

**FACTORS CONTRIBUTING TO THE PERFORMANCE OF SMALL AND MEDIUM
ENTERPRISES IN THE CAPRICORN DISTRICT MUNICIPALITY, LIMPOPO
PROVINCE**

by

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DEDICATION

I wholeheartedly commit the success of this research to my son Mogau Leago, dear parents, Mr Lefaladi Nicodemus Rameetse and Mrs Nkwapa Magdeline Rameetse for not leaving my side whenever I faced hardships and feeling like giving up. Your unwavering support, encouragement, and patience during the journey of completing this research project was invaluable.

DECLARATION

I, **Mapelo Rosah Rameetse** hereby declare that the dissertation hereby submitted to the University of Limpopo for the degree of **MASTER OF COMMERCE** in **BUSINESS MANAGEMENT** has not previously been submitted by me for a degree at this or any other university, it is my work in design and in execution and that all material contained has been duly acknowledged.



MAPELO ROSAH RAMEETSE

08 September 2025

DATE

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Above all, I want to express my deepest gratitude to the Almighty God for blessing me with wisdom, direction, and unwavering presence in my studies.

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ABSTRACT

Small and Medium Enterprises (SMEs) are widely recognized as key drivers of economic growth and job creation both in South Africa and globally. However, most of them do not grow or survive in the long term. The owners struggle with effective management skills and risk management, which is why many of them fail. SMEs often face operational inefficiencies and have less structured management practices such as risk management. This is because most of them were started for survival purposes. The researcher has observed that most of the SMEs have difficulties in retaining and attracting skilled workers. This is due to fewer resources for training and a knowledge shortage on which platforms to use. The primary aim of this project was to explore the factors contributing to the performance of SMEs in the Capricorn District Municipality, Limpopo province. The quantitative research approach was employed, utilizing self-administered questionnaires to gather data from SME owners/managers. Out of a total of 130 distributed questionnaires, 110 were returned. The questionnaire consisted of five sections: demographic information, profile of business activities, risk management competencies, financial decision-making capabilities and SME performance. Data analysis was analyzed using the Statistical Package for the Social Sciences (SPSS) version 24, with diagrams generated to present the findings. Inferential statistics and Pearson correlation analysis were used to test relationships among risk management, financial decision-making competencies, and SME performance in Capricorn District Municipality, Limpopo Province. The internal consistency and reliability of the nominal and ordinal variables were assessed using Cronbach's alpha. Validity was ensured through the development of the questionnaire based on theoretical foundations, and a pilot study was conducted with five SMEs to pre-test the instrument. Both content and face validity were confirmed by pre-testing and academic review of the questionnaire. The risk management competencies required in SMEs were determined to be behavioural and technical competencies. The financial decision-making competencies were found to be capital budgeting techniques, liquidity ratios, cash and accrual accounting, and working capital management. The study revealed that the decisions that SME managers/owners take can negatively or positively affect the business, hence understanding the mentioned competencies can help drive the business to success. The findings were that most of the

respondents did not know about or benefit from the government's support programs. Additionally, most SMEs did not have risk management policies and contingency plans. The recommendations proposed included the mandatory submission of risk management policy and financial contingency plan documents when SMEs register their businesses with the CIPC to help reduce high failure rates.

Keywords: risk management; financial decision-making; competencies; performance; SME.

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Appendix A: List of Abbreviations and Acronyms

Abbreviation/ Acronym	Significance
ARR	Accounting Rate of Return
B-BBEE	Broad-Based Black Economic Empowerment
CBO	Community Based Organizations
CDM	Capricorn District Municipality
CPPP	Community Public Private Partnership Program
CSIC	Council for Science and Industrial Corporation
DED	Department of Economic Development
DTI	Department of Trade and Industry
E-Mail	Electronic Mail
ERM	Enterprise Risk Management
GST	General Systems Theory
IDC	Industrial Development Corporation
ISO	International Organization for Standardisation
ISS	International Society for the Systems
IRR	Internal Rate of Return
KPA	Key Performance Areas
LBSC	Local Business Services Centres
MAC	Manufacturing Advisory Centres
MAFISA	Micro-Agricultural Financial Institute of South Africa
NEF	National Empowerment Fund
NGO	Non-Governmental organization
NPV	Net Present Value
NYDA	The National Youth Development Agency
PI	Profitability Index
SAGS	Society for the Advancement of General Systems
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SME	Small and Medium Enterprises
SGSR	Society for General Systems Research
SPSS	Statistical Package Social Sciences
SWOT	Strength Weaknesses Opportunities and Threats
TAC	Tender Advice Centres
TREC	Turfloop Research and Ethics Committee

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CHAPTER ONE: INTRODUCTION

1.1 INTRODUCTION AND BACKGROUND

The issue of Small, Medium and Micro Enterprises (SMEs) not growing and being unsustainable is disquieting (Masocha & Dzomonda, 2016). The South African economy, like other countries' economies, depends on SMEs (The Banking Association South Africa, 2017). SMEs are widely recognized as key contributors to economic growth, development, and job creation both in South Africa and globally. However, most of them do not grow or survive in the long term (The Banking Association South Africa, 2017). The government is focusing more on the financial resource allocation and policymaking of SMEs than understanding the root causes of the high failure rate and why they do not grow beyond the survival stage; it is more interested in promoting small development businesses (Lekhanya, 2016).

The absence of proper management skills and ineffective risk management are among the leading factors contributing to the failure of SMEs in South Africa. Essential management skills encompass financial, operational, business, entrepreneurial and risk management abilities (Falkner & Hiebel, 2015). Risk management is an important management action that needs to be understood and practiced by SME managers (Falkner & Hiebel, 2015). Risk management assists in detecting significant risks that can influence the achievement of an enterprise (Ekwere, 2016). Irimie, Zeininger and Mihai (2016) agree that SMEs need risk managers, specialists, advisors and consultants to be able to mitigate risks and make informative decisions on growth and sustainability.

There are various types of risks, including supply chain risk, interest rate risk, safety risk, raw material risk, environment risk, e-business and technological risk, fraud and theft risk, clinical risk, media exposure risk, capital risk, management and employees' risk and growth risk (Ekwere, 2016; Falkner & Hiebl, 2015; Mitka, 2015). Verbano and Venturini (2013) categorize risk management into four categories, such as strategic risk, financial risk, hazard risk and operational risk. Building on the above context, factors contributing to the high failure rate of SMEs in South Africa include, but are not limited to, inadequate risk management and financial management skills.

Based on the background above, factors contributing to the high failure rate of SMEs in the country include but are not limited to risk management and appropriate financial management skills. There are various research studies on the growth of SMEs, financial management skills and risk management (Masocha & Dzomonda, 2016; Mitka, 2015; Falkner & Hiebel, 2015). However, less attention has been paid to the relationship between risk and financial management competencies, growth, and sustainability. This study proposes to investigate risk and financial management competencies for SMEs' growth initiatives and sustainability efforts in Capricorn District Municipality (CDM), Limpopo Province, South Africa. To address the aim of the study, the focus will be on strategic, operational and financial risks.

1.2 PROBLEM STATEMENT

The high failure rate of South African SMEs is projected to be as high as 70-80%, with high rates particularly in rural areas (Cant & Wiid, 2013:707). SMEs in these regions struggle to grow or sustain their operations (Dzomonda & Fatoki, 2018). In South Africa, SMEs represent 91% of formalized businesses, provide employment to approximately 60% of the workforce, and contribute 34% to the country's Gross Domestic Product (The Banking Association South Africa Annual Report, 2017). Although the significance of small businesses in driving development is widely acknowledged, they face numerous challenges that hinder their growth and survival (Okpara, 2011). Studies on SME development indicate that failure rates are generally higher in developing countries compared to developed nations (Okpara, 2011).

The problem is a lack of appropriate risk and financial management skills, and SME owners are not recognizing the risks that can jeopardize their businesses. Therefore, this study will close the gap by identifying the risk management competencies and the financial decision-making competencies relevant to SME growth and sustainability; and skills that managers, owners and policy makers need to know and understand to improve the situation.

1.3 AIM OF THE STUDY

Motimele (2012) argued that most SMEs do not have the necessary financial management and administration skills required for their companies. There are various research studies on the growth of SMEs, financial management skills and access to financial management (Fatoki, 2010; Motimele, 2012; Maoscha & Dzomonda, 2016). However, less attention has been paid to the relationship between growth and financial management. Thus, the study aims to investigate the risk management and financial decision-making competencies for the growth and sustainability decisions of SMEs in Capricorn District Municipality, Limpopo Province, South Africa.

1.4 RESEARCH OBJECTIVES

- To determine the risk management capabilities required in SMEs.
- To determine the financial decision-making competencies required in SMEs.
- To assess whether a relationship exists between risk management competencies and financial decision-making competencies.
- To determine whether risk management competencies affect the expansions and sustainability of SMEs.
- To determine whether financial risk management competencies affect the expansion and sustainability of SMEs.

1.5 RESEARCH HYPOTHESES

The hypotheses outlined are derived from the conceptual model presented below:

H10: No relationship exists between risk management competencies and financial decision-making competencies of SMEs.

H1a: A relationship exists between risk management competencies and financial decision-making competencies of SMEs.

H20: No relationship exists between risk management competencies and the performance of SMEs.

H2a: A positive relationship exists between risk management competencies and the performance of SMEs.

H30: No relationship exists between financial decision-making competencies and the performance of SMEs.

H3a: A positive relationship exists between financial decision-making competencies and the performance of SMEs.

1.6 DEFINITION OF CONCEPTS

1.6.1 Risk management competencies

Risk management involves the process of recognizing potential risks that may arise in the future that can jeopardize the business and mitigating or analyze the measures that can stop the risk from occurring (Young, 2014:3). Competency is the ability to do something or to achieve a specific task to a given individual (Hager & Gonczi, 2015). In the context of this study, risk management competencies are the skills required to manage risks in an organization by identifying, assessing and responding to risks. A measurement scale will be developed from the theory to measure the risk management competencies.

1.6.2 Financial decision-making competencies

Financial decision-making is a process of assessing the advantages and disadvantages of choices related to the use and allocation of funds (Henry, 2019). The financial decision-making competencies are the skills to make sure that an enterprise uses its financial resources adequately (Correia, 2019). This involves decisions regarding the choice between equity and debt funding, along with the associated costs, as well as investment and operating decisions. The researcher will develop a questionnaire and a measurement scale to measure financial management skills based on the literature review.

1.6.3 Performance of SMEs

The financial performance of SMEs can be assessed through a quantitative lens. In this context, growth is the process of increase in size, value or power and number. Growth of SMEs is seen in increases of sales, turnover, profit, number skilled employees, and increase in the level of community participation (Ngek, 2014). A measurement scale will be created based on theoretical foundations to evaluate the performance of SMEs in Capricorn District Municipality, Limpopo Province.

1.7 LITERATURE REVIEW

The problems of complex interrelationships cannot be solved through piecemeal approaches (Rousseau, 2015). Various systems, such as the pecking order theory and the general systems theory offer frameworks for addressing these complexities. The general systems theory suggests that systems should be viewed as holistic entities whose nature emerges from sophisticated interactions among their exclusive elements. The theory emphasizes analyzing components within the context of their dynamic interplay and the system's overarching objectives. Typically, organizations are considered open systems (Larson & Gray, 2017), meaning they cooperate with their external environment. Organizations rely on their surroundings for crucial resources (Laszlo & Krippner, 1998). The general systems theory is a useful tool for examining risk and financial management in SMEs where risks and financial decisions compound one another to cause complex systems.

The pecking order theory addresses the capital structure or financial framework of a company (Corporate Finance Institute Society, 2015). According to this theory, managers prioritize financing sources based on a hierarchical approach (Myers & Majluf, 1984). The theory arises from the concept of asymmetric information, meaning when it comes to finance, sourcing managers start with retained earnings, followed by the debt and lastly, the company's equity (Corporate Finance Institute society, 2015). In this study, only the general systems and pecking order theories will be used.

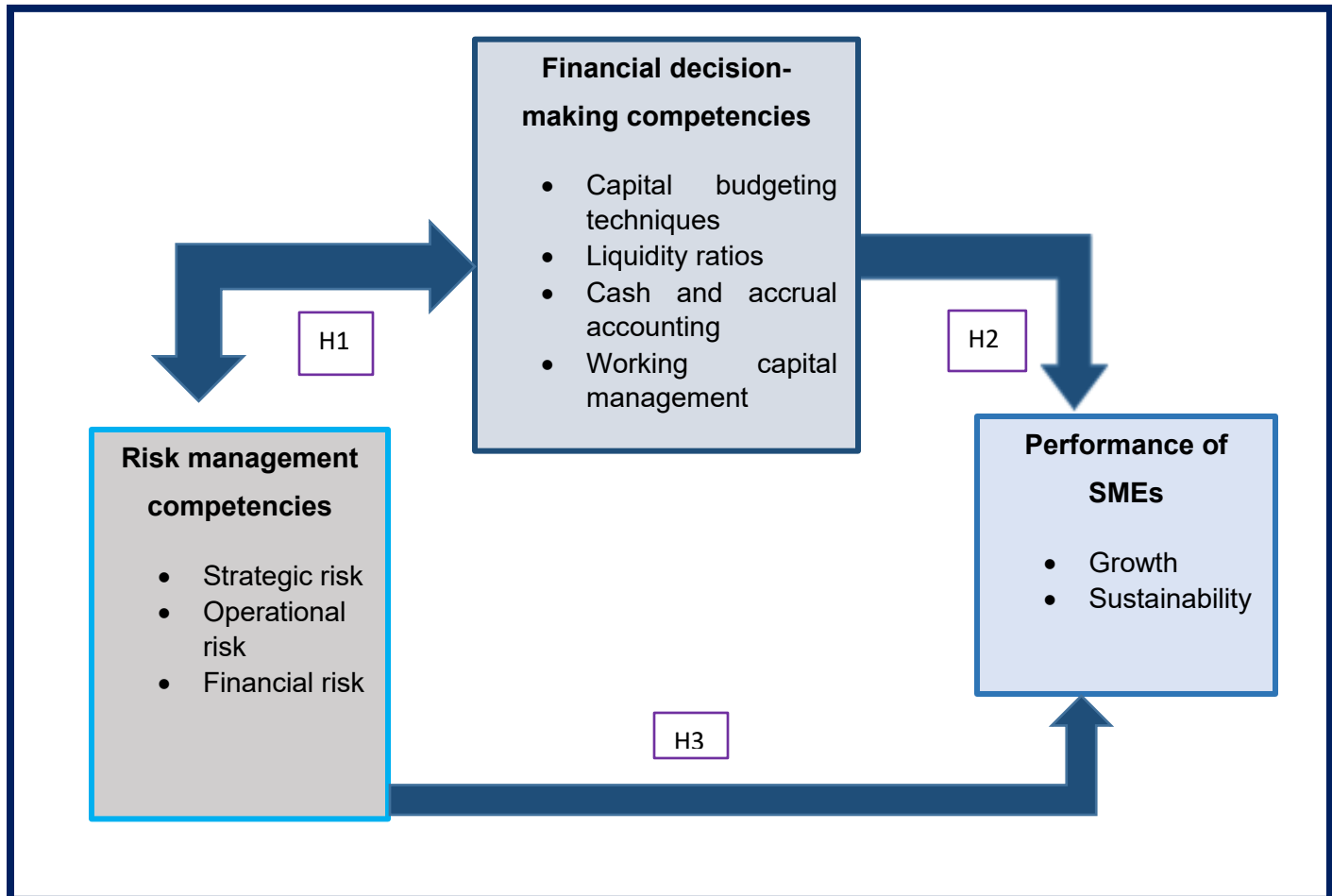
According to 360Factors (2020), the risk management process starts with the identification of risks that a business is exposed to, followed by the analysis of the risks identified, then the prioritization of the risk, the implementation of a solution, and lastly, the monitoring of the risks identified. The ability to identify and analyze risks help in calculating business risks and can reduce the impact of the risk (Watson, 2004).

The theoretical framework model explains the relationship between three elements, which are risk management, financial decision-making competencies and the performance of SMEs. The model illustrates that capital budgeting techniques, liquidity ratios, cash and accounting accruals and working capital management can affect the growth and

sustainability of the business. It shows a positive correlation between risk management competencies and SME performance. It also indicates a relationship between risk management competencies and financial decision-making competencies.

Lastly, it shows a positive link between financial decision-making competencies and SME performance.

Figure 1.1: Conceptual framework



Author's own concept

1.8 RESEARCH METHODOLOGY

The research study was conducted in Capricorn District Municipality, Limpopo Province, South Africa. In terms of economic size, Capricorn District is the third-largest region in the province. It has a high concentration of SMEs in the retail industry, agri-business,

manufacturing (production), and both retail and wholesale, therefore it is suitable for this research study (Lekhanya, 2016).

The study adopted the quantitative research design as it was numerical in nature. The reason for this design was because the emphasis was on the measuring of the values of variables and investigating their relationships. A survey was used to gather primary data from owners of SMEs.

The population of this study was SMEs operating within the retail industry, agriculture business, manufacturing (production), and both retail and wholesale in Capricorn District Municipality. Random sampling techniques were used to make the study sample to be descriptive of the total population. Therefore, the inferences made were neutral, and the generalisation of the results for Capricorn District Municipality was precise and could be used in similar districts in the country. The sample size was 330 SMEs.

Data was collected using self-administered questionnaires. Three hundred and thirty questionnaires were allotted via e-mail to SMEs in Capricorn District. Questionnaires comprised close open-ended questions developed from the conceptual and empirical review of the literature. Before data was gathered, a pilot study was conducted, and after data gathering, the completed questionnaires were checked for completeness and then captured into the “Statistical Package Social Sciences” (SPSS24) for regression analysis. Data was portrayed in tabular and graphical form. Inferential statistics, along with Pearson correlation analysis, regression analysis and ANOVA were utilized to assess and evaluate the relationships between the variables (Welman, Kruger & Mitchell, 2013).

The Cronbach’s Alpha assessment was utilized to confirm the internal consistency and reliability of the ordinal and nominal variables used in the study. To ensure validity, the questionnaire was developed from a theoretical framework and pre-tested in the field with 5 SMEs. Furthermore, academics reviewed the questionnaires to verify their validity.

1.9 ETHICAL CONSIDERATIONS

Ethical clearance was obtained from Turfloop Research and Ethics Committee (TREC) before the commencement of data collection. At the start of data collection, participants

were provided with written information explaining the background and purpose of the study. Informed consent was obtained in writing from all participants prior to administering the questionnaires. Participation in this study was voluntary and the information provided was treated as confidential. Privacy was maintained throughout the research process and the data collected was used for academic purposes only. The researcher ensured respect for participants' privacy, confidentiality and cultural sensitivities.

1.10 SIGNIFICANCE OF THE STUDY

The literature on risk management in SMEs attends to the risk management of SMEs in developed countries (Brustbauer, 2014). This research study will provide a better understanding of competencies in managing risks and decision-making in finance in the literature and quantify their importance and effect on SME performance. Therefore, this descriptive study will be useful to SME owners, management training providers and government decision makers, as well as communities that obtain services from SMEs.

1.11 CHAPTER ONE SUMMARY

This chapter provided the introduction and background of the research, explaining the need for this study and how it will close the gap observed. It has highlighted that the absence of proper management skills and ineffective risk management are among the leading factors contributing to failures of SMEs in South Africa. Additionally, the types of risks that could affect the growth of SMEs. Moreover, the chapter emphasized the aim of the study which is investigating the risk management and financial decision-making competencies for the growth and sustainability of SMEs in the Capricorn District municipality, Limpopo Province. The research objectives and hypotheses of the study were clearly defined in this chapter. Furthermore, this chapter defined the main concepts used in the study. The literature review was also elucidated, included the theories that were going to be used in the study and the conceptual framework was also designed. The chapter also highlighted the research methodology that was going to be used, which was the quantitative. Ethical considerations were also provided on this chapter. Overall, this chapter gave an overview of the attributes and mini structure of the document.

CHAPTER TWO: RISK MANAGEMENT, FINANCIAL DECISION-MAKING COMPETENCIES AND THE PERFORMANCE OF SMES

2.1 INTRODUCTION

This chapter reviews appropriate theoretical and empirical theory, and proposes a conceptual framework of the study. Previous literature on risk management and financial decision-making competencies was analyzed. An in-depth analysis was conducted to identify the risk and financial management competencies needed for SMEs. Moreover, the chapter defines and provides the performance metrics for SMEs. Lastly, it examines the relationship between risk management, competencies for financial decision-making and SME performance.

2.2 GENERAL SYSTEMS THEORY

The concept of “General Systems Theory” (GST) originated with the biologist Ludwig von Bertalanffy in the 1940s and was further developed by the International Society for the Systems Theory (ISS) (Teeboom, 2018). The ISS, initially founded in 1954 as the “Society for the Advancement of General Systems Theory” (SAGS), was later incorporated in 1956 as the “Society for General Systems Research” (SGSR). GST was designed to foster interdisciplinary communication and collaboration (Rousseau, 2015). Added to this, the GST covers the differences between subject-oriented and object-oriented disciplines, making research more effective and efficient (Von Bertalanffy, 1972). Furthermore, it was developed to help with the facilitation of scientific findings in disciplines that do not have precise theories, thus promoting the unity of knowledge (Rousseau, 2015). The main reason for the development of the GST was concern over potential human, environmental and social crises threatening civilisation (Von Bertalanffy, 1972). GST was then perceived as a strategic action plan to avert such crises and to pave the way towards a ‘better world’ (Rousseau, 2015).

2.2.1 The definition of General Systems Theory

The term General Systems Theory is used in a broad way and applies differently to different societies, and is a trans-disciplinary, interdisciplinary and multi-perspective approach. It is, therefore, important to define and understand what a system, theory and systems theory are in this study. The Oxford Dictionary of Business and Management (2016:591) defines a system as an assembly of mechanisms associated in a structured way to produce outputs. The online Collins English Dictionary (2018) defines it as a framework of principles or methods for carrying out a process. On the other hand, a theory is a set of ideas intended to elucidate a fact to which a study is grounded (Collins English Dictionary, 2018). Therefore, in the context of this study, the systems theory involves the way a section of a business interrelates with the entire business or industry (Teeboom, 2018), and is based on the understanding that everything is dependent and related. All section parts of the business must function in synchronisation as they are all dependent on one another (Teeboom, 2018). There must be harmony between systems, sub-systems and elements.

2.2.2 Types of systems

According to Blanchard (2006), there are four different types of systems: physical and conceptual, natural and human-made, static and dynamic, and open and closed systems. In this study, only open and closed systems will be briefly discussed. The difference between the two is that a closed system does not interact with the environment, while an open business system interacts with its external setting by way of ideas, outputs, information and yields (Du Toit, 2011). Most approaches to organization research treat an organization as an open system, however, closed systems can be included in open systems (Von Bertalanffy, 1972; Larson & Gray, 2017).

Open systems include feedback loops, which are made for improvement in an organization through the collection of end-user reports. According to Larson and Gray (2017), feedback loops are there to help management to see if there is success, corrections or failure in the system. The feedback loops can either be negative, which

yields a problem that should be fixed, or positive, which recognizes outputs that have operated successfully (Larson & Gray, 2017).

2.2.3 Types of sub-systems in business

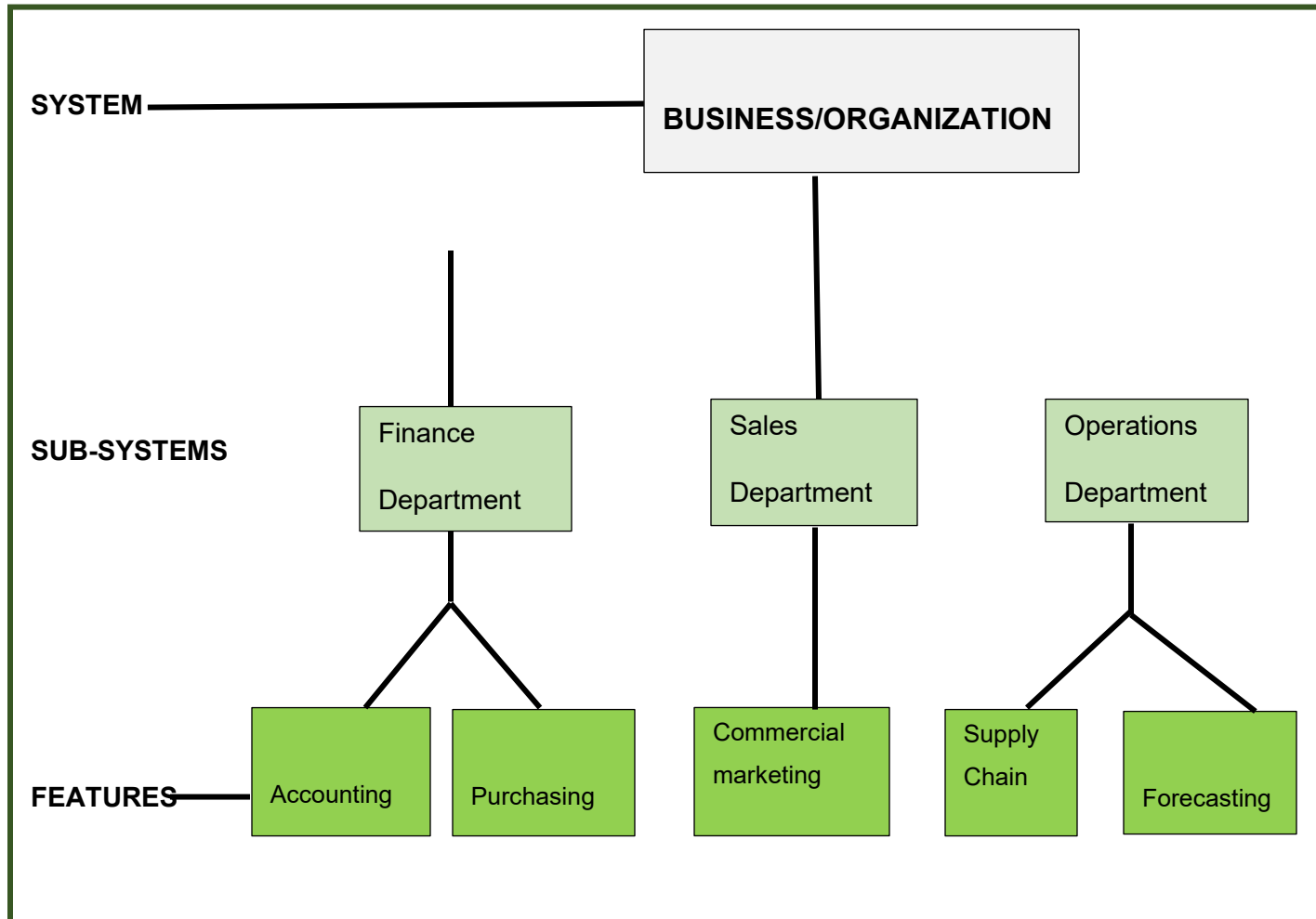
According to Johnson, Kast and Rosenzweig (1964), there are six important key sub-systems that help and influence decision-making in businesses.

- A sensor component or subsystem designed to detect shifts within the system and the business environment.
- An information management component, including systems for accounting, transactions, human resources and database processing.
- A decision-making subsystem, which helps decision makers use data or framework to complete decision-making procedures.
- A processing subsystem consisting of information, opinions or materials to achieve tasks.
- A control component, which is for helping decision makers make sure that processing is in harmony with planning that was done.
- A memory subsystem in the form of records, manuals, procedures or software (Johnson, Kast & Rosenzweig, 1964).

The systems approach views management as “an organized entire made up of sub-systems joined together”, and is composed of a hierarchy of sub-divisions (Chand, [s.a]). It includes the analysis of the organization structure, resources, information, planning, implementation, control mechanisms and risk competencies (Larson & Gray, 2017).

The figure below is a diagram showing how the systems approach is composed and how the features, sub-systems and systems interlink. The example illustrates how a business can be perceived as a system. This is because components of a system should be evaluated in the context of the dynamic interactions that take place between all of the system's subsets and the overall goals of the system (Rousseau, 2015).

Figure 2.1: The hierarchy of sub-divisions in a system



Source: Author's own conception

2.2.4 Application of the systems theory to business and decision-making

Organizations are complex dynamic goal-oriented processes, and must distinguish external from internal factors (Chand, [s.a]). Systems theory application has a role in business to develop objective, clear and comprehensible conditions for decision-making (Johnson, Kast & Rosenzweig, 1964).

Du Toit (2011) states that one of the most crucial parts of the management functions of an organization is decision-making; however, many decisions taken in organizations fail because they do not include the system approach. The outcome of a decision, whether successful or not, is influenced by both the decision-making approach and the use of the systems theory.

In applying the systems theory, objectives and performance of sub-division are taken into consideration (Chand, [s.a]). This helps managers or SME owners to realize if the decision intended to be made is correct, feasible or impractical and determines how it will affect the organization as a whole (Du Toit, 2011).

