retail enterprises that were interested in the study, were obtained and an email confirmation was sent, introducing the research, the researcher and his contact details. Afterwards, some participants chose to communicate with the researcher via SMSes. Confidentiality was offered and the researcher was clear on the amount of their time he would use. All the documents that were obtained, were submitted for ethical clearance before the study commenced.

3.3.7.2 Ethics during the measurement procedure

The researcher requested permission from the participants to audio record the interviews and the procedure for conducting the interview was explained. Permission was offered in the form of a signature and saved as evidence. The participants were informed of the anonymity and confidentiality of the research study. Blumberg, *et al.* (2014) elucidate that research must be designed in such a way that the participants do not suffer physical harm, discomfort, pain, embarrassment or loss of privacy. According to Tracy (2010: 847), “procedural ethics also suggest that research participants have a right to know the nature and potential consequences of the research and understand that their participation is voluntary”. In order to ensure protection from harm and right to privacy, the participants were informed of their rights not to participate in the research study, anonymity and confidentiality. This was also disclosed in the interview schedule/guide, which was provided to the participants during the interview. Ethical privacy involves informing the participants of the right to refuse to answer any question or participate in the study (Blumberg, *et al.*, 2014: 125). Privacy issues were addressed when the researcher communicated the benefits of the study to obtain the buy-in of the participants during the request for permission and face-to-face engagement/interview.

Moreover, the researcher avoided collecting personal information. Questions were structured based on the reviewed literature. In order to correctly classify the

business, the researcher focused on the number of employees. Moreover, the information of the informant was not disclosed in the report for privacy and confidentiality purposes. Fictitious names were used to ensure confidentiality. Only the researcher and the supervisor had access to the data. The field notes, memoranda, data on the audiotapes and all data analysis were stored on a disc, which was filed. A database was developed. No physical data was collected. The collected data will be retained for five years and afterwards it will be deleted from the file and the disc. The researcher conducted face-to-face interviews with the participants to ensure that confidentiality was maintained.

3.3.7.3 Release of the results

“Ethical considerations continue beyond the data collection phase to how researchers leave the scene and share the results” (Tracy, 2010: 847). Integrity in research is vital (Blumberg, *et al.*, 2014). Similarly, Welman, *et al.* (2005) emphasise that the falsification of the results or misleading is unethical. The researcher was honest in the assessment of and interpretation of the data that was accessed. Different quotations, comparisons and observations were used to conclude the findings. Moreover, Blumberg, *et al.* (2014) accentuate that review boards help researchers to examine their research proposals for ethical dilemmas. This research study was undertaken after approval from the Ethics Committee had been sought. This included an approval of the research proposal, abbreviated literature review and the assessment of the researcher’s competency in the chosen topic and methodology. In the research results, transparency credit was “given where due in terms of author order and acknowledgements to participants, funding sources, research assistants, and supportive colleagues” (Tracy, 2010: 842). This included the participants. The participants’ details were not disclosed in the report, however, they were referred to as Participant A, B and C.

3.4 Summary

This chapter explained the research design, the research methodology, and the population and sample frameworks. The research paradigm for the study was anti-positivism and, therefore, a qualitative methodology was applied. Moreover, the study was a case study of three participants and used a semi-structured interview. Observations were also used to study the context. Credibility, transferability, conformability and dependability were elaborated upon. The data that was collected from the research was kept confidential and treated with anonymity and privacy. The limitation of the study was elaborated upon to ensure fair representation of the study. This also included exclusion and inclusion criteria and the logic behind the decision made in Chapter 1.

A detailed analysis of the data gathered from the interviews is presented in Chapter 4.

CHAPTER 4

RESEARCH RESULTS

4.1 *Introduction*

This chapter provides the analysis, presentation and interpretation of the results from the three cases that were interviewed. The data, which was collected by using observations, is presented first. The researcher observed the context in which the businesses operated, including the close proximity of the competitors, well-established retail brands and small, medium and micro enterprises (SMMEs) in the same target market. The observations were made to provide answers in respect of the context, “with the main aim of confirming whether the market space is being shared within the Central Business District (CBD) and to what extent,” and to observe the location and innovative products and services. The observations were also made to ensure that the researcher had his own voice in order to avoid excessive reliance on the voice of the participants to ensure “multivocality” and “triangulation.” This also addressed “reliability and credibility” and limited possible unintentional “biases” either by the participants or the researcher. Hence, it allowed the researcher to be able to compare and contrast the views of different participants while also adding his voice or familiarity with the text.

Chapter 4 also provides results of the semi-structured interviews to formulate an answer as to “how risk management processes are effectively applied.” In doing so, the researcher embarked on a process of firstly confirming the “context” from the participants’ perspectives in order to also confirm whether the participants were capable of discerning between internal and external factors. It also compared and ‘validated’ the views of the researcher on the context and, therefore, the exposures to risk. The researcher also attempted to qualify the small and micro retailers based on the number of people who were employed permanently. The perceptions on

“business market research, business plan and objectives, general knowledge on risk and risk management, comprising of risk and opportunity governance, the importance of risk management and knowledge of the key definitions” were collected. To culminate, data on how risk management is effectively applied, was collected. The results are as follows:

4.2 Data analysis, presentation and interpretation of results

4.2.1 Results of the researcher's observations

The observations were persistent throughout the research study and were written around pieces of evidence that the researcher had observed during the research. This included the location of various retail businesses in the various streets and centres in the Tshwane CBD, approximate distances, observed behaviour of the potential consumers and surrounding complexes/shopping centres. When data was collected, it was then accurately written up. Afterwards, data, which was not considered to be relevant, was separated from the relevant data to accurately provide feedback on the context. The results of the observations are as follows:

TABLE 1.3 Context of the CoT CBD in which the small and micro retail enterprises operate

ENTERPRISE A	ENTERPRISE B	ENTERPRISE C
The enterprise is situated in the “passage inside a building in a complex” and sells cleaning materials and products.	“The enterprise operates almost outside the central part of the CBD.” It is situated in the south of the CBD. It sells fast food and beverages	The business operates “almost outside of the CBD, towards the east side of the CBD.” It sells furniture.
You rarely see customers approaching the enterprise. A “(f)ew of the customers that were observed often came to enquire	Most people, who pass the restaurant, are often in a “hurry to either catch a train at the station or taxi at the rank.” In the observations, it was noted that most of the “potential customers carried plastic bags	The enterprise may not meet the ‘target market segment.’ “People have to search for the shop to find it”. I have noted a few customers at the shop on observations.

about the product and price, and leave the shop.”	from well-established retail brands since they are down the road.”	
<p>Context observation that cuts across all the above-mentioned small and micro retail enterprises</p> <p>Newly refurbished complexes in the Tshwane CBD were also observed and it was noted that they also “attract(ed) customers as one-stop centres” for those buying groceries to walk back to taxi ranks and train stations. They also “offer(ed) space for customers who prefer(red) to sit in well-established food and beverage restaurants.” In addition, it was noted that large, well-established retail organisations occup(ied) the “strategic locations in the complexes/shopping centres,” with at least a few smaller enterprises that (could) “afford rental costs” in those complexes. Some complexes/shopping centres were being renovated, with “new smaller enterprises being introduced inside the centres” and the “existing, well-established enterprises expanding their stores.”</p>		

TABLE 1.4 Observations of the close proximity of larger retail organisations to the case studies

ENTERPRISE A	ENTERPRISE B	ENTERPRISE C
<p>The enterprise is situated in the passage inside a building. Many “outer perimeters of the buildings in the Tshwane CBD are occupied by larger established retail enterprises.” In Pretorius and Andries streets, there is a well-known retail enterprise, which is estimated to be a three-minute walk from the retail case. While another well-established retail brand is also a three-minute walk from the retail case. What is interesting is that before entering the passage in the opposite building in Francis Baard Street, there is another well-known retail brand (focusing on low-cost strategy), which was recently opened and occupies a strategic location, which is estimated to be two minutes away from the enterprise.</p>	<p>The enterprise is closely situated to a well-known retail enterprise, which is 290 m (estimated to be a four-minute walk). Moving towards the south of the CBD, there is another well-known retail enterprise, which takes 15 minutes when walking. Moving towards the north, there is a well-known retail enterprise, which takes two minutes to walk to the retail. There is competition from other “large franchises and retailers”. Most of them are a two- or three-minute walk from the enterprise.</p>	<p>The enterprise competes in the space dominated by established and well-resourced brands. Although the enterprise provides innovative designer furniture, however, the “area in which the business operates, impacts on the type of business.” For example, it sells premium furniture. However, “it is located opposite colleges and hospitals.” While its competitors are located in areas where designer premium furniture would be appreciated, such as at the centre of the CBD or other known malls.</p>

<p>It was noted that some of the “products sold by the enterprise are on shelves in larger, well-established retail enterprises, including those retailers focusing on low-cost strategy”. It was noted that some of the “shelves in well-established retail organisations (large) are packed with substitutes, no name brands and original branded cleaning products.” The products sold by the retail case found include, e.g. mops, tile cleaner, Handy Andy, etc.</p>	<p>It was noted that the “large, well-established retail organisations” served exactly the same food sold by the retail case. A “special plate (is served), which is not put on a scale or weighed” and “at a price that is cheaper than the enterprise” during lunch hour.</p>	<p>It was noted that the “traditional furniture brands” were closely located in the Tshwane CBD, with at least a few designer furniture stores around the CBD. There is still a gap in the market.</p>
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TABLE 1.5 Observations of close proximity of other competitors to the case studies (SMMEs in the same industry)

ENTERPRISE A	ENTERPRISE B	ENTERPRISE C
<p>The business is surrounded by the “smaller supermarkets in the CBD, which sells similar products” found at the retail case. In another passage in the next building towards the west of the CBD, there are other “SMME enterprises which focus on cleaning supplies</p>	<p>The enterprise faces competition from at least five SMMEs that serve the same “food plates”. However, it was observed that the retail case “opens earlier than the other enterprises in the area.”</p>	<p>Closely located to the enterprise are two Italian furniture shops (traditional and contemporary-style furniture). “These enterprises are well positioned to attract various customers at the corner of Francis Baard.”</p>

and materials,” exactly the same type of a business as the retail case.		
<p>Context observation that cuts across all the enterprises and analysis:</p> <p>The SMMEs in the Tshwane CBD compete with almost the same products and services, especially the fast food restaurants, clothing, cleaning material and products. It was observed that the cases either had competitors providing exactly the same product or substitute (either better or not depending on the preference of the consumers). A few products were identified to be unique.</p>		

TABLE 1.6 Observation of the location and condition of the small and micro retail cases

ENTERPRISE A	ENTERPRISE B	ENTERPRISE C
The location does not favour the retail case. The condition of the enterprise is fair since it is a small enterprise, hence, the layout is reasonable for its size.	The enterprise is located almost outside the Tshwane CBD. Most potential customers come across the enterprise in the morning when going to work and in the afternoon when rushing to catch a train. Hence, the location is not central, but there is hope. The enterprise is conducive to enjoying a meal inside.	The location does not favour the retail case. You often come across students passing by the shop. The layout is acceptable, however, it does not speak to the type of product being sold, which is designer furniture (premium product).

TABLE 1.7 Observations of innovative products and processes introduced by the case studies

ENTERPRISE A	ENTERPRISE B	ENTERPRISE C
The “products being sold could be found at any shop” in the Tshwane CBD. Hence, the products are not innovative to disrupt any market in the CBD.	In serving plates, serving tripe, cow feet, pap and stew is not new in the CBD. It is now found in well-established retailers at a price that is cheaper. However, it was noted that the “enterprise is trying to gain advantage by opening the shop earlier”.	The furniture designed is innovative. It can be positioned in the industry as a premium brand and compete locally and internationally.