The systems approach can be effectively applied to management decision-making, such as strategic, operational, tactical or financial decisions. By applying a systems approach to the decision-making, it can be determined whether the perceived problem is just a symptom of another problem and what its causes are, or if it can be solved successfully (Du Toit, 2011). This helps managers make decisions after taking all the sub-systems into consideration. Rousseau (2015) argues that if managers fully understand the system, the environment and the framework, the decision is unambiguous, and decision-making on risk would be easier to manage. This is because one of the benefits of incorporating the system approach in decision-making is the assurance of a complete picture when making decisions (Du Toit, 2011). The general systems theory presents an effective approach for examining risk and financial management within SMEs, where risks and financial decisions influence one another to cause complex systems (Du Toit, 2011).

To further explain this, when the operations volumes of a business increases, profits are likely to increase too, leading to changes in performance in SMEs (Alter, 2015). According to Smit and Watkin (2012), using a structured approach to assess financial and non-financial information aids SME owners/managers in gaining a clearer understanding of the risks their business might encounter.

It is also important for a business to make use of feedback loops, as this will not only help them with better decision-making, but also mitigate risks in the business. Ignoring the interdependence of the systems theory can be risky and dangerous to management (Chand, [s.a]). As stated by Mitka (2015) “risk management becomes a necessity and requires a systematic consideration in decision making processes of the business”. By including a systems approach to decision-making, the goal of the firm is considered, and constraints are addressed to avoid risk management failures or poor SME performance.

2.3 PECKING ORDER THEORY

According to Svatošová (2017), decision-making on a capital structure has to do with decisions on which external or internal sources to use. There are numerous theories developed to analyze different capital structures of businesses, with the pecking order theory being one of them. This theory, alongside other financial frameworks like the Net Income approach, Static trade-off theory, and the Bottom Line, guides companies in selecting their capital structure (Rehayem, 2019). Originally proposed by Donaldson in 1961, it was modified in 1984 by Stewart Myers and Nicolas Majluf (Rehayem, 2019). This theory will be used on financial decision-making.

The pecking order theory posits that managers or owners choose how to fund business operations based on a ranked preference (Myers & Majluf, 1984; Corporate Finance Institution, 2021). The theory is rooted in the concept of asymmetric information, where one party in an economic exchange possesses more information than the other (Rehayem, 2019). Essentially, it underscores the disparity in information between managers and investors (Jardine, 2014).

2.3.1 The three financing options in pecking order theory

In the pecking order theory, internal financing through retained earnings is the preferred option because it incurs no additional costs. This means that there are no costs involved with debt or equity to be paid for (Rehayem, 2019). Management has more information about the value of the business and projections than investors (Jardine, 2014). The risk

involved is low as the financing comes directly from the business and is regarded the cheapest source of funding. Retained earnings lessen information asymmetry (Corporate Finance Institute, c2021).

The second funding option, according to the pecking order theory, is debt financing. The Oxford Dictionary of Business Management (2016:175) defines debt as a sum of money owed by one party to another and can serve as a funding instrument in corporate. According to the pecking order theory, managers use the internal financing, which is retained earnings first, and when it is depleted, they go to the external environment and use debt (Corporate Financial Institute, c2021). The risks associated with this type of funding are moderate as it usually represents a fixed cost in the business. The tax law favours the debt option as interest expense is deductible (Correia, 2019:45). However, when a lender provides funds to a business, the interest rate is determined by the perceived risk associated with the firm (Chen & Chen, 2011).

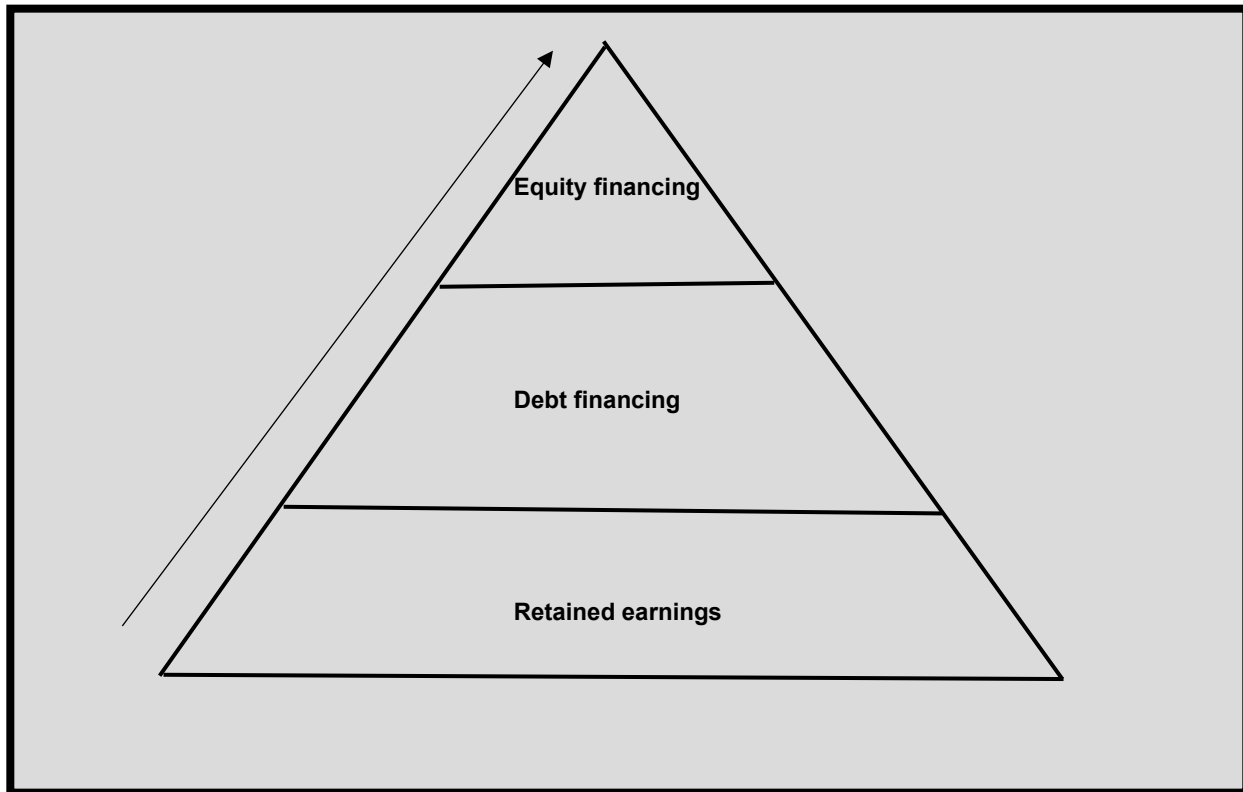
The third and last type of financing in the pecking order theory is equity, which means a beneficial interest rate in an asset such as bond (Oxford Dictionary of Business Management, 2016:220). It is preferred as the last funding option because it is the most expensive and has high risks. When managers issue shares, it increases with asymmetric information (Corporate Finance Institute, C2021). The theory asserts that equity financing is the least favoured method for raising capital because issuing new shares often signals to investors that the firm might be overvalued. Consequently, it appears to investors that managers are capitalising on this overvaluation (Myers & Majluf, 1984). This then leads to investors placing a lower value to the new issue of equity.

2.3.2 Hierarchy for Pecking order theory

The managers' preference towards financing sources is illustrated in the figure below. It shows that managers start with the company's internal financing through retained earnings, followed by the external financing debt and ending with equity. The pecking order hierarchy implies that companies aim to "maximize value by systematically

choosing to finance new investments with the cheapest available source of funds, without any explicit leverage target” (Jardine, 2014).

Figure 2.2: The pecking order theory model



Source: Developed for this study

2.3.3 Applying the pecking order theory

When applying the “pecking order theory” as a financial principle to guide or help managers in choosing their capital structure, it can be noted that the theory proves the opposite relationship between debt ratios and profitability. This relationship reflects how a business' use of financial leverage and its capacity to avoid long-term financial distress are influenced (Myers & Majluf, 1984). In addition, Jardine (2014) educates managers

that the general rule to outsourcing funds is to issue less risky and cheap securities before risky ones because of the lesser charges linked to debt issuance, meaning debt before equity.

Several authors view the pecking order theory as an effective framework for understanding business capital structures (Myers & Majluf, 1984; Zeidan, Galil & Shapir, 2017). However, a study conducted by Frank and Goyal (2003) indicates that the theory may not apply well to small businesses due to significant issues with information asymmetry in these firms. They further argue that it works best in large firms and is rejected in small businesses as they do not follow the theory.

It can also be noted that banks are the main supplier of small and medium-sized enterprise external funding. However, the preference of applicants, as influenced by the pecking order theory and risk aversion, plays a significant role in this context (Jardine, 2014). Banks may be inclined to charge higher interest rates, which increases the risk for SMEs and further limits their ability to grow and achieve sustainability (Chen & Chen, 2011).

From the discussion above, it is evident that as companies grow, funding decisions become one of the functions that managers need to engage in. They need to decide on the type of funding needed and the approach to be followed. The debt ratio of a business, which can be denoted by $\text{=total debt/ total assets}$, redirects the accumulative requirements for external financing (Correia, 2019:47). Lastly, effective financial decision-making and the financial principles that a business chooses for their capital structure are important as they help the business to perform well, be sustainable and expand (Chen & Chen, 2011).

2.4 RISK MANAGEMENT

Risk management is a crucial function in SMEs and links to the owner or manager's analysis of the threats and opportunities of the business environment (Smit & Watkins,

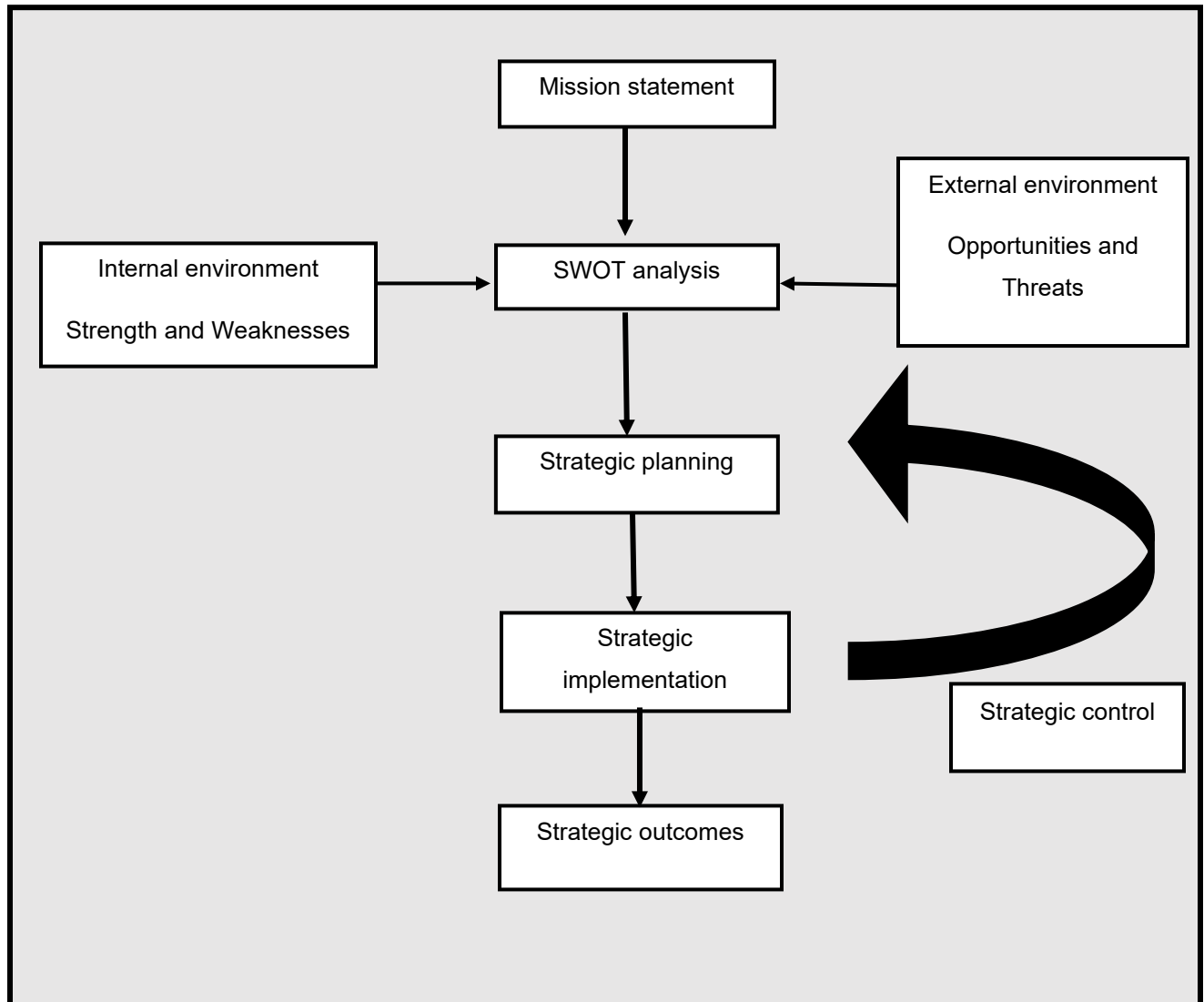
2012). The ability to identify and analyze risks is crucial for assessing potential threats to a business and mitigating their impact (Watson, 2004). Effective risk management is essential for businesses, as it enables managers and owners to anticipate uncertainties, understand their potential effects, and develop plans to address them (Smit & Watkins, 2012). Gwangwava, Munuere, Kudakwashe, Tough and Rangarirai (2014) note that many SMEs lack a formal risk strategy. It is vital for SME owners/managers to regularly identify and manage risks, with assessments potentially occurring on a weekly, monthly, bi-annual, or annual basis (Zoghi, 2017). This study will focus on strategic, operational and financial risks.

2.4.1 Strategic risk

Young (2014:12) indicated that strategic risk management is “the process of identifying, quantifying and mitigating any risk that affects the business strategy, strategic objectives and strategic execution”. Managing strategic risk involves defining the business strategy and objectives and establishing key performance areas (KPAAs) for identifying risks affecting variability in performance outcomes, determine key risk indicators (KRIs) and provide combined reporting and supervising of actions taken to improve them (Lam, 2014).

The figure below shows the cycle of strategic risk management that can assist SMEs classify risks and outline the appropriate internal steps to address them. After analysis of the external and internal environment (Strength Weaknesses Opportunities Threats), managers emphasizing risk make strategic decisions that are in line with the mission of the business. Thereafter, a strategic plan and the implementation follow which form part of the strategic control, and lastly, the analysis of the strategic outcomes.

Figure 2.3: Strategic risk management process



Source: Andersen and Schroder (2010)

- The strategic management of risk assists SME owners/managers to evaluate their decisions and actions (Smit & Watkins, 2012). It enables prioritization of risks through effective risk approaches. Watt (2007) argues that it is essential for the owners and management of SMEs to engage in actions that limit the chances of risk occurrence or at least have strategies that exploit recovery. They need to develop risk strategies that

reduce or evade risks in a business (Watson, 2004). According to Watt (2007), applying the strategic risk management in SMEs has the following advantages: it guarantees that all activities that take place are aligned with the mission, vision and goals of the business. Ensures that organizational activities observe regulations and compliance of the industry. Lastly, it helps in the provision of legal defense, should complications occur and offers reduction of costs such as insurance expenses.

Unlike larger enterprises, owners and supervisors of SMEs often find it easier to develop and implement policies for managing risks, particularly when these activities are viewed as processes that enhance performance (Watt, 2007). It is encouraged that SME owners/managers discuss risks with their employees through effective feedback methods, risk reviews and risk surveys as this leads to organizational trust (Smit & Watkins, 2012).

2.4.2 Operational risk

- Operational risk is a measure of the variation of business activities and its results (Smit & Watkins, 2012). It refers to the potential for loss resulting from inadequate internal processes, external events, human error, or system failures (Blunden & Thirlwell, 2010:12). According to Allen (2016), operational risk emphasizes the efficiency of business operations rather than its financial structure. Chikoko (2012) identified the following sub-elements of risks in operations: business disturbance and system failures, clients, products and business practices. External and internal fraud, model and legal risks (Chikoko, 2012). Additionally, damage to physical assets, employment practices and employees's safety. Furthermore, execution, delivery and process management. Lastly, external and internal fraud, model and legal risks (Chikoko, 2012).

Smit and Watkins (2012) note that managers, owners and executives view operational risk differently. Zoghi (2017) emphasizes that the individual responsible for defining and identifying risk plays a critical role in its management. Key personnel involved in risk identification include the "Managing Director/Management Team (MD/MT), the Finance Department (FD), the Controlling Department (CD), Internal Auditing (IA), the Risk

Management Department (RMD) and External Consultants (EC)". SMEs can mitigate risks through effective operational management. The following practices can be employed for risk reduction:

- Understanding both unplanned and planned risks;
- Preparing for all risks;
- Structuring management plans; and
- And improving on the mitigating actions (Allen, 2016).

The organization can enhance the efficiency of risk management in the operations of the business by formulating business guidelines that include how to control risk management. In addition, the organizational structure and incentive compensation systems facilitate and enforce the various risk responsibilities that business stakeholders have in the business (Young, 2014:37). Task segregation, limiting difficulties in the business processes, creating strong ethics within the business, monitoring and evaluations at regular intervals and periodic risk assessment are approaches that Mohammed (2014) identified to be useful in mitigating operational risk. To manage and contain risks effectively, it is essential to document potential or near losses and implement mitigating controls to prevent similar incidents in the future (Allen, 2016).

According to Blunden and Thirlwell (2010:13), the management of operational risk is about maintaining and establishing a cost-effective and best way of controlling the situation across all risks, and should be a top concern for the board and senior stakeholders of every business. Allen (2016) found that if Operational Risk Management (ORM) is managed well and implemented, it can be regarded as a vital success factor for small businesses because it is key in the survival rate of SMEs.

2.4.3 Financial risk

Financial risk causes businesses to experience profit or loss because it is speculative in nature (Young, 2014:7). It is the process of understanding and managing the risks that an organization can be exposed to financially (Thompson, 2019). Moreover, it is the

owner's duty to manage the risk in SMEs, whereas in growing business, it is the responsibility of the financial risk manager (Thompson, 2019).

Ways of managing financial risk are diversification, use of savings accounts, investments and hedging (Osmond, 2005). Marcelino-Sádaba, Pérez-Ezcurdia, Echeverría-Lazcano and Villanueva (2014) argue that most SMEs cannot afford to rededicate resources because of financial constraints. This leads to SMEs not applying risk management practices adequately. Financial risks include interest rate risk, liquidity, insolvency and credit risk.

2.4.3.1 Interest rate risk

According to the online Collins English Dictionary (2018), interest rate is the calculated amount one pays for borrowing money from a bank for a certain period of time. The amount is calculated in percentage and paid in agreed periods like months or years. Interest rate risk is the risk of a decline in the value of assets due to fluctuations in interest rates (Corporate Finance Institute, 2021).

As reported by Cant and Wiid (2013), interest rates are a crucial factor hindering the development and sustainability of SMEs. Elevated interest rates on loans from banks and non-banking financial institutions restrict SMEs' access to funding and credit. Like any other type of risk, interest rate risk can be mitigated and this can be done through either diversification or hedging. Diversification refers to an asset strategy, which appropriately allocates assets amongst different classes of investment (Salter, 2012). Financiers allow for a certain level of risk, but an exit plan has to be developed for when an investment does not yield the predictable return. For instance, if the risk of interest rate is seen to be going to affect the portfolio value of a business, an option to diversify to different investment methods that are less inclined to the interest rate fluctuations would be considered. Hedging in interest rate means "investing with an intention of adverse price movements in an asset" (Corporate Financial Institution, c2021). The strategies for

hedging include the purchase of different types of derivatives such as interest rate swaps, options and future contracts.

2.4.3.2 Liquidity risk and insolvency risk

Liquidity risk occurs when a business is unable to meet its short-term financial obligations (Kenton, 2020). Unplanned decrease in revenue, unintended capital spending, business disruption and inadequate cash flow management are factors that lead to liquidity risk (Acharya, 2006).

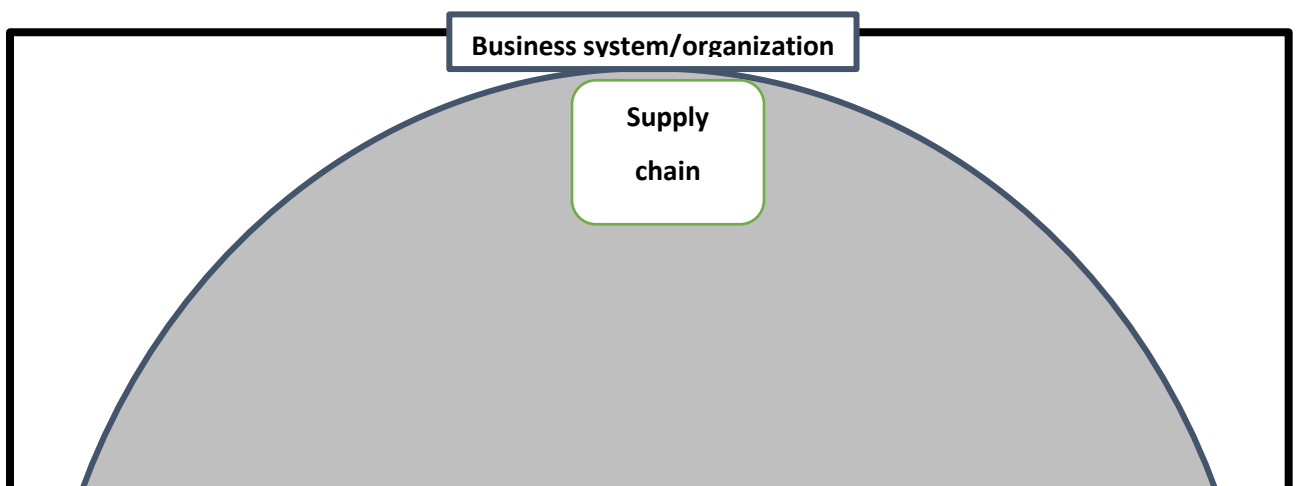
Insolvency, also known as bankruptcy, is the risk that occurs when a business cannot meet its debt obligations (Hayes, 2020). It occurs when the business' liabilities exceed the assets, caused by inadequate cash flow. The solvency can be measured by current asset ratio, which is derived by comparing assets to liabilities.

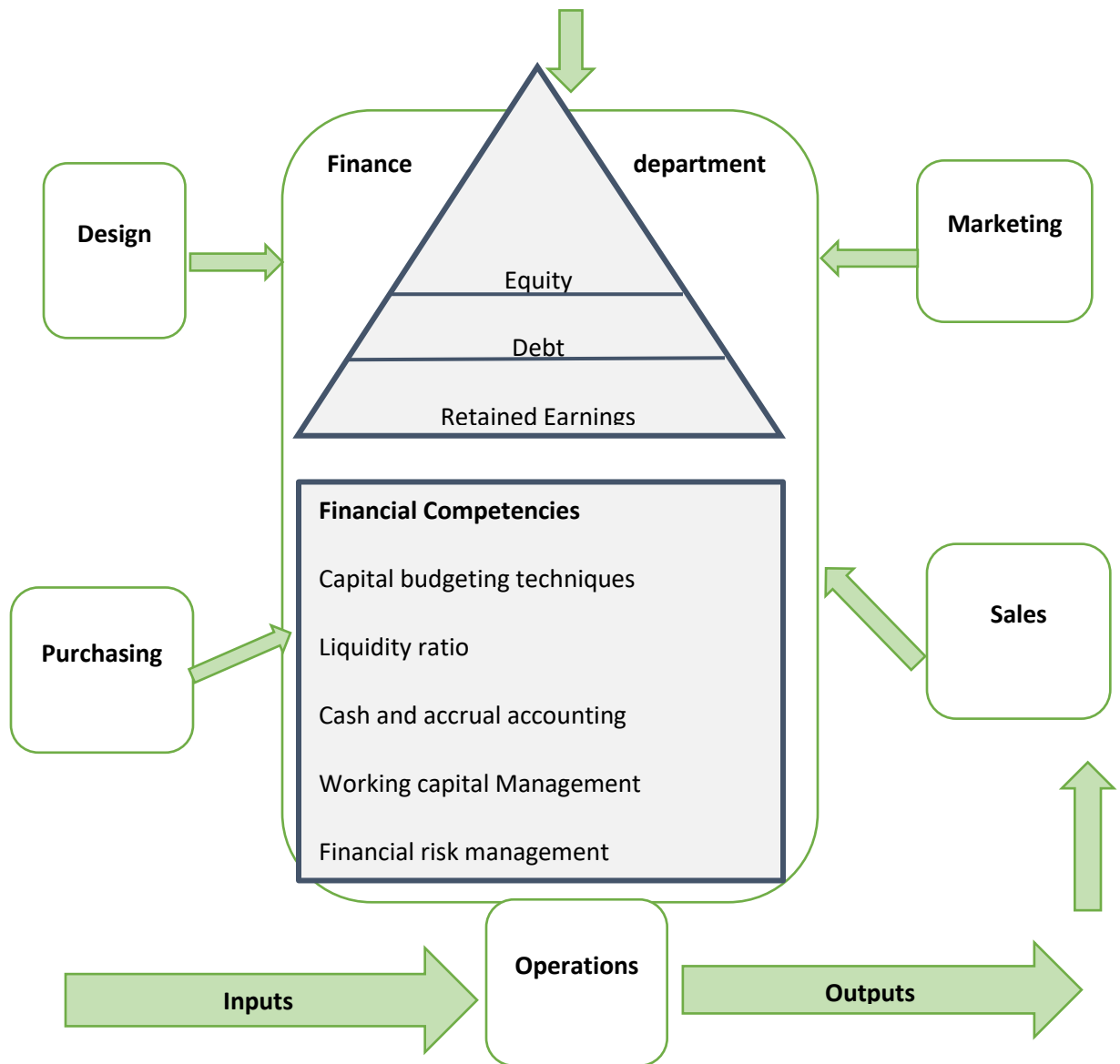
2.4.3.3 Credit risk

Corporate Finance Institute (2021) defines credit risk as a default risk that may occur from a debtor not being able to repay the agreed amount. Smit and Watkins (2012) revealed that the credit risk for small businesses is 30% higher than that of general businesses. The liquidity, insolvency and credit risk can be caused by the business debtors' delays and inability to settle the full amounts owed, thus leading to the SMEs being unable to meet their financial obligations such as repayment of loans and having inadequate cash flow (Smit & Watkins, 2012).

2.5 CONCEPTUAL THEORETICAL MODEL FOR THE RESEARCH

Figure 2.4: Conceptual theoretical model





Author's own conception

EMPIRICAL LITERATURE FRAMEWORK

The contribution of micro enterprises to a nation's wealth cannot be over exaggerated. SMEs are, universally, identified as the foundation of a nation's tools for creating and sustaining economic growth and improving the informal sector (The banking Association South Africa Annual Report, 2017). SMEs show a noteworthy role in marginalised, disadvantaged and rural provinces like Limpopo Province of South Africa.

2.6 RISK MANAGEMENT COMPETENCIES

Poor risk management as a factor contributing mostly to the failure rate of SMEs cannot be over exaggerated (Falkner & Hiebl, 2015). Due to limited resources and lack of access to information and funds, SMEs end up being exposed to certain risks. Risk management helps the business to grow and be sustainable. Risk management competencies help the managers to take appropriate actions in dealing with the risk, consider the issues of uncertainty and helps in recognizing capabilities and feedback from the external environment that could affect the growth and sustainability of the organization (Mitka, 2015). According to Smit and Watkins (2012), the use of Enterprise Risk Management (ERM) is a business competency that enables SME owners to improve opportunities related to risks.

A study by the Enterprise Risk Management Academy (2021) notes that the main competencies required for organizations to perform well are behavioural and technical. Craig (2015) describes behavioural competency as the ability to manage resources within an organization, while technical competency refers to the application of specific skills and knowledge required to perform a task effectively. The next section gives a describes the two types of competencies required in the risk management of SMEs.

2.6.1 Behavioural competency

Leitao and Franco (2011) note that behavioural competencies include analytical and problem-solving ability, negotiation skills, technical skills and leading skills, strategic thinking, networking ability, new concerns and changing environment adaptability, financial acumen and holding academic credentials in finance and risk.

2.6.1.1 Problem-solving abilities and analytical skills

The ability to solve problems is linked to various competencies, such as analytical skills. Leitao and Franco (2011) note that being competent in solving problems means being able to be curious enough to look at and assess the issues in the business and finding crucial solutions. According to the Corporate Finance Institute (2021), analytical skills pertain to an individual's capacity to identify a problem and explore it to find the logical

solutions that are regarded as important, especially in risk management. These skills are important to managers as they manage employees and aspects of their work, including the goals, mission and vision of the business and the firm's potential top risks (Corporate Finance Institute, 2021). For any manager to assess and predict risk, they must have analytical skills; be able to collect information and make strategic decisions and seeing any potential gaps in the organization (Du Toit, 2011).