4.2.2 Analysis, interpretation and results of the semi-structured interviews

The semi-structured interviews were conducted with three small and micro retail enterprises in the Tshwane CBD. The semi-structured interviews were transcribed, written up and coded. The write-ups and transcripts were read to ensure accuracy and where necessary, they were edited and commented on. Any missing information was identified, including reflective remarks and other relevant information that could be used to determine the pattern. Theme identification, including comparisons, connectors, repetitive words, transitions, key words in contexts, missing information, comparisons, contrasts, pawing, sorting and cutting were used. Any new theme was physically manipulated a few times to identify it. Any information not considered to be relevant to the study was separated from that considered to be relevant and reported in text phrases and quotations under a specific topic. The results are presented according to the interview guide with themes and subthemes:

4.2.2.1 Business information

Table 1.8 – 1.10 provide the business information of the three cases that participated in the semi-structured interviews. The business information includes the number of permanent employees, the period of existence of the small and micro retail enterprises, the experience in the type of business and whether or not courses in the field of finance, business management and risk were attended. The results are follows:

i. Number of permanent people employed by the business

The participants were asked about the number of people permanently employed by their enterprises. The results for this question are presented in Table 1.8 below:

TABLE 1.8 Number of people employed by the business

Enterprise	Number of people employed by the business	Quotations
A	1 employee	<i>"We are three people. However, two guys are manufacturing on a temporary basis."</i>
B	4 employees	<i>"We have four permanent employees."</i>
C	13 employees	<i>"Thirteen people are employed by the enterprise (at the factory and showroom)."</i>

The results in **Table 1.8** indicated that Participant A had one employee, Participant B had four employees, while Participant C had 13 employees. Based on the number of permanent employees, the enterprises qualified to be referred to as very small and micro retailers in terms of the National Business Act, 1996 (Act No. 102 of 1996), which has been amended by Act No. 26 of 2003 and 2004.

ii. Skills acquisition, shortage and retention

The participants were asked whether their enterprises faced a challenge of skill shortages, availability and acquisitions, including retention and the attraction of skills. Participant B accentuated, *"In our business, we are fortunate to have skilled personnel. The shortage is not encountered more often. It is just that there are some things which we cannot control, like family responsibility, sick leave, etc., but it creates a shortage for that moment. We have skilled and semi-skilled people."* Despite the positive response, Participant B further stated that *"there is this challenge of competition or greener pastures, so skilled people move from one restaurant to another. We try to keep our skilled personnel by giving them sufficient salary, but there is big business as well. Hence, some may be absorbed by big businesses."* Participant A indicated that, *"I don't see much of a skill needed because of my size."* Participant C emphasised, *"We are experiencing a shortage of staff,*

employees or colleagues, but the contributing factor is that we cannot be having more staff if we cannot pay them. However, we do have adequate skills for the business, in terms of running the operations. We are able to retain the current skills, market wise.” Although the participants accentuated that skill shortage was not experienced, Participant B raised a concern, which affirmed that they competed for skilled employees against well-established enterprises, while Participant C indicated that the acquisition of skills was mainly influenced by the availability of financial capital.

iii. *Period of existence and experience of the participants in the business*

The participants were asked about the period of existence of their businesses and how many years’ of experience they had in their business. The results for this question are presented in Table 1.9 below:

TABLE 1. 9 Period of existence and experience in the type of business

Enterprise	Number of years in existence	Quotations - Number of years in existence	Quotations - Experience in the type of business
A	1 year	<i>“This month is September, in October, it will be a year.”</i>	<i>“Honestly, I have one year(s) experience in this business”</i>
B	9 months	<i>“Let me put it in this way, we have been operating in the past 9 or 8 months now.”</i>	<i>“The manager himself, who is the co-owner, is the one who has more experience in this type of a business. He has five years’ experience to date.”</i>
C	+10 years	<i>“Initially, we started selling at Sunnyside and moved to the CBD in 2010 (the business</i>	<i>“The business was established long before. I have seven years’ experience.” (The owner has more experience.)</i>

		<i>started operating in 2006).</i>	
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The results in **Table 1.9** indicated that Participant A and B were owner-managers of newly established enterprises. Participant A had almost one year's experience, while Participant B had approximately nine months' experience. According to the DTI (2008), approximately 1% of enterprises lasted between 1,5 to 2,5 years (refer to Section 1.2 of Chapter 1). Hence, Participant A and B are in the most difficult phase of any small business, thus, they are susceptible to failure. In contrast, Participant C has been in the industry for more than 10 years. Moreover, Table 1.9 indicated that Participant A had at least one year's experience in the business. while Participant B, the co-owner, had an estimate of five years' experience in the operational functioning of the business. Participant C, the manager, indicated that she had seven years' experience in the business.

iv. Training and/or courses attended by the participants

The participants were asked whether they had attended any course in risk, business or financial management. The results for this question are presented in Table 1.10 below:

TABLE 1.10 Financial, business or risk management course attendance

Enterprise	Quotations – Attendance of courses
A	<i>“None, those courses come with a price. Some courses you go there, you don’t see the relevance of it. It is not going to help in anyway. Most courses just speak to well-established retailers in general. The courses address the well-established retailers, not small retail enterprises.”</i>
B	<i>“Not yet (none of the staff attended any risk management course for now).”</i>
C	<i>“(Laughs) I refused to attend some courses. The owner offered, but I refused.”</i>

The results in **Table 1.10** indicated that the owner-managers of the retail cases had never attended a course in risk management. Some had never attended other courses, such as business management or finance. However, Participant B indicated that other courses, such as safety and managerial courses, were attended by his employees, however, not risk management courses. What is concerning is that the results indicated that there was a perception that some of the course offerings were not tailored for small and micro retailers, but that they addressed well-established retailers. Moreover, the cases are unable to procure training (Worku, 2014), because they consider it to be costly (refer to Section 1.8.5 of Chapter 1).

4.2.2.2 Business context: Critical factors and obstacles

The context in which businesses operate is important for risk management. Cheese (2016) emphasises that due to changing contexts, the world has become riskier (refer to Section 1 of Chapter 1). The context attracts numerous kinds of risks. **The participants were asked to list five of the most critical challenging factors or obstacles faced by their businesses.** The following interview responses were grouped in terms of themes and subthemes:

i. Shared competitive space in the CoT CBD

a. Competing for a market space with well-established retail brands:

Participant B stated, *“We are competing with well-established businesses of which for them to actually increase prices is not done often, but for us to sustain or to survive, we need to increase as and when prices are starting to increase, starting from ingredients to rentals, electricity or even transportation.”* Participant B further accentuated that, *“the market itself is competitive whereby you try by all means to sustain the business.”* The results, therefore, indicated that the retail cases competed for a market space with well-established retail brands in the Tshwane CBD, which had the power to influence the pricing strategy or model of the retail cases. This is consistent with Sawers, *et al.* (2008) who emphasise that

enterprises of all sizes shared the same competitive space (refer to Section 1.2 of Chapter 1). Participant A stressed, *“Bigger retailers, when they come in, they leave you with nothing, Chief! You cannot compete with them.”* The retail cases, therefore, view the sharing of competitive space as unfavourable to them. As argued by Falkner and Hiebl (2015), the smaller set of financial and non-financial resources threaten their survival. Moreover, Participant B indicated that *“these big companies, sometimes they are not much affected by that (referring to price increase), because they are able to buy in bulk. They have storage places, whereby we small business(es), we do not have such.”* Similarly, Participant C argued, *“However, with the bigger companies, they have warehouses for storage.”* Consequently, there is a perception that large retailers benefit from bulk purchases and storage space. They, therefore, benefit from well-resourced supply chain management (SCM), while the small and micro retail enterprises do not enjoy such a privilege. As a result, there is a perception that the well-established enterprises are able to avoid increasing prices when costs increase. In addition, Participant C was of the view that well-established enterprises indirectly benefited from the CTMM as well, *by saying, “They don’t show signages for smaller enterprises for easier location, but they do have signages of large enterprises.”*

- b. Barriers of entry when introducing new products or services:** Participant A indicated, *“Breaking the market in terms of introducing a new product”* was one of the challenging factors that the enterprises faced. Further emphasising that one should *“remember that people are used to certain brands, and those brands are registered and one cannot use their names even if the products are the same.”* The result indicated that it was difficult for the case to position the substitute brands in the minds of the consumers and attain sustainable competitive advantage. However, Berry, *et al.* (2002) suggested that there is a possible concentration in the South African retail segments (refer to Section

2.6.3.3 of Chapter 2). The enterprise may, therefore, be exposed to a barrier of entry either due to the competitive space being shared or possible concentration.

c. Buyers or consumers have too many options: Participant B indicated, *“Our clientèle, ... they are not consistent. This week they will support in numbers, next week they are few. When we try to find out as to what the problem is, whether it relates to what we offer, they will tell you about their own budget and family reasons. Nothing that has to do with what you offer.”* The result indicated that the market space was extensively shared in the Tshwane CBD to an extent that the consumers had a variety of options in terms of product and service offerings. As a result, the consumers’ perceptions of price, value and quality also influenced whether or not they would exercise their buying power, for example, Participant A commented, *“(Eee...!) These people, they can tell you that you’re selling something in a container nyana (inferior product).”* Therefore, the result indicated that the small and micro retail enterprises faced the bargaining power of buyers with many options. This also impacts on the pricing strategy or model of these enterprises, but it also accentuated that competing on low cost and prices was being replaced (Mutalemwa, 2015) (Section 2.6.1.1 in Chapter 2) in the CoT.

ii. Political instability or instability in the country

Participant A accentuated that *“political instability affects us, especially the small businesses.”* Participant A further elucidated that *“with me, the major problem is a march or strike and it mostly happens at month-end.”* Conversely, Participant B retorted that *“the issue of instability in the country, because we are encountering strikes, especially recently, from nowhere you just here that all shops must be closed.”* Therefore, political instability or instability of the country impacts on the small and micro retail cases in the CoT. This also adversely impacts on their productivity and ultimately their revenue and profitability. The cases view the protest or strikes as costly for them. They emphasised that they lost revenue for that specific

day of the protest. Hence, the small and micro retail enterprises are exposed to risks exacerbated by socio-economic and politico-legal instability (refer to Section 1.7.2.1 of Chapter 1).

iii. Finance, credit sales and financial support

Participant A asserted that *“(f)unding is another challenge. There are no investors or no investments for small businesses (or in small businesses).”* This perception was also shared by Participant B, that *“the major one is the issue of capital, because as small businesses whatever we have to do has to be sponsored from our own pockets.”* Participant C also affirmed that, *“(a)nother challenge is financial, which should be added. If we were being funded by now, we would have expanded to other provinces.”* The retail cases, therefore, view finance or capital funding as a challenge that the enterprises face. What was interesting was that they had a perception that there were no investors for small businesses. This confirms that some investors or banks are cautious to lend money to SMEs (Verbano and Venturini, 2013).

Moreover, the retail cases are unable to provide credit to consumers. This has an impact on retaining or attracting potential consumers, for example, Participant C asserted that, *“(c)onsumers rather buy furniture that they can pay over months or years, because we are working on a three months or four months. We have the time frame that we are working on. People turn to say that they do not have money at their disposal at that moment.”* The cases acknowledged finance, credit sales and financial support as major challenges for their enterprises. They emphasised that the inability to provide credit to potential consumers resulted in the businesses not being able to retain potential consumers and that funds had to always come from their own pockets. According to Wang (2016), access to finance is perceived to hinder growth in SMEs. The results indicated that finance remained a challenge for small and micro retail enterprises.

iv. *Location or site position (location strategy)*

According to Participant A, *“(t)he outside space is more costly than the inside space. Where there is a lot of movements, the rental is very high. Hence, my location creates the inability to attract more people. Because of the location, some people cannot access my product, therefore, you are then restricted to a smaller market.”* Similarly, Participant C emphasised, *“I think in terms of the position where we are, the location of the enterprise is not so good.... When you are passing by, it’s not positioned in such a way that people will notice it (attract consumers).”* According to the small and micro retail enterprises, their location or site of the business inhibited them from reaching or attracting the desired target market or it limits the enterprises to a smaller market. The results, therefore, indicated that the location or site position of the business affected their product or service offering, even though they were in the CBD.

v. *Location or leasing costs (fixed rental costs)*

According to Participant A, *“(Eeh!... hey) rental is structured in such a way that every year it increases and they do not check factors, such as instability, like strikes. They are very inconsiderate, because once there is a march, there is a shutdown and you lose for that day.* Similarly, Participant B indicated that *“(a)nother thing is the issue of rent. (Eyah!), we have tried to negotiate with the landlords, but now it becomes a tough one, because on a yearly basis there is a certain increase. However, we cannot increase our food prices now and then without giving good reasons, because people depend on a certain budget. Once you stretch their budget, you might lose clientèle. Sometimes it becomes a challenge when we face this challenge of the landlord increasing rental every year, we have to then negotiate with customers. Some will understand and others will not understand.”* Hence, location or leasing costs adversely impact on the sustainability of the small and micro retail enterprises in the CoT CBD. This was also expressed by their emphatic reflective remarks. Participant B further asserted, *“The issue of availability of space or cheaper space*

in town or rental in town.” Hence, there is no cheaper space for the small and micro retail enterprises in the Tshwane CBD. Participant B further emphasised that *“to rent space for this kind of a business is expensive... so it is quite challenging if one does not have enough capital.”* However, Participant C differed by emphasising that *“(t)he location needs to be developed in order to attract potential consumers. The location that we are on is cheaper than those in the CBD.”* The results indicated that the leasing or rental costs in the Tshwane CBD were expensive for Enterprise A and B. However, in instances whereby the rental costs were less or cheaper, such as in the case of Enterprise C, the location was almost outside the Tshwane CBD, therefore, not adequately attractive to potential consumers. As emphasised, *“it needs to be developed.”* It is, therefore, evident that location or leasing costs adversely have an impact on the profit margin of small and micro retail enterprises.

vi. Marketing and advertising costs

According to Participant A, *“(w)hen you come with your own name, it needs to be advertised. It is money and it is very costly.”* Correspondingly, Participant C indicated, *“We advertise, but we do not have enough funds to be on shows for exposure.”* Conversely, Participant B also emphasised, *“Now we have to create another client base, therefore, we have to market more, and marketing is money.”* Thus, the marketing and advertising costs impact on the products or service offerings of the small and micro retail enterprises. Although it was not explicitly said, several of the cases’ responses constantly referred to marketing and advertising being expensive. There was a perception that it was a ‘costly’ exercise. Hence, they considered cost and internet marketing as a challenge (Van Scheers, *et al.*, 2015) (refer to Section 2.6.4.1 of Chapter 2).

vii. Supply chain: Acquisition, logistics and storage

According to Participant B, *“Where we get supply, it is not easy to get the ingredients or material to prepare the food. It(s) not easy, because of the limited resources.”*

You find that the vegetable we get them from afar. This creates challenges, because our things come late. If you don't find them, you have to go somewhere." Therefore, the retail enterprise is exposed to a challenge of suppliers of raw material. Participant B reiterated, *"Our supplies are in Pretoria. Most of them we get them from the market, so they get delayed."* This is exacerbated by the distance, which now causes a delay in the delivery of the ingredients. Moreover, Participant B also mentioned that, as a small enterprise, *"(a)nother issue is that we cannot get them in bulk, because we have to open an account. They want us to open an account and they want track records (financial status of the business) for opening an account."* Participant C referred to the challenge of storage, asserting that *"three months for some people feel that it is too short and if it is six months on the other side for us, we will also have a problem on the storage."* The results indicated that the small and micro retail enterprises were exposed to a challenge of ineffective supply chain, especially in the acquisition, logistics and storage processes. They are unable to buy in bulk and they do not have storage, even if they are able to buy in bulk. The inability to buy in bulk results in the retailers losing on settlement discounts and other rebates related to bulk purchases. However, this also indicated the challenges around the use of supply chain networks.

viii. *The need for a mechanism to resolve or monitor the factors and obstacles*

The participants were asked whether they believed that the mentioned challenges could be completely resolved or if there was a need for a mechanism to monitor the factors and obstacles that caused failure. Participant A indicated, *"The only thing to resolve these challenges is when there is a bigger structure to deal with small businesses. The possibilities are there, however, government, instead of giving the small businesses contracts, they often give the contracts to companies that are well-established... I don't know if they have (a) lack of confidence in the small enterprises. We need more support from government."* In contrast, Participant B indicated that, *"(a)s small businesses, what we have hope on*

is that government is trying to come in, of which government is trying to assist small business by giving them contracts, whether short or long term. Of which even myself I saw it as an opportunity. I also do business with government. I saw the hand that is trying to contribute to the challenges that we are facing. As we sit down and look at these issues, a solution will come. There is a need, though it might be a challenging one.” Participant C indicated, *“I believe that we will get to a point where these issues are resolved. I believe that there can be mechanisms to resolve those that are internal. Maybe we can get an advice on how it can be resolved.”* The results indicated that there were conflicting perceptions with regard to addressing the challenges that the small and micro retailers faced. Participant A viewed the role of government as a solution to the factors and obstacles that caused failure, while Participant B had received support from government and enthusiastically expressed that, as they sat down and looked at the issues, a solution would be found. An interesting rationale is that Participant C acknowledged that the mechanisms for internal factors and obstacles should be sought, and there was a willingness to resolve the internal factors and obstacles. Participant C is, therefore, able to differentiate between internal and external factors affecting business, which is critical for risk management.

4.2.2.3 Business objectives

i. Strategic intentions and objectives

Moeller (2011) argues that every business exists to create value for stakeholders (refer to Section 2.5.1 of Chapter 2). Clearly formulated objectives indicate the intentions of the enterprise to create such value. **The participants were asked where they wanted to see themselves in the next five years.** The following was revealed:

Participant A stated, *“I want to expand to (the) North West. In the next five years, if I am still in business, I want to see myself having at least two, if not three satellite*

branches. Remember people clean every day, I want to see myself bigger than I am.” Participant B indicated that *“basically in the next five years, what we want to achieve is to see first the current business being financially dependent. Eee! Secondly, we want to attract, let me say, more clientèle, having international clientèle, because we want to make an impact in Tshwane, Gauteng, South Africa, and even offshore. We want to see it in the next five years being a reputable restaurant. Secondly, having branches in other provinces or cities, attracting more people, even semi-skilled and having an impact in their lives, especially those who want to own restaurants. We want to be known as a restaurant that can develop future leaders in the business field so that they can venture into their future dreams or whatsoever (kept on saying, eeh....).”* Participant C stated that *“(t)here is an intention to see the business grow, branching to other provinces.”* The participants, therefore, expressed that they intended to expand their businesses. The expressions of the intentions of the participants were not clear to an extent that they can be translated into measurable goals and objectives. A clear strategic intent gives a central point of departure and avoids wasted resources and confusion in the market space (Louw and Venter, 2013). Conversely, they indicated that they were interested in growing their businesses.

Power (2009) asserts that organisational and suborganisational objectives must be connected to risk and risk management (refer to Section 1.7.2.7 of Chapter 1). **The participants were asked what their business objectives were and how they had identified them.** It was revealed that the participants had not formulated objectives for their enterprises, for example, Participant A requested the researcher to move to the next question and commented that, *“Eish! You are coming with a difficult question. Can we skip and we will come back to it.”* Participant A further indicated that, *“(i)f you have not formulated objectives, it is like building a house without a plan. (Laughs.) However, many houses have been built without plans and they still exist today.”* Participant C laughed too. The results indicated that the participants had not formulated objectives for their businesses. An interesting observation was that

Participant A had the perception that other businesses continued to exist even though they did not have plans, by referring to the example of “existing houses built without plans”.

However, Participant B tried to engage on the topic, but with too many reflective remarks. Participant B stated that “*(t)he objective is to build a reputable restaurant, reliable and that serves (eeh... paused) more at a reasonable price, but at the same time trying to (eeh... paused for a while) serve more people as possible and be easily accessible. And then, ((sighs) mmm...) Let me just say, we just trying to build a reputable restaurant that can actually be easily accessible and just try to serve more clientèle as possible.*” During the interview, the participants faced a challenge of eloquently detailing the business objectives and ‘how’ they were identified, including what information was used. As quoted, some laughed, sighed evaded the question and paused for a while, trying to construct sensible answers to the question. The reflective remarks indicated the difficulty of responding to the question of ‘how objectives are identified’ in a disciplined and structured approach. What was interesting was that the results also revealed that some enterprises viewed setting the objectives as unnecessary. Hence, they are unable to set strategic goals (Brink, *et al.*, 2003) (refer to Section 1.2 of Chapter 1).

ii. Market research

The participants were **asked about the industry in which they operated, with emphasis on the market research** which forms the basis for strategic direction, the positioning of an entity, supply and demand of products and services, regulatory requirements and, most importantly, it is included in any well-written business plan. The market research, therefore, also validates the existence of a well-written business plan. The following responses were given:

Participant A: “*Yes, I conducted a market research (paused for a while and said, Eish, you are asking a lot of questions.)*.” When asked about the outcome of the

research, the participant further replied that, “(i)n the market research, I have realised after using the no name products that we should not be stereotyped by certain kinds of brands. We can still get the same results or even better from the products that are unknown. The formula for mixing the products are the same.”

Participant B: “(Paused. Mm...) (**let me put it in this way**), we did conduct market research. Though we are still in it, we are still in the foundation.”

Participant C said that “no market research was conducted, such as using consultation. However, what we actually do, we pop up into the various shops. We did not appoint anyone specifically for the market research, however, it was done as individuals.”

Based on the results, Participant A and B indicated that they had conducted market research, but Participant C indicated that they did not use consultants to conduct market research. However, it was noted that the reflective remarks in the responses from Participant A and B communicated negative connotations to what was actually mentioned. They “paused for a while”, “let me put it this way”, “you are asking a lot of questions.” Hence, properly or adequately investigated market research was not conducted. This inference is based on that when adequate market research is conducted, clear intent and measurable objectives can be articulately expressed, including how and what informed them. Fatoki and Garwe (2010) argue that the SMEs do not conduct adequate market research (refer to Section 1.2 of Chapter 1). However, their facial expressions also indicated uncertainty in terms of what market research should consist of. Hence, there is a greater possibility of insufficient knowledge.

iii. Innovative products and services

Adequate market research also reflects on the type of products and services that were investigated to meet the needs and wants of the consumers. The participants were **asked how often they introduced new products and services**. *Participant*

A indicated, *“I do introduce new products. When I started, I used my own products. Then I got other products, which are well packaged. I often use those to market and display, because of how they are packaged and when people come, I sell them my own products.”* Conversely, Participant B indicated that *“(n)ow and then, every month, we try to introduce new products. The nature of our business is seasonal. It is a seasonal business. Processes, the issue of doing outreach. We rather also try to market ourselves to private or government.”* Participant C asserted, *“We do introduce new products on a monthly basis. I can say on monthly basis, we do have new products. Through advertising, we do show existing and new products that we have, so there is new ranges.”* The cases responded that they introduced new products and services in their enterprises, which can be true. However, it was noted that they did not view new products and services in relation to what their competitors offered in the market space. Therefore, they are not innovative (Neneh and Smit, 2013) (refer to Section 1.2 of Chapter 1). However, Participant C designed his or her own unique furniture.

iv. *Networking (including the use of supply chain networks)*

Networking forms part of a well-structured business plan and market research. **The participants were asked how often they networked with other businesses in the industry.** Participant A stated, *“I do network. (Eish!)..., we even have a WhatsApp group.”* Participant B indicated, *“We actually do it, let me say on the daily basis. Participant C stated, “The networking part we want, but financial constraints ha(ve) an impact on us, hence it is challenging for us. We just try to keep up with what is going on in the market by reading magazines and watching the latest programmes on furniture, international programmes on DSTV.”* The results indicated that some participants networked with other individual smaller businesses, except Participant C, who indicated that they checked their competitors’ offering and used other tools to keep abreast of the changes in their specific industry.

A follow-up question was asked on the awareness of Wholesale & Retail Sector Education Training Authority (W&RSETA). Participant A commented, *“(Those people are in business, chief!) Do you think that other businesses have the time to assist other businesses?”* Hence, Participant A was not aware of W&RSETA and its role in the retail sector. In contrast, Participant C commented, *“We don’t have any relation with W&RSETA. Initially we wanted to, but somewhere or somehow the paperwork delayed the process.”* Hence, participants are not aware of the SETAs responsible for their industry. They, therefore, do not network with the relevant SETAs, while other participants are aware, but they are not members of the SETAs due to the registration requirements. Zondi (2016) argues that they are not members of the bodies that represent their types of businesses (refer to Section 1.2 of Chapter 1).

Since the cases retorted that they networked with smaller businesses, when asked about whether they benefited from using supply chain networks, Participant B indicated, *“Supply chain, what?”* After the researcher explained, Participant B indicated, *“In that sense, it is something that we have been trying to build. Currently, we do not have such. It is something that as we do researches, we see that other small businesses or people from outside South Africa, when they come to South Africa to start a business, what they do. They group themselves according to their beliefs or where they come from and they have a common understanding. And they try to help each other, of which we South Africans, we still need to learn from that, cause currently I have never experienced that, of which I think it is a good idea if really the small business can come together to have a common vision and stick to that. It is something that we hope that the small businesses do and come together, but currently, (ha ha).”* In addition to day-to-day networks, which were confirmed initially, the results indicated that the small and micro retailers did not partner to efficiently use supply chain networks in order to benefit from discounts and other rebates when purchasing goods and services.

v. *Business plans*

A well-written business plan comprises of adequately conducted market research, well-formulated strategic intentions and objectives, proper identification of industry stakeholders, including networks and products or services that are in demand and innovative enough to attract the desired market. When the **participants were asked whether they had formulated business plans**. Participant A commented, *“(Business plan, I don’t remember. Eish!) I don’t remember.”* Participant C expressed ambivalent views. In contrast, Participant B indicated, *“Yes! We do have a business plan.”* Hence, not all the small and micro retailers had drafted business plans. This also explained why the participants faced a challenge of eloquently explaining their strategic intention, objectives and market research. This further confirmed Marivate (2014a) and Fatoki and Garwe (2010), that they were unable to draw business plans (refer to Section 1.2 of Chapter 1).

4.2.2.4 *General knowledge on risk and risk management*

i. *Importance of risk management*

The participants were asked **what their views were on the importance of risk management in small or any business**. Participant A indicated, *“Honestly, every risk needs to be managed, irrespective of whether it is financial or operational. It just needs to be managed.”* Correspondingly, Participant B indicated, *“I believe that it is very much important to take much consideration of the risk management process, for example, the foundation of any business,... lies in the understanding of risks there in the industry and the business itself. And, so it is very much important for one to do a thorough research on risks themselves and have (a) mechanism to managing them or encountering them.”* Conversely, Participant C responded, *“Risk management is important for small and large businesses.”* Although the participants confirmed the importance of risk management in an enterprise, it was evident that they had found it difficult to engage on the topic.

ii. *Definition of risk and risk management*

When **asked to define risk**, Participant C indicated, *“I think risk is anything that you are willing to take if (I am, mmm.... How will I define it?) I don’t know what to say. It is something that you are willing to take (laugh).”* Participant B indicated, *“How do you define risk then? (A, ja, ja) Risk is the negative that can cause a downfall of a business, financial part of things, lack of financial management, fruitless expenditure, those are the risks that can collapse business.”* Participant A however, avoided the question and commented, *“My mind is tired.”* The participants found it challenging to define risk from a theoretical perspective (refer to Section 2.3.1 of Chapter 2).