2.6.1.2 Technical and negotiation skills, and ability to influence people

The capacity to influence employees is an essential characteristic that managers must possess (Du Toit, 2011). They must know how to listen and inspire their employees, as sometimes a better way of dealing with risk involves discussions about it together with their employees through effective feedback methods and risk reviews (Smit & Watkins, 2012). Developing technical skills is generally simpler than cultivating soft skills, which are tied to one's personality and are more challenging to alter (Du Toit, 2011).

2.6.1.3 Strategic thinking capability

Du Toit (2011) advises that risk managers should adopt a forward-thinking and strategic mindset, enabling them to identify potential risks both within departments and across the broader business landscape. This competency helps managers or owners to ensure that there are hedging strategies for mitigating risk occurrences. Smit and Watkins (2012) emphasize the importance of managers' ability to visualize the bigger picture, deconstruct it, and identify solutions and opportunities.

2.6.1.4 Networking ability and new concerns and changing environment adaptability

According to Du Toit (2011), managers must be able to use expertise and social media networks such as Twitter (now X) and LinkedIn to connect with other professionals. Oehmen, Guenther, Herrmann, Schulte and Willumsen (2020) concur that good risk managers are the ones with good networking relationships because to manage risks, one needs to manage relationships between various departments and external groups such as stakeholders. When new concerns and changing environments are involved, managers need to be flexible with and accept changes. They need to be good in dealing

with new political factors such as trade regulations, political stability or instability, financial and technical environments (Ahsan, 2018). SME managers and owners need to also manage the change that could occur and the performance of the business (Du Toit, 2011).

2.6.1.5 Financial acumen

Being financially intelligent means understanding and mastering various financial pointers related to an organization's assets, markets, regulations, stakeholders and regions, allowing for well-rounded decision-making (Du Toit, 2011). According to Lam (2014), SME managers or owners do not always need to quantify risks into specific, quantifiable, measurable items like 'key risk indicators' (KRI) and key performance areas (KPA's). Du Toit (2011) notes that if managers can distinguish between manageable risks and those beyond their control, they can better focus on contingency plans and prepare for uncertainties. Furthermore, Ahsan (2018) highlights that familiarity with financial tools enhances decision-making capabilities.

2.6.1.6 Holding academic credentials in finance and risk

Efficient and effective risk management in SMEs is closely tied to the education level of their owners and managers (Ndou, 2010). Hisrich and Drnovsek (2002) suggest that managerial skills, which are influenced by education, knowledge and experience, positively affect the performance of SMEs. Leitao and Franco (2011) further support this view, emphasizing that higher education levels among SME owners/managers lead to better business performance. Caldas (2016) adds that managers should possess strong academic credentials in finance, quantitative fields, or risk management. Highly educated SME owners/managers are more capable of acquiring and developing the skills needed to launch and sustain a business (Lusardi & de Bassa Scheresberg, 2013).

2.6.2 Technical competency

Enterprise Risk Management Academy (2021) states that technical competency has three elements: the principles of ISO 31000, risk management frameworks, and the risk management process. Owners and supervisors of small businesses need to be experts

in the knowledge of risk management principles and how they are applied in different circumstances in organizations (Enterprise Risk Management Academy, 2021).

2.6.2.1 Risk management principles of ISO 31000

The International Organization for Standardization (ISO) is a self-regulating, non-governmental worldwide body focused on establishing standards to ensure the quality, safety and effectiveness of systems and processes in the workplace (Egbide, Uwuigbe & Agbude, 2013). ISO develops standards to certify businesses. There are various ISO standards for management, including ISO 9100, ISO 27001, ISO 9001, ISO 31000 and ISO 21001 (Van Antwerp, 2010; Goniwe, 2018). For this study, only ISO 31000 shall be discussed as a guide to management to implement the practices of risk.

The ISO 31000, which was issued in 2009, provides guidelines for implementing and maintaining risk management practices within organizations (PECB, 2015). It describes a structured and methodical framework for managing risk and focuses on the operational risk management as part of an ERM program (Van Antwerp, 2018). The ISO 31000 is not specific to any sector (Oehmen *et al.*, 2020). It promotes effective risk management plan basics and helps in identifying the risk management information system functions (Van Antwerp, 2010).

The effectiveness of ISO 31000 in organizations is important. Van Antwerp (2010) notes that ISO 31000 assists management for small businesses in the standardization of terminologies in risk, together with the improvement in risk communication and the coordination of the administration of risk of the whole organization. The ISO standards will be transformational if SMEs value the establishment of effective risk management plans rather than doing it for the sake of compliance (Van Antwerp, 2010). In order for employees and experts responsible for implementing risk policies to have a clear comprehension of the basis and actions, communication and consultation guidelines should be established (Goniwe, 2018).

It can be noted that ISO 31000 is organized into three main sections: the processes, principles and frameworks. According to the Professional Evaluation and Certification Board (PECB) (2015), organizations need to observe the following eleven principles for an effective and efficient management of risk:

- “Risk management is a core component of every organizational process.
- The management of risk is timely, systematic and arranged.
- Risk management is tailor-made.
- The management of risk relies on the greatest accessible knowledge.
- The management of risk is inclusive and clear.
- Risk management is a fundamental part of the decision-making process.
- The management of risk accounts for human and cultural influences.
- Risk management unambiguously addresses uncertainty.
- Risk management is flexible and responsive to changes.
- The management of risk creates and defends value.
- Risk management facilitates organizational improvement that is infinite” (PECB, 2015).

From the above, it is clear that ISO 31000 serves as the guideline for managing risk in the framework of risk management.

2.6.2.2 Risk Management Framework

Oehmen *et al.* (2020) describe a framework as an essential structure that supports and provides solutions to a particular problem area. Consistent with Oehmen *et al.*’s definition of a framework, Goniwe (2018) defines a risk management framework as a decision-making system that helps with the performance of risk management in an organization. SME owners/managers need to be acquainted with the corporate regulatory environment and the framework of risk management because it assists businesses in risk decision-making and with the monitoring of the results of those decisions (Goniwe, 2018).

Risk management framework aims at consistency in decision-making and is a defensible basis for decision-making at all levels so that the organization is ready for and protected against major losses and that there is accountability for risk and clear controls (Goniwe, 2018). The framework was first proposed in 1993 by Flanagan and Norman, and consists of the five elements below (Van Antwerp, 2018).

Assign mandate and commitment

According to the ISO 31000 Standard (2018), the start of risk management requires determined and robust commitment and strategic plans by the management of the organization. Heyneke (2018) adds that the management should therefore approve the policy of risk management and ensure that legal and regulatory mandates are fulfilled. PECB (2015) concurs that the management of the organization must show a sustained commitment to risk management policy, thereby defining and ensuring that the necessary resources are allocated to risk management and communicating the benefits to all stakeholders. The management should ensure that the risk management policy of the organization aligns with the culture, objectives and strategies of the organization (Heyneke, 2018). There has to be an assignment of roles and responsibilities of the senior management, internal and external auditors and board of directors for corporate governance (Heyneke, 2018).

Design of framework for managing risk

Before the implementation of any policy, the organization has to agree on the design to be used. The SME must design the risk management policy, the allocation of appropriate resources and establish communication, both at the internal and external levels (PECB, 2015). Furthermore, an external and internal reporting mechanism should be established (Heyneke, 2018).

Monitoring and reviewing of the framework

The monitoring and review of the framework. The organization must measure risk management performance and progress in order to ensure the effectiveness of the risk management (PECB, 2015). They should also review the framework, policy and the plans and their effectiveness (PECB, 2015). A more detailed discussion of this step is discussed under the process of risk management.

Continual improvement of the framework

The decisions on how the framework can be improved would be based on the monitoring and review outputs (PECB, 2015). SME owners/managers can achieve this outline through the use of the risk assessment process. It is important to note that this can be conducted at various levels of the organization (Goniwe, 2018). They can also improve the risk treatment, and the recording of the risk management process minutes so that they can trace the activities easily.

The risk management framework helps managers to effectively manage risk through the risk management process. The next sections explore the processes to be followed in order for the technical competencies to be complete.

2.6.2.3 Risk Management Process

SME owners/managers need to understand the process of risk management, which starts from the establishment of the context and communication and consultation, followed by risk assessment and treatment of the risk (360Factors, 2020).

2.6.2.3.1 Establish the context, communication and consultation

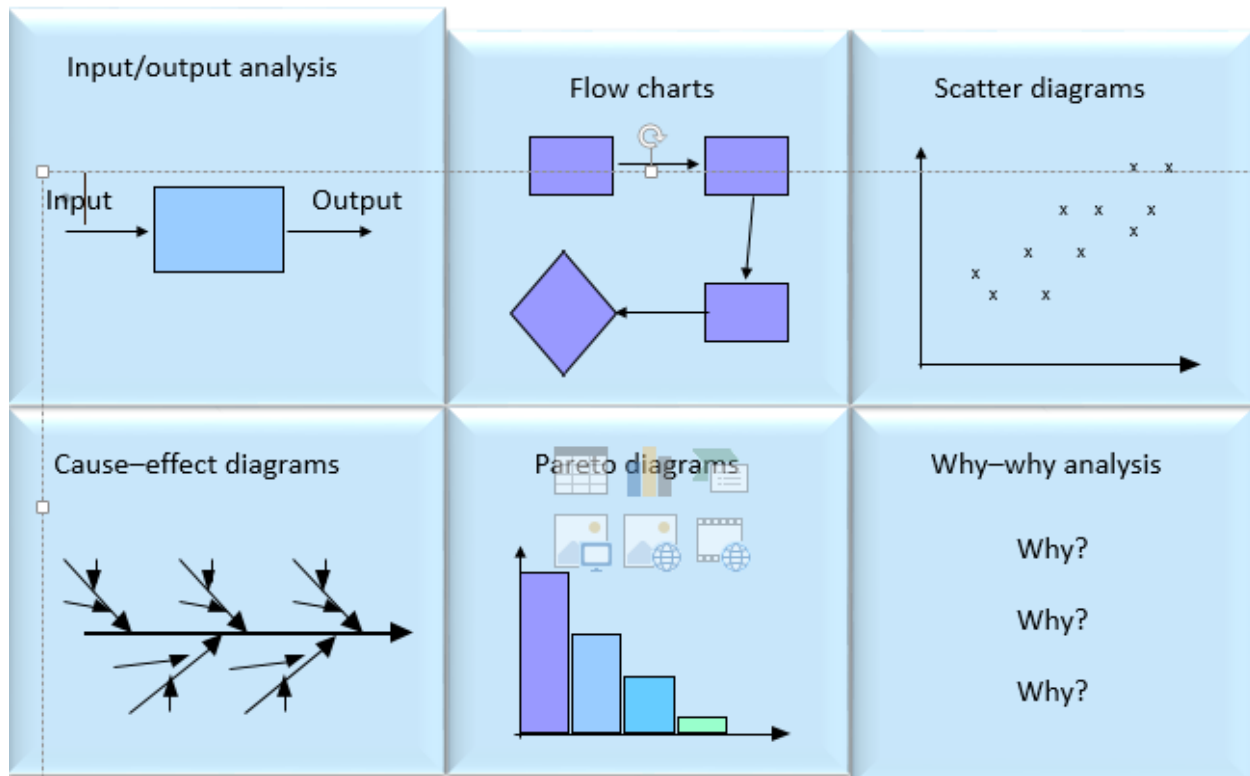
The business expresses its mission and objectives, and defines the external and internal parameters to be taken into consideration when dealing with risk (PECB, 2015). SME owners/managers should define the context of the risk management strategy, and the context should contain the time, location and specific inclusions or exclusions (Pavlovic, 2017). It should also include the resources, records, standard reporting processes and business activities (Pavlovic, 2017). Information is communicated to allow people to carry

out their responsibilities (Young, 2014:41). An assessment of the strengths, weaknesses, opportunities and threats that could affect the business and how they will impact the stakeholders should be made (PECB, 2015).

2.6.2.3.2 Risk assessment

Young (2014:41) suggests that for SME owners/managers to assess risk effectively they must be able to determine the risk tolerance and response, have an assessment of characteristic likelihood and impact of risks, complete the evaluation of the portfolio of risks and assess the likelihood and impact of risks. Young (2014:44) suggested the following tools to help managers in risk assessment: input/output analysis, flow charts, scatter diagrams, cause-effect diagrams, areto diagrams and the why-why analysis.

Figure 2.5: Tools to use for an effective risk assessment



Source: Young (2014)

According to the PECB (2015), risk assessment is the overall process of risk identification, analysis and risk prioritization.

- **Risk Identification**

The first step in the process of risk management is to identify all the possible risks such as interest rate, credit, internal and external fraud, legal, cyber-attacks, liability, marketing or security risks (Investopedia, 2021). Risk identification refers to the activity a business undertakes to define and understand the nature of the risks exposed to it, and can be a commitment to risk management that acknowledges the exposure of each business initiative and impact on the risk profile of the business (Young, 2014:47). It helps in determining what the risks are and categorizing them. This step helps the management to identify all the internal and external risks that affect the organizations' achievement objectives (Marx, Mpofu & Van de Venter, 2013:30). It can be done by noting the different types of risks that a business is exposed to. This process helps every stakeholder within the business to always access the information regarding the risks. Young (2014: 46) notes

that this process is implemented to identify undesirable results, threats and opportunities as one of its objectives is to cover all kinds of risks in the business. Shenkir and Walker (2007:5) identified risk identification methods. The subsequent discussion will give a short description of the methods.

Brainstorming is defined as a technique used to solve and find conclusions on defined problems in an organization (Collins English Dictionary, 2018). This method includes two or more people who come together to articulate the risks that may affect the business and is effective when the approach is unstructured. There have to be some considerations that are applied when implementing this approach. Suggestions should be recorded either on a notebook or a smart device, ideas should be kept clear on posters or charts, there has to be no criticism, the more people the better and everyone's idea should be listened to and built on (Bezuidenhout & Van Aardt, 2014:15).

Interviews form part of the methods for risk identification. According to Shenkir and Walker (2007:6), this method is essentially a questioning process where there is a structured dialogue in which one individual poses questions, and the other responds. Strengths Weaknesses Opportunities and Threats (SWOT) analysis is a strategic tool employed to evaluate an organization's internal strengths and weaknesses, as well as external opportunities and threats (Bezuidenhout & Van Aardt, 2014:10). The strengths and weaknesses include the internal part of the business such the culture, financial and human resources (Shenkir & Walker, 2007:7). Opportunities and threats involve external elements that are outside the organization's influence such as political, environmental and industry risks (Bezuidenhout & Van Aardt, 2014:16).

Scenario analysis is a method used to identify strategic risks in uncertain situations, where "what-if" questions are explored. It helps uncover risks that have a significant impact but a low likelihood of occurring (Shenkir & Walker, 2007:8).

Risk questionnaires consist of a set of questions addressing both internal and external factors, and can be effectively utilized to identify potential risks (Bezuidenhout & Van

Aardt, 2014:20). Internal perspective questions focus on risks related to customers, investors, suppliers, products and information systems, while those on the external focuses on the political, regulatory and environmental risks (Shenkir & Walker, 2007:8).

- **Risk analysis**

The next phase after the identification of risks is the determination of the scope of the risk, which needs to be analyzed (Young, 2014:47). The analysis includes getting into the deeper ends of the factors in the business and how they link with identified risks as this will help small business owners to depict the seriousness of the risks (Bezuidenhout & Van Aardt, 2014:11). The process includes analyzing audit reports, bad debts, financial statements, output and failure patterns using risk workshops, focus groups and interviews (Young, 2014: 50). It further comprises “safety audits, risk inspections, historic data, actual loss data, trends in KPIs, company performance compared to markets, reviews of insurance, legislation and codes of practice and license agreements.” (Young, 2014:50).

- **Risk Prioritization**

Risks need to be prioritized depending on its severity, from low ranks to highest ranks (Young, 2014:50). The main aim of this step is to assist SME owners/managers to decide which of the identified potential risks need action and significance for treatment implementation (PECB, 2015). The rankings of the risks would help the business to know if there is a requirement for the immediate or late intervention (Young, 2014: 50).

Heyneke (2018) states that this step has to do with the comparison against the criteria set and the establishment of priorities that should be done. Risk prioritization generates a list of potential risks that require further attention, where the associated opportunities and objectives must be evaluated (ISO, 2018). Additionally, decisions should align with the company's risk tolerance. According to ISO, if risks are classified as acceptable or low, they may be accepted with minimal further intervention. On the other hand, risks deemed high should be addressed as a priority (Heyneke, 2018).

2.6.2.3.3 Risk treatment

Every risk needs to be controlled or eliminated as much as possible. This process involves evaluating relevant risk options, assessing their impact, developing risk treatment plans and executing those plans (Heyneke, 2018). This can be achieved by inviting various stakeholders to meetings to discuss risk management solutions.

SMEs need to develop risk response strategies on ways to handle the risks detected and decide on the way forward as the options selected will be aligned with the results of the risk evaluation (Heyneke, 2018). Avoidance means the business management decides not to continue with the risk activity (Shenkir & Walker, 2007:7). However, managers need to be careful with this technique because inappropriate risk avoidance could result in an increase in the significance of other risks (Heyneke, 2018). The other strategy is risk mitigation, which is defined as lowering the anticipated financial impact of risk by decreasing its likelihood and/or severity, thereby minimizing the overall risk value (Goniwe, 2018). Risk transfer is when the business shares some part or all of the risk to other parties through means such as contracts, insurance policies or organizational structures like joint ventures and partnerships (Heyneke, 2018). Retaining risk includes managers' decision to make a mindful decision to accept the risk and its consequences in either an active or passive way (Shenkir & Walker, 2007:8). It is important to accept risk instead of avoiding it as the act of acceptance allows organizations to manage it (Goniwe, 2018). The development of a contingency or strategic plan to implement if the risk event happens is active acceptance and the acceptance of a lower profit on some activities if they over-run is a type of passive example (Heyneke, 2018).

2.6.2.3.4 Monitoring and reviewing the risk

Young (2014:48) explains that risk monitoring is the operational procedure to confirm that the organization is functioning within its defined risk procedures and policies. This ensures that all the steps before, from the risk identification to the treatment by means of

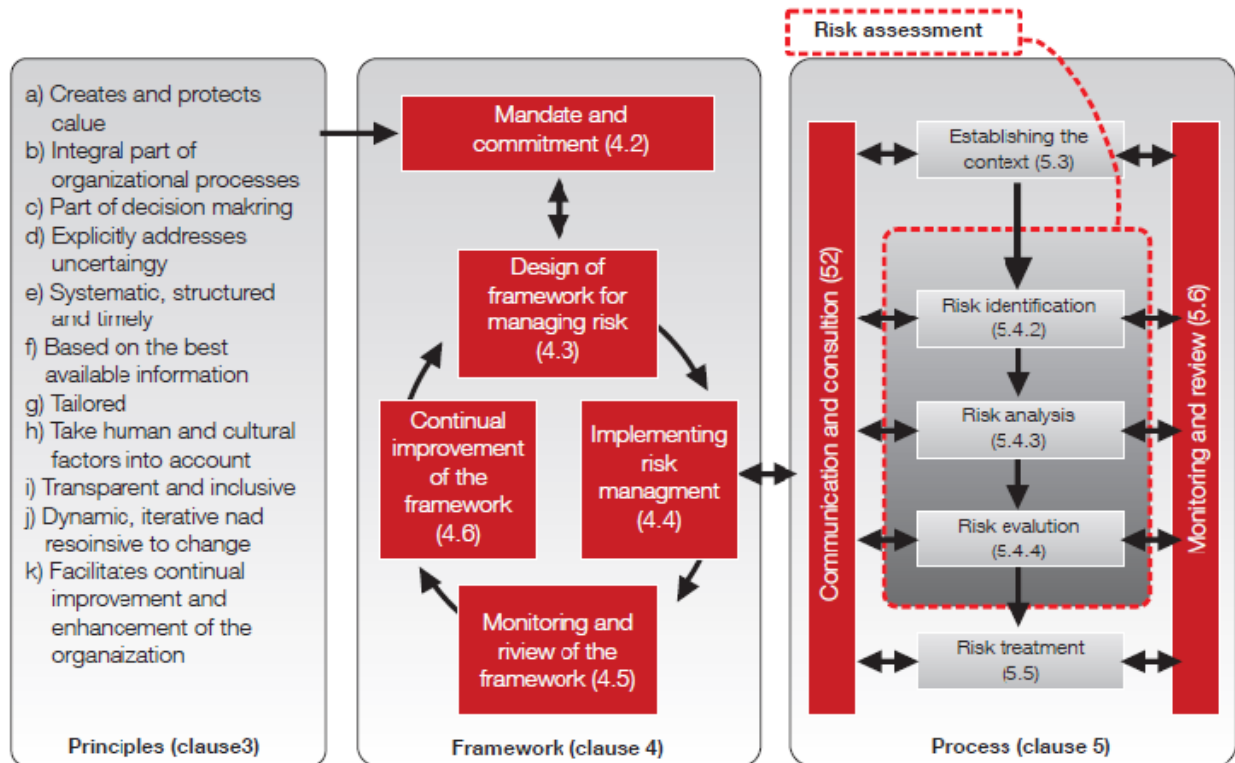
continuous collection and measurement of the performance information are followed (Van Antwerp, 2010).

Heyneke (2018) suggests that responsibilities for monitoring and reviewing should be clearly assigned, and the review procedures should cover all elements of risk management to ensure that controls are both effectively and efficiently implemented in their design and implementation. Additionally, the process should facilitate the collection of further information, event analysis, learning from experiences, detection of both internal and external changes, evaluation of risk criteria, and the identification of emerging risks (Heyneke, 2018). This step is vital for the process of managing risks and involves system testing and auditing of reports and policies (Young, 2014:48).

The process requires monitoring and evaluation to occur either periodically or on an ad-hoc basis, with a focus on ensuring regular planning and checks (PECB, 2015). It is essential to recognize that the fundamental principles of managing risks remain the same. Whether it is under the manual or digital system, the efficiency of the steps taken is what changes (360Factors, 2020). In a manual system, monitoring is achieved through delegated employees, and under the digital system, the risk management system monitors the whole risk framework and when there are changes, they will be visible to all the stakeholders (Heyneke, 2018). Finally, it is advised that the outcomes of monitoring and appraising be properly recorded and reported (ISO 31000, 2018).

Heyneke (2018) suggests that when the three technical competencies are applied and upheld in alignment with ISO 31000 standards, enterprises enhance their chances of achieving goals and promoting proactive risk management. An illustration of how they link shall be shown below:

Figure 2.6: The relationship between the risk management principles, framework and process



Source: Professional Evaluation and Certification Board (2015)

2.6.3 Summary

This segment focused on the essential skills required for effective risk management that SME managers and owners should have for a successful business. This included the behavioural competency where the sub-competencies were illustrated as problem-solving abilities and analytical skills. The other competency discovered was the technical, mediation and leadership abilities. Added to this was the networking ability, new concerns and changing environment adaptability. Moreover, the ability to be financial acumen was discussed. Lastly, on behavioural competency, the holding of academic credentials in finance and risk was noted as being one of the crucial competencies in risk management.

Technical competency was also discussed, which revealed that this type of competency has three divisions which start with the ISO 31000 principles, the structure of the framework needed to manage risk, and the steps involved in the process to manage risk. The research study identified that Enterprise Risk Management should employ simple

risk management strategies that involve a thorough awareness of the organization's risks, such as tactical, operational, strategic and financial risks and adherence to regulatory requirements.

The various steps in the risk management framework were identified and discussed. The process that SME managers and owners can follow in dealing with the management of risk was also discussed. The process has four steps, which start with the establishment of the context, communication and consultation. The second phase, risk assessment, involves the process of identifying, analyzing and prioritizing risks. The third step is risk treatment, where various methods are considered, including avoiding, accepting, or transferring the risk. The last phase is the monitoring and reviewing of the identified risks.

2.7 FINANCIAL DECISION-MAKING COMPETENCIES

Financial decision-making is the process of evaluating the advantages and disadvantages of a decision that is concerned with money usage (Henry, 2019). It involves the borrowing and allocation of funds required in the business (Metcalf, 2018). Business decisions sometimes fail. This is supported by Nutt (2002), who states that managers end up not realizing any benefits of their decisions to the business as they fail half of the time. The objective of the financial decision is to make sure that there is a balance between risk and returns to shareholders (Henry, 2019).

Kirsten and Fourie (2013) state that small business owners who possess adequate financial resource management training implement more informed financial choices and handle finances more effectively than those who lack such training. They are also better equipped to manage the risks linked to business finances. In addition, SME managers and owners need to evaluate financial considerations with every major decision they intend to take for the business (Henry, 2019). Considerations such as risk factors involved in a business as a whole need to be evaluated (Metcalf, 2018).

The considerations should include all the costs that might be required should the risks happen (Henry, 2019). Accounting includes all the activities such as statements of cash flow, statements of financial position, reports on financial performance and statements of changes in owners' equity (Metcalf, 2018). The last aspect involves legal issues such as contractual agreements, tax considerations and regulations guiding the decision intended, be it buying a property or expanding a building, which need to be analyzed (Chand, [s.a]).

Financial decision-making is one of the functions that entrepreneurs need to be skilled in, as it is the foundation of any business. For every business to carry on with its operations, it needs finance and therefore the decision that the owner takes can negatively or positively affect the business. The next section explores the financial decision-making competencies. This refers to capital budgeting techniques, liquidity ratios, cash and accrual accounting and working capital management.

2.7.1 Capital Budgeting Techniques

Capital budgeting is “the planning process used to determine whether an organization's long-term investments such as acquiring new machinery, replacement of machinery, new plants, new products, and research development projects are worth pursuing” (Correia, 2019:35). It is also defined as an analysis made by SME owners or managers to determine which investment will yield best returns in the future (Brewer, Garrison & Noreen, 2005: 498).

According to Correia (2019:35), there are two main methods for evaluating capital budgeting: ‘non-discounted cash flow methods and ‘discounted cash flow methods’. The key distinction between these approaches is that ‘non-discounted methods’ do not account for the time value of money, while ‘discounted methods’ take into consideration the time value of money. Non-discounted cash flow techniques include the ‘accounting rate of return’ (ARR) and the ‘payback period’ (Bester, 2006). In contrast, ‘discounted

methods' encompass 'net present value' (NPV), 'internal rate of return' (IRR), 'discounted payback period' and 'profitability index' (PI) (Bester, 2006).

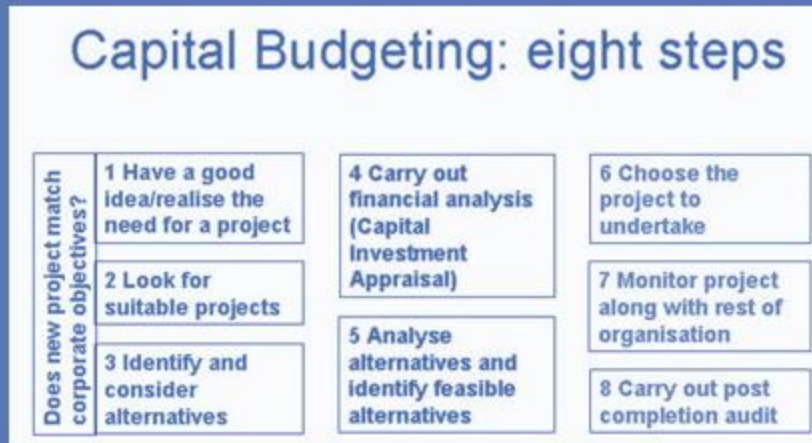
According to Brewer *et al.* (2005), all capital budgeting decisions are not risk-free. Every decision has either a low, medium or high risk involved. It is therefore crucial to take into consideration the level of risk involved when making capital budgeting decisions because poor decisions can affect the business badly and risk the business loss (Bester, 2006). Masocha and Dzomonda (2016) support the notion that making suboptimal capital investment decisions can have severe consequences for a business, potentially leading to significant losses and jeopardizing the firm's stability.

Studies show that only 40% of owners calculate capital budgeting risks and consider them when making decisions (Henschel, 2008). Hence, financial managers and SME owners must have a clear understanding of the difference between the two methods so as to make sound financial decisions, not forgetting the risks that may be involved. SME owners and financial superiors can use different techniques for capital budgeting to help in the decisions because they can assist in determining which investment proposal will yield favourable returns for the enterprise.

Correia (2016) suggests that the steps below can be followed in order to decide on capital budgeting techniques, as outlined in Figure 2.7. The first step is to realize if the enterprise needs a project and have a thorough idea. After realizing the need, the next step is to start looking for the right projects for the enterprise. There must be a comparison of projects identified, carrying out financial analysis of the enterprise and analysis of alternatives. The manager or owner would therefore choose the right project, taking into consideration all the risks that come with it. The second last step is to monitor the project, and lastly, there must be an audit for completion (Correia, 2019).