Fatemi and Luft (2002) accentuate that strategic risks encompass macro factors that affect value to its shareholders. When the participants were **asked to express their view on strategic risk**, Participant A indicated, *“(s)trategic risk (Eish, my goodness.)”*, while Participant C stated that *“(s)trategic risk can be comparing to prices of a well-established enterprise. For example, when we sell a headboard at a price that is cheaper.”* The results indicated that some participants had an idea of what strategic risk could mean, while others struggled to define the term. However, all the participants could not relate strategic risk to the theory.

Financial risk is a value the investor loses if the business fails (Kim and Vonortas, 2014). When participants were **asked to express their view on financial risks**, Participant A responded, *“Financial risk might be not managing funds or diverting funds to other things which do not benefit the business or generate back into the business, and in the long run the business will be affected.”* Participant B asserted that *“(b)asically, a small business like ours, it very much important to look at our finance in a very, very serious note.... Finance need(s) to be managed in a proper way. What we have experienced is that because of (a) lack of funding, we encounter risks in such a way that, a project might come or an order might come and when you check the quantity versus the finance, you realise that you will not be able to render*

the service.” Participant C commented, *“Financial risk (hmmm... signs). The marketing side is the one that is (a) bit strenuous for us, if I was to say, (hmmm...) to market abroad.”* The participants had an idea of what financial risk meant for the business. However, they were unable to engage on the definition in relation to theory.

In respect of operational risks, Participant A indicated that, *“operational risk is when you give too much credit to customers, therefore, people taking from the business, but not paying back.”* Conversely, Participant C *“think(s) operational risk comes also from the point of skills. Some of us have gained it from experience, hence, we do not grasp things the same way.”* Conversely, Participant B stated, *“Operational risk, part of it must be taken serious, for example, our staff how they dress, meaning the safety part of things and the equipment they use on daily basis to render the service to our clients, needs to be proper. Because it might bring (1) health hazards, (2) create injuries on duty of which that on its own can impact the business, we try to equip our staff with (1) safety clothing, (2) safety skills and (3) adequate equipment that they need to use in the restaurant.”* The results indicated that the participants had an idea of what operational risks were, but not at an advanced level. For example, employee skills, health and safety, including equipment, were mentioned.

The participants were **asked to define risk management** from their own perspectives. Participant C indicated that *“managing the risk (How can I say it?). I don’t know what to say. I will come back to it and (laughs)...”* Participant A avoided the question by commenting, *“Eish, Chief! My mind is blocked and paused.”* The results indicated that not all the cases knew of a definition for risk management from a theoretical perspective. Participant B, however, responded that, *“risk management is just a way of trying to minimise the risk in the business.”* Participant B also indicated that, *“the leader, meaning the manager of the restaurant, must actually know the do’s and don’ts in the business. Sometimes even decisions taken can eliminate or create risks in the business. The one who takes decisions often, must*

make sure that whatever decisions they take or new ideas they put into the business, the risks must be evaluated." This indicated that Participant B had basic theoretical knowledge of the concept of risk management. However, Participant A and C struggled to express their views on the concept of risk management.

iii. Perceptions on risk management processes

The participants were **asked whether they believed that a well-implemented risk management process was able to reduce the exposures to risk** from the causes or obstacles of failure. The participants responded that they believed that it could, for example, Participant A indicated, *"Risk management, if you manage to reduce the risk, then the chances of success are more. Therefore, you have more chances to success than when you have more risks not managed. Business has its own structures or principles. if you follow, then you reduce the risks, even your profile becomes alright when you manage the risks."* Correspondingly, Participant B stated, *"Yes, I believe that a well-implemented risk management process is able. Every business needs to have (paused) a vision and in every vision, there are always challenges and obstacles. In every vision, there is a room for success and a room for failure."* Similarly, Participant C commented, *"I think yes. The reason I am saying yes (is) that if you are, or have reduced the risks, then it means that you can maintain and move forward. Hence, there is a potential for growth if those risks are being prevented from happening, because if we are unaware of those things (risks), we keep on working on them and nothing is being done and there won't be any growth. If you know about it, you can work on them or be able to address it."* The results indicated that there is a perception that risk management processes are able to reduce the risk exposures caused by various obstacles or factors that cause failure.

iv. Risk and opportunity governance

The participants **were asked whether there was a need for risk and opportunity to be governed in small and micro retail enterprises**. Participant A indicated,

“Yes. Risk and opportunity should be governed, because the small businesses are still new, inexperienced. They need to be governed and regulated to reduce too much competition.” Participant B indicated, *“I believe that there is a need (to manage risk and opportunity). Actually it is part and parcel of business. There will always be risks and opportunities. The question is can one identify them. After identifying them, can one work accordingly towards them or cap the risk to actually produce success or one can sit and risk absorb them and collapse their business.”* Participant C commented, *“There is a need for risk and opportunities to be governed. Some people are running the business from their personal savings (their life savings). If it not being governed, the small business won’t get to grow.”* The results indicated that there is a perception that risk and opportunity should be governed in the small and micro retail enterprises. Despite indicating the importance of governing risk and opportunity, Participant C indicated that, *“risk management is important for small and large business, but it is difficult to manage, because there is no specific person designated to manage the risk.”* Participant C further cited, *“we do not have departments that does 1, 2 and 3. So, I think we are exposed to a lot of risks and we will not be aware.”* Hence, these perception indicated that the small and micro retailers do not have a designated person responsible for risk management. This contradicts what Moeller (2011) argued, that they should designate people to manage their enterprise-wide risk assessments.

When **asked whether their small and micro retailers captured opportunities.** Participant A commented, *“(Eish! To capture opportunities), I believe that opportunities are always there. **We just need to identify them.** In most situations, it is finance that inhibits us from capturing opportunities.”* Participant C stated, *“We do take the opportunities. The only challenge is the implementing or to implement them becomes a challenge to get to those things.”* The results indicated that even though opportunities were presented to the small and micro retailers, there was a challenge of implementing the necessary strategies to get to those opportunities. For example, Participant A indicated that, *“Opportunities, Chief, are there, finance to capture the opportunities (Eish!) (referring to challenging). Another thing is the*

strategy to capture those opportunities is difficult.” At some point, Participant A further indicated that *“opportunities are difficult, because you get the bigger retailers and when they come in, they leave you with nothing. Chief, you cannot compete with them.”* Participant C also shared another perception that *“opportunities are not a lot and they are limiting as well. For instance, in terms of opportunity to engage in them, there is certain requirements that limit the retailers.”* The result indicated that the participants had contradictory perceptions on the availability of the opportunities. However, the strategies to capture the opportunities is perceived to be challenging. The participants cited finance, implementation and limitation as the main challenges of capturing opportunities. By ‘limiting’, the participant referred to the fact that they had to compete with well-established enterprises which often meet certain regulatory requirements for which some of the small and micro retailers do not have experience or the certificate to support such requirements. Thus, factors, such as finance, over-regulation or compliance requirements and contracted market space adversely impact or limit the small and micro retailers from capturing opportunities. However, Participant A emphasised that the retailers needed to identify them, hence identification was also a noted challenge.

4.2.2.5 Risk management processes (identification, assessment and treatment)

The participants were asked to **describe ‘how’ they conducted the risk management processes** (risk identification, assessment and treatment). The responses are as follows:

i. Identification of risks

Firstly, the responses indicated that there were perceptions that risk management was for formal businesses. Hence, there is a perception that the same well-established enterprises or brands that compete with the cases in the CBD should formally manage risks, for example, Participant A stated, *“(Eish!) In small enterprises we are not formal.”* Participant C acknowledged the importance of risk management for small and large enterprises, but commented that, *“it is done collectively, but*

informally.” Participant C commented that, “(f)or us, **we are not structured as compared to large organisation.**” Moreover, Participant C cited that “(w)e need to engage in that activity as a team (the size of the enterprise versus the larger enterprise).” Hence, the results indicated that the participants viewed risk management processes as a tool for those enterprises that were larger, formal and structured, which are the very same enterprises that compete with the small and micro retail cases in the market space in the CoT. The perceptions already expressed a view that risk identification, risk assessment and treatment of risk comprises of fragmented processes in the small and micro retail enterprises.

Secondly, when the participants were asked to briefly describe how they conducted risk identification processes, the first thing that was mentioned by Participant A was that, “*In my business, the biggest risk is that we are not insured, any stock theft is a challenge.*” When asked how they identify that risk and what information did you consider to identify the risk. Participant A evaded the question by commenting that “**(t)he process to identify them is not formal.**” The results indicated that the processes of identifying risks in the small and micro retail enterprises was fragmented to the extent that the participants encountered a difficulty of rationally explaining from “what” and “how” do they identify risks. Evidently, even though the participant cited that it was not structured or formal, the participant was not able to explain how and which information were used to identify the risks.

In contrast, Participant C indicated, “*We do the process collectively. We turn to look at from where we were and where we are right now in terms of the business wise. We try to see where we are lacking, for instance, we need to improve on something, for instance, on sales. If we are **not making enough sales, we address it and say let’s change** the manner in which we do things and implement something new and see if it’s going to work for us. (Hence, when sales are decreasing, then there is a risk). (Let me say) on a monthly basis, we do check that on this side, we are doing well, but here there is a problem. Then we check what can be done with regard to*

the sales and we say let us change the strategy or the set of how we place the furniture, the designer or these things we have been having them for a while, let's have a sale." Hence, Participant C had an idea of how it can be done, however, it was noted that they did not collectively discuss and identify the specific risks, but looked at what the enterprise was lacking and what they needed to improve on what was more performance management than risk management. The results, therefore, indicated that Participants A and C had an idea of what affected their businesses. However, the participants did not follow a systematic process of identifying the critical risks that could adversely impact the achievements of their business objectives, and interrogate them and assign to possible types of risk. As a result, some major risks might be overlooked or missed.

Thirdly, the responses indicated that the participants did not consider the identification of risks holistically. The emphasis of the retail enterprises was on finance and generating revenue, for example, the participants considered managing finance to be important to the enterprise as opposed to other activities or value chains. Participant A indicated, *"What is **important here is revenue**, as long as you can manage your finance, right? And finances, we refer to people buying the product. You can have good books, however, when you don't have people buying the product, the landlord will not be pleased with a good systems. The landlord wants money."* Similarly, Participant C emphasised, *"We are aware that we need it, however, we cannot be **engaging on risks whereas we need customers** to buy products."* Hence, the results indicated that the small and micro retail enterprises did not consider identifying risks on the total enterprise activities. They believe revenue is the most critical business activity.

Moreover, the responses indicated that the participants discussed risks on the basis of something that had occurred, for example, Participant B often referred to exposures to risk that had already adversely affected the enterprise '**reality**', such as, *"Basically, in our business, the risk that we encounter, number 1 was the risk of*

*financial muscle, because of capital” and “What we **encountered** at the end of the day is that sometimes you plan based on the capital you have....” Another example that was noted in Participant B’s response was that, “another risk we have **encountered** was the risk of purchasing the products at a cheaper prices and in closer places... this means that you have to change the supplier. This affects the distance factor and timeframes. This ultimately affected the sales.” The results indicated that the risk identification process was “not forward looking”, but it was reactionary in the small and micro retail enterprises.*

ii. *Risk assessments*

The participants were asked to briefly describe how they conducted risk assessments. Participant C indicated, “*Truly speaking*” **The assessment part is not in done.** *A lot of things (are) done informally.*” However, Participant A commented, “*Since you have been here, have you identified any risks?*” Further citing that, “*Remember government must give us support to address the risks.*” The results from Participants A and C indicated that risk assessment was not conducted. As a result, the likelihood and impact of risks were not assessed. Thus, when those risks or potential problems occurred, the severity of their impact is not speculated to ensure that the necessary constrained resources or responses will be able to appropriately address exposures to risk. Participant B tried to engage on the topic, however, the participant’s answers were reactionary ‘what was encountered’ as opposed to how it was conducted. Therefore, it was not forward looking.

iii. *Risk treatment or response*

When Participant A was asked to briefly describe how risk response or treatment was conducted, the participant indicated, “*I just manage my own risks. I am the salesman, security guard and the teller (all in one).*” Participant A later indicated, “*What is major, is that we live by Christ.*” Participant B stated that, “*with many challenges or risks we face, we always look at the nature of the risk, at the moment*

the risk of finance we have realised that it is the major risk.” Participant B further confirmed, “**We apply all the approaches.**” Participant C stated, “*I don’t think that it is any different. We identify the possibilities of risk.*” Due to the inadequate process in the identification and assessment of risk, the chosen responses are not informed by the likelihood and impact of the risks. Hence, was it acceptable or not acceptable may not be known by the participants of the small and micro retail enterprises. As a result, the chosen responses are unable to adequately address the exposures to risk and, therefore, the factors or obstacles of failure. The participants responded to exposures after they had occurred, meaning after they had become a ‘reality’. Due to the lack of risk assessments, the participants are of the view that they use all the risk management approaches or strategies to deal with exposures to risk.