Figure 2.7: The Eight steps to capital budgeting decision

Capital budgeting decision



Source: Correia (2019)

2.7.2 Liquidity ratios

Liquidity is a measure of how best and quickly short-term assets could be changed into cash so that the business can settle its short-term obligations (Kew & Watson, 2010:577). It refers to the overall financial health and stability of the enterprise (Chikoko, 2012). Liquidity ratio measures if the business can meet its short-term obligations using the resources it has on hand at that time (Correia, 2019:15). Bilal, Naveed and Anwar (2017) add that “liquidity has to do with a firm’s capacity to repay its short-range financial obligations and to mitigate credit risk”. Allen (2016) notes that the financial liquidity outlook of an enterprise and its day-to-day activities can affect investment decisions.

The liquidity ratio looks at the assets and liquidity of the business. The ratios are calculated through the current ratio and quick ratio. According to Matsoso and Benedict (2016), the current ratio measures a business' liquidity to cover its short-term liability, that is, current assets are measured against the current liabilities as they become payable as

denoted by the following equation:

$$\frac{\text{current assets}}{\text{current liabilities}}$$

In unpacking the ratio, current assets are assets that can be swiftly and easily converted into cash within a typical accounting cycle of an SME. Inventory, prepaid expenses, cash at the bank and accrued income are items included in the current assets (Allen, 2016). The current liabilities refer to the debts owed to the business' debtors that are used up within a year and are settled using the current assets (Matsoso & Benedict, 2016). Items include short-term debt, trade payables, dividends and income received in advance. SME owners/managers should understand that a higher ratio indicates a reduced risk, and a lower ratio indicates a higher risk of unpaid short-term liabilities (Chikoko, 2012).

The quick ratio aims to assess the amount of cash readily available to cover the short-term liabilities of a business (Flynn, Koomhof, Klyenhans, Meyer & Posthumus, 2005). It excludes inventory from current assets as these assets are converted easily into cash compared to inventory, and is denoted by:

$$\frac{\text{current assets} - \text{Inventory}}{\text{current liabilities}}$$

Matsoso and Benedict (2016) advise that by taking the performance measures into consideration, SMEs can comprehend growth and development by implementing the competencies in the operation of the business. This will assist in the identification of areas of weakness and strength in the business and market as a whole and the improvement of systems (Chikoko, 2012).

2.7.3 Cash and accrual accounting

The accounting technique relating to cash and accrual represent two primary ways of monitoring a business' income and expenditures (Kew & Watson, 2010:495; Krom & Williams, 2011). There are several cases where SME owners or managers may want to select an appropriate accounting system, requiring them to understand how each method works, and evaluate the advantages and disadvantages in order to make an informed

choice (Zarandi, Ghafarib, Arab & Mozdabadi, 2013). Under the cash method, revenue is calculated only after it is received, and expenditure is when an order is received. Conversely, the accrual method recognizes revenue when a sale is made, and expenses when services are provided or goods are delivered (Zarandi *et al.*, 2013). Essentially, the key distinction between the cash accounting method and the accrual accounting method lies in the timing of when sales and purchases are recorded (Morah, 2020).

The cash accounting method is easier and might not portray accurate information, whereas the accrual accounting method includes accounts payable and receivables of the firm which can be regarded as accurate (Morah, 2020). According to Krom and Williams (2011), the accrual system is understandable, reliable, comparable and relevant. Nonetheless, the accounting system that an SME owner or manager decides to use can significantly impact the growth and long-term sustainability of the business, and affect the debtor's control of the business (Zarandi *et al.*, 2013).

2.7.4 Working Capital Management

Working capital refers to the quantity of a business' total investments engaged in small processes rather than long-term business decisions (Kirsten & Fourier, 2013). The components of working capital are cash, accounts receivable, short-term debt and inventory (Nyamao, Patrick, Martin, Odondo & Simeyo, 2012; Okello, Okello & Uwonda, 2013). Nieman (2016:118) argues that managing short-term assets such as receivables and inventory, and monitoring cash flow is crucial. The supervision of liabilities and short-term business assets is part of the working capital decisions and is crucial to the success of the business (Alejandra, Contreras & Rafael, 2012).

One of the methods that businesses may decrease the risk of bankruptcy is through the effective management of working capital as it improves the growth of SMEs (Jagongo & Makori, 2013). Masocha and Dzomonda (2016) affirm that managing working capital effectively is important as it can assist businesses in making sound financial decisions. They found that many businesses struggle and fail due to poor working capital

management (Masocha & Dzomonda, 2016). Furthermore, Jagongo and Makori (2013) state that a well-performing and growth-oriented enterprise can be seen by effective working management. Working capital management is a requirement for the success of the business. This is supported by Nyamao *et al.* (2012), who argue that SMEs fail because of their incapability to manage the enterprise's working capital successfully.

The efficiency of managing operational risks and the resource allocation of working capital can be impacted by the approach an organization takes (Allen, 2016). Therefore, being able to manage the working capital helps business owners and managers to detect or predict risks before they occur (Dzomonda & Fatoki, 2018). Financial practices that must be understood by managers of SMEs include cash book analysis, debtors' management and inventory (Morah, 2020). The trade credit and short-term bank financing such as overdraft amenities are often dependent on these, as working capital management is extremely critical for small businesses (Correia, 2019:10).

2.7.5 Summary

This section discovered the financial decision-making competencies for SMEs as capital budgeting techniques, liquidity ratios, cash and accrual accounting and working capital management. It was noted that there are only two methods of capital budgeting evaluation techniques and that is non-discounted cash flow and discounted methods. Each technique has its methods. Non-discounted cash flow methods comprise 'accounting rate of return' (ARR) and 'payback period' (PBP). Discounted cash flow methods contain 'net present value' (NPV), 'internal rate of return' (IRR), 'discounted payback' and profitability index (PI) (Bester, 2006). The liquidity ratios were also discussed, and it was revealed that they look at the assets and liquidity of the business. The ratios are calculated through the current ratio and quick ratio. Furthermore, the cash and accrual accounting were explored, where the difference between the two methods was explained to be based on the time sales and purchases. Lastly, working capital management was highlighted as a crucial competency for decision-making in financial management. It was emphasized that

effective management of working capital is essential for the success and sustainability of a business.

2.8 SMALL AND MEDIUM-SIZED ENTERPRISES

Scholars give different explanations and definitions of the SMEs according to qualitative and quantitative criteria. Some outline them based on factors such as the headcount, annual sales figures, investment level, the value of assets, business turnover, the quantity of skilled staff and the extent of community involvement (Dlodlo & Dhurup, 2013; Noor, 2015:27). Others define SMEs according to the market shares and ownership terms (Ramasobana & Fatoki, 2018). This is because there is no set definition of what SMEs are, universally.

An inclusive definition of an SME in the South African context is according to the National Small Business Act of 1996, as amended in 2004, an organization with fewer than 200 employees, a yearly turnover of no more than R64 million, capital assets not exceeding R10 million, and direct management involvement by the owners. However, the common definition includes a business not having more than 250 employees (Lekhanya, 2016).

It is important to note that different countries perceive SMEs and their economic contribution to the nation differently. For example, many businesses that Europeans and Americans regard as small, or medium would be perceived differently in South Africa, perhaps as big (Department of Trade and Industry, 2016). The Europeans define SMEs as organizations with fewer than 250 employees and earnings that are less than 50 million euros (The Department of Trade and Industry, 2016). In the United States, an SME is characterized by having fewer than 100 workers, while a medium-sized business is one with fewer than 500 workers (Katua, 2014:462). In North America, SMEs account for about 41% of the value of exports (Katua, 2014:463).

In Nigeria, SMEs are defined as businesses with a workforce ranging from 11 to 100 employees, along with an asset base ranging from N5 million to N500 million (Central

Bank of Nigeria, 2010). In India SMEs are defined based on investment of less than 50cr and a turnover of less than 250cr and contribute 48% of the exports. In South Africa, SMEs account for approximately 91% of formal organizations, offer work to around 60% of the workers and their productivity is 34% of the national income (The Banking Association South Africa Annual Report, 2017). It is evident that there is no single definition and criterion for SMEs.

Scholars have appraised that South Africa is known to face a high unemployment rate, which forces people to enter the informal business sector as an effort to reduce poverty and to survive. A study undertaken by Dzomonda and Fatoki (2018) on SMEs in South Africa revealed that the success rate of rural enterprises is very low, and roughly 50% of them do not grow. Additionally, Masocha and Dzomonda (2016) affirm that most of this sector in South Africa fails to grow to other stages. In their study, it is discovered that at least 50% of SMEs fail within year one and 95% close down within four years of operations.

In South Africa, most of the owners are people who did not find employment despite having relevant education, such as matric, diploma or a degree. This is affirmed by Amoah-Mensah (2016), who noted that “most people often enter the informal business sector because they lack skills and education or could not find employment in the formal sector”.

The South African government has dedicated resources to foster and expand the SME sector, recognizing its importance to the country's economic framework (Omer, 2016). The establishment and sustainability of new businesses is crucial for economic development. Without the emergence of new SMEs, South Africa runs the risk of facing economic stagnation and a high level of unemployment (Fatoki & Garwe, 2010). To address historical inequalities, the government, “through the Ministry of Trade and Industry, launched an extensive consultation and research process” (Omer, 2016). This initiative resulted in the establishment of turnover thresholds and specific criteria for

different SME categories. The table below illustrates the various SME sectors in SA as defined by the 'Department of Small Business Development'.

Table 2.1: Turnover ceilings for Small and Medium-sized Enterprises

SECTOR	SIZE	Total full-time equivalent of paid employees	MAXIMUM TURNOVER (IN MILLION [R])
Agriculture	Micro	1 to 10	7
	Small	11 to 50	17
	Medium	51 to 250	25
Mining and quarrying	Micro	1 to 10	15
	Small	11 to 50	50
	Medium	51 to 250	210
Manufacturing	Micro	1 to 10	10
	Small	11 to 50	50
	Medium	51 to 250	170
Electricity, gas and water	Micro	1 to 10	10
	Small	11 to 50	60
	Medium	51 to 250	180
Construction	Micro	1 to 10	10
	Small	11 to 50	75
	Medium	51 to 250	170
Retail, motor trade, repair	Micro	1 to 10	7.5
	Small	11 to 50	25
	Medium	51 to 250	80
Wholesale	Micro	1 to 10	20
	Small	11 to 50	80
	Medium	51 to 250	220
Catering, accommodation and other	Micro	1 to 10	5
	Small	11 to 50	15
	Medium	51 to 250	40
Transport, storage communication	Micro	1 to 10	7.5
	Small	11 to 50	45
	Medium	51 to 250	140
Finance and business services	Micro	1 to 10	7.5
	Small	11 to 50	35
	Medium	51 to 250	85
	Micro	1 to 10	5

Community, social, personal services	Small	11 to 50	22
	Medium	51 to 250	70

Source: De Wet (2021).

2.8.1 Small and Medium-sized Enterprise's support in South Africa

The SA government advocates that the SME sector, with adequate support from the government, is well-positioned to achieve its goals. Several agencies and funding organizations have been introduced to develop and grow SMEs. The main agencies are distributed across the “Department of Trade and Industry (DTI) and the Department of Small Business Development” (Chiloane-Tsoka & Rankhumise, 2020). Those different departments support small businesses in various ways, which are discussed below.

2.8.1.1 The Department of trade and industry (the DTI)

The ‘Centre for Small Business Promotion’, recognized by the ‘Department of Trade and Industry’ (DTI) at a nationwide level, is responsible for policy issues relating to SMEs and funding programs (Ndou, 2010). According to Omer (2016), “SMEs fall under the Minister of Trade and Industry and specifically under two of the Department’s units; the Enterprise Organization and the Empowerment and Enterprise Development Division”. The DTI has numerous units that are operated to help small businesses, including:

- Small Enterprise Development Agency (SEDA)

The Small Enterprise Development Agency (SEDA) was created in December 2004 through the merger of the NTSIKA Enterprise Promotion Agency, the National Manufacturing Advisory Centre, and the Community Public Private Partnership Program (CPPP) (Karaya, 2020). In April 2006, the GODISA Trust and the National Technology Transfer Centre were incorporated into SEDA, forming what is now known as the SEDA Technology Program (Small Enterprise Development Agency, 2020).

SEDA provides non-financial assistance, including marketing support, training programs, guidance for procurement, technology support and business mentoring (Ndou, 2010).

Additionally, these services are delivered to small businesses through various public agencies such as 'Tender Advice Centres' (TACs), 'Manufacturing Advisory Centres' (MACs), Local Business Service Centres (LBSCs), as well as 'Non-Governmental Organizations (NGOs) and 'Community-Based Organizations' (CBOs).

- National Empowerment Fund (NEF)

The aim of the 'National Empowerment Fund' is to fund and help black-owned businesses and previously disadvantaged persons (Chiloane-Tsoka & Rankhumise, 2020). Added to this, the NEF gives South African entrepreneurs support through the funding of equity, investment and mentorship. Omer (2016) concurs that it helps African entrepreneurs achieve every element of the codes of good practice through the anticipation of future funding and investment requirements. The NEF (2014) cited that their focus is on "preferential procurement, broadening the reach of equity ownership, transformation in management and staff while preventing the dilution of black shareholding in".

2.8.1.2 The Department of Economic Development

The 'Department of Economic Development' (DED) helps to coordinate the government's economic framework and is accountable for directing the implementation of the nation's new growth path (National Government of South Africa [s.a.]). The Department supervises numerous entities, including:

- Industrial Development Corporation (IDC)

The IDC is a governmental institution for the enhancement of finances that contribute to the economic empowerment and growth of the population in South Africa (Omer, 2016). Its main focus is on the funding of all various SMEs across the country (Chiloane-Tsoka & Rankhumise, 2020). The IDC promotes entrepreneurial development growth and supports the transformation of black industrialists (National Government of South Africa [s.a.]).

2.8.1.3 Council for Science and Industrial Corporation (CSIC)

The Council for Science and Industrial Corporation is an entity of the Department of Science and Innovation (CSIR, [s.a.]) and supports entrepreneurs with the manufacturing and improvement of products (Chiloane-Tsoka & Rankhumise, 2020). Its main focus is

on industrial development and improving the lives of the citizens of South Africa (CSIR, [s.a.]).

2.8.1.4 KHULA Finance Limited

Founded in 1996, KHULA is a comprehensive financial establishment working across both private and public sectors through various networks to provide funding for SMEs (Ismaila, 2011). It facilitates SME financing throughout South Africa by partnering with the nation's leading commercial banks, 'financing houses', specialized funds and joint ventures. Its mission is to fill the "funding gap" for small businesses, which is often unmet by traditional financial institutions (Small Enterprise Finance Agency, 2014). KHULA offers funding options that encompass support for small financing houses, a credit guarantee program, equity investments, and the mobilization of capital for private and public institution funds targeting small businesses in particular sectors (Small Enterprise Finance Agency, 2014).

2.8.1.5 Small Enterprise Finance Agency (SEFA)

According to Omer (2016), the Small Enterprise Finance Agency was established on 1st April 2012 following the merger of the KHULA Enterprise Finance Ltd', 'South African Micro Apex Fund', 'and the small business operations of the IDC. SEFA's mission is to promote the creation, sustainability and expansion of SMEs, with a focus on reducing poverty and fostering job creation. It supports entrepreneurs through loan offerings of a minimum amount of five hundred to one million rand (Chiloane-Tsoka & Rankhumise, 2020).

2.8.1.6 The Presidency

- The National Youth Development Agency (NYDA)

The 'National Youth Development Agency' (NYDA) was founded in 2008 as a unified body to tackle youth development matters at the local, provincial and general government levels (National Youth Development Agency, 2009). The agency provides allowances of a minimum of one thousand to hundred thousand rand, and non-financial assistance,

including market linkage and mentorship to young entrepreneurs (Chiloane-Tsoka & Rankhumise, 2020).

Omer (2016) states that the primary function of the NYDA is to ensure that key stakeholders, such as the government, civil society and private sector prioritize the development of youth and work together to create long-term solutions to address challenges that contribute to youth unemployment. The NYDA seeks to enhance the livelihood and opportunities available to young people through various programs tailored to different levels of need and engagement (NYDA, 2009).

The NYDA offers services directly to the youth, including data access, mentorship, guidance in terms of careers, the development of skills, training, health awareness programs, and entrepreneurial support at an individual (micro) level. At the communal (meso) level, the agency promotes youth involvement in community development, social cohesion, national youth service programs, and dialogues to encourage young people to become change agents within their communities. Finally, at provincial and national (macro) levels, the NYDA ensures youth participation in policy development through its initiatives focused on policy creation, partnerships and research (Omer, 2016).

2.8.1.7 Department of Agriculture

The Department of Agriculture provides support to small businesses through the 'Micro-Agricultural Financial Institute of South Africa' (MAFISA). MAFISA was created to help the poor manage agricultural ventures, launch new ones, and grow them into fully operational commercial enterprises. Its primary goal is to facilitate and promote financial services that are tailored to empower small-scale farmers, workers, tenants, smallholders, landless emerging farmers, and agricultural processors at a micro level (MAFISA 2006).

2.9 THE RELATIONSHIP BETWEEN RISK MANAGEMENT COMPETENCIES AND FINANCIAL DECISION-MAKING COMPETENCIES

The significance of financial decisions in SMEs is clear, as numerous risk factors can be effectively managed through sound financial decision-making competencies, which are crucial for driving business growth. Most SMEs do not have useful financial skills to make decisions. They do not have specific employees with expertise in financial decision-making and risk management, and the owner is the one who has to make decisions without a solid basis.

2.10 THE ASSOCIATION BETWEEN RISK MANAGEMENT COMPETENCIES AND PERFORMANCE OF SMES

SME performance can be determined by sustainability and growth in the level of participation, sales, turnover, profit and number of employees (Ngek, 2014). As noted by Ngek (2014), growth is an important measure of business success, and many SME owners are not concerned with it or deliberately refrain from pursuing it. Batley (1999) affirms that less people make it as business owners, and this affects the South African economy negatively.

Neneh and van Zyl (2012) argue that to enhance the performance of a business, risk-controlling practices need to be basic and fixed into the main business events. These activities are organizational culture, operations, budgeting processes and planning. Additionally, Alter (2015) has identified business indicators that SME owners can use to quantify success. These are discussed below.

- Increased profits

As noted by Allen (2016), the success of a business is seen when profits increase. Business profit describes the “financial benefit realized when the revenue generated from a business activity exceeds the expenses, costs, and taxes involved in sustaining the activity in question” (Kenton, 2019). This means that when profits increase, it is likely that the operations volumes of a business increase too, *ceteris paribus* (Alter, 2015).

- Satisfaction

Satisfaction in terms of customers, employees and owners can be used to determine if a business is successful. Alter (2015) found that the satisfaction of customers is a crucial influence in measuring business success. When customers are satisfied, the business will grow, resulting in them visiting again and referring the business to others. It is therefore the responsibility of SMEs to make sure that their customers' needs are met (Allen, 2016). Employees and SME owners must both be satisfied with the environment that they are working in, and even if any conflicts or disputes arise, they should be resolved as soon as possible so as to keep a healthy rapport (Alter, 2015). If either party is dissatisfied, they need to work out the issues because if they are left unsolved, it is likely going to affect the performance of the business. Both employees and SME owners must strive to always be satisfied. Sitharam (2014) affirms this, stating that a conducive environment of a business affects its performance; the more conducive the environment, the more the business will perform well.

- Expansion of business

According to Alter (2015), the development of a business can be measured by total sales and production lines such as the quantity of products produced, the quality of these products, the growth in the number of employees, and the increase in assets (Alter, 2015).

Based on the discussion above, it is evident that the absence of a strong financial and risk management skills adds particularly to the failure of businesses (Eniola & Entebang, 2017). It is unfortunate that management problems lead to many businesses closing, thus making it a critical concern for the success and growth of businesses (Okpara & Wynn, 2007). It is argued by Sitharam (2014) that competency in management, insufficient financial expertise, lack of training in business management, and limited capabilities in technology are key obstacles that SMEs face, and hinder growth.

2.11 THE RELATIONSHIP BETWEEN FINANCIAL DECISION-MAKING COMPETENCIES AND PERFORMANCE OF SMEs

Eniola and Entebang (2017) emphasize the importance for managers and owners of small businesses to recognize the impact of their decisions on business performance. To make well-informed and effective choices, they must first comprehend three key dimensions of finance: financial attitude, financial awareness and financial knowledge. Financial knowledge involves grasping fundamental financial concepts regarding the performance and status of the business, which can enhance decision-making (Eniola & Entebang, 2017). Financial attitude is the capacity to assess financial tools and make decisions that align with long-term objectives (Ali Al-shami, 2019). It is the ability to understand various financial strategies and appreciate the importance of resources from external entities (Sulaiman, 2014). These elements are essential for building financial proficiency and gaining a competitive edge. Thus, SME owners/managers must be aware of financial mismanagement (Lusardi & de Bassa Scheresberg, 2015).

Financial decisions in Small and Medium-sized Enterprises have been given little attention compared to the establishment of strategies. However, “the importance of financial decisions in business is evident, since many of the factors that contribute to failure can be managed properly with strategies and financial decisions that drive growth and the organization’s objectives” (Alejandra, Contreras & Rafael, 2012). The firm's size and the type of industry in which it operates, and the growth rate of the firm determine the role of capital budgeting (Bester, 2006). SME owners/managers need to understand that financial decisions can affect the growth and the sustainability of the business.

Eniola and Entebang (2017) argue that the failure or success of a small business is directly influenced by the decisions made by its owner or manager, which are shaped by their skills and experience. In support, Dzomonda and Fatoki (2018) argue that for SME owners to improve the growth and sustainability of the business, they need to understand financial management principles as effective financial management has an effect on the growth of the business. Among other impacts and factors of SME growth are financial planning, poor strategic and financial projection, capital management and limited funding access (Svatošová, 2017). Liu (2018) argues that most SME owners do not have strong

finance skills, and this usually results in them not being able to completely understand the influence of the decisions they may make on their businesses, especially the growth of the business. Van Auken (2002) adds that many small business owners have poor knowledge about the preparation of financial statements and an understanding of what they imply. This affects the decisions they make in the business.

Previous research indicates a connection between financial management skills and SME growth (Kuada, 2014; Lotz & Marais, 2007). Kuada (2014) highlights that increased financial knowledge and skills among small business owners and managers typically result from a deeper understanding of financial matters. Lotz and Marais (2007) emphasize that small businesses play a significant role in creating jobs, reducing poverty, and fostering overall development in a country. Therefore, for the prolonged existence, subsistence, and success of a business, it is crucial for entrepreneurs to be well-educated and knowledgeable in all areas of business. Neglecting this aspect can lead to the failure of the business.

Inadequate financial management skills result in most SMEs not growing or even moving from one stage to the other. Hence, the skills to manage finances is essential for business growth, sustainability and survival of these businesses. In a study conducted by Van Auken (2002), a significant positive correlation between financial decision-making and SME performance was found. However, Radipere and Van Scheers (2007) argue that deficiencies in administrative skills adversely impact business success and growth of small businesses. Existing literature authenticated that when finances are properly managed, there are good outcomes for the business such as growth and sustainability.

2.12 CONCEPTUAL FRAMEWORK

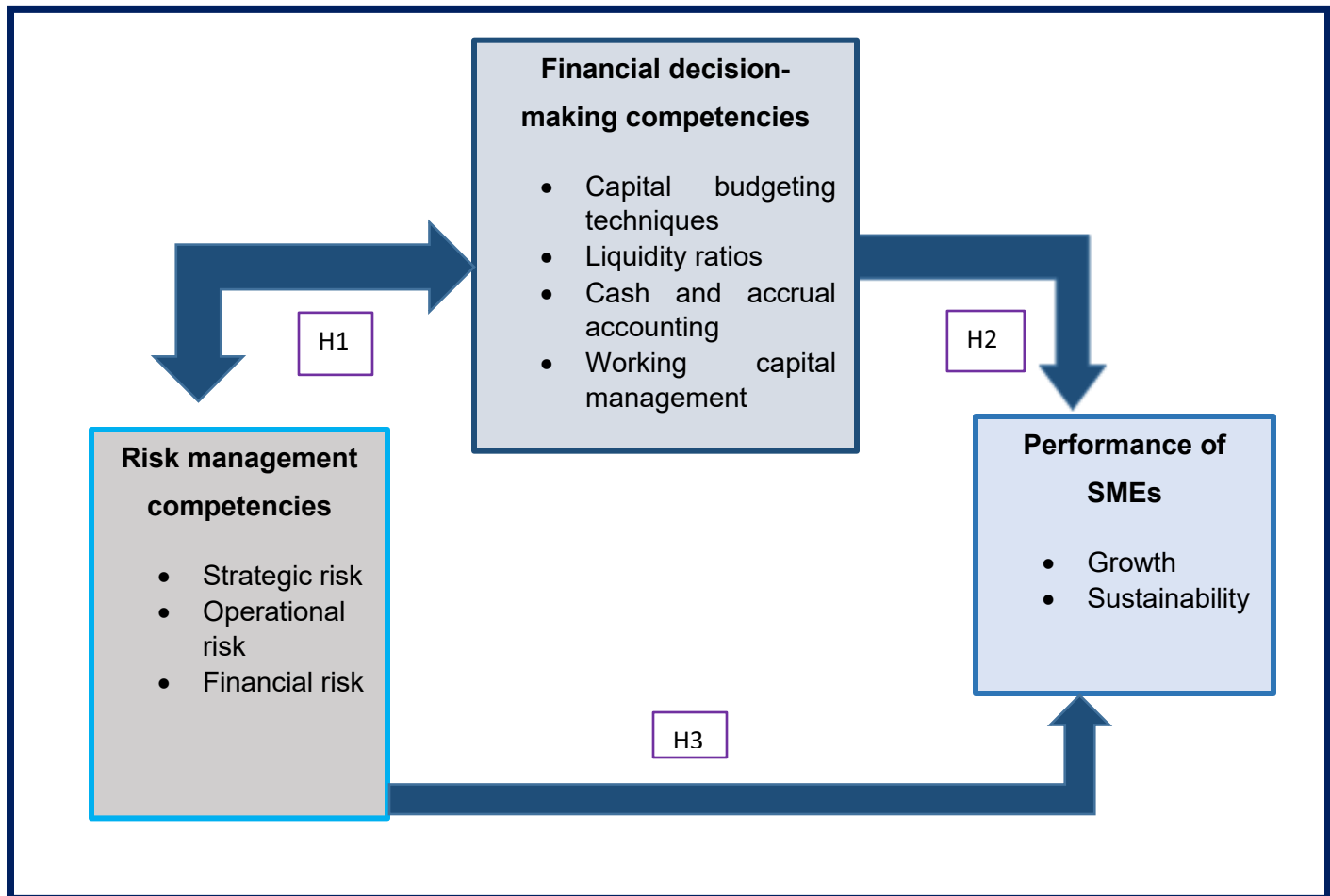
In order for risks in businesses to be successfully managed, managers of small businesses need to understand the relationship between risk management, financial decision-making competencies and performance of SMEs. The next section explores the theoretical structure of the study.

SME owners/managers must grasp the connection between risk management competencies and financial decision-making competencies to maximize growth and sustainability. It is evident that there is a relationship between the two. In support, Ahsan (2018) reports that risk management is being attentive to what could go wrong and how it could affect the business. It is also about taking all-encompassing decisions that could help in mitigating or avoiding the risk. In the report, it is added that one of the skills managers needs in managing risk is financial knowledge, which implies that you cannot be competent in financial decision-making without knowledge of finances, hence the hypothesis of this study, H1.

Based on the discussion of risk management competencies, it was found that each competency uniquely influences the performance of SMEs. As highlighted by Allen (2016), operational risk directly affects the success or failure of a business. Therefore, this study proposes the hypothesis (H2) that there is a significant relationship between risk management competencies and SME performance.

From above, it is evident that capital budgeting, liquidity ratios, cash and accounting accruals and working capital management can affect the growth and sustainability of the business. Consequently, this study proposes that financial decision-making competencies are positively correlated with SME performance. This view is supported by Bilal *et al.* (2017), who highlight that efficient management of working capital enhances the performance of SMEs, as outlined in hypothesis H3.

Figure 1.1: Conceptual framework



Author's own conception

2.13 CHAPTER TWO SUMMARY

This chapter discussed the theoretical approaches of the study. This included the general systems theory, where the hierarchy of sub-divisions in systems was illustrated as a system, subsystem and features. The pecking order theory was explored, highlighting that businesses typically prioritize inside financing through retained income, then seek outside financing via debt, and finally equity is considered. It has been revealed that lack of management skills in businesses establishes a menace to the survival and growth of SMEs, and serves as a major barrier to their growth. Moreover, the literature defined

SMEs according to different countries, authors and most importantly, how the South African government supports this sector.

This chapter discussed the theoretical approaches of the study. This included the general systems theory, where the hierarchy of sub-divisions in systems were illustrated as the system, subsystem and features. The pecking order theory was also explored, indicating that businesses generally commence with financing sourced internal bases such as retained income, proceed to external finance via debt, and finally turn to equity. Moreover, the study highlighted that implementing a systematic and organized approach to risk management fosters competence, resulting in trustworthy, consistent and dependable results. Additionally, it focused on the strategic, operational and financial risks in SMEs, and explored the main two risk management competencies: the behavioural and technical competencies. It was revealed that the use of ERM is a business competency that enables SME owners to improve opportunities related to risks. It also discovered that the lack of management skills in businesses establishes a menace to the survival and growth of SMEs and is considered a huge hindrance to business growth.

Moreover, the study defined small businesses according to different countries, and most importantly, how the South African government supports this sector. This chapter discovered the financial decision-making competencies for SMEs as capital budgeting techniques, liquidity ratios, cash and accrual accounting and working capital management. Considerations such as accounting, financial, legal and risk factors were discovered as factors that need to be well-thought-out when making financing decisions. Finally, from the arguments, supported concepts and illustrations, the chapter concluded with the conceptual framework for the relationships among risk management, financial decision-making competencies and SME performance, showing how the study hypothesized the relationships.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 INTRODUCTION

The preceding chapter provided a clear elucidation of risk management, financial decision-making competencies and SME performance from different perceptions. The theoretical underpinning of the concepts was also discussed. In this chapter, the study will focus on the research methodology and the systematic approach used. Various methods for data collection, instruments and procedures will be explained. The goal of this chapter is to outline the approaches and techniques used to gather the data that will be analyzed in the data analysis chapter.

This segment is organized into several sections, beginning with the introduction. The second segment presents the research area. The third section addresses the research design of the study, while the fourth covers the study population. The fifth segment represents the study sample and sampling methods. The sixth represents the data collection instruments and procedures. Segment seven includes the data analysis method, and how the collected data was analyzed and explored. The eighth segment represents the reliability and validity of the study. The ninth is the ethical considerations. Segment ten represents the research paradigm. The last one focuses on how the questionnaire was designed.

3.2 RESEARCH AREA

A research area is what a research topic is placed into. This research study was conducted in Capricorn District Municipality, Limpopo Province, South Africa. As the third largest district economy in Limpopo, Capricorn District Municipality comprises four local municipalities: Polokwane, Blouberg, Molemole and Lepelle-Nkumpi. With a significant presence of SMEs in sectors such as retail, agri-business, manufacturing and wholesale, it provides the relevant setting for this study.

3.3 POPULATION OF THE STUDY

A study population refers to a group of individuals or entities that are the focus of the research (Welman, Kruger & Mitchell, 2013). It is a complete set of elements that have common characteristics (Oxford Dictionary of Business Management, 2016:465). The population of this study was made up of small businesses operating within the retail and wholesale industry, agricultural businesses and manufacturing in Capricorn District Municipality. SMEs that formed part of the study were obtained from Capricorn District Municipality. The population size was 110 SME owners/managers.

3.4 RESEARCH DESIGN

A research design is the overall blueprint that conveys research, which explains a plan on how to answer the research questions through the collection and interpretation of data (Abrusletten, 2021; Saunders, Thornhill & Lewis, 2012). It is a framework of the study chosen by the researcher in accordance with the suitability of the concepts (Question Pro, c2021). There are five different types of design categories: correlational, experimental, diagnostic, exploratory and descriptive. For this study, a descriptive design shall be followed.

3.4.1 Descriptive research design

Omer (2016) emphasizes that a descriptive research design is guided by theoretical frameworks that focus on collecting and organizing data to describe events. The method involves gathering data, organizing it, and presenting it systematically (Abrusletten, 2021). According to Lekhanya (2016), a descriptive research design helps in identifying patterns and distributions of study variables through straightforward analyses, forming the foundation of much quantitative research. Saunders *et al.* (2012) highlight that the descriptive research design offers a competitive edge by creating detailed profiles of variables, processes and contexts. Furthermore, this approach allows researchers to build conceptual or theoretical frameworks by reviewing literature and testing these frameworks with collected data (Saunders *et al.*, 2007). Typically used to explore relationships between variables, descriptive research includes methods such as case studies, naturalistic observations and surveys (Jovancic, 2020).

Consequently, this study employed a descriptive method to assess whether there is a relationship between risk management, financial decision-making competencies and SME performance. The researcher adopted a descriptive research approach because it provided insights into how risk management and financial decision-making competencies relate to SME performance. The next segment explores the three different research methods that a researcher can choose from: 'qualitative, quantitative and a mixed' design (Omer, 2016).

- Qualitative research method

The qualitative research method entails gathering and analyzing textual data to gain insights into concepts and underlying patterns (Bhandari, 2020). It determines the relationship between the data that was collected, and the comments based on mathematical calculations (Saunders *et al.*, 2012). The method uses flexible approaches such as "grounded theory, it involves small samples and uses subjective, content or interpretative analysis (Omer, 2016). It is ideographic, meaning it is based on what people have to say about the theories developed (Motimele, 2010). The method is about deriving a theory.

- Quantitative research method

The quantitative research method involves collecting and analyzing numerical data in dealing with questions that are best answered in numbers (Welman, Kruger & Mitchell, 2013; Bhandari, 2021). Quantitative research methods are statistical techniques to create various representations of data, including pie charts, bar graphs and frequency distributions (Kalabamu, 2005). It can be noted that this type of research tests a theory, unlike qualitative research, where theory is derived. The method uses a deductive form of reasoning through the collection of data to analyze the hypothesis and theories that ground the research topic (Motimele, 2010). One of the advantages of this method is that it accommodates large samples, and can be used in descriptive, correlational or experimental research (Bhandari, 2021).

- Mixed methods approach

A mixed methods approach is an empirical study that involves both numeric and non-numeric information to represent both quantitative and qualitative data (Creswell, 2007). The method provides a realistic link between qualitative and quantitative approaches and the researcher (Almalki, 2016). One of the advantages of this method is that it gives a broad understanding of the researched concept as it explores all perceptions of the results.

The study implemented a quantitative research strategy or methodology and followed a descriptive research design which was positivist. The reason for this design is that it presented the researcher with the ability to statistically analyze research findings. Data was collected using primary sources through the use of questionnaires. Furthermore, several authors in the same field of study used the same design before and were able to provide accurate results (Omer, 2016; Lekhanya, 2016). This leads to the discussion of the research paradigm related to the three methods listed above in the next segment.

3.5 CATEGORIES OF RESEARCH PARADIGMS

3.5.1 Interpretive paradigm

Interpretive scientists hold the view that reality is shaped by individuals' subjective perceptions of the external world. As a result, they might embrace an inter-subjective epistemology and believe that reality is socially constructed (Kuhn, 1962). This method usually utilizes the qualitative approach. Consequently, it intends to discover individuals' perceptions and thoughts and to share their meanings. Interpretive scholars, unlike positivists, do not normally begin with a theory; rather they derive a pattern or theory of explanation (Creswell, 2007:30).

An ontological perspective of interpretivism is grounded in relativism (Scotland, 2012), which holds that reality is subjective and perceived differently by individuals. In terms of this view, realities are shaped by people's minds and are constructed and interpreted based on their philosophical and cultural backgrounds (Hussain, 2013). Rooted in

subjectivism, interpretivist epistemology relies on real-world experiences (Scotland, 2012). Hussain *et al.* (2013) further emphasize that researchers within the interpretivism paradigm are realistic, focusing on naturally occurring real-world situations. They believe that knowledge is unique and unconventional, motivating researchers to actively engage with participants in relevant social contexts (Hussain *et al.*, 2013). Consequently, the ontological paradigm was not employed in this study.

3.5.2 Critical Paradigm

In the critical paradigm, the researchers focus on power and inequality and social change that led to equality and justice in society (Johnson & Onwuegbuzie, 2004). The paradigm limits the research interests and understanding of life perceptions (Cohen *et al.*, 2007). An ontology of the critical model is historical realism, which can be explained as a rating style of realistic fiction centered around historical events and periods (Biddle & Schafft, 2015). Scholars with critical points of view analyze issues related to domination, measurement, prediction, and control by focusing on the experiences and viewpoints of marginalized groups.

The critical paradigm takes an independent epistemological stance (Guba & Lincoln, 1994). In practice, critical researchers are deeply involved with their participants throughout the research process, which inevitably affects the inquiry (Creswell, 2007:31). The methodology of the critical paradigm is inherently dialectical, employing two primary approaches: action research and ideology critique (Cohen *et al.*, 2007).

Critical researchers may employ qualitative, quantitative, or mixed research methods, though they often lean toward qualitative methods (Callaghan, 2016). The commonly used methods in this paradigm are observations, open-ended interviews, open-ended questionnaires, focus groups and journals. The critical paradigm was therefore not followed in this study.

3.5.3 Positivistic Paradigm

The positivist paradigm is established on the idea that genuine knowledge is derived from sensory experience and can be attained through observation methods (Park, Konge & Artino, 2020). As noted by Hussain, Elyas and Naseef (2013), positivism is an umbrella term for various philosophical viewpoints, including behaviourism, naturalism and empiricism. It has been the greatest leading paradigm of the last span. Under this method, academics perceive research as organized, coordinated, and practical acknowledging that may evolve with new theories or insights (Kuhn, 1962). Positivism usually relies on the deductive method of quantitative research to verify hypotheses, aiming to establish functional correlations between independent and dependent research variables (Park et al., 2020).

The methodology of positivism can be experimental and non-experimental of quantitative research (Hussain *et al.*, 2013). The ontology of positivism is realism, which views objects as having an existence independent of the expert (Cohen, Manion & Morrison, 2007). From an ontological point of view, positivists think that reality exists independently and objectively and can be measured and quantified using unbiased tools and techniques separate from the researcher's influence. The positivist paradigm assumes that a single tangible reality exists (Park *et al.*, 2020).

The epistemology of positivism is one of objectivism and dualism. Positivists approach research with an open mind, aiming to uncover comprehensive knowledge about an objective reality (Scotland, 2012). They conduct research for scientific purposes. They also maintain that the researcher's role is purely observational, with no direct involvement or interference in the research process (Cohen *et al.*, 2007). A positivist paradigm was therefore followed by the researcher in this study.

3.6 SAMPLE AND SAMPLING METHODS

A sample is a set of data collected from a larger set, which is the population (Welman, Kruger & Mitchell, 2013). For this study, random sampling was used, as the probability of selecting an object from a population was the same for all the other objects. This sampling

technique was adopted because of the quantitative design of the research; since it ensures that the sample accurately represents the entire population. Consequently, the conclusions drawn were aligned with the study's objectives and the generalization of results for Capricorn District Municipality.

The study used a Raosoft online sample size calculator to estimate the sample size. The sample size calculator factored in a 95% level of confidence, the size of the population, and a 50% response distribution to determine the estimated recommended size of the sample. It was estimated as follows: Where N represented the population size of 1900 and e, the precision of 0.05. The calculation was as follows:

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{1900}{1 + 1900(0.05)^2}$$

$$n = \frac{1900}{1 + 1900(0.0025)}$$

$$n = \frac{1900}{1 + 4.75}$$

$$n = \frac{1900}{5.75}$$

$$n = 330$$

Due to the limited number of volunteering participants, COVID-19 restrictions on businesses and the new Protection of Personal Information Act, only 150 database was granted to the researcher. The new sample size had to be calculated and was as follows:

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{150}{1 + 150(0.05)^2}$$

$$n = \frac{150}{1 + 150(0.0025)}$$

$$n = \frac{150}{1 + 0.375}$$

$$n = \frac{150}{1.375}$$

$$n = 109$$

According to the above calculation, the minimum recommended sample size is 109 SMEs. However, for this study, the researcher opted to distribute 130 surveys to the respondents. According to the researcher, experience has showed that not all respondents complete surveys, so sending out more than the minimum required was to avoid a higher number of unreturned questionnaires and to cover the exact or more number, taking into consideration other factors such as spoilt or unfinished responses. The returned number of questionnaires was therefore 110 and was used as all of them were fully completed.

3.7 DATA COLLECTION INSTRUMENTS AND PROCEDURES

In this research study, primary data was collected from SME owners/managers using a survey method. Due to the Coronavirus disease (COVID-19), there was no physical administration of the questionnaire. The scholar complied with all COVID-19 controls and regulations imposed by the government, ensuring that data collection was conducted without direct face-to-face interaction or physical exchange of surveys with participants. The self-administered questionnaires in the form of PDF and/or link were distributed through social media platforms like Electronic Mail (e-mail), Short Messages Service (SMS) and 'WhatsApp' Messenger. The participants had to fill in the questionnaires and return them. When they used the Google Forms link, their responses were sent straight to the researcher's account.

The researcher then used the online random number generator to select the SMEs to send the questionnaire for data collection. A total of one hundred and nine questionnaires were delivered to small businesses in Capricorn District. Secondary data was obtained from websites, books and journal articles. The questionnaire comprised close and open-ended questions developed from the conceptual, theoretical and empirical review of the literature.

3.8 DATA ANALYSIS METHOD

After data gathering, the completed questionnaires were checked for completeness evaluated, and open-ended questions were coded and then captured into a 'Statistical Package Social Sciences' (SPSS24) for regression analysis. This data was portrayed in tabular and graphical forms. A 'Statistical Package Social Sciences' 24 was used to analyze and produce diagrams. Inferential statistics and Pearson correlation analysis was used to test relationships among the risk management, financial decision-making competencies and SME performance in Capricorn District Municipality, Limpopo Province.

3.9 VALIDITY AND RELIABILITY

For this research, validity and reliability were thoroughly examined to confirm the appropriateness of the research instrument. The Cronbach-Alpha test was employed to assess the internal reliability and consistency of the ordinal and nominal scales used. Validity was ensured by deriving the questionnaire from hypothetical models and conducting a pilot study with five SMEs. To ensure the content validity of the instruments used in the research study, the content and face validity of the research tools were established through pre-testing. Academics also reviewed the questionnaires to ascertain their validity. Revisions were made on the questionnaire with a view to enhancing its validity.

3.10 ETHICAL CONSIDERATIONS

Ethical clearance was secured from 'Turfloop Research and Ethics Committee' (TREC). The scholar followed all the ethical standards in accordance with the TREC regulations. The scholar observed all government COVID-19 regulations and controls. This was done through the unengaging of physical interactions and the exchange of surveys with the participants. The scholar also acknowledged all the authors and scholars who contributed to the writing of this study.

Informed consent

At the outset of data collection, participants will receive a written overview of the study's background and objectives. They will be provided with a consent form, allowing them to

choose whether or not to take part. Written informed consent will be secured from all participants before conducting interviews and distributing questionnaires.

Voluntary participation

As outlined in the introductory letter, participation in the study will be entirely voluntary.

Anonymity

The researcher will ensure that participants' identities will be kept confidential and that their responses will not be linked to their names in any part of the study.

Confidentiality and privacy

The researcher will guarantee that all information is maintained in strict privacy and confidentiality. Privacy will be maintained throughout the research process and the data collected will be used for academic purposes only.

Respect

All the participants will be regarded with dignity and respect. The researcher will uphold their privacy, ensure confidentiality, and be mindful of cultural sensitivities.

3.11 QUESTIONNAIRE DEVELOPMENT

The questionnaires comprised close and open-ended questions developed from the theoretical review, conceptual and empirical review of the literature. It used the Likert scale where respondents had to select the highest level of agreement to a statement. This was done to prevent the emergence of response bias among the participants. SME owners/managers were sent questionnaires through social media platforms like email and 'WhatsApp' Messenger in the form of PDF and Google Forms link. The questionnaires were accompanied by a cover letter (refer to Appendix A), which included the following an explanation of the study's significance, a brief overview of the study's objectives, instructions for completing the questionnaire, assurance of privacy and contact information for assistance with any issues. The questionnaire was organized into sections A to E and was structured as follows:

Section A: Demographics

This segment employed closed-ended questions to collect information about the gender, age, highest level of education and occupation of respondents. Participants were instructed to mark the relevant option with a cross. The questions were formatted as multiple-choice, allowing participants to select one answer. These demographic questions aim to contextualize the results and may offer insights into variations among different demographic groups or their correlations with risk management understanding.

Section B: Profile of Business Activities

Both closed-ended and open-ended questions were utilized to collect information on the type of business owners operate in, the size of employees and the number of experiences as an entrepreneur. The questions were presented in a multiple-choice format, enabling participants to select a single option, and were provided a space to specify if there were other options that the researcher did not include.

Section C: Management of Risk

This section included questions on the business if it conducts regular forecasts to understand the trends in the environment it operates in if it has a risk manager and if the business uses Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs) to mitigate strategic risks. If the business has periodic risk assessments, to manage operational business risks and how the organization manages financial risks.

Section D: Financial decision-making

This section looked for the opinions of participants by indicating whether they strongly agree or disagree using a scale where 1 represents "Strongly Disagree", 2 represents "Disagree", 3 represents "Neutral", 4 represents "Agree" and 5 represents "Strongly Agree". Questions included: if the business keeps a record of expenditure and income, if it prepares financial statements.

Section E: Performance of Small and Medium Enterprise

This section employed closed-ended questions relating to the performance of the enterprise. The questions were to determine if the sales, turnover, number of employees and customers have decreased or increased in the past 5 years.

THE WORKING DEVELOPMENT FOR THE QUESTIONNAIRE WAS AS FOLLOWS: SECTION A AND SECTION B

Demographics and profile of the business. The questions in these sections were from a general knowledge to understand the respondents' background and type of business involved.

SECTION A

QUESTION	PARAGRAPH IN CHAPTER 2	REFERENCE
1. Please specify your gender	From a general knowledge perspective	Author's own concept
2. Please specify the number of workers you employ.	From a general knowledge perspective	Author's own concept
3. Please specify your occupation/title in the company	From a general knowledge perspective	Author's own concept

SECTION B: PROFILE OF BUSINESS ACTIVITIES

1. What kind of business do you operate?	From a general knowledge perspective	Author's own concept
2. How long has your business been operating?	From a general knowledge perspective	Author's own concept

3. How many employees do you have in the financial/administrative section?	From a general knowledge perspective	Author's own concept
4. Which of the following government support programs have you benefited from?	Several agencies and funding organizations have been introduced to develop and grow SMEs. The main agencies are distributed across the "Department of Trade and Industry (DTI) and the Department of Small Business Development" (Chiloane-Tsoka & Rankhumise, 2020).	Chiloane-Tsoka, E.G & Rankhumise, M, E. 2020. <i>Small Business Entrepreneurship and Management: An emerging economies perspective</i> . Pretoria: Van Schaik.

SECTION C: RISK MANAGEMENT COMPETENCIES

From the questions below, please indicate how you agree or disagree by crossing the appropriate number: 1 represents Strongly Disagree, 2 represents Disagree, 3 represents Neutral, 4 represents Agree, 5 represents strongly agree.

Number	Question	Paragraph in chapter 2	Source/author
	Problem-solving and analytical skills		
1	In my SME, we can identify problems.	According to the Corporate Finance Institute (c2021), analytical skills pertain to an individual's capacity to identify a problem and explore it to find the logic solutions that are regarded as important, especially in risk management.	<i>Corporate Finance Institute</i> . c2021. Interest Rate Risk. https://corporatefinanceinstitute.com/resources/knowledge/finance/interest-rate-risk/ (Accessed 11 March 2022).
2	In my SME, we can explore problems.	According to the Corporate Finance	<i>Corporate Finance Institute</i> . c2021.

		Institute (c2021), analytical skills pertain to an individual's capacity to identify a problem and explore it to find the logic solutions that are regarded as important, especially in risk management.	Interest Rate Risk. https://corporatefinanceinstitute.com/resources/knowledge/finance/interest-rate-risk/ (Accessed 11 March 2022).
3	In my SME, we can find logic solutions.	According to the Corporate Finance Institute (c2021), analytical skills pertain to an individual's capacity to identify a problem and explore it to find the logic solutions that are regarded as important, especially in risk management.	<i>Corporate Finance Institute</i> . c2021. Interest Rate Risk. https://corporatefinanceinstitute.com/resources/knowledge/finance/interest-rate-risk/ (Accessed 11 March 2022).
4	In my SME, the business' goals, mission and vision are managed.	These skills are important to managers as they manage employees and aspects of their work, including the goals, mission and vision of the business and the firm's potential top risks (Corporate Finance Institute, 2021).	<i>Corporate Finance Institute</i> . c2021. Interest Rate Risk. https://corporatefinanceinstitute.com/resources/knowledge/finance/interest-rate-risk/ (Accessed 11 March 2022).
5	In my SME, the potential top risks are managed.	These skills are important to managers as they manage employees and aspects of their work, including the goals, mission and vision of the business and the firm's potential top risks (Corporate Finance Institute, 2021).	<i>Corporate Finance Institute</i> . c2021. Interest Rate Risk. https://corporatefinanceinstitute.com/resources/knowledge/finance/interest-rate-risk/ (Accessed 11 March 2022).
6	I am able to manage my employees and aspects of their work.	These skills are important to managers as they manage employees and aspects of their work, including the goals, mission and vision of the business and the firm's potential top risks	<i>Corporate Finance Institute</i> . c2021. Interest Rate Risk. https://corporatefinanceinstitute.com/resources/knowledge/finance/interest-rate-risk/ (Accessed 11 March 2021).

		(Corporate Finance Institute, 2021).	
7	I have the analytical skills.	In order for any manager to assess and predict risk, they must have analytical skills; able to collect information and make strategic decisions and seeing any potential gaps in the organization (Du Toit, 2011).	Caldas, A. 2016 <i>Ten Must Have Skills/Competences To Be A Successful Risk Manager</i> . Risk Management Guru. [Online]. Available at: https://riskmanagementguru.com/10-must-skills-successful-risk-manager.html/ (Accessed 11 March 2021).
	Technical, mediation abilities and leadership capabilities to control people		
1	I have the capability to lead my employees.	They must know how to listen and inspire their employees, as sometimes a better way of dealing with risk involves discussions about it together with their employees through effective feedback methods and risk reviews (Smit & Watkins, 2012).	Smit, Y. & Watkins, J. A. 2012. A literature review of small and medium enterprises (SME) risk management practices in South Africa. <i>African Journal of Business Management</i> . 6(21): 6324-6330.
2	I am able to listen and inspire my employees.	They must know how to listen and inspire their employees, as sometimes a better way of dealing with risk involves discussions about it together with their employees through effective feedback methods and risk reviews (Smit & Watkins, 2012).	Smit, Y. & Watkins, J. A. 2012. A literature review of small and medium enterprises (SME) risk management practices in South Africa. <i>African Journal of Business Management</i> . 6(21): 6324-6330.
3	I do discuss potential risks together with my employees.	They must know how to listen and inspire their employees, as sometimes a better way of dealing with risk involves discussions about it together with their employees through effective feedback	Smit, Y. & Watkins, J. A. 2012. A literature review of small and medium enterprises (SME) risk management practices in South Africa. <i>African Journal of Business</i>

		methods and risk reviews (Smit & Watkins, 2012).	<i>Management</i> . 6(21): 6324-6330.
4	In my SME, we have effective feedback methods and risk reviews.	They must know how to listen and inspire their employees, as sometimes a better way of dealing with risk involves discussions about it together with their employees through effective feedback methods and risk reviews (Smit & Watkins, 2012).	Smit, Y. & Watkins, J. A. 2012. A literature review of small and medium enterprises (SME) risk management practices in South Africa. <i>African Journal of Business Management</i> . 6(21): 6324-6330.
	Strategic thinking capability		
1	I have a future-oriented perspective and a strategic mindset.	Du Toit (2011) advises that risk managers should adopt a forward-thinking and strategic mindset, enabling them to identify potential risks both within departments and across the broader business landscape.	Du Toit, Y. 2011. <i>Incorporating a system approach to the decision-making process</i> . M.Eng (Technology Management) dissertation. University of Pretoria, Pretoria.
2	I understand potential risks both at department and in a wider business' perspective.	Du Toit (2011) advises that risk managers should adopt a forward-thinking and strategic mindset, enabling them to identify potential risks both within departments and across the broader business landscape.	Du Toit, Y. 2011. <i>Incorporating a system approach to the decision-making process</i> . M.Eng (Technology Management) dissertation. University of Pretoria, Pretoria.
3	In my SME, there are sufficient strategies that help us to lessen risk to occur.	This competency helps managers or owners to ensure that there are hedging strategies for mitigating risk occurrences. Smit and Watkins (2012) emphasize the importance of managers' ability to visualize the bigger picture, deconstruct it, and identify solutions and opportunities.	Smit, Y. & Watkins, J. A. 2012. A literature review of small and medium enterprises (SME) risk management practices in South Africa. <i>African Journal of Business Management</i> . 6(21): 6324-6330.

	Networking ability and new concerns and changing environment adaptability		
1	I am able to use technology and social networks.	According to Du Toit (2011), managers must be able to use expertise and social media networks such as Twitter (now X) and LinkedIn to connect with other professionals.	Du Toit, Y. 2011. <i>Incorporating a system approach to the decision-making process</i> . M.Eng (Technology Management) dissertation. University of Pretoria, Pretoria.
2	I have connected with other professionals through Twitter and or LinkedIn or other platforms.	According to Du Toit (2011), managers must be able to use expertise and social media networks such as Twitter (now X) and LinkedIn to connect with other professionals.	Du Toit, Y. 2011. <i>Incorporating a system approach to the decision-making process</i> . M.Eng (Technology Management) dissertation. University of Pretoria, Pretoria
3	I manage relationships between various departments and external groups such as stakeholders	Oehmen, Guenther, Herrmann, Schulte and Willumsen (2020) concur that good risk managers are the ones with good networking relationships because to manage risks, one needs to manage relationships between various departments and external groups such as stakeholders.	Oehmen, J., Guenther, A., Herrmann, J.W., Schulte, J. & Willumsen, P. 2020. Risk management in product development: risk identification, assessment, and mitigation-a literature review. <i>Proceedings of the Design Society: DESIGN Conference</i> . Cambridge University Press. 1:657-666.
4	I am good in dealing with new political environments.	They need to be good in dealing with new political factors such as trade regulations, political stability or instability, financial and technical environments (Ahsan, 2018).	Ahsan, A.S. 2018. Political Factors Influence Business Environment. [Online] Available at: https://www.marketingtutor.net/political-factors-affect-

			business/ (Accessed 10 February 2021).
5	I am good in dealing with new financial environments	They need to be good in dealing with new political factors such as trade regulations, political stability or instability, financial and technical environments (Ahsan, 2018).	Ahsan, A.S. 2018. Political Factors Influence Business Environment. [Online] Available at: https://www.marketingtutor.net/political-factors-affect-business/ (Accessed 10 February 2021).
6	I am good in dealing with new technical environments	They need to be good in dealing with new political factors such as trade regulations, political stability or instability, financial and technical environments (Ahsan, 2018).	Ahsan, A.S. 2018. Political Factors Influence Business Environment. [Online] Available at: https://www.marketingtutor.net/political-factors-affect-business/ (Accessed 10 February 2021).
	Financial acumen		
1	I understand and can use financial reports.	Being financially intelligent means understanding and mastering various financial pointers related to an organization's assets, markets, regulations, stakeholders and regions, allowing for well-rounded decision-making (Du Toit, 2011).	Du Toit, Y. 2011. <i>Incorporating a system approach to the decision-making process</i> . M.Eng (Technology Management) dissertation. University of Pretoria, Pretoria.
2	I am used to working with financial tools.	Furthermore, Ahsan (2018) highlights that familiarity with financial tools enhances decision-making capabilities.	Ahsan, A.S. 2018. Political Factors Influence Business Environment. [Online] Available at: https://www.marketingtutor.net/political-factors-affect-business/ (Accessed 10 February 2021).
3	I am able to identify which risks can be managed and the ones that are beyond my control.	Du Toit (2011) notes that if managers can distinguish between manageable	Du Toit, Y. 2011. <i>Incorporating a system approach to</i>

		risks and those beyond their control, they can better focus on contingency plans and prepare for uncertainties.	<i>the decision-making process</i> . M.Eng (Technology Management) dissertation. University of Pretoria, Pretoria.
4	In my SME, there is a financial contingency plan should anything go wrong.	Du Toit (2011) notes that if managers can distinguish between manageable risks and those beyond their control, they can better focus on contingency plans and prepare for uncertainties.	Du Toit, Y. 2011. <i>Incorporating a system approach to the decision-making process</i> . M.Eng (Technology Management) dissertation. University of Pretoria, Pretoria.
	Possessing academic qualifications in finance and risk		
1	I do have academic qualifications in finance.	Caldas (2016) adds that managers should possess strong academic credentials in finance, quantitative fields, or risk management.	Caldas, A. 2016. <i>Ten Must Have Skills/Competences To Be A Successful Risk Manager</i> . Risk Management Guru. [Online]. Available at: https://riskmanagementguru.com/10-must-skills-successful-risk-manager.html/ (Accessed 10 March 2021).
2	I do have academic qualifications in risk management.	Caldas (2016) adds that managers should possess strong academic credentials in finance, quantitative fields, or risk management.	Caldas, A. 2016. <i>Ten Must Have Skills/Competences To Be A Successful Risk Manager</i> . Risk Management Guru. [Online]. Available at: https://riskmanagementguru.com/10-must-skills-successful-risk-manager.html/ (Accessed 10 March 2021).
3	I have the ability to acquire and develop the necessary skills to ensure the long-term success of the business	Highly educated SME owners/managers are more capable of acquiring and developing the skills	Lusardi, A. & de Bassa Scheresberg, C. 2013. <i>Financial literacy and high-cost</i>

		needed to launch and sustain a business (Lusardi & de Bassa Scheresberg, 2013).	<i>borrowing in the United States</i> . MA, National Bureau of Economic Research.al-al, Cambridge.
	Risk management principles		
1	In my SME, we are familiar with the various ISO standards to be followed when dealing with risk.	There are various ISO standards for management, including ISO 9100, ISO 27001, ISO 9001, ISO 31000 and ISO 21001 (Van Antwerp, 2010; Goniwe, 2018).	Van Antwerp, J.H. 2010. A Project Risk Management Framework in the IT Environment. MBA Dissertation. Potchefstroom: North West University. Goniwe, M.C. 2018. A Framework for Risk Management for Selected Service Organization's in the Western Cape. M.Eng. Cape Town: Cape Peninsula University of Technology.
2	The ISO 31000 helps us in identifying the risk management information functions	It promotes effective risk management plan basics and helps in identifying the risk management information system functions (Van Antwerp, 2010).	Van Antwerp, J.H. 2010. A Project Risk Management Framework in the IT Environment. MBA Dissertation. Potchefstroom: North West University.
3	In my SME, we value the effectiveness of risk management.	The ISO standards will be transformational if SMEs value the establishment of effective risk management plans rather than doing it for the sake of compliance (Van Antwerp, 2010).	Van Antwerp, J.H. 2010. A Project Risk Management Framework in the IT Environment. MBA Dissertation. Potchefstroom: North West University.
4	In my SME, there are internal and external communication and consultation regarding risk.	In order for employees and experts responsible for implementing risk policies to have a clear	Goniwe, M.C. 2018. A Framework for Risk Management for Selected Service

		comprehension of the basis and actions, communication and consultation guidelines should be established (Goniwe, 2018).	Organization's in the Western Cape. M.Eng. Cape Town: Cape Peninsula University of Technology.
5	In my SME we are using risk management and are not just doing it for the sake of compliance	The ISO standards will be transformational if SMEs value the establishment of effective risk management plans rather than doing it for the sake of compliance (Van Antwerp, 2010)	Van Antwerp, J.H. 2010. A Project Risk Management Framework in the IT Environment. MBA Dissertation. Potchefstroom: North West University.
	Framework for Risk management		
1	In my SME, we have established a risk management policy.	The SME must design the risk management policy, the allocation of appropriate resources and establish communication, both at the internal and external level (PECB, 2015).	Professional Evaluation and Certification Board (PECB). 2015. <i>ISO 31000 Risk Management Guidelines and Principles</i> . PECB. Available at: https://pecb.com/whitepaper/iso-31000-risk-management-principles-and-guidelines . (Accessed 10 May 2021).
2	In my SME, the objectives relating to risks of the organization align with the risk strategies.	The SME must design the risk management policy, the allocation of appropriate resources and establish communication, both at the internal and external level (PECB, 2015).	Professional Evaluation and Certification Board (PECB). 2015. <i>ISO 31000 Risk Management Guidelines and Principles</i> . PECB. Available at: https://pecb.com/whitepaper/iso-31000-risk-management-principles-and-guidelines . (Accessed 10 May 2021).