4.3 Discussion of results

4.3.1 Small and micro retail cases: Business information

The small and micro retail enterprises operate in the CoT CBD. The results indicated that Enterprise A was situated in the passage of a building complex in the CBD and Enterprise B was located towards the south of the CoT CBD. Enterprise C was situated towards the east of the CoT CBD. Therefore, the cases were situated in the CBD, the site of the target (refer to Section 1.12.2 of Chapter 1). Enterprise A sells cleaning material and products, Enterprise B sells traditional fast food, bakery and beverages and Enterprise C sells furniture. They add value to products and services for personal or family use and they sit at the end of the supply chain (Grewal and Levy, 2010). They sell to the general public, therefore, they are considered to be retailers. Enterprise A has one employee, Enterprise B has four employees and Participant C has 13 employees. Therefore, the enterprises are classified as very small (20 employees) and micro enterprises (05 employees) in terms of the National Business Act, 1996 (Act No. 102 of 1996) (2003:2004) (refer to Section 2.6.3.4 of Chapter 2). Enterprise A and B are considered to be micro enterprises, while Enterprise C is classified as a very small enterprise.

Enterprise A and B were newly established enterprises. Enterprise A had been in existence for almost one year while Enterprise B had about nine months. Failure in this phase is imminent. It is estimated that 75% of the new businesses do not survive five years (van Tonder and van Scheers, 2011). Enterprise C had more than 10 years, therefore, it was categorised as an established enterprise. Participant A had one year's experience and Participant B had 5 years' experience in the core function of the business, with four years not at managerial level. Hence, the manager had one year's experience of co-owning a business. The years of experience in the business were, therefore, moderate. Participant C had more years' experience in the type of business. The participants did not attend any training on risk management.

4.3.2 Context risk profiling based on perceptions, experiences and observations

The observations revealed that large, small and micro retail enterprises competed with each other. This emphasised that the enterprises did not complement each other (Rogerson, 2004 citing Qualmann, 2000), but they see each other as rivals (Mutalemwa, 2015) (refer Section 1.2 of Chapter 1). They share the same competitive space and they are closer to each other in terms of location (refer to Section 4.2.1 of Chapter 4). This eliminates the advantage of convenience that the small and micro retail enterprises enjoyed previously. Participant A, B and C explicitly confirmed that they competed with well-established retail brands in the interview results presented (refer to Section 4.2.2.2(i) of Chapter 4). This is consistent with Cant and Wiid (2013) who emphasised that the SMEs faced competitors with well-established brands.

The observations also revealed that more malls or shopping centres were being built in the CoT CBD. This is consistent with Marivate (2014a) who emphasised that malls are mushrooming. What was also noted was that new SMMEs were being introduced inside the shopping centres and that the existing, well-established enterprises were expanding their stores. As a result, the competitive space had contracted. The small

and micro retail enterprises are, therefore, exposed to strategic risks related to **competition, industry or market risks**. Kim and Vonortas (2014) emphasised that the SMEs faced market risks. Consequently, if the enterprises have not conducted adequate market research (refer to Section 4.2.2.3(ii) of Chapter 4) to study the competitors, industry or the market, they may be exposed to another strategic risk, such as **strategic focus risks**.

The observations revealed that most well-established retail brands were positioned in strategic locations inside the complexes/shopping centres in the CoT CBD. These were complexes that were well maintained and attracted a variety of consumers as “one-stop centres”. In contrast, the small and micro retail enterprises are either situated in a “passage or almost outside the CBD”, as confirmed by Participant A and C that their location inhibited them from reaching the desired target market, hence it limits them to a smaller market. Fatoki and Garwe (2010) elucidated that inadequate location can impact the potential and growth opportunity of an enterprise. Therefore, the small and micro retail enterprises are exposed to strategic risks associated with **location strategy** (refer to Section 2.6.4.1 of Chapter 2). On the contrary, it emphasises that the well-established retailers have a variety of options in relations to resources, capabilities and power (Sawers, *et al.*, 2008).

The participants further emphasised that well-established retail brands benefited from having adequate storage space. They are able to buy products in bulk and benefit from various discounts and rebates related to bulk purchases. As a result, they are able to sell products and services to the consumers at prices that are cheaper. The participants have a viewpoint that larger retail businesses do not see the need to increase their prices when certain operating costs increases. As emphasised by Participant B, “(w)e need to increase as and when prices are starting to increase.” To some extent, the participants view the competition as unfavourable to their size of businesses, as emphasised by Participant A that they cannot compete with the larger retailers as “they take everything”. This reiterates that the small and

micro enterprises compete with larger enterprises, with adequate capital and extended human resources (Smit and Watkins, 2012). This ultimately impacts on the pricing model or strategy of the small and micro retailers. The enterprises are forced to increase prices in order to cover the increasing operating costs such as rental costs and/or raw material costs. Thus, the small and micro retail enterprises are exposed to **pricing risks**. This is consistent with Cant and Wiid (2013) who emphasised that wrong pricing strategy is a factor that also impacts on the SMEs. Consequently, when increasing the prices to accommodate the increasing operating costs, the retail cases are exposed to further risks associated with **customer satisfaction or price sensitive customers**.

Although, Rogerson (2004) cited Qualmann (2000) emphasising that the SMEs compete with larger enterprises possibly in different consumer segments (refer to Section 1.2 of Chapter 1). However, observations revealed that there was a thin line that needed to be defined with regard to consumer segments in the CoT. For example, during the observations, the products offered by Enterprise A were found in large retail enterprises, while it was also noted that the same large retailers also served fast food plates found at Enterprise B. The consumers or buyers, therefore, have a variety of options in terms of products and service offerings in the CoT CBD. This was emphasised by Participant B who confirmed that, "*Our clientele are not consistent.*" Alternatively, it revealed that the products and service offerings of the small and micro retail enterprises were not innovative (Refer to Chapter 4, Section 4.2.1 and 4.2.2.3.3) when compared to what was being offered in the CoT market space. The small and micro retailers focus on the same products and services sold by large enterprises with adequate capital and resources. Therefore, they are exposed to **innovation risk** which is the third industry risk in South Africa according to IRMSA (2017). As observed, "Shelves in well-established retail organisations (large) are packed with substitute, no name brands and original branded products," of which some are offered by the small and micro retail enterprises. Hence, the well-established retailers in the CBD offer products and services at different prices to

accommodate consumers that are price sensitive. This adversely impacts on the pricing strategy of the small and micro retailers.

Due to lack of innovative products and services, the small and micro retail enterprises find themselves trying to attract a pool of consumers who already have too many options on products or service offerings in the CoT. This adversely impacts the small and micro retail enterprises with regard to the customer's perceptions of price, value and quality (refer to Section 1.1 of Chapter 1). For example, they have to increase prices to cover operating costs while well-established brands rarely increase prices. In addition, they are faced with a task of persuading customers that associate quality with well-established retailers. As evidenced by Participant A, the customers can sometimes refer to your products as inferior product "*Container nyana*". This often results in barriers of entry for the small and micro retail enterprises (refer to Section 4.2.2.2(i)(b) of Chapter 4) since well-established brands are already positioned in the potential consumers' minds. The small and micro retail enterprises are exposed to strategic risks associated with **customer needs and wants**.

Closely related to the location strategy is the cost associated with the location in the CBD, referred to as rental or leasing costs. The participants viewed location or leasing cost as very expensive in the CoT CBD. For example, the participants emphasised that "rental is structured in such a way that every year it increases." This is because it is a fixed cost that must be paid monthly, irrespective of whether or not the business generated income during the month. In addition, the participants viewed the annual rental escalation as problematic since they face a challenge of increasing their prices annually. When the participants engaged on the issue of the leasing costs, their facial expressions changed. Hence, one could see the devastation caused by the rental costs. During the interview, one participant even humorously mentioned that, "You will see a lock on your door, if you have not paid." This reiterate that, the exposure to financial risks associated with the inability to meet the rental obligation as it comes due is imminent for the small and micro retail enterprises in

the CoT CBD. According to Gitman (2009), when an organisation cannot cover its financial obligations when they come due, it is exposed to financial risk. Hence, the small and micro retail enterprises are exposed to **financial risks** if they are unable to pay their obligations as they come due. Due to high rental costs in the CoT, the sustainability of the small and micro retail enterprises over a period of five years may be a serious challenge. **Financial bankruptcy** is, therefore, imminent. Hence, the SMMEs in the CoT face bankruptcy, as accentuated by Marivate (2014a). The evidence indicated that the small and micro retail enterprises run their businesses with hope to cover the rental costs. If enough sales are not made, the enterprises have to self-finance the leasing/rental costs from other funds. When asked to what extent, Participant A indicated that it can take about 60% - 70% of the revenue, if generated. Moreover, the small and micro retail enterprises are exposed to high marketing and advertising costs which impact on whether they will be able to attract potential consumers or not in the CBD. As emphasised by Participant A, "it is very costly." In conclusion, high leasing, marketing and advertising costs indicated that the small and micro retail enterprises are exposed to **operational risks**, which often translate to financial risks. Operational risks overlap with other types of risk (Blunden and Thirlwell, 2010). Fatoki and Garwe (2010) argue that the cost of production is a constraint that needs to be monitored in South Africa.

The political instability or instability of the country impact on the productivity of the small and micro retail enterprises. As a result, the retail cases often lose revenue when strikes or protests takes place in the CBD. The instabilities in the country have a pervasive impact on the sustainability of the retailers, to some extent, it translate to financial losses for the small and micro retailers. For example, the retailers lose revenue on the day of strike or protest. Conversely, if they take the risk of operating with or without the approval of the landlord, they carry the risk of damages to the property of the landlord. Frustrating is that, the small and micro retailers are expected to meet their financial obligations at month end such as rental costs. Therefore, the retail enterprises are exposed to political risks, which Blunden and Thirlwell (2010)

argued that it is **operational risk**. The small and micro retailers are also challenged by ineffective supply chain processes. For example, they are unable to buy products in bulk, experience logistical challenges and lack storage capacity. As a result, they often forfeit rebates or discounts and they are unable to exercise their bargain powers. Thus, the small and micro retailers are exposed to operational risks associated with **supply chain risks**. This often influence financial risk such as **commodity price risk** or **raw material price risk**. However, supply chain risks often reflect inadequate networking (refer to Section 4.2.2.3(iv) of Chapter 4) with other stakeholders in the industry in which the enterprise is operating.

Fatoki and Garwe (2010) argue that all businesses require access to finance to start trading and to grow. The participants confirmed that **insufficient finance or capital funding** was a major challenge faced by their enterprises, for example, many cited that they often had to use funds from their own pockets. Hence, their businesses were not always profitable or the risk of bankruptcy was imminent. Finance is, therefore, perceived as a significant obstacle to hinder growth (Wang, 2016). Moreover, the small and micro retailers were not able to provide credit to their potential consumers. This often results in consumers buying products or services on credit elsewhere. As a result, the retail enterprises lose potential business. What is concerning is that the cases felt that there are no investors and financial support in small businesses. This confirmed Kim and Vonortas (2014) who argue that the high level of perceived risks creates a difficulty in raising investment funds for young and small firms. The small and micro retail enterprises are exposed to financial risks, such as **capital availability risks**. Moreover, the lack of financial support may also indicate a lack of confidence by the potential investors or investors viewing the enterprises as risky.

Due to inadequate capital, the small and micro retailers are exposed to **a shortage of skills**, although it is not considered to be a major problem since they have the necessary skills to perform their operations. However, there is a skill shortage. For

example, Participant C emphasised that “we are exposed to (a) shortage of skills, but the contributing factor is finance,” while Participant B commented that they competed with well-established enterprises for skills in the industry. Apart from the skill shortage, the training and acquisition of the training was a challenge. For example, Participant A indicated that “those courses are costly.” Moreover, when the cases were asked whether they have attended the training, Participant A confirmed that “None”, while Participant B confirmed that they have attended some but, have not attended the course on risk management. This is consistent with Brink, *et al.* (2003) who elucidated that SMEs faced the challenge of retaining and training (refer to Section 2.6.4.1 of Chapter 2). However, it also affirmed that some owners of SMEs seemed reluctant to invest in activities that built knowledge (Falkner and Hiebl, 2015) and/or they were unable to procure vocational training (Worku, 2014). The small and micro retailers were, therefore, exposed to **operational risks** related to skills and training.