3	In my SME, we review the policies to see plans if they are still appropriate and effective.	They should also review the framework, policy and the plans and their effectiveness (PECB, 2015).	Professional Evaluation and Certification Board (PECB). 2015. <i>ISO 31000 Risk Management Guidelines and Principles</i> . PECB. Available at: https://pecb.com/whitepaper/iso-31000-risk-management-principles-and-guidelines . (Accessed 10 May 2021).
4	In my SME, we review the risk plans to see if they are still appropriate and effective.	They should also review the framework, policy and the plans and their effectiveness (PECB, 2015).	Professional Evaluation and Certification Board (PECB). 2015. <i>ISO 31000 Risk Management Guidelines and Principles</i> . PECB. Available at: https://pecb.com/whitepaper/iso-31000-risk-management-principles-and-guidelines . (Accessed 10 May 2021).
5	In my SME, we approve the policy of risk management.	Heyneke (2018) adds that the management should therefore approve the policy of risk management, and ensure that legal and regulatory mandates are fulfilled.	Heyneke, E.P. 2018. <i>The Application of Models on Enterprise Risk Management during New Business Development</i> . Master of Business Administration. Potchefstroom: North West University.
6	In my SME, we ensure that legal and regulatory requirements are met.	Heyneke (2018) adds that the management should therefore approve the policy of risk management and ensure that legal and regulatory mandates are fulfilled.	Heyneke, E.P. 2018. <i>The Application of Models on Enterprise Risk Management during New Business Development</i> . Master of Business Administration.

			Potchefstroom: North West University.
7	In my SME, the culture of our business aligns with the policy relating to risk management	The management should ensure that the risk management policy of the organization aligns with culture, the objectives and the strategies of the organization (Heyneke, 2018).	Heyneke, E.P. 2018. The Application of Models on Enterprise Risk Management during New Business Development. Master of Business Administration. Potchefstroom: North West University.
8	In my SME, we reserve resources for risk management.	PECB (2015) concurs that the management of the organization must show a sustained commitment to risk management policy, thereby defining and ensuring that the necessary resources are allocated to risk management and communicating the benefits to all stakeholders.	Professional Evaluation and Certification Board (PECB). 2015. ISON 31000 <i>Risk Management Guidelines and Principles</i> . PECB. Available at: https://pecb.com/whitepaper/iso-31000-risk-management-principles-and-guidelines . (Accessed 10 May 2021).
9	In my SME, we communicate about risks both at the internal and external level.	The SME must design the risk management policy, the allocation of appropriate resources and establish communication, both at the internal and external level (PECB, 2015).	Professional Evaluation and Certification Board (PECB). 2015. ISON 31000 <i>Risk Management Guidelines and Principles</i> . PECB. Available at: https://pecb.com/whitepaper/iso-31000-risk-management-principles-and-guidelines . (Accessed 10 May 2021).
	Risk management process		
1	In my SME, we analyze the weaknesses, strengths, opportunities and threats that could affect the business.	An assessment of the strengths, weaknesses, opportunities and threats that could affect the business and how they will impact the stakeholders	Professional Evaluation and Certification Board (PECB). 2015. ISON 31000 <i>Risk Management</i>

		should be made (PECB, 2015).	<i>Guidelines and Principles</i> . PECB. Available at: https://pecb.com/whitepaper/iso-31000-risk-management-principles-and-guidelines . (Accessed 10 May 2021).
2	In my SME, we are able to determine the tolerance for risks	Young (2014:41) suggests that for SME owners/managers to assess risk effectively they must be able to determine the risk tolerance and response, have an assessment of characteristic likelihood and impact of risks, complete the evaluation of the portfolio of risks and assess the likelihood and impact of risks.	Young, J. 2014. <i>Operational risk management</i> . 2 nd edition. Pretoria: Van Schaik.
3	In my SME, we are able to assess the likelihood and impact of risks.	Young (2014:41) suggests that for SME owners/managers to assess risk effectively they must be able to determine the risk tolerance and response, have an assessment of characteristic likelihood and impact of risks, complete the evaluation of the portfolio of risks and assess the likelihood and impact of risks.	Young, J. 2014. <i>Operational risk management</i> . 2 nd edition. Pretoria: Van Schaik.
4	In my SME, we develop response strategies.	SMEs need to develop risk response strategies on ways to handle the risks detected and decide on the way forward as the options selected will be aligned with the results of the risk evaluation (Heyneke, 2018).	Heyneke, E.P. 2018. <i>The Application of Models on Enterprise Risk Management during New Business Development</i> . Master of Business Administration. Potchefstroom: North West University.
5	In my SME, we respond to risk by making sure it cannot happen.	SMEs need to develop risk response strategies on	Heyneke, E.P. 2018. <i>The Application of</i>

		ways to handle the risks detected and decide on the way forward as the options selected will be aligned with the results of the risk evaluation (Heyneke, 2018).	Models on Enterprise Risk Management during New Business Development. Master of Business Administration. Potchefstroom: North West University.
6	In my SME, we respond to risk by installing warning systems.	SMEs need to develop risk response strategies on ways to handle the risks detected and decide on the way forward as the options selected will be aligned with the results of the risk evaluation (Heyneke, 2018).	Heyneke, E.P. 2018. The Application of Models on Enterprise Risk Management during New Business Development. Master of Business Administration. Potchefstroom: North West University.
7	In my SME, we respond to risk by training employees	SMEs need to develop risk response strategies on ways to handle the risks detected and decide on the way forward as the options selected will be aligned with the results of the risk evaluation (Heyneke, 2018).	Heyneke, E.P. 2018. The Application of Models on Enterprise Risk Management during New Business Development. Master of Business Administration. Potchefstroom: North West University.
8	In my SME, we monitor risks by evaluating people, processes, facilities, systems, and the external environment on a continuous basis	The process requires monitoring and evaluation to occur either periodically or on an ad-hoc basis, with a focus on ensuring regular planning and checks (PECB, 2015).	Professional Evaluation and Certification Board (PECB). 2015. <i>ISO 31000 Risk Management Guidelines and Principles</i> . PECB. Available at: https://pecb.com/whitepaper/iso-31000-risk-management-principles-and-guidelines . (Accessed 10 May 2021).
9	In my SME, we review risks by evaluating people, processes, facilities systems and the external environment on a continuous basis	The process requires monitoring and evaluation to occur either periodically or on an ad-hoc basis, with a focus on ensuring	Professional Evaluation and Certification Board (PECB). 2015. <i>ISO 31000 Risk Management</i>

		regular planning and checks (PECB, 2015).	<i>Guidelines and Principles</i> . PECB. Available at: https://pecb.com/whitepaper/iso-31000-risk-management-principles-and-guidelines . (Accessed 10 May 2021).
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SECTION D: FINANCIAL DECISION-MAKING COMPETENCIES

Please indicate your level of agreement by crossing the appropriate number: 1 signifies Strongly Disagree, 2 signifies Disagree, 3 signifies Neutral, 4 signifies Agree, 5 signifies strongly agree.

Number	Question	Source/author	Paragraph in chapter 2
	Capital budgeting techniques		
1	In my SME, we make analysis on the determination of which investments will yield best returns in the future	It is also defined as an analysis made by SME owners or managers to determine which investment will yield best returns in the future (Brewer, Garrison & Noreen, 2005: 498).	Brewer, P.C, Garrison, R.H., & Noreen, E.W. 2005. <i>Managerial accounting</i> . 11 th edition. McGraw-Hill Company.
2	In my SME, we take into consideration the level of risk involved when making capital budgeting decisions.	Every decision has either a low, medium or high risk involved. It is therefore crucial to take into consideration the level of risk involved when making capital budgeting decisions because poor decisions can affect the business badly and risk the	Bester, L. 2006. An Empirical Examination of Capital Budgeting Evaluation Methods Employed by Businesses in the Nelson Mandela Metropolitan Area. Magister Dissertation in Cost and Management Accounting. Port

		business loss (Bester, 2006).	Elizabeth: Nelson Mandela Metropolitan University.
3	In my SME, we apply the 'non-discounted cash flow' approach for assessing capital budgeting decisions, such as calculating the 'Accounting Rate of Return' (ARR).	Non-discounted cash flow techniques include the 'accounting rate of return' (ARR) and the 'payback period' (Bester, 2006).	Bester, L. 2006. An Empirical Examination of Capital Budgeting Evaluation Methods Employed by Businesses in the Nelson Mandela Metropolitan Area. Magister Dissertation in Cost and Management Accounting. Port Elizabeth: Nelson Mandela Metropolitan University.
4	In my SME, we apply the 'non-discounted cash flow' approach for assessing capital budgeting decisions, such as calculating the 'Accounting Rate of Return' (ARR).	Non-discounted cash flow techniques include the 'accounting rate of return' (ARR) and the 'payback period' (Bester, 2006).	Bester, L. 2006. An Empirical Examination of Capital Budgeting Evaluation Methods Employed by Businesses in the Nelson Mandela Metropolitan Area. Magister Dissertation in Cost and Management Accounting. Port Elizabeth: Nelson Mandela Metropolitan University.
5	In my SME, we employ the 'Net present value' (NPV) method when evaluating capital budgeting	Discounted methods' encompass 'net present value' (NPV), 'internal rate of return' (IRR), 'discounted	Bester, L. 2006. An Empirical Examination of Capital Budgeting Evaluation Methods Employed by

		payback period' and 'profitability index' (PI) (Bester, 2006).	Businesses in the Nelson Mandela Metropolitan Area. Magister Dissertation in Cost and Management Accounting. Port Elizabeth: Nelson Mandela Metropolitan University.
6	In my SME, we make use of the 'internal rate of return' (IRR) method when assessing capital budgeting decisions.	Discounted methods' encompass 'net present value' (NPV), 'internal rate of return' (IRR), 'discounted payback period' and 'profitability index' (PI) (Bester, 2006).	Bester, L. 2006. An Empirical Examination of Capital Budgeting Evaluation Methods Employed by Businesses in the Nelson Mandela Metropolitan Area. Magister Dissertation in Cost and Management Accounting. Port Elizabeth: Nelson Mandela Metropolitan University.
7	In my SME, we make use of the discounted payback when evaluating capital budgeting.	Discounted methods' encompass 'net present value' (NPV), 'internal rate of return' (IRR), 'discounted payback period' and 'profitability index' (PI) (Bester, 2006).	Bester, L. 2006. An Empirical Examination of Capital Budgeting Evaluation Methods Employed by Businesses in the Nelson Mandela Metropolitan Area. Magister Dissertation in Cost and Management Accounting. Port Elizabeth: Nelson Mandela

			Metropolitan University.
8	In my SME, we make use of the profitability index (PI) when evaluating capital budgeting.	Discounted methods' encompass 'net present value' (NPV), 'internal rate of return' (IRR), 'discounted payback period' and 'profitability index' (PI) (Bester, 2006).	Bester, L. 2006. An Empirical Examination of Capital Budgeting Evaluation Methods Employed by Businesses in the Nelson Mandela Metropolitan Area. Magister Dissertation in Cost and Management Accounting. Port Elizabeth: Nelson Mandela Metropolitan University.
	Liquidity ratios		
1	In my SME, we understand that on the liquidity ratio, a higher liquidity ratio indicates a lower risk of defaulting on short-term liabilities, while a lower ratio signifies a higher risk of failing to meet these obligation.	SME owners/managers should understand that a higher ratio indicates a reduced risk, and a lower ratio indicates a higher risk of unpaid short-term liabilities (Chikoko, 2012).	Chikoko, L. 2012. <i>Liquidity risk management by Zimbabwean Commercial Banks</i> . PhD Thesis (Economics). Nelson Mandela Metropolitan University, Port Elizabeth.
2	The business' liquidity status and its day to day activities can affect investment decisions.	Allen (2016) notes that the financial liquidity outlook of an enterprise and its day-to-day activities can affect the investment decisions.	Allen, P. B. 2016. Operational Risk Management Practices in SMEs: A Study of Businesses in Kya Sands Industrial Area. MBA Dissertation, Pretoria: University of South Africa.
3	In my SME, we do take the performance measures into consideration.	Matsoso and Benedict (2016) advise that by	Matsoso, M.L & Benedict, O.H. 2016. Financial

		taking the performance measures into consideration, SMEs can comprehend growth and development by implementing the competencies in the operation of the business.	performance measures of small medium enterprises in the 21st century. <i>Journal of Economics</i> . 7(2, 3): 144-160.
4	The analysis of the liquidity ratio helps us in the identification of areas of weakness and strength in our SME.	This will assist in the identification of areas of weakness and strength in the business, market as a whole and improvement of systems (Chikoko, 2012).	Chikoko, L. 2012. <i>Liquidity risk management by Zimbabwean Commercial Banks</i> . PhD Thesis (Economics). Nelson Mandela Metropolitan University, Port Elizabeth.
	Cash and accrual accounting		
1	In my SME, we acknowledge that the cash and accrual methods are crucial for monitoring a business' financial income and expenditures.	The accounting technique relating to cash and accrual represent two primary ways of monitoring a business' income and expenditures (Kew & Watson, 2010:495; Krom & Williams, 2011).	Kew, J. and Watson, A. 2010. <i>Financial Accounting: An Introduction</i> (3 rd ed.). Cape Town: Oxford University Press Southern Africa. Krom, L. C., and Williams, V.S. 2011. Tell Me a Story: Enhancing and Assessing Student Learning through Creative Writing in Introductory Accounting Courses. <i>Journal of Accounting Education</i> , 29(4), 233-248

2	In my SME, we use the cash method, that is revenue is only calculated after it is received.	Under the cash method, revenue is calculated only after it is received, and expenditure when an order is received (Zarandi <i>et al.</i> , 2013).	Zarandi, H.M.P., Mozdabadi, S.M.T., Arab, M. and Ghafarib, E. 2013. Management Science Letters (3): 252–257.
3	In my SME, we use the accrual method, that is revenue is calculated soon as the sale takes place.	Conversely, the accrual method recognizes revenue when a sale is made, and expenses when services are provided or goods are delivered (Zarandi <i>et al.</i> , 2013).	Zarandi, H.M.P., Mozdabadi, S.M.T., Arab, M. and Ghafarib, E. 2013. Management Science Letters (3): 252–257.
4	In my SME, we understand that the method we decide to use can affect the expansion and long-term viability of the business and the debtor's control of the business.	Nonetheless, the accounting system that an SME owner or manager decides to use can significantly impact the growth and long-term sustainability of the business, and affect the debtor's control of the business (Zarandi <i>et al.</i> , 2013).	Zarandi, H.M.P., Mozdabadi, S.M.T., Arab, M. and Ghafarib, E. 2013. Management Science Letters (3): 252–257.

SECTION E: THE PERFORMANCE OF SMEs

Please indicate your level of agreement by crossing the appropriate number: 1 signifies Strongly Disagree, 2 signifies Disagree, 3 signifies Neutral, 4 signifies Agree, 5 signifies strongly agree.

Number	Question	Source/author	Paragraph in chapter 2
	The performance of SMEs		
1	In my business, the workforce consists of fewer than 250 workers.	However, the common definition	Lekhanya, M.L. 2016. Factors

		includes a business not having more than 250 employees (Lekhanya, 2016).	Influencing the Survival and Expansion of Small and Medium Enterprises in Rural KwaZulu-Natal. PhD Dissertation. Cape Town: University of the Western Cape.
2	The growth and sustainability of my SME is impacted by the financial skills.	Hence, the skills to manage finances is essential for business growth, sustainability and survival of these businesses. In a study conducted by Van Auken (2002), a significant positive correlation between financial decision-making and SME performance was found.	Van Auken, E.H. 2002. A Community-Based Venture Capital Model for Financing Early-Stage Technology Firms. Journal of Small Business Management, 40(1), 288-302.
3	In my SME, risk controlling practices are basic, simple and fixed into the main business events.	Neneh and van Zyl (2012) argue that to enhance the performance of a business, risk controlling practices need to be basic and fixed into the main business events.	Neneh, B.N. and Van Zyl, H.J. 2012. Enhancing Business Performance through Best Practices: Insights from SMEs in South Africa. Southern Africa Business Review, 16(3), 71-98.
4	The management competency and skills affect the growth of our SME.	It is argued by Sitharam (2014) that competency in management, insufficient financial expertise, lack of	Sitharam, S. 2014. Influences on the Performance of SMEs in

		training in business management, and limited capabilities in technology are key obstacles that SMEs face, and hinder growth.	KwaZulu-Natal. MBA Dissertation. Durban: University of KwaZulu-Natal.
5	The limited financial knowledge affects the growth of our SME.	It is argued by Sitharam (2014) that competency in management, insufficient financial expertise, lack of training in business management, and limited capabilities in technology are key obstacles that SMEs face, and hinder growth.	Sitharam, S. 2014. Influences on the Performance of SMEs in KwaZulu-Natal. MBA Dissertation. Durban: University of KwaZulu-Natal.
6	Lack of business management training affects the growth of our SME.	It is argued by Sitharam (2014) that competency in management, insufficient financial expertise, lack of training in business management, and limited capabilities in technology are key obstacles that SMEs face, and hinder growth.	Sitharam, S. 2014. Influences on the Performance of SMEs in KwaZulu-Natal. MBA Dissertation. Durban: University of KwaZulu-Natal.
7	The technological capabilities affect the growth of our SME.	It is argued by Sitharam (2014) that competency in management, insufficient financial expertise, lack of training in business management, and limited capabilities in technology are key obstacles that SMEs face, and hinder growth.	Sitharam, S. 2014. Influences on the Performance of SMEs in KwaZulu-Natal. MBA Dissertation. Durban: University of KwaZulu-Natal.

3.12 CHAPTER THREE SUMMARY

This chapter presented a clear elucidation of the research design and methodology that was used to measure the risk management, financial decision-making competencies and SME performance in Capricorn District Municipality, Limpopo Province. The area of the research was clarified. The population of the study which included SME managers and owners operating within the retail and wholesale industry, agricultural businesses and manufacturing was also discussed. The different designs used in the research were explained and the descriptive design was chosen as the relevant design.

The chapter also looked at the different categories of research paradigms, and the positivist paradigm was followed by the researcher. Random sampling was used, and the size of the sample was estimated using the online 'Raosoft sample calculator', and the estimated number was 330 SMEs. The database used in this study was provided by the 'Limpopo Department of Economic, Environment and Tourism' and all the Protection of Personal Information Act regulations were adhered to. Based on the data collected, she used the online random number generator to select SMEs. A Statistical Package Social Sciences (SPSS24) for the analysis of the regression was used to capture the collected data. Lastly, the research tool validity and reliability of the data were tested. This was conducted to ensure the consistency of each one of the ordinal and nominal scales used in the study. The researcher also followed all the ethical standards in accordance with Turfloop Research and Ethics Committee regulations.

CHAPTER FOUR: DATA PRESENTATION, INTERPRETATION AND ANALYSIS

4.1 INTRODUCTION

This chapter outlines the results of the primary data collected by the researcher through the self-developed questionnaire conducted in the previous chapter. The chapter is divided into various sections, including the introduction. In this second segment of chapter four, the research results of the reliability and validity breakdown on normality of the data used are presented. The third section focuses on the interpretation of the research findings on the relationships between variables and hypotheses outlined in chapter two. Lastly, this chapter makes use of frequency tables, percentages and bar charts for an easy understanding of the analysis.

The study aimed to investigating the risk management and financial decision-making competencies for the growth and sustainability decisions of SMEs in Capricorn District Municipality, Limpopo Province, South Africa. In order to achieve the objectives of the study, the demographical aspects, business activities, risk management competencies, financial decision-making competencies and the performance of SMEs were established. The analysis was conducted using the quantitative data using questionnaires and processed through SPSS (version 24) and was based on 109 responses that were distributed to SMEs in the local municipalities of Capricorn District Municipality (Polokwane, Molemole, Blouberg and Lepelle-Nkumpi).

4.1 THE RESPONSE RATE

Table 4.1: The response rate

Respondents	SME owners/Managers
Number of questionnaires sent	130
Number of unreturned questionnaires	20
Percentage	15,385%
Number of returned questionnaires	110
Percentage	84,615%

Source: Developed for this study

The table above shows the study response rate of the questionnaire. A total of 130 questionnaires were sent to SME owners/Managers. 110 were completed and returned. The response percentage of the completed and returned questionnaire was 84,615%. This is a fair representation as it is more than half of the number of questionnaires sent.

4.2 RELIABILITY AND VALIDITY ANALYSIS

4.2.1 Reliability

Reliability is defined as the extent to which results remain consistent and exact over time (Motsepe, 2019). In this research study, Cronbach's alpha was employed to test reliability. According to Lamola (2021), Motsepe (2019) and Lekhanya (2017), a Cronbach's alpha value exceeding 0.6 is regarded as acceptable. Values below 0.6 are generally considered poor, while those ranging from 0.6 to 0.7 are viewed as moderate but acceptable. A score above 0.8 is considered excellent. Essentially, the closer the reliability coefficient is to 1.0, the higher the internal consistency of the variables within the scale.

All the research variables and hypotheses derived from the literature review were integrated into the questionnaire and assessed. These variables pertained to risk management, financial decision-making competencies, and SME performance within Capricorn District Municipality (CDM), Limpopo Province. The questionnaire employed multiple Likert-type scales, and the results of the reliability tests are presented in Table 4.2 below.

Table 4.2: Cronbach's alpha table

ITEM TOTAL STATISTICS	
Variables	Cronbach's Alpha
Risk Management Competecies	0,922
Financial Decision Making Competencies	0,876
Performance of SMEs	0,928

Source: developed for this study

The results reveal that the Cronbach's alpha of risk management competencies is 0,922, financial decision-making competencies is 0,876, and SME performance is 0,928. The estimated results show that the calculated Cronbach's alpha of all the three main variable quantities is above 0,8, which is considered to be very good and means that there is internal consistency and reliability in the variables. The detailed analysis of the results will be discussed in section (4.3) below.

4.2.2 Validity

The validity of the research was ensured by designing the questionnaire based on a strong theoretical foundation, conducting a pilot study with five SMEs, using a sample size with a margin of error below 5%, and a confidence level of 95%. Additionally, the questionnaire was reviewed by academics before it was distributed to respondents.

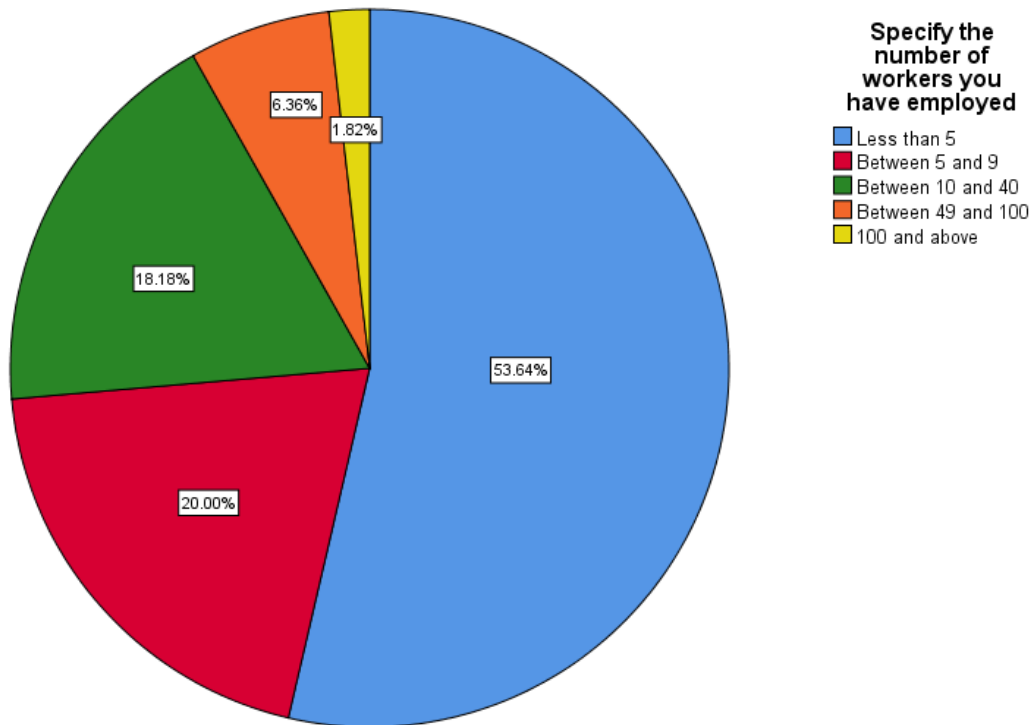
ANALYSIS PER RESEARCH CONSTRUCT

4.3 DEMOGRAPHIC PROFILE

The characteristics used in research can be grouped into different categories, including demographic, individual characteristics, personal traits and entrepreneurial readiness. Demographics are instrumental in ensuring that businesses thrive and achieve success (Chidi, 2020). For this study, only two questions were asked about the demographics of the respondents. The rationale behind those questions was for the researcher to be able to place the research findings within a reference framework to offer insights into the variations between demographic groups and their correlations concerning risk and financial management comprehension. The following are the number of workers employed by SME owners and their occupations in the business.

4.3.1 The number of workers

Figure 4.1: The number of workers

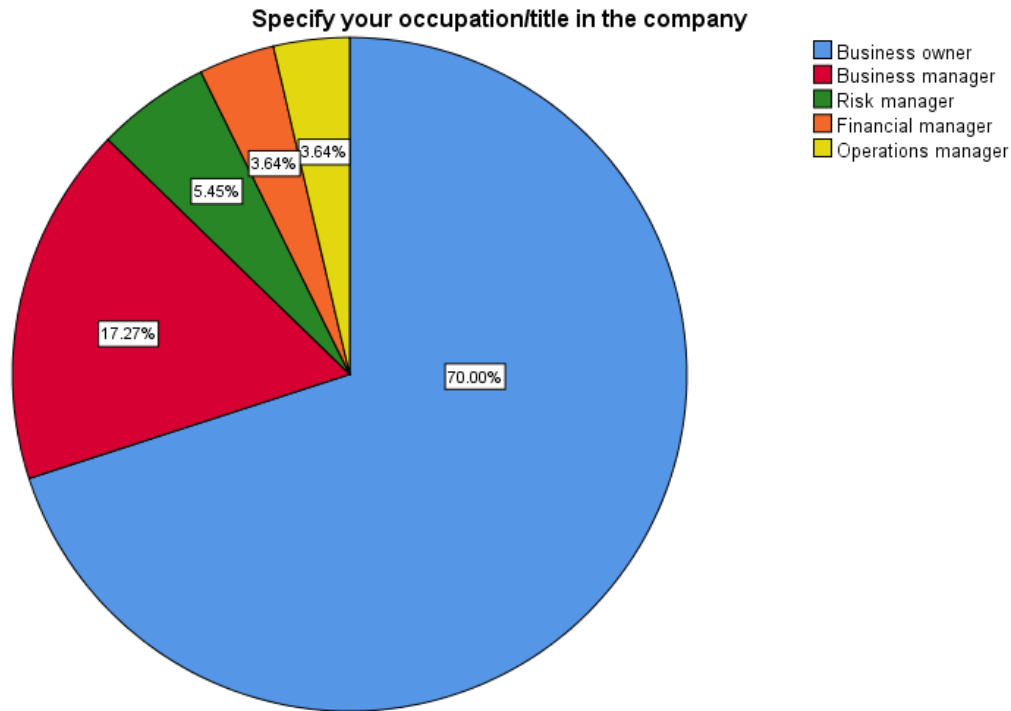


Source: Developed for this study

The results in the above graph show that out of a total of 110 SME owners/Managers, 53.64% employed less than five workers, 20.00% employed between five and nine employees, 6.36% of them employed between ten and forty, 18.18% have between forty-nine and hundred, and only 1.82% of them have employed hundred and above employees. This could imply that SMEs in the CDM have less than 250 employees. This proves that respondents owned the SMEs. This is in accordance with Lekhanya's (2016) common definition of the quantitative measure of an SME of less than 250 employees. It is only 1.82% of SME owners/managers who have hundred and more employees. Therefore, the sample can be considered to represent small businesses in Capricorn District Municipality (CDM).

4.3.2 The respondents' occupation in the company

Figure 4.2: The respondents' occupation in the company



Source: Developed for this study

As indicated in the above graph, the highest number (70.00%) of respondents are business owners, the second highest number is 17.27%, which are business managers. 5.45% of them were risk managers. The conclusion drawn is that more participants in the CDM were owners of businesses, risk and financial managers were minimal.

4.3.3 Summary of demographic information

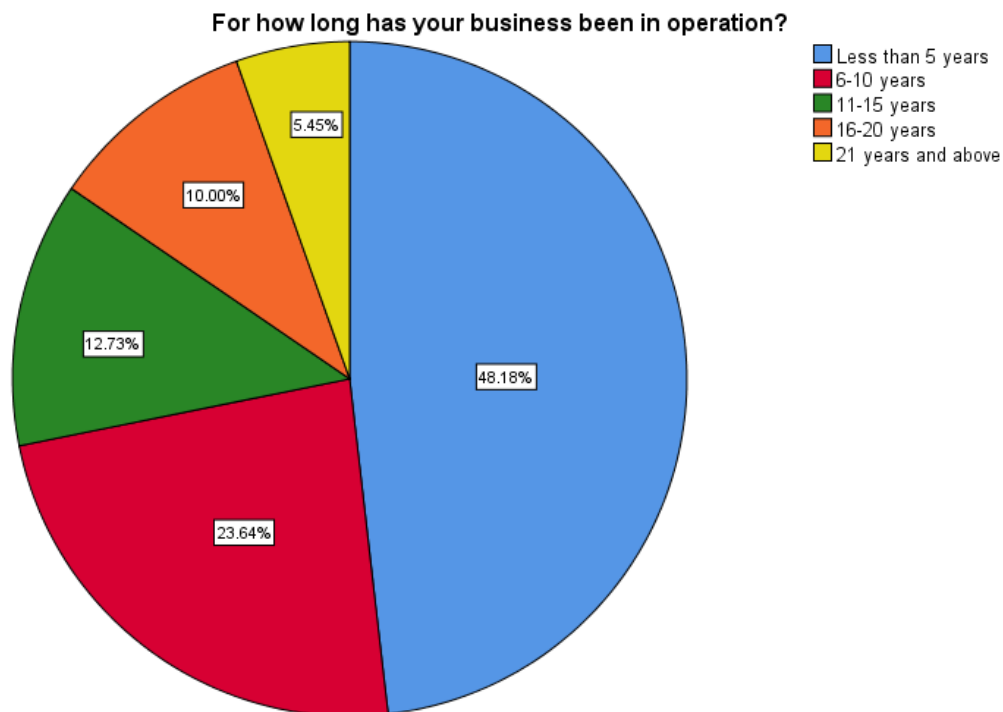
From the above results, it can be concluded that most SMEs in the CDM have less than five employees and a few have more than 100 employees. The majority of the respondents are business owners and only a few respondents are in the risk and financial management side of the business with 5.64% and 3.64%, respectively. This could mean that there are indeed a few SMEs in the CDM that understand and have the relevant expertise in the risk and finance departments. The sample is considered to represent SMEs in the CDM.

4.4 PROFILE OF BUSINESS ACTIVITIES

This section is used to gather information about the nature of the businesses owned by participants and the operational duration of time their businesses, employees in the financial section and the support programs they have benefited from. However, the profiling of the business activities will only focus on two questions that will be used to define this section. This is after the test results of the reliability of the study showed a lower consistency, as explained in the previous section (4.2.1) above. Masocha and Dzomonda (2016) indicate that most SMEs in South Africa fail to grow to other stages. It is discovered that at least 50% of SMEs fail in year one and 95% fail in the first four years. It is, therefore, important to measure the duration of time their businesses have been in operation. The results of the SMEs in the CDM are shown below:

4.4.1 The number of years the business in operation

Figure 4.3: The number of years the business in operation

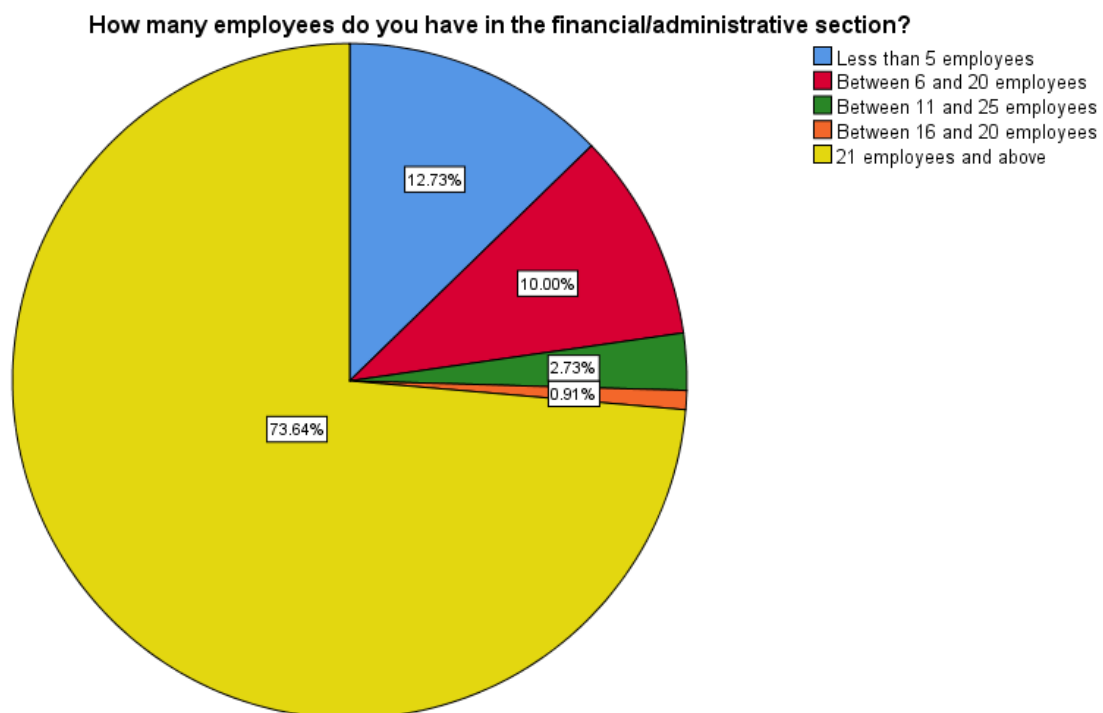


Source: Developed for this study

The results show that 48.18% of the SMEs in the CDM have been operating for less than five years, 23.64% have been operating between six and ten years, whereas 12.73% have been in existence for eleven to fifteen years, 10.00% have been existing for sixteen to twenty years and only 5.45% have been operating for more than 21 years.

4.4.2 The number of employees in the financial/administrative department

Figure 4.4: The number of employees in the financial/administrative department



Source: Developed for this study

The results show that 12.73% of the SMEs have less than five employees in the financial/administrative department, followed by 10.00% with employees between six and ten. 2.73% have between eleven to fifteen employees, 0.91% have between sixteen and twenty, and lastly, 73.64% have twenty-one and above employees in the finance or administrative section. It can be concluded that most SMEs in the CDM do have more employees in the administrative/financial department.

4.4.3 Summary of profile of business activities

The results show that most SMEs in the CDM have been in operation for fewer than five years. Consequently, most of the businesses have more than twenty-one employees in the finance or administrative section. This could imply that most SMEs in the CDM are still new and might not have experience in a lot of business skills yet; and this might affect their knowledge level on risk and finance. This is supported by various scholars that businesses operating for a few years tend to perform better compared to those that have been in existence for less than three years. It can therefore be concluded that this is not the profile the researcher was looking for. This comes after the researcher looked at the results in the previous section, where the majority of the respondents implied that they have employed less than 5 employees and are business owners. However, when it came to answering the questions relating to the demographics, there is a deviation as most of them indicated that they have more than 20 employees in the finance/administration departments. A deviation can be seen in the total number of workers in the business and those specifically running the finance or administration section. This has affected the reliability of the data in the two sections, and it is seen through the Cronbach's alpha values of 0,530 and 0,343 correspondingly.

4.5 RISK MANAGEMENT COMPETENCIES

This section will give the results of the risk management competencies and is divided into nine subsections. The analysis will utilize Cronbach's alpha, the sample mean (μ), and the sample standard deviation to interpret the descriptive statistics. A 'five-point Likert scale' was applied to gauge participants' perceptions, following the method used by Neneh and Van Zyl (2012). The responses were categorised and calculated according to the following criteria:

- Strongly disagree scores 1
- Disagree scores 2
- Neutral scores 3
- Agree scores 4
- Strongly agree scores 5

4.5.1 Technical and negotiation skills and ability to influence people

The table below displays the sample mean and sample standard deviation of all items used in the questionnaire. The results show that the standard deviation is 3.44 and Cronbach's alpha coefficient is 0.892, which means that it is above the acceptable range of 0.6 to 0.7 and is considered to be very good. All the items specify that most SME owners/managers do agree that they do have the technical skills, negotiation abilities, and capacity to influence their workers. This is represented in the above table, as all the items' mean are more than 4.00. The items that received the highest mean scores are "I have the ability to influence my employees, and I am able to listen and inspire my employees" with a mean of 4.15. The lowest is "I can manage my employees and aspects of their work" ($\mu=4.05$). The table also indicates that the sample mean score is 4.11 and the sample standard deviation is 3.442, which validates that the respondents agreed with the questions asked about measuring the technical competency.

Table 4.3: Technical and negotiation skills, and ability to influence people

	Mean	Std. Deviation	N
I have the ability to influence my employees	4.15	.950	110
I am able to listen and inspire my employees	4.15	1.006	110
I do discuss potential risks together with my employees	4.10	.948	110
I can manage my employees and aspects of their work	4.05	1.053	110
Scale Statistics			
Standard deviation	3.442		
Mean	4.11		
Cronbach's Alpha	0.892		
N of Items	4		

4.5.2 Problem-solving and analytical skills

Table 4.4 below indicates the calculated sample mean and sample standard deviation for all the six instruments used to measure problem-solving and analytical skills of SME owners/managers in the CDM. The table reveals that all the items have a mean of more than 3.00. This means that the respondents agree that they have the skills to solve problems and analyze situations. The mean score is 4.03, with a standard deviation score of 0.967, and exhibits a comparatively strong internal consistency of 0.935, which is more than the acceptable coefficient of 0.7. This means that the data is internally consistent and valid. The highest mean includes they can identify problems in their businesses with a value of 4.25 and the lowest mean is 3.65, we have effective feedback methods and risk reviews. This could imply that most SMEs in the CDM do not fully understand the importance of constructive feedback and risk reviews.

Table 4.4: Problem-solving and analytical skills

	Mean	Std. Deviation	N
Can identify problems	4.25	.869	110
Can investigate problems	4.18	.960	110
Can find logical solutions to problems off owner	4.01	.991	110
The business' goals, mission and vision are managed	4.03	.981	110
The potential top risks are managed	4.05	.927	110
We have effective feedback methods and risk reviews	3.65	1.072	110
Scale statistics			
Standard deviation	5.06		
Mean	4.03		
Cronbach's Alpha	0.935		
N of Items	6		

4.5.3 Strategic thinking capability

Table 4.5: Strategic thinking capability

	Mean	Std. Deviation	N
I have analytical skills	4.17	.937	110
We understand potential risks both at department and in a wider business' perspective.	3.96	.938	110
There is sufficient strategies that help us to lessen risk to occur	3.66	1.007	110
Scale statistics			
Mean	3.93		
Standard deviation	2.55		
Cronbach's Alpha	0.863		
N of Items	3		

Table 4.5 above shows that all the three items have a mean of more than 3.00. The item with the highest mean is “we understand potential risks both at department and in a wider business’ perspective” with a mean of 3.96. This means that the respondents in the CDM agreed with the question. The lowest item is “there is sufficient strategies that help us to lessen risk to occur” with a mean of 3.93. This indicates that most of the respondents do not have sufficient strategies in their businesses that could help them lessen the occurrence of risk. The coefficient of Cronbach’s alpha is 0.863, signifying that the consistency of the data is good. The sample mean score is 3.93 with an estimated sample standard deviation of 2.55. This descriptive statistic depicts that the majority of SME owners in CDM do have the strategic thinking capabilities.

4.5.4 Networking ability, new concerns and changing environment adaptability

The descriptive statistics on networking ability, new concerns and changing environment adaptability items discovered mean values of more than 3.00. The items with the highest mean are “we are good in dealing with changes in the political environments and we are good in dealing with new technical environments”. Both items have the mean of 3.77. The lowest mean is 3.49 for the item “we are good in dealing with changes in the political environments”. This could imply that the respondents agreed at some instances that they do have the skills to adapt to different working environments. The grand mean is 3.68 with a standard deviation of 5.31 and Cronbach’s alpha of 0.891. This alpha is above the acceptable threshold of 0.7 as it reveals that there is a strong internal consistency within the construct.

Table 4.6: Networking ability, new concerns and changing environment adaptability

	Mean	Std. Deviation	N
We are able to use technology and social networks	3.92	1.110	110
In my SME, we are connected with other professionals through Twitter and or LinkedIn or other platforms	3.46	1.268	110
We manage relationships between various departments and external groups such as stakeholders	3.66	1.167	110
We, are good in dealing with changes in the political environments	3.49	1.107	110
We, are good in dealing with changes in the political environments	3.77	.983	110

We are good in dealing with new technical environments	3.77	.935	110
Scale statistics			
Standard deviation	5.31		
Mean	3.68		
Cronbach's Alpha	0.891		
N of Items	6		

4.5.5 Financial acumen

Table 4.7: Financial acumen

	Mean	Std. Deviation	N
We understand and can use financial reports	3.95	.892	110
We are used to working with financial tools	3.75	.962	110
We are able to identify which risks can be managed and the ones that are beyond my control	3.93	.854	110
There is a financial contingency plan should anything go wrong	3.52	1.163	110
Scale statistics			
Mean	3.79		
Standard deviation	3.22		
Cronbach's Alpha	0.841		
N of Items	4		

Table 4.7 above indicates the mean values of all the four items used in the construct financial acumen. All of them have a value of more than 3.00. Therefore, it highlights that the SME owners in CDM agreed to some extent with the questions. The item with the highest mean is “we understand and can use financial reports” with ($\mu=3.95$), and the lowest item includes “there is a financial contingency plan should anything go wrong”. This implies that most of the respondents do not have option B on the side of finances,

should anything go wrong such as the Corona virus disease 2019 that affected the operations of businesses. The scale mean of this construct is 3.79 and an average standard deviation of 3.22. The Coefficient of the Cronbach's alpha is 0.841, which shows that there is internal consistency and reliability, as the value is more than the acceptable range of 0.6 to 0.7.

4.5.6 Academic credentials in finance and risk

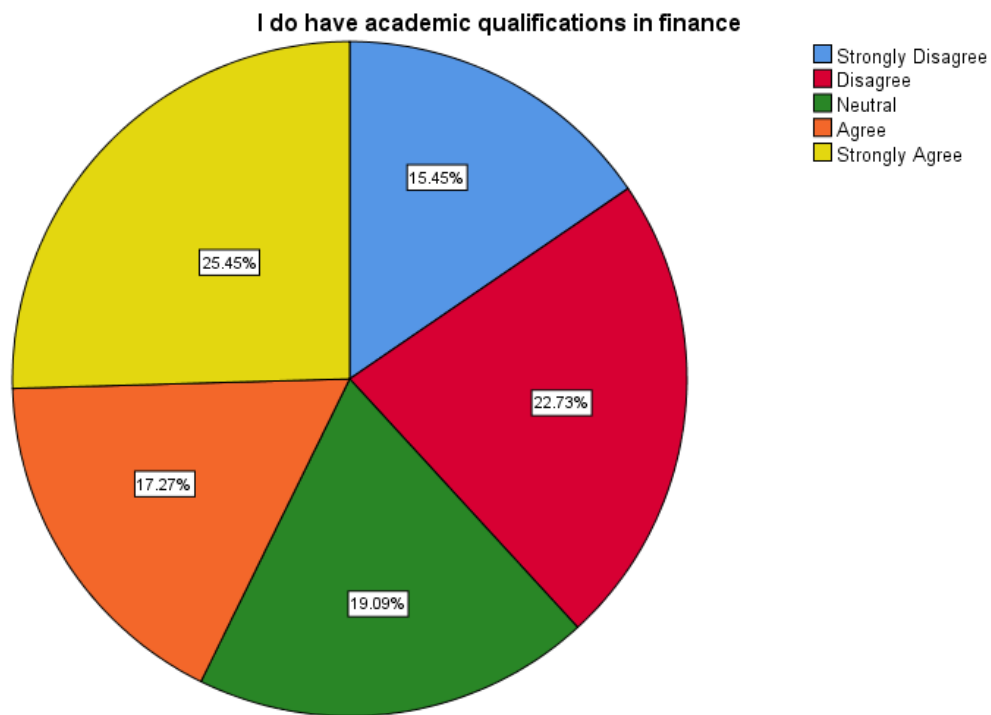
The descriptive statistics is on the academic credentials in finance and risk. The mean, Cronbach's alpha, standard deviation, and graphs below will elucidate the results further. All items used in this construct have a mean of more than 3.00. The highest item with a mean of 3.71 is "I am able to attain and develop skills to sustain the business". This indicates that the respondents agreed that they are able to attain and develop skills. The lowest items are "I do have academic qualifications in finance, and I do have academic qualifications in risk management" with the values of 3.15 and 3.01, respectively. This means that SME owners/managers in the CDM strongly agreed that they do hold the qualifications in finance. However, when it comes to risk, the majority of respondents (33.64%) disagreed with the question as indicated in the below graph. The scale mean is 3.29 with a standard deviation of 3.05, and a Cronbach's alpha coefficient of 0.682. This reveals that the construct is moderate, but acceptable as the value is within the range of 0.6 to 0.7. It also means that the consistency and reliability is good.

Table 4.8: Academic credentials in finance and risk

	Mean	Std. Deviation	N
I do have academic qualifications in finance	3.15	1.426	110
I do have academic qualifications in risk management	3.01	1.296	110
I am able to attain and develop skills to sustain the business	3.71	1.152	110
Scale statistics			
Mean	3.29		

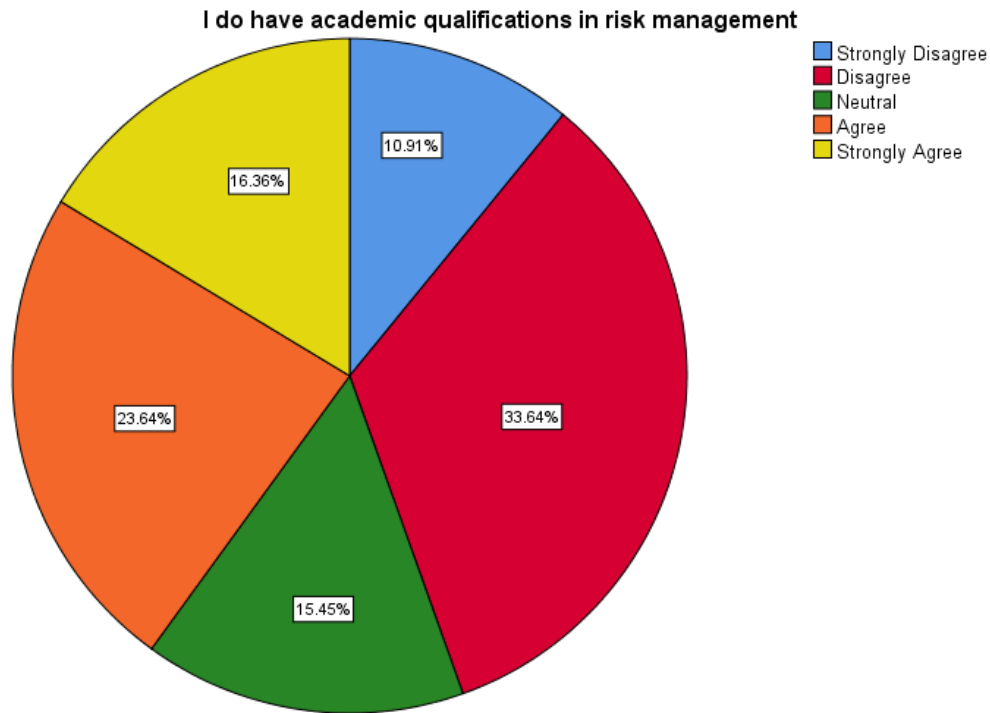
Standard deviation	3.05		
Cronbach's Alpha	0.682		
N of Items	3		

Figure 4.5: I do have academic qualifications in finance



Source: Developed for this study

Figure 4.6: I do have academic qualifications in risk management



Source: Developed for this study

4.5.7 Risk management principles

Table 4.9 below presents the 'descriptive statistics' on risk management principles. The estimated mean values of all the items used in this construct ranges from 3.05 to 3.48. The lowest mean (3.05) includes the item "the ISO 31000 helps us in identifying the risk management information functions", and is followed by the item "we are familiar with the various ISO standards to be followed when dealing with risk". The highest ($\mu=3.48$) includes "we value the effectiveness of risk management", and followed by the item "there are internal and external communication and consultation regarding risk" with a mean of 3.36. The results suggest that the respondents highly agreed to the two last items, and the lowest mean items suggest that the majority of them do agree, but to a certain extent, and are familiar with ISO standards. The average mean of the items is 3.29 and the

standard deviation is 5.24. The coefficient of the Cronbach's alpha for this construct is 0.917, which surpasses the standard acceptable coefficient, indicating that the consistency is excellent.

Table 4.9: Risk management principles

	Mean	Std. Deviation	N
We are familiar with the various ISO standards to be followed when dealing with risk	3.26	1.178	110
The ISO 31000 helps us in identifying the risk management information functions	3.05	1.144	110
We value the effectiveness of risk management	3.48	1.147	110
There are internal and external communication and consultation regarding risk	3.36	1.217	110
Scale statistics			
Standard deviation	5.24		
Mean	3.29		
Cronbach's Alpha	0.917		
N of Items	4		

4.5.8 Risk management framework

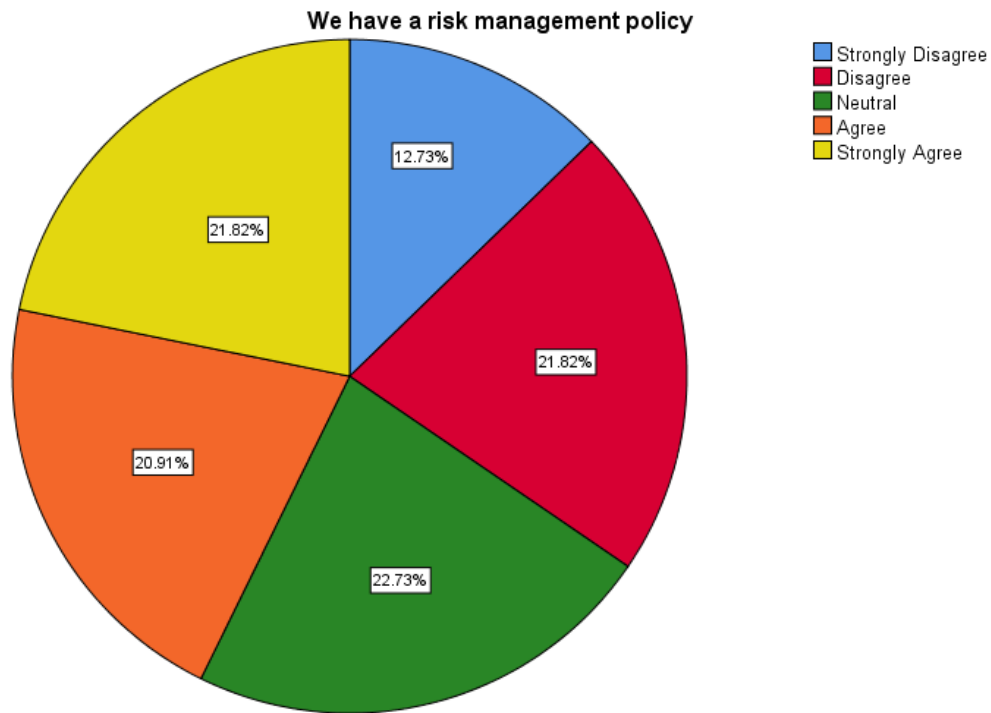
Table 4.10: Risk management framework

	Mean	Std. Deviation	N
We have a risk management policy	3.17	1.340	110
The risk objectives of the organization align with the risk strategies	3.25	1.294	110
We review the policies to see plans if they are still appropriate and effective.	3.13	1.349	110
We review the risk plans to see if they are still appropriate and effective.	3.15	1.369	110
We approve the policy of risk management.	3.10	1.334	110
We ensure that legal and regulatory requirements are met	3.55	1.268	110
We reserve resources for risk management	3.30	1.365	110
The culture of our business aligns with the risk management policy	3.39	1.264	110
We communicate about risk both at the internal and external level	3.56	1.223	110
Scale statistics			
Mean	3.39		
Standard deviation	10.9		
Cronbach's Alpha	0.980		
N of Items	9		

As shown in Table 4.10 above, the mean value of each item is more than 3.00. This indicates a strong level of agreement among the respondents regarding the questions. The grand mean is 3.39, which depicts a high level of risk management principles in the CDM. The Cronbach's alpha is estimated at 0.980, and it means that the construct is reliable and consistent. The items with the highest mean are "we communicate about risk both at the internal and external level" with a mean of 3.56, followed by the item "we ensure that legal and regulatory requirements are met" with a mean of 3.55.