In conclusion, the perceptions, experiences and observations of the small and micro retail enterprises indicated that the enterprises were exposed to potential risks, exacerbated by internal or external factors in the CoT CBD. Some participants’ experiences indicated that some of the risks had become a reality for the retail enterprises. This confirmed that the small and micro retail enterprises were exposed to strategic, financial and operational risks. However, they were often unaware of the exposures to risk (refer to Section 1.2 of Chapter 1).

4.3.3 Business objectives, market research and business plans

A well-written business plan with a well-crafted strategic intention and objectives is premised on a properly investigated market research. The market research ultimately informs the type of innovative products and services that may meet the needs and wants of the consumers and effective networking strategy. Firstly, the strategic intentions of the small and micro retailers are not clear. As a result, it was difficult for the participants to translate them into measurable and achievable

business objectives. This is evidenced by the fact that the participants struggled in explaining what their objectives were and how they identified them. For example, Participant A commented with a reflective remark, “*Eish!*” And opted to move to the next question, while Participant C laughed and Participant B tried to explain with too many reflective remarks such as “*Eeh....paused for a while*” “*Let me just say.*” Moreover, Participant A went to the extent of justifying the lack of objectives by humorously commenting that “*many houses have been built without plans and they still exist today.*” Power (2009: 849) affirms that an organisation “should seek to identify all material risks to their objectives and sub-objectives” (refer to Section 2.5.1 of Chapter 2). The small and micro retailers have not formulated measurable and achievable business objectives. Hence, it is difficult to identify the material risks to the objectives when those business objectives have not been formulated and are unknown by all the employees.

Secondly, when asked about market research, since it forms part of the business plan, Participant A paused for a while and commented that the researcher was asking a lot of questions, while Participant B tried with a lot of reflective remarks. Hence, the market research was inadequate. This inference is based on the fact that the strategic intentions and business objectives are premised on the market research. Moreover, the risk profiling (refer to Section 4.3.2 of Chapter 4) indicated that various challenges were influenced by the strategic focus of the retail enterprise, of which adequate market research would have identified those experienced challenges well in advance, such as, for example, barriers of entry, customers’ wants and needs, pricing models, networking and innovative products. This confirmed arguments by Van Scheers, *et al* (2015) that the SMES in the CoT experience limited market research and, Fatoki and Garwe (2010), who identified inadequate market research as an obstacle.

Thirdly, the results indicated that there was a perception that the products or services were innovative. However, the small and micro retail enterprises view innovation as

an internal process not influenced by the market space. They do not view innovation in comparison with what the market offers. As a result, they often bring products or services that are already found in many large SMMEs. This was further implicitly acknowledged by Participant A when responding to risk governance, “*Similar small business(es) should be avoided. We should not produce more than what is required.*” This was also confirmed by the researcher’s observations of the context. Hence, the small and micro retail enterprises do not have innovative products and services since many of their products and services can be found in larger retailers and other SMMEs. This impacts on their product and service offerings, and it may continue to adversely impact on their strategic positioning or focus in the CoT CBD. Hence, some small and micro retailers are not innovative or they lag behind the innovation curve (Cambridge Technology Partners). Thus, innovation is an impediment to growth and survival (Neneh and Smit, 2013) of the small and micro retailers in the CoT. Despite this, Enterprise C was viewed to be innovative in terms of designer furniture.

Fourthly, although the participants indicated that they networked with other smaller businesses, it was noted that some were not aware of the W&RSETA and those who are aware, were not members of the SETA. They do not network with bodies that represent their kinds of businesses (Zondi, 2016). This raised a concern since networking is the first point of understanding the industry’s role players, including major stakeholders and it is investigated in the market research phase. Moreover, when asked whether they used supply chain networks, it was revealed that they did not use supply chain networks to take advantage of discounts or rebates, compared to foreign-led businesses. This confirmed the argument of Dlodla (2014) that foreign-led businesses used supply chain networks, while businesses led by the South African counterparts did not use these networks. This is also consistent with Participant B, who indicated that “*people from outside South Africa, when they come to South Africa starting a business, what they do, they group themselves according to their beliefs or where they come from and they have a common understanding.*”

And they try to help each other, of which we South Africans, we still need to learn from that.”

Lastly, the researcher asked whether or not the participants had formulated business plans. One participant confirmed that they had formulated a business plan, while the others responded with either reflective remarks, such as “I don’t remember” or ambivalent views. Although Participant B commented positively, it was noted that the participant struggled to articulately engage on the topic of how and what the business objectives and market research was, and viewed innovation as an internal process not influenced by the market space. This participant later confirmed that a supply chain network was not being used. Hence, the researcher is of the view that if the business plan is in place, it is not adequate. This is consistent with Marivate (2014a) who stated that the SMMEs in the CoT are characterised by a lack of or poor business plans. Hence, the small and micro retailers do not have well-written business plans with clear strategic intent and achievable objectives, premised on well-investigated market research which addressed innovation and networking in the desired industry. Marivate (2014a) and Fatoki and Garwe (2010) argue that many of the small enterprises are unable to draw business plans (refer to Section 2.6.4.1 of Chapter 2).

In conclusion, due to the lack of or inadequacy of the abovementioned tools or techniques, the small and micro retail enterprises are susceptible to many risks, as observed by researcher (refer to Section 4.2.1 of Chapter 4) and confirmed by the experiences and perceptions of the participants (refer to Section 4.2.2 of Chapter 4) and risk profiled and discussed in Section 4.3.2 of Chapter 4. The above justifies that the business objectives are not formulated by the small and micro retail enterprises as a result, “there are no set targets to monitor growth.” The perceptions and experiences indicated that these tools or techniques, such as a business plan, market research, innovation and networking that can be used to identify markets, competitors, barriers, role players, relevant regulatory, are not appropriately used to

identify and respond to the changing contexts. As a result, some of the profiled risks have become a reality for the small and micro retailers.

4.3.4 The application of effective risk management processes

Firstly, the AS/NZS ISO 31000:2009 defined risk as the “effect of uncertainty on objectives” (Finance, 2010). The results indicated that the participants face a challenge of defining “risk” in line with the theoretical definition. Hence, the theoretical awareness of the definition of risk is inadequate. This inference was based on the fact that the cases could not relate the **definition of risk** to the achievement or non-achievements of business objectives. As emphasised by Naidoo (2009) that risks are uncertain future occurrences which can influence the achievements of a company’s business objectives if not treated or checked (refer to Section 2.3.1 of Chapter 2).

Secondly, apart from the definition of risk, when focusing on the types or the specific risks, such as **strategic risks, financial risks and operational risks**. Marcelino-Sadaba, *et al.* (2014) described strategic risk as those risk exposures which could lead directly to project failure, ultimately threatening the sustainability of the company. Fatemi and Luft (2002) argue that it involves factors which are macro to a firm, which can ultimately affect the value of the shareholders. The participants struggled to eloquently deliberate on **strategic risks**, which the researcher views as the most critical risks. The participants, therefore, have inadequate awareness of strategic risks as well. As a result, it may be difficult for them to identify when their businesses are exposed to strategic risks and to decide on adequate mechanisms that could be implemented to respond to these risks. Taking into consideration the absence of or inadequate market research and business plans, they may also struggle with identifying the strategic risks. Moreover, Kim and Vonortas (2014) describe financial risks as the value the investor lose if the business fails (refer to Section 2.3.2.2 of Chapter 2). It included risks relating to gearing (debt), liquidity, credit, underwriting, market or commodity prices, exchange rate fluctuations and

interest rate movement (Berk and DeMarzo, 2014: 986; Naidoo, 2009; Skae and Vigario, 2011; Blunden and Thirlwell, 2010:11). The results relating to **financial risks** indicated that the participants managed their funds inadequately such as diversion and high costs of material and marketing. However, they have an idea that finance relates to how money is being managed, yet their awareness of the definition was not eloquent as issues such as bankruptcy, credit, gearing (debt) and liquidity were not stated. The awareness of financial risk is not advanced however, moderate. Naidoo (2009) argues that operational risk is exposure that results from internal processes that are inadequate, external events and systems. The results relating to **operational risks** indicated that the participants had an idea of what operational risk meant for their enterprises, for example, employee skills, health and safety, and equipment. Although it is not at an advanced level, it could be aligned to some of the examples mentioned in the theoretical model.

Thirdly, Blunden and Thirlwell (2010: 5) explains that risk management implies that something can be done to reduce the risks, if not to eliminate the likelihood and impact of danger and uncertainty.” Kuselman, *et al.* (2017: 189) argue that it can be defined “as a product of probability of an event and severity.” The results indicated that the participants faced a challenge of **defining risk management** in line with the theoretical model. However, Participant B tried to define it, but could not align it to the theoretical principles or models of risk management. However, it was noted that the participant emphasised the involvement of leadership, which is very critical in risk management. In conclusion, the small and micro retailers lacked the awareness of the definition of risk and risk management from the theoretical model. They are challenged by strategic risk. Hence, what one may view as risk for the enterprises, they may not view as risks due to a lack of awareness.

Fourthly, adequate **training** is critical for addressing skill gaps in order to ensure awareness, ultimately contributing towards developing sustainable enterprises. Blunden and Thirlwell (2010) assert that inadequate training can lead to exposure to

operational risks. The results indicated that the participants had not yet attended training or any courses on risk management. Participant A viewed the courses as being costly for his enterprise, further accentuating that they were not beneficial as they were tailored for well-established retail enterprises. This is consistent with Worku (2014) and Marivate (2014b) who argue that the SMEs in the CoT lack relevant skills and are unable to procure vocational training. In conclusion, the participants lacked training on the basic principles of risk and risk management. As a result, they were also not aware of the comprehensive benefits associated with risk management or managing risk exposures to effectively achieve their desired objectives. Lack of training further explained why the participants struggled in articulating the definition of risk and risk management. This was also expressed in the reflective remarks and facial expressions, which indicated a lack of confidence in their answers or not being comfortable with the topic.

Fifthly, the results indicated that the participants viewed **risk and opportunity governance** as important. Moeller (2011) argues that the smaller enterprises designate responsible people to manage their risk assessments. However, the small and micro retailers did not have designated persons to manage risks. They further emphasised that they lacked departments, such as Finance or HRM, because of the size of their enterprises. This indicated governance issues and further confirmed the argument of Clune and Hermanson (2005) that the absence of corporate governance to manage the ever-changing portfolio of risks facing an enterprise puts the shareholder value at risk. No one monitors the extent of exposures to risk, and sets risk appetite and tolerance levels. As a result, they often underestimate their exposure to risk and overstate their returns (Fatoki, 2014). The results also indicated that there were opportunities, however, they need to be identified. However, it was also indicated that there were “limiting” due to the regulatory requirements or red tape and financial capital. There is acknowledgement that “risk management is important because they are inexperienced, still new and therefore, they are exposed to many risks.” However, the participants also viewed risk management as a tool for

formalised enterprises. Hence, risk and opportunity governance was not embedded, because it was considered to be optional. This is consistent with Smit and Watkins (2012) who argue that risk management is considered to be optional in SMMEs. In conclusion, the small and micro retailers do not govern risk and opportunity. Due to a lack of governance of risk and opportunity, the retailers are not forward-looking, but react to changing contexts in a riskier world.

Lastly, Naidoo (2009) emphasises that risk governance is not limited to large organisations. However, the participants considered risk management to be a tool for managing risks in formal enterprises. The participants were of the view that their retail enterprises were not as formally structured as large organisations. This emphasised the arguments of Marivate (2014a) that the SMMEs are trapped in the free management system or old system. Risk is inherent in everything we do (IRM, 2017). However, the participants viewed managing risks as a tool for large, well-established retail enterprises in the CoT. As a result, the risk management processes and approaches in the small and micro retail enterprises comprised of fragmented processes, which are not adequate to effectively manage the obstacles and factors that cause failure. In the **risk identification process**, which is a prerequisite for risk management (Falkner and Hiebl, 2015), one participant emphasised a risk relating to lack of insurance. When asked ‘how’ it had been identified, the participant evaded the question and indicated that **the identification was not formal**. The participant could not eloquently explain ‘how’ the risk had been identified. Pretorius and Le Roux (2012) argue that in order to identify risks and to capture opportunities, leaders use internal and external sources. The results also indicated that some of the participants could not differentiate **between external and internal factors** affecting their businesses. This made it difficult to identify risks and opportunities. Another participant confirmed that they met informally and collectively discussed issues. However, it was noted that the **discussions mentioned by the participant were not centred on the identification of risks, but emphasised performance monitoring**. This is in contrast with Moeller (2011), who accentuates

that a team can be assembled to better identify all the related risks in brainstorming (refer to Section 2.5.2.1 of Chapter 2). Another participant explained risk identification using a **reactive approach**, for example, what has occurred or what they have encountered. Hence, the **identification is not forward-looking**. This confirms what has been mentioned by Chodokufa (2016), that most SMMEs are reactive (refer to Section 1.2 of Chapter 1). Moeller (2011) emphasises that risks are considered on the total enterprise level. In contrast, the results indicated that the participants did not consider **risk identification in totality or holistically**, for example, they deemed financial activities as the most important when compared to other activities. They, therefore, do not consider the interdependency of governance, risk, strategy and performance (NGO Pulse. King III, 2009) when managing their enterprises, ultimately when identifying risks. This explained why the participants could express a moderate view around the definition of financial risks, but could not engage on strategic risk. The small and micro retailers focus on finance, which is not the cause of failure, but the predictor of potential failure (Pretorius, 2008: 414). Therefore, they do not focus on how to create value. Moreover, their perceptions lacked the theoretical tools and techniques for risk identification, as emphasised in Section 2.5.2.1 of Chapter 2.

Falkner and Hiebl (2015) argue that when a risk analysis is conducted for SMEs, the risks should be ranked according to its importance to the company. The results of the **risk assessment processes** indicated that the **likelihood and impact of risks had not been predicted** by the small and micro retailers. One participant indicated that “truly speaking, the assessment part is not done”, while the other remarked, “eeh... eish!” Another case was reactionary in the response to the questions of ‘how’. Hence, the likelihood and impact of various exposures to risk, including the ratings, are not performed by the participants. This contradicts Moeller (2011: 13), who accentuates a forward-looking process with regard to risk assessments. This indicated that when the potential risks occurred or became a reality in the small and micro retailers, the severity of their impact was not speculated to ensure that the

constrained resources of the enterprises were in place to appropriately respond when the event occurs. The necessary resources or suitable approach to managing the exposure to risk may not be adequate or suitable to address the exposure. This often results in failure when the unexpected and/or even expected, but inadequately assessed events, occur. Moreover, their perceptions lacked theoretical tools and techniques, such as 'risk map', as emphasised in Section 2.5.2.2 of Chapter 2. The process of risk assessment is, therefore, inadequate.

Verbano and Venturini (2013) assert that in order to move to the next stage, an acceptable threshold must be defined. The results of the **risk treatment or response** indicated that the small and micro retailers responded or treated the risk exposure with whatever resource or technique possible. This is because they have never defined what is acceptable based on the risk appetite and tolerance level. It is also exacerbated by the lack of the risk assessments' "likelihood and impact not speculated". As a result, the participants were of the view that they used all the risk management approaches or strategies to deal with exposures. The risk responses or treatments are, therefore, not informed by the nature of the risks and assessments that are conducted. As a result, many constrained resources of the small and micro retailers are ineffectively or uneconomically used in an effort to manage the obstacles and factors that cause failure. In most instances, the participants, therefore, resolve symptoms rather than the real root causes of failure. As emphasised by Slack, *et al.*, (2013), the nature of the action taken to mitigate the failure is dependent on the nature of the risk. The risk response or treatment process is, therefore, inadequate. In conclusion, the risk management processes are not effectively applied to manage the factors and obstacles that cause failure.

4.3.5 The importance of risk management and a need for a better mechanism

The results indicated that there were positive perceptions around the role, the need for a mechanism and the importance of risk management. There is an

acknowledgement and willingness to view a risk-based approach as an important tool for running adaptable, flexible and resilient retail enterprises in the CoT CBD. One participant mentioned that when you managed risk, the chances of success were bigger. The other indicated that they believed that a well-implemented risk management process was able to deal with the causes of failure, while another participant indicated that when one managed risk, one can maintain and move forward (sustainability). There is an admission that the small and micro retail enterprises need to identify all the risks that affect their businesses, while another confirmed that there is a need to understand risk in the industry and the business itself. Therefore, there is a need for imparting knowledge on risk and risk management to the small and micro retail enterprises to improve their sustainability.

When they were asked whether there is need for another mechanism, one participant indicated that, “I believe a mechanism to resolve internal factors can be found, maybe we can get advice on how they can be resolved.” Another indicated that, “as we sit down and look at these issues, a solution will come.” During the interview, it was revealed that other participants started to fully understand the concept of risk and risk management during the engagements. Hence, they were not aware of the comprehensive benefits of risk management. The results indicated contrasting feedback on whether the challenges faced by small enterprises could be resolved completely. Some viewed government as a solution, while one participant mentioned seeking a solution to resolving internal factors. Therefore, some participants are not able to differentiate between internal and external factors impacting their businesses. As a result, most of the obstacles and factors are expected to be resolved by government, even though they may require managerial interventions.

4.4 Summary

This chapter established the perceptions of the small and micro retail cases on the business context and information, business objectives, general knowledge of risk

and risk management. More critical to the study, was the perceptions of ‘how’ risk management processes were conducted effectively. The participants had a perception that the competitive space was shared with well-established retail brands and there were numerous experienced and perceived challenges, such as barriers of entry, political instability, marketing costs and supply chain, finance, credit sales and support and location strategy. However, the location or leasing costs in the CBD were perceived to be most critical for sustainability. The perceptions revealed that the cases lacked and/or had poor business plans. As a result, strategic intention and business objectives were not well formulated and the process of ‘how the objectives’ had been identified, was not in place. Hence, the small and micro retailers had not formulated measurable and achievable business objectives. The perceptions indicated that the market was not investigated adequately and that tools, such as networking, were not used effectively. Moreover, innovation is considered as an internal process, rather than a process that the market space can influence.

The results indicated that there was inadequate awareness of the theoretical concepts of risk, the types of risk and risk management. However, training, which serves the purpose of ensuring awareness, was also inadequate in the small and micro retailers. Moreover, the retailers do not govern risk and opportunity and they consider risk management as a tool for large, formal and structured enterprises. As a result, the risk management processes, which consist of fragmented processes that are not systematic, are reactive, do not consider risks on total enterprise and risk assessments are not conducted. As a result, the response or treatments are not premised on adequate assessments. Therefore, the response or treatment is often not appropriate to address the risk exposure or causes of failure. Despite the ineffective risk management processes, there are positive perceptions about the importance of risk management as a tool for managing the factors and obstacles that cause failure. The conclusion and recommendations are presented in the next chapter.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The purpose of this chapter is to provide conclusions, recommendations and limitations of the study. Explanations about the findings, including the possible root causes and contributing factors in order to make appropriate recommendations are presented. The first paragraph of the discussion explains the risk profiled 'exposures' in the contexts of the CoT (refer to Section 4.3.2 of Chapter 4.3), which relates to the literature objective. The recommendations to ameliorate the exposures start with the second paragraph of the discussions of the conclusion, which relates to empirical objectives. The recommendations are split into recommendations for the small and micro retailers in terms of the empirical objectives (refer to Section 1.5.2 of Chapter 1) and the general recommendations for government based on the participants' perceptions and experiences. The limitations of the study details the parameters of the study and the reasons thereof. The study was divided into two objectives in Section 1.4.2 of Chapter 1, namely the literature and empirical objectives.

5.2 Conclusions

The conclusions are drawn based on the objectives mentioned below:

Literature objective: To identify the obstacles and factors that contribute to failure of the new and established small, medium and micro enterprises (SMMEs) and assign to risk types.

This objective was achieved using two phases. The obstacles and factors that contribute to failure were identified and assigned to types of risk in the literature review (refer to Section 2.6.4 of Chapter 2). In Section 4.2.2.2 of Chapter 4, the small

and micro retailers that participated in the study were also asked to list five critical challenging factors and obstacles faced by their businesses. The results were further analysed and assigned to types of risk in Section 4.3.2 of Chapter 4: “context risk profiling based on perceptions, experiences and observations.” The results in Chapter 4 indicated that the small and micro retail enterprises were exposed to a variety of risks, which can be classified under strategic, finance and operational risks. Some of the risks were based on the participants’ experiences, hence, the risks have either materialised or become a reality for the small and micro retailers. Others may be speculative in the risk profiling of the context. However, it was evident from the context risk profile that the small and micro retail enterprises were exposed to a variety of internal and external risks in the CoT CBD.

Empirical objective: To evaluate how the small and micro retail enterprises in the City of Tshwane Metropolitan Municipality effectively apply the risk management processes.

To achieve this objective, an evaluation of literature was done in Chapter 2 and it was used as a theoretical basis. The data was collected and analysed in Chapter 4. The evaluation was done on the context, awareness and training, risk and opportunity governance, identification of business objectives, risk identification, risk assessments and risk treatments. The adequacy of other tools and techniques were also evaluated, such as market research, innovation, business plans and networking. The evaluation of the contexts revealed that the small and micro enterprises were exposed to **internal and external risks (refer to Section 4.3.2 of Chapter 4)**

The evaluation also revealed that there was inadequate awareness of the **theoretical concepts of risk, the types of risk and risk management** by the participants of the small and micro retailers. However, it should be noted that the participants did not attend **training**, which serves as a tool to ensure sufficient

knowledge and awareness (refer to Section 4.3.4 of Chapter 4). As a result, the participants face a challenge of articulately engaging on the topic of risk and risk management. They are, therefore, not aware of the comprehensive benefits associated with managing risks.

Risk and opportunity are not governed in the small and micro retail enterprises (refer to Section 4.3.4 of Chapter 4). To some extent, the participants accept that the larger, well-established retail enterprises benefit from managing risk exposures. As evidenced, they benefit from networking, location strategy, pricing strategy and effective supply chain processes, such as storage and acquisition processes. However, this does not ignore the fact that the larger retailers are well resourced, powerful and enjoy the economies of scales, and some age advantage. It emphasises that there is a need for small and micro retailers that are adaptable, resilient and act with agility to create value in a riskier and competitive space of the CoT CBD. Moreover, the participants confirmed that opportunities were there, but they needed to be identified. However, another challenge is that they are limiting or the strategies to implement them remains a challenge.

The participants of the small and micro retailers have not formulated measurable and achievable **business objectives** (refer to Section 4.3.3 of Chapter 4). This makes it difficult to identify the material risks relating to the business objectives. The participants also struggled to explain how they identified their business objectives. The process of identifying the business objectives is, therefore, inadequate.

To achieve the empirical objective and answer the question of 'how' the risk identification, risk assessment and risk treatments are effectively applied (refer to Section 4.3.4 of Chapter 4), the results indicated that the risk management processes in small and micro retailers comprised of fragmented processes, which were not systematic, not forward-looking, do not consider risks on total enterprise level and risk assessments were not conducted. There is, therefore, a perception

that the participants apply all the risk responses or treatments. Some of the processes are not performed, while others are claimed to be performed informally. Some of the participants struggled to explain how, but focused on what had occurred. These perceptions and experiences provided an answer to the question of 'how' the processes were effectively applied. Based on the results, the risk management processes in small and micro retail enterprises in the CTMM are not effectively applied to manage the obstacles and factors that cause failure.

Empirical objective: To draw conclusions and make appropriate recommendations aligned to the literature on risk management. The objective is addressed in Section 5.3 of Chapter 5.

5.3 *Limitations of the study*

Only three cases of small and micro retail enterprises in the CTMM took part in the study. This consisted of one very small and two micro retail enterprises in the Tshwane CBD. Hence, the research results cannot be generalised to all the small, medium and micro retail enterprises in other areas and those enterprises in other sectors. The study focused on very small and micro retail enterprises and, therefore, excluded the medium and small enterprises, which are sometimes more established. However, they were excluded, because the researcher wanted to establish how risk management in very small and micro enterprises was applied. The researcher, therefore, deemed it not to be beneficial to direct constrained resources on medium and small enterprises since they may be established.

In addition, most studies focused on newly and established small and medium enterprises (SMEs) and others used the term SMMEs interchangeably, the obstacles, factors, signals, conditions and constraints, which were considered in the study, cut across new and established small, medium and macro enterprises. For the purpose of establishing which type of risks may be imminent in the small and micro retail enterprises and what should be focused on, the researcher considered

all the obstacles, factors, conditions, constraints and signals that cut across new and established SMEs (and interchangeably SMMEs) in the literature review. However, this limitation was also countered by risk profiling the obstacles and factors based on the perceptions and experiences faced by the retail cases who were interviewed. Hence, the study covered the risk 'symptoms' from the literature and later the risks according to perceptions and experiences.

The researcher also took note that there were structured approaches to risk management, such as ERM frameworks, which could be tested. However, for the purpose of the research study, the literature was considered to be sufficient to provide feedback on the phenomenon. This was because the ERM frameworks also needed to be augmented to suit the context of SMMEs.

During the semi-structured interview, it was noted that the participants had struggled with explaining their perceptions on some of the concepts. Although, it indicated the inadequate awareness of the phenomenon 'risk management. However, the lack of awareness or not being comfortable with the topic also created limitations since certain questions were not answered with clarity or in a logical thought process. The researcher had to frequently intervene. As a result, the interviews took longer than anticipated.

The researcher would have had more comfort if he had only interviewed the owners, which is often impossible in a qualitative study. In one case, the researcher interviewed the manager delegated by the owner. It was noted that the manager was conversant with the business operations and administration. This was confidently confirmed by the owner in telephonic discussions with the researcher before and after the interview. However, it did not take away the possibilities of undisclosed perceptions and experiences or disclosures, which would have differed from the perspective of the owner. Despite this limitation, it still met the description of 'owner-manager', as anticipated in the methodology.