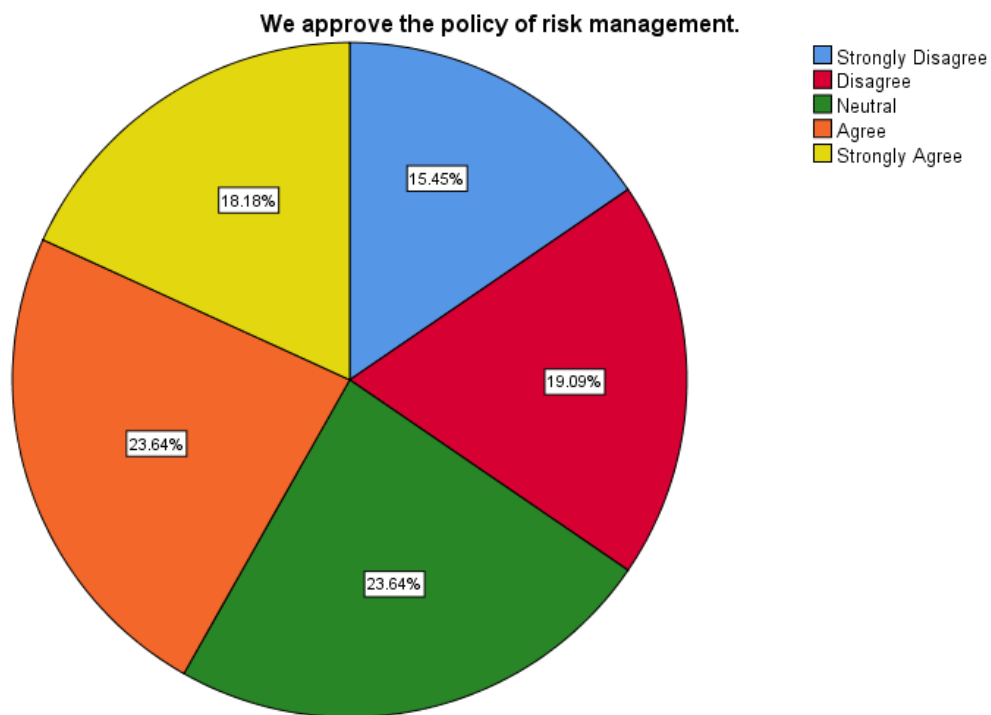
The four items with the lowest means are "we approve the policy of risk management" with a mean of 3.10, "we review the policies to see plans if they are still appropriate and effective" with a mean of 3.13, "we review the risk plans to see if they are still appropriate and effective" ($\mu=3.15$) and "we have a risk management policy" with a mean value of 3.17. This indicates that the respondents agreed to a certain degree with the questions. This suggests that small business owners in CDM do communicate about possible risks and do ensure that legal and regulatory requirements are met. However, the respondents agreed to a certain extent that they do have, approve, and review risk plans and policies as shown in the graph (fig 4.7) below. The graph (fig 4.8) also clarifies that percentage of those who strongly agree and disagree is equal, which means that some respondents do agree that they have the risk management policy, and some do not agree, hence the highest percentage for the neutral option.

Figure 4.7: We have a risk management policy



Source: Developed for this study

Figure 4.8: We approve the policy of risk management



Source: Developed for this study

4.5.9 Risk management process

The descriptive statistics is on the risk management process. The mean, Cronbach's alpha, standard deviation and graphs below are used to explain the results. There are no items with means that are less than 3.00. The grand mean for all the items is 3.62, with a standard deviation of 8.80 and a coefficient of Cronbach's alpha of 0.935. This indicates that the construct is dependable, and the consistency is very good. The four items with the highest means are "we analyze the weaknesses, strength, opportunities and threats that could affect the business" ($\mu=3.89$), "we can assess the likelihood and impact of risks" with a mean of 3.75, "we can determine the risk tolerance for risks (($\mu=3.67$)" and "we respond to risk by making sure it cannot happen" with a mean of 3.65. This shows that the respondents have a high level of agreement with the question.

The elements with the lowest means include: "we respond to risk by installing warning systems" and "we review risk by evaluating people, processes, facilities systems and the external environment on a continuous basis" with mean values of 3.43, "we monitor risk by evaluating people, processes, facilities, systems and the external environment on a continuous basis" with a mean of 3.54 and "we respond to risk by training employees" with a mean of 3.58. This indicates that the respondents are neutral about their answers to the questions. They do ensure that risk does not happen again by installing warning systems and reviewing it. However, they are neutral about monitoring risk and training the employees, thus meaning they agree to a certain extent with the questions in place.

Table 4.11: Risk management process

	Mean	Std. Deviation	N
We analyze the weaknesses, strength, opportunities and threats that could affect the business	3.89	1.008	110
We are able to determine the risk tolerance for risks	3.67	1.006	110
We are able to assess the likelihood and impact of risks	3.75	1.015	110
We develop response strategies	3.62	1.014	110
We respond to risk by making sure it cannot happen	3.65	.973	110
We respond to risk by installing warning systems	3.43	1.184	110
We respond to risk by training employees	3.58	1.168	110
We monitor risk by evaluating people, processes, facilities, systems and the external environment on a continuous basis	3.54	1.139	110
We review risk by evaluating people, processes, facilities systems and the external environment on a continuous basis	3.43	1.121	110
Scale statistics			
Mean	3.62		
Standard deviation	8.80		
Cronbach's Alpha	0.935		
N of Items	9		

4.5.10 Summary of Risk Management Competencies

The descriptive statistics on the risk management competencies showed that each construct had a coefficient of Cronbach's alpha exceeding 0.6. This implies that all the constructs are reliable and consistent. The highest coefficient is on the risk management framework with a value of 0.980. All the scale means of the constructs are more than 3.00. This means that the central tendency of all the constructs is normal. The constructs with the highest grand means were technical skills, negotiation capabilities and aptitude to lead people; problem-solving and analytical skills; strategic thinking capability; financial acumen and networking ability, new concerns and changing environment adaptability with mean values of 4.11, 4.03, 3.93, 3.79 and 3.68, respectively.

The results showed that most SME owners/managers do have the technical and negotiation skills, and the ability to influence their employees, and the skills to solve problems and analyze risk. They do understand potential risks at both the departmental and wider business perspective, thus strategic thinking capability. They do have the networking ability, new concerns and changing environment adaptability, hence the majority agreed that they are good at dealing with changes in the political environments, and we are good at dealing with new technical environments. The managers and owners in the CDM understand and can use financial reports. However, they do not have the financial contingency plans should anything go wrong.

The constructs with the lowest means were academic credentials in finance and risk with a mean of 3.29, risk management principles with a mean value of 3.29, risk management framework with a mean of 3.39 and risk management process of 3.62. The findings suggest that the majority of SME owners in CDM do not have academic credentials in finance and risk. The respondents showed that most SMEs do not have experts in the finance department more than they have in the risk department. They do ensure that once risk is identified, it does not happen again by following the legal and regulatory requirements and communicating about risk internally and externally. However, the question raised is: do they have the right tools and review them to prevent risks? The

results suggested that most of them do not have or review the risk policy and plans. As such, they are not familiar with the various ISO standards to be followed when dealing with risk. This indicates that most of the respondents do not have sufficient strategies in their businesses that could help them lessen the occurrence of risk.

Therefore, it can be established that SME owners in CDM do have the technical, analytical, strategic and networking skills, but do not have the financial acumen, or hold academic credentials in finance and risk. They do not understand risk management principles, frameworks and processes in their full capacities.

4.6 FINANCIAL DECISION-MAKING COMPETENCIES

This section discusses the descriptive statistics of the financial decision-making competencies and is divided into three constructs. The analysis also follows the same method as the previous section (4.5) with the Cronbach's alpha, graphs, mean (μ) and standard deviation of the descriptive statistics. A 'five-point Likert scale' was utilized to evaluate the perceptions of respondents, with the following response categories:

- Strongly disagree represents a score of 1
- Disagree represents a score of 2
- Neutral represents a score of 3
- Agree represents a score of 4
- Strongly agree represents a score of 5

4.6.1 Capital budgeting techniques

Table 4.12: Capital budgeting techniques

	Mean	Std. Deviation	N
We make analysis on the determination of which investments will yield best returns in the future	3.47	1.202	110
We take into consideration the level of risk involved when making capital budgeting decisions	3.67	1.174	110
We make use of 'non-discounted cash flow method when evaluating capital budgeting such as Accounting Rate of Return (ARR)'	3.19	1.281	110
We make use of 'non-discounted cash flow method when evaluating capital budgeting such as the Payback Period'	3.23	1.268	110
We make 'use of the Net present value (NPV) method when evaluating capital budgeting'	3.24	1.241	110
We make use of the 'internal rate of return (IRR) method when evaluating capital budgeting'	3.17	1.226	110
We make use of the discounted payback when evaluating capital budgeting	3.25	1.279	110
We make use of the profitability index (PI) when evaluating capital budgeting	3.22	1.288	110
Scale statistics			

Mean	3.30		
Standard deviation	8.80		
Cronbach's Alpha	0.960		
N of Items	8		

Table 4.12 displays the descriptive statistics on capital budgeting techniques. The average mean of the items is 3.30, the standard deviation is 8.80 and the estimated Cronbach's alpha for this construct is 0.960, exceeding the standard acceptable threshold. This means that the consistency is very good. The items with the lowest mean include: "we make use of the internal rate of return (IRR) method when evaluating capital budgeting" with a mean of 3.17 and "we make use of non-discounted cash flow method when evaluating capital budgeting such as Accounting Rate of Return (ARR)" with a mean score of 3.19. This means that the respondents of the study did not agree highly that they do make use of the IRR methods and ARR methods. The highest mean is 3.67 and includes the item "we take into consideration the level of risk involved when making capital budgeting decisions" and "we make analysis on the determination of which investments will yield best returns in the future". These results show that the respondents highly agreed that they do take the level of risk involved and make an analysis when capital decision-making is made.

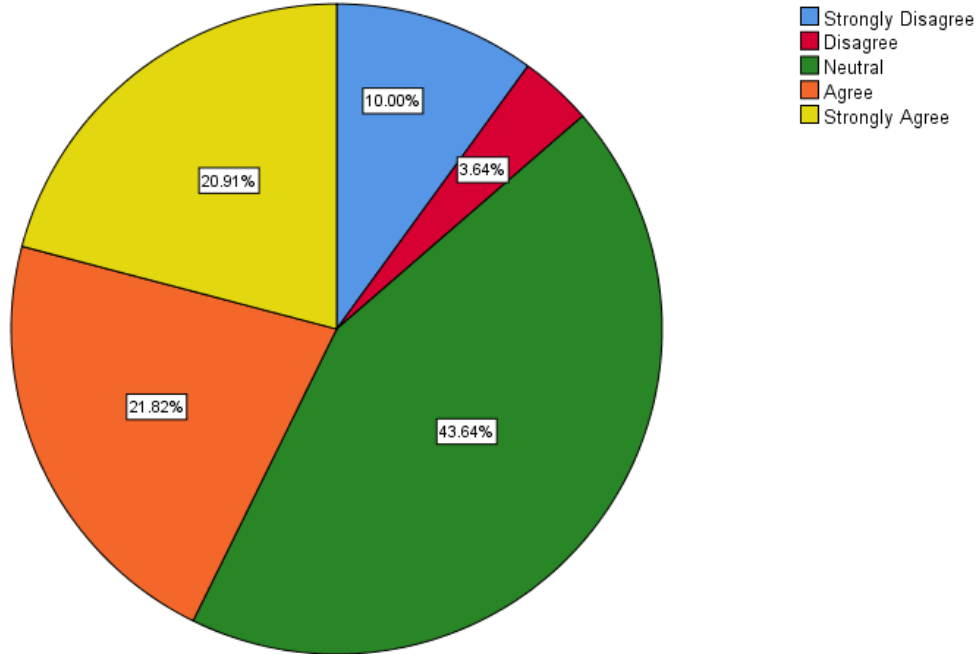
4.6.2 Liquidity ratios

Table 4.13: Liquidity ratios

	Mean	Std. Deviation	N
'The higher the ratio, the lower the risk and the lower the ratio, the higher the risk of the unpaid short-term liabilities'	3.40	1.159	110
'We know that the liquidity position of a business and its day to day activities can affect the investment decisions'	3.84	1.146	110
We do take the performance measures into consideration	3.75	1.167	110
The analysis of the liquidity ratio helps us in the identification of areas of weakness and strength in our SME	3.56	1.231	110
Scale statistics			
Mean	3.64		
Standard deviation	4.13		
Cronbach's Alpha	0.901		
N of Items	4		

Figure 4.9: The higher ratio indicates reduced risk, while a lower ratio signifies increased risk, the higher the risk of unpaid short-term liabilities

The higher the ratio, the lower the risk and the lower the ratio, the higher the risk of the unpaid short-term liabilities



Source: Developed for this study

As shown in Table 4.13 above, the grand mean is 3.64. The coefficient of Cronbach's alpha is 0.901 and the standard deviation is 4.13. This means that the reliability and consistency of the construct are good, as it is more than the acceptable value of 0.7. The mean of each item in the table above is more than 3.00. The highest item is "we know that the liquidity position of a business and its day-to-day activities can affect the investment decision" with a mean value of 3.84. The findings indicate that the respondents strongly concur with the statement.

The lowest item is "the higher the ratio, the lower the risk and the lower the ratio, the higher the risk of the unpaid short-term liabilities" with a mean of 3.40. This means that the respondents do agree to a certain extent that they understand that the 'higher the ratio', the lower the risk of unpaid short-term liabilities. This is proven in the graph (fig 4.9) above, as it is shown that 43.64% of the respondents are unsure or neutral about the question and it is the majority. 21.82% agree with the statement, 20.9% strongly agree, 10.00% strongly disagree and 3.64% disagree with the item statement.

4.6.3 Cash and accrual accounting

Table 4.14: Cash and accrual accounting

	Mean	Std. Deviation	N
We use cash and accrual methods to keep track of the business' financial gain and expenses	3.62	1.173	110
We use the cash method, that is revenue is only calculated after it is received	3.50	1.210	110
We use the accrual method, that is revenue is calculated soon as the sale takes place	3.42	1.168	110
We understand that the method we decide to use, can affect the debtor's control of the business	3.58	1.237	110
We understand that the method we decide to use, can affect the growth and sustainability of the business	3.61	1.227	110
Scale statistics			
Mean	3.55		
Standard deviation	5.20		
Cronbach's Alpha	0.915		
N of Items	5		

The 'descriptive statistics' on the cash and accrual accounting items discovered mean values of more than 3.00. The items with the highest mean are "We use cash and accrual methods to keep track of the business' financial gain and expenses" with a mean of 3.62, and "We understand that the method we decide to use, can affect the growth and sustainability of the business" with a mean score of 3.61. This suggests that the respondents are in alignment with the statements. The item that received the lowest mean score is 3.49 "We use the accrual method; that is revenue is calculated as soon as the

sale takes place". This means that the respondents agree to some extent with the question. The scale mean is 3.55 with a standard deviation of 5.20 and an estimated Cronbach's alpha of 0.915. This aforementioned alpha is greater than the acceptable value of 0.7 and tells us that there is internal consistency and good reliability in the construct.

4.6.4 Summary of financial decision-making competencies

The descriptive statistics results indicated that SME owners in the CDM do take into consideration the level of risk involved when making capital budgeting decisions. They do make an analysis on the determination of the investments that will yield the best returns in the future. However, when it comes to capital budgeting techniques, the majority of them do make use of the 'non-discounted cash flow' method ('Payback period') more than the ARR method. The results also showed that of all the three discounted methods, the least used one is the IRR method. The respondents agreed that they know the 'liquidity position' of an organization and its day-to-day activities can affect investment decisions. Thus, they need to have at least the basic knowledge of the ratios to prevent the financial risks. They further showed that they do agree; but to a certain extent, they understand that a higher ratio indicates a lower risk, while a lower ratio suggests a higher risk of unpaid short-term liabilities such as taxes payable. This may indicate that most SME owners in the CDM are not familiar with the liquidity ratio testing guideline that if the ratio is lower, the risk of unpaid short-term liabilities will be high, hence the highest number on the neutral selection.

The SME owners/managers in the CDM agreed that they do keep track of the financial gain and expenses of the business by using the cash and accrual methods. The unlikely method is the accrual method, whereby revenue is calculated as soon the sale is taken, whether it is approved and received immediately or not. The respondents do understand that the method they decide to use between cash and accrual can have an impact on the growth and sustainability of the organizations, thus the hypothesis states: that there is a connection between financial decision-making capabilities and the performance of SMEs.

It can therefore be concluded that these results can be considered a representation of SMEs in Capricorn District Municipality.

4.7 THE PERFORMANCE OF SMES

This segment presents the results regarding the performance of SMEs. The analysis will focus on Cronbach's alpha, sample mean (μ), and sample standard deviation of the descriptive statistics. The items were measured using a 'five-point Likert scale', and the responses were categorised as follows:

- 1: Decreased at a high rate
- 2: Decreased at a low rate
- 3: Remained the same
- 4: Increased a low rate
- 5: Increased at a high rate

Table 4.15: The performance of SMEs in the CDM

	Mean	Std. Deviation	N
In the past 3 years the sales of the business have?	3.25	1.328	110
The turnover of the business has?	3.16	1.338	110
The number of employees has?	2.95	1.017	110
The number of customers has?	3.28	1.382	110
The sustainability of the business has?	3.42	1.259	110
The number of financial queries has?	3.19	1.177	110
The number of financial loss incidents has?	2.83	1.124	110

The number of loss incidents such as operational incidents has?	2.86	1.121	110
The speed of operations has?	2.86	1.137	110
The flexibility of operations has?	3.26	1.147	110
The reliability of operations has?	3.45	1.138	110
The cost of operations has?	3.58	1.120	110
The quality of operations has?	3.53	1.064	110
Scale statistics			
Mean	3.23		
Standard deviation	11.3		
Cronbach's Alpha	0.928		
N of Items	13		

The results in the above table indicate that the mean of all the thirteen items is above 3.00. The scale mean is 3.23 with a standard deviation of 11.3 and the coefficient of Cronbach's alpha of 0.928. This means that the consistency and reliability of the estimated construct are very good as it is above the acceptable value of 0.7. The highest mean includes the items on the cost and quality of the operations with 3.58 and 3.53, respectively. What this means is that an increased cost and quality of the operation do affect the performance of SMEs. The items with the lowest mean include questions on the number of financial loss incidents ($\mu=2.83$), the number of loss incidents such as the operational incidents and speed of the operation with mean values of 2.86. These results mean that a stable number of loss incidents and speed of the operation do not lead to increased performance of SMEs.

4.8 TESTING OF HYPOTHESIS

This section outlines the findings of the hypothesis testing. The Pearson Correlation Coefficient was employed to assess whether the linear relationships observed in the sample data accurately reflect the relationships within the broader population. The test

aimed to compare risk management competencies, financial decision-making abilities and SME performance. The primary variables were evaluated based on the constructs discussed in earlier sections. The study was guided by the following hypotheses:

- H10: No relationship exists between risk management competencies and financial decision-making competencies in SMEs.
- H1a: A relationship exists between risk management competencies and financial decision-making competencies in SMEs.
- H20: No relationship exists between risk management competencies and the performance of SMEs.
- H2a: A positive relationship exists between risk management competencies and the performance of SMEs.
- H30: No relationship exists between financial decision-making competencies and the performance of SMEs.
- H3a: A positive relationship exists between financial decision-making competencies and the performance of SMEs.

4.8.1 The relationship between risk management competencies and financial decision-making competencies

Table 4.16: Hypothesis testing 1: No relationship exists between risk management competencies and financial decision-making competencies in SMEs

		Correlations	
		Risk Management Competencies	Financial Decision-making Competencies
Risk Management Competencies	Pearson Correlation	1	.704**
	Sig. (2-tailed)		.000
	N	110	109
Financial Decision-making Competencies	Pearson Correlation	.704**	1
	Sig. (2-tailed)	.000	

N	110	110
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Table 4.16 shows the results of the null hypothesis, thus including the sample, significance value and Pearson correlation value. The two-tailed significance value of this hypothesis is 0.000 and the Pearson value is 0.704. The total sample used remained at 110. The results imply that the hypothesis is acceptable as the 'p-value' is found to be more than 0.05. There is enough evidence in the SMEs around the CDM that 'there is a significant relationship between competencies in risk management and financial decision-making competencies.

4.8.2 The relationship between risk management competencies and performance of SMEs

Table 4.17: Hypothesis testing 2: No relationship exists between risk management competencies and the performance of SMEs.

		Correlations	
		Risk Management Competencies	Performance
Risk Management Competencies	Pearson Correlation	1	.229*
	Sig. (2-tailed)		.017
	N	110	109
Performance	Pearson Correlation	.229*	1
	Sig. (2-tailed)	.017	
	N	110	110

Table 4.17 indicates that there is a direct significance relationship between risk management competencies and SME performance. This analysis revealed the significance value of 0.017 and a p-value of 0.229. Hence, the hypothesis is not rejected, but the correlation is relatively low. It can be concluded that risk management competencies affect the SME performance in the CDM.

4.8.3 The relationship between financial decision-making competencies and performance of SMEs

Table 4.18: Hypothesis testing 3: H30: No relationship exists between financial decision-making competencies and the performance of SMEs.

		Correlations	
		Financial Decision-making Competencies	Performance
Financial Decision-making Competencies	Pearson Correlation	1	.149
	Sig. (2-tailed)		.121
	N	110	110
Performance	Pearson Correlation	.149	1
	Sig. (2-tailed)	.121	
	N	110	110

As shown in Table 4.18, the two-tailed significance value between financial decision-making and performance of SMEs is 0.121, with a p-value of 0.149. Since the p-value exceeds the threshold of 0.05, the hypothesis is not rejected. This suggests a positive relationship between financial decision-making and SME performance, meaning that the competencies in financial decision-making do affect SME performance. As such, turnover and sales would show significantly.

4.8.4 Summary of hypothesis testing

The hypothesis testing demonstrated that there is a significant relationship between risk management competencies and financial decision-making competencies in SMEs. The p-value for this hypothesis was found to be at 0.704. This is above the minimum acceptable value of 0.05. The hypothesis testing number two results also proved that a relationship exists between risk management competencies and the performance of SMEs. The p-value was found to be 0.229, which is the lowest, but the hypothesis was not rejected. The last hypothesis results revealed that the correlation is also very low at 0.149. However, the hypothesis was not rejected. This demonstrated that a relationship exists between financial decision-making competencies and SME performance. The following table presents the summary of the hypothesis testing.

Table 4.19: Correlation summary

Null Hypothesis	Results
No relationship exists between risk management competencies and financial decision-making competencies in SMEs	Not rejected
No relationship exists between risk management competencies and the performance of SMEs	Not rejected, but the correlation is very low at 0.229
No relationship exists between financial decision-making competencies and the performance of SMEs	Not rejected, but the correlation is very low at 0.149

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter presents a synopsis of the research findings on factors contributing to the performance of Small and Medium Enterprises in Capricorn District Municipality, Limpopo Province. The constructs discussed in previous chapters are discussed as well as their descriptive analysis. Furthermore, the chapter discusses the aim, objectives and hypotheses of the study. The areas for further investigations that can be conducted as well as limitations experienced by the scholar are discussed. Lastly, the recommendations to business owners, government officials and learning institutions are discussed.

5.2 AIM OF THE STUDY

The study aimed to investigating the risk management and financial decision-making competencies for the growth and sustainability decisions of SMEs in Capricorn District Municipality, Limpopo Province, South Africa. This has been successfully achieved through the empirical, theoretical literature, conceptual framework and the development of the questionnaire. The two theories that were found to be relevant in the study were the systems and pecking order theories. This is because the systems theory emphasizes that everything in a business is dependent and related. This means that risk, finance and performance of businesses can affect one another. The pecking order theory gives a broader view of how organizations go about acquiring or making financial decisions.

5.3 OBJECTIVES OF THE STUDY:

- To determine the risk management capabilities required in SMEs.
- To determine the financial decision-making competencies required in SMEs.
- To assess whether a relationship exists between risk management competencies and financial decision-making competencies.
- To determine whether risk management competencies affect the expansions and sustainability of SMEs.
- To determine whether financial risk management competencies affect the expansion and sustainability of SMEs.

The study about risk management in SMEs focused on financial, strategic and operational risks, which were the primary areas of discussion in this study. The risk management competencies required in SMEs were determined to be behavioural and technical competencies. Ahsan (2018) found skills in analytic and problem-solving, technical and negotiation skills, influencing people, strategic thinking, networking, new concerns and changing environment adaptability, financial acumen and academic credentials in finance and risk to be part of the behavioural competencies in risk management. The technical competencies are found to be the principles of ISO 31000, the framework for risk management, and the overall risk management process.

The financial decision-making competencies are found to be capital budgeting techniques, liquidity ratios, cash and accrual accounting and working capital management. The study also notes that the decision that the owner takes can negatively or positively affect the business, hence understanding the mentioned competencies will help drive the business to success. The results of whether risk management and financial competencies affect growth and business sustainability are discussed in detail in the next section.

5.4 HYPOTHESIS OF THE STUDY

H10: No relationship exists between risk management competencies and financial decision-making competencies in SMEs

H1a: A relationship exists between risk management competencies and financial decision-making competencies in SMEs

The hypothesis: 'there is no relationship between risk management competencies and financial decision-making competencies' was not rejected at 0.704. The results show that risk management competencies correlate with financial decision-making competencies. They showed that most SME owners/managers do have the technical and negotiation skills, ability to influence their employees, and the skills to solve problems and analyze risks. They do understand potential risks at both the departmental and wider business perspective, thus strategic thinking capability. They do have the networking ability, new concerns and changing environment adaptability. They further agreed that even though

they do not have the financial contingency plan, they understand financial reports and can use them. This means that risk management competencies such as the ability to analyze, solve problems, adapt to changing environments and financial intelligence are important and can affect one's financial decision-making. Similarly, understanding the capital techniques, liquidity ratios and method of accounting to use between the cash and accrual method can help mitigate financial, operational and strategic risks.

H20: No relationship exists between risk management competencies and the performance of SMEs

H2a: A positive relationship exists between risk management competencies and the performance of SMEs

The constructs in this study were examined using Cronbach's alpha, mean values, standard deviation and graphical representations. The hypotheses were tested through Pearson's correlation coefficient. The findings revealed that most respondents were business owners, and the SMEs within the CDM typically employed fewer than five individuals. Their businesses have been operating for less than five years. The Cronbach's alpha coefficient for all the constructs on the risk management were more than 0.6, which means that they were all acceptable. SME owners/managers in the CDM do have technical, analytical, strategic and networking skills. However, they seem not to have the financial acumen and hold academic credentials in finance and risks. They do not understand risk management principles, frameworks and processes in their full capacities. This is in line with a study by Gwangwava, Munuere, Kudakwashe, Tough and Rangarirai (2014), which argues that most small businesses do not have a formal risk strategy which arises from a lack of communication of risk management competencies to workers.

The hypothesis: 'there is no relationship between risk management competencies and performance of SMEs' was not rejected, but the correlation was very low at 0.229. This means that a stable number of loss incidents and speed of the operation do not lead to increased SME performance. Additionally, the study indicated that there is no significant positive relationship between risk management competencies and SME performance.

H30: No relationship exists between financial decision-making competencies and the performance of SMEs

H3a: A positive relationship exists between financial decision-making competencies and the performance of SMEs

On the financial risk management competencies, the SME owners/managers in the CDM seemed to understand capital budgeting techniques more than liquidity ratios and the cash and accrual methods. They have, however, shown that they do have little knowledge about liquidity ratios and keep track of the financial gain and expenses of the business. Furthermore, they understand that any financial decision they make can affect the business positively or negatively.

The hypothesis: 'there is a relationship between financial decision-making competencies and performance of SMEs' was tested. The results showed that the correlation between the two variables is very low but was not rejected at 0.149. They revealed that increased cost and quality of the operation do affect the performance of SMEs. This means that there is a significant positive relationship between financial decision-making competencies and SME performance. This is supported by Okpara (2011), who noted that SMEs encounter various challenges that hinder their growth and long-term sustainability.

5.5 RECOMMENDATIONS

The researcher discovered that most of the respondents did not know about or benefited from the government's support programs. Therefore, it is recommended that the South African government provides more support programs to SME owners. The government, higher learning institutions and banking sectors should provide training and short courses on financial decision-making and risk management to SME owners/managers. Furthermore, the author recommends Companies Intellectual Property Commission (CIPC) make it a requirement that when entrepreneurs register their businesses, they submit a risk management policy and financial contingency plan as one of mandatory documents. This will benefit both the business and employees as it will be used as a guidance to them.

5.6 STUDY LIMITATIONS

- The scope of the study was confined to SMEs in Capricorn District Municipality.
- The questionnaire of the study was collected virtually through the Google forms link, email, WhatsApp, SMS and telephones.

5.7 FURTHER RESEARCH

The study can be taken to the national level to unpack deeper the relationships between risk management, financial decision-making competencies and the performance of SMEs. The same study can be done on larger businesses, as the results suggested that most SMEs are not familiar with risk management. Further research can be done on the government's support programs and policies to improve the growth and sustainability of SMEs. Lastly, an investigation into the significance of risk