All the limitations are ascribed to various constraints, such as time and funds, availability of the participants and consideration that the research study is a mini research study.

5.4 Recommendations

5.4.1 Recommendations for the retail cases

It is evident from the risks profiled in Section 4.3.2 of Chapter 4 that the SMMEs are exposed to strategic, financial and operational risks in the CoT CBD (initially symptoms in terms of Sections 1.2.1, 1.2.2 and 1.2.3 of Chapter 1). The following recommendations should be implemented and/or improve the risk management processes in the SMMEs in the retail sector:

- (a) The SMMEs should properly investigate the market in which they operate and develop a proper market research of the business context. Proper market research forms the basis for a well-written business plan.
- (b) The SMMEs should develop well-written business plans. It should be noted that a business plan is not only meant for attracting potential investors, but it can also provide direction to the owner-managers. The plan should address, among other topics, –
 - strategic intentions, long- and short-term objectives of the retail cases: The small and micro retail enterprises in the CoT must set clear business objectives, which specifically outline their intended goals in the market space and the time period that the enterprises expect to achieve the desired goals (refer to Section 2.5.1 of Chapter 2)
 - networking, including supply chain networks: The relevant network for the business, including the relevant Sector Education Training Authorities (SETAs), critical government regulations and bodies and possible supply chain relations. It should be noted that competition is now driven by flexibility, reliability, quality, technological competence and networking (Mutalemwa, 2015). Proper networks can, therefore, improve efficiency and assist in

reducing costs. Hence, networking is important for every business (Fatoki and Garwe, 2010).

- innovation: The retail cases should thoroughly investigate what is innovative with their product and service offering in relation to what is being offered in the market space. Innovation can make new demands of existing customers (McElheran, 2013). Therefore, successful innovation can lead to value creation (Cambridge Technology Partners, 2000).
- (c) The retail cases should familiarise themselves with the concept of risk, types of risk and risk management. Due to their financial constraints, the retail cases should try to research the topic of risks and risk management on the Internet, or at the library and other useful materials. Moreover, engagement with professional bodies, such as the SETAs, are the starting point for enquiring about the available courses/workshops on risk management for the small and micro retail enterprises.
- (d) Risk and governance should remain the responsibility of the owner-manager. In an enterprise that has more employees, people should be designated to deal with risk management (refer to Section 2.3.4 of Chapter 2). A decision on the appetite and tolerance should be made. It does not have to be complex. However, it will provide guidance to the employees of the retail cases. Albeit, SMMEs are not a version of larger enterprises (Smit and Watkins, 2012). However, risk is inherent and, therefore, the exposure is real, as evidenced by the experiences and perceptions of the retail cases. This also emphasise Moeller (2011: 33), that common risk management approaches should be developed even though the enterprise is small and has few facilities in a limited geographical area. Businesses exist to create value for the stakeholders, regardless of the size of the enterprise, hence, creating value makes risk management an essential business activity for enterprises of all sizes (ISO, 2015).
- (e) The retail cases should effectively implement and/or improve the risk management processes and approaches in order to manage the factors and obstacles that cause failure (refer to Section 1.3 of Chapter 1). In order to improve

their chance of survival, every company, regardless of size or corporate structure, must at some level anticipate risks that it may face (Naidoo, 2009). Risk management should consist of systematic processes that –

- are not fragmented processes, but follow a logical process of the identification of risks relating to the business objectives identified in paragraph (b). Moreover, the risk assessments and response or treatment should also be linked (refer to Section 2.5 of Chapter 2).
 - comprises of an effective risk identification process that is forward looking, consider risk holistically (avoid silo), consider the interdependency of risk, strategy, governance and performance, and is not reactive. This is consistent with Hagigi and Sivakumar (2009) who argue that it is important for the organisations to define and understand the risks that are faced. Hence, the aim is to identify the risks faced by the enterprise (Falkner and Hiebl, 2015) (refer to Section 2.5.2.1 of Chapter 2).
 - comprises of an effective risk assessment process. Hence, the retail cases must conduct risk assessments. They must define the frequency to suit their type and size of business. Risks should be ranked according to its importance to the company (Falkner and Hiebl, 2015). The risk assessment process is critical in the risk management process. It is the second stage that has an aim of determining the probability and the expected magnitude (Verbano and Venturini, 2013) (refer to Section 2.5.2.2 of Chapter 2).
 - comprises of the effective application of risk responses or treatments. The risk responses should consider the available resources and other constraints, however, the response should address the results of the risk assessments. This is because this stage is the treatment of unacceptable risks (Verbano and Venturini, 2013). The strategies must be dynamic and sensitive to the changing nature of risks (Naidoo, 2009) (refer to Section 2.5.2.3 of Chapter 2).
- (f) The retail cases should strive to achieve an optimal balance between risk and reward. This is because there are two sides to risk, namely the potential

downside and opportunity for higher profit and growth (Hagigi and Sivakumar, 2009). Therefore, not more or less risks should be taken to achieve a competitive advantage (refer to Section 2.3.3 of Chapter 2). They should not underestimate their exposure to strategic, financial and operational risks (refer to Section 1.2 of Chapter 1) profiled in Section 4.3.2. The real world is riskier, therefore, the cases should avoid lagging.

5.4.2 General recommendations for government

The risks profile revealed complex external factors that should be considered by the relevant bodies responsible for the small and micro retail enterprises. Hence, the following recommendations are made:

- (a) The participants of the small and micro retailers have cited that the location or leasing costs in the CBD are expensive or too high for sustaining their businesses. The government should consider investigating the role of the landlords in terms of the NDP in ensuring sustainability of the small and micro retail enterprises in the CoT CBD, possibly with other CBDs as well.
- (b) The retail SETAs and other relevant bodies should consider enhancing their training to encompass risk management for small and micro retail enterprises. Various ERM frameworks, such as ISO (2015), have released risk management guides for SMEs. King IV was reviewed and covered the SMEs in terms of corporate governance and authors, such as Yiannaki (2012), proposed a model for embedding risk management in SMEs. Moreover, with revised ISO 9001:2015 “standard for quality management” and others which may follow, the application of the standards explicitly emphasise a risk-based approach or thinking. Therefore, enterprises that lag behind may be challenged in South Africa. This may impair competitive advantage for the retail enterprises. In a riskier and volatile world, it is important to start training the SMMEs on risk management. The training programme should consider elaborating on innovation, networking and complementing well-established retailers or working with them to create value for the stakeholders.

5.5 Summary

Risk management is critical for businesses of all sizes. In the real world, risk is inherent (IRM, 2017). The sources of risks can come from internal and external sources. Effective risk management strategies should be implemented to treat the risk exposure and to ensure sustainability of the small and micro retail enterprises. The research study indicated that the small and micro retailers faced a variety of risks in the CBD CoT, as is evident in the context risk profile. However, risk management processes are not effectively applied to identify, assess and respond to the risks. 'How' the risk management processes are applied comprises of fragmented processes that are reactive, do not consider risk on a total enterprise, and do not consider the interdependency of governance, risk, strategy and performance. The risk assessments are not conducted. Moreover, the risk response or treatments are not applied appropriately and business objectives are not formulated. These answered the questions of 'how' small and micro retail enterprises effectively applied risk management processes. It also confirmed the research problem of "(t)he risk management processes in small and micro retail enterprises within the City of Tshwane Metropolitan Municipality in Gauteng Province, South Africa are not effectively applied to manage the obstacles and factors that cause failure." Moreover, the study also revealed that awareness of risk, types of risk and risk management was inadequate. The small and micro retailers had not attended training in risk management. They were not aware of the comprehensive benefits of managing risks in their enterprises, hence they considered risk as a process for large, formal and structured enterprises and, therefore, as an optional for their enterprises. As a result, the governance of risk and opportunity does not take place. Despite all this, they still perceive risk management to be important and are willing to obtain advice in this regard.

5.6 Recommendations for further studies

The following studies should be conducted for future research on the SMMEs:

- (1) There is a perception that the SMMEs lack the skill and/or knowledge of finance, risk, strategy and marketing. Hence, the demand for such skills is high for the SMMEs. Conversely, there are unemployed graduates who specialise in commerce, marketing, law and other disciplines, and are necessary to assist in sustaining the SMMEs. There is a greater possibility that the skills attained by graduates are not being put to use. Therefore, a study should be conducted to determine how the gap can be breached for the unemployed graduates and the unskilled SMMEs.
- (2) There is no clarity on the role of the consumers with regard to the sustainability of the SMMEs, especially in the CBDs. Hence, their perceptions of quality, price, product and service offerings by the SMMEs must be investigated. The collected data can be used to improve the strategies of the SMMEs and the management of strategic risk.
- (3) The role of the landlord on the sustainability of the SMMEs and the perceptions of the SMMEs regarding that role, must be investigated.

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ANNEXURE A: Semi-Structured Interview Guide

RESEARCH STUDY: “Application of risk management processes in small and micro retail enterprises within the City of Tshwane Metropolitan Municipality, Gauteng: A Case Study”

Dear Participant,

The purpose of the semi- structured interview schedule is to understand how risk management processes are applied in small and micro retail enterprises in the City of Tshwane Metropolitan Municipality to manage the factors and obstacles of failure. There is high rate of failure in SMMEs estimated to be 70 % to 80%. Hence, your participation is critical for collecting data in respect of the phenomenon “risk management processes” on behalf of the business as the owner-manager. Therefore, your viewpoints or perception on risk and risk management are vital for the research study. It will be greatly appreciated if you kindly participate in the semi- structured interview with honesty and thoroughness. Take note, all the records will be treated with confidentiality and used for the research purpose only. The participant’s identity will not be disclosed, it will be “protected”.

Please note that participation in this study is voluntary and you can withdraw from participation at any time without any negative consequence.

This study has been approved by the UNISA Ethics Committee and should you have any concerns regarding this data collection exercise, please feel free to contact my supervisor, Prof. Philip Serumaga-Zake at +27 652 0318.

A. BUSINESS CONTEXT

Q1: In your own view, what are the five (5) most **critical challenging factors or obstacles** that you face as a small and micro retail enterprise in the City of Tshwane (CoT)? Do you believe that the small enterprises will get to a point where those challenges are totally resolved or is there a need for small enterprises to come up with a **mechanism** to work around them and/or monitor the factors and obstacles?

B. BUSINESS INFORMATION

Q2: How many **people are employed** by your business? Is there any challenges that your small or micro enterprise face in respect of skills specifically, the shortage, availability and acquisition of such skills? Is your business able to attract or retain the current skills?

Q3: How long has this **small or micro enterprise been in existence**? How many years of experience do you have in this type of a business?

Q4: In the **period of existence of the business**, have you attended any course in risk, business or financial management? What was the course that was attended, if any?

C. BUSINESS OBJECTIVES

Q5: Where do you want to see the **business in the next five years**? Have you formulated a business plan? If not, why?

Q6: What are the **objectives of the business**? Briefly **describe how** did you identify those business objectives?

Q7: In what industry is your business? Did you **conduct any market research** to position the business in the specific industry? What is your view on the **location** of the business and the cost involved?

Q8: How often do you **network** with other businesses in the same industry?

Q9: How often do you **introduce new products and processes** in the business?

D. GENERAL KNOWLEDGE ON RISK AND RISK MANAGEMENT

Importance of risk management

Q10: What is your view on the importance of risk management in small businesses? Or any business? Are you aware of the Enterprise Risk Management Frameworks?

Definition of risk and risk management

Q 11: According to your knowledge or view, how would you **define risk and risk management**?

Q 12: What is your view on **strategic risk, financial risk and operational risk**?

Perceptions on risk management processes

Q 13: Based on your own knowledge, do you think that a well-implemented risk management process is able to reduce the exposure from the obstacles and causes of failures? If not, why? If yes, why?

Perceptions on risk and opportunity governance

Q 14: Do you think that there is a need **for risk and opportunity to be governed** in small and micro retail enterprises? Do you believe that retail enterprise do **capture opportunities** that are presented and if not, what are the inhibiting factors? What is your perceptions on the available opportunities for retailers?

E. RISK MANAGEMENT PROCESSES (IDENTIFICATION, ASSESSMENT AND TREATMENT)

Identification of risks

Q 15 – In your own view, **briefly describe how** do you **identify risks** that can have an impact on your business objectives identified in **Q6**? If no business objectives are identified, what do you consider when identifying risks? And why do you consider that to be appropriate for identifying risks?

Risk assessments

Q16 – In your own view, **briefly describe how** do you conduct **risk assessments**? What information do you consider when conducting the risk assessments? What do you consider to decide on the level of risk that is acceptable for the business? And when do you say this risk is not acceptable?

Risk treatment or response

Q17 – In your own view, **briefly describe how** do you conduct **risk treatment** (respond to risk faced by the business)? Which options or approach do you consider to be suitable when treating risks and why? Do you have insurance, any internal controls implemented?

STUDENT RESEARCHER: MASHILO A NKWANA

Date:.....

Signed:.....

END OF INTERVIEW!!! THANK YOU FOR PARTICIPATING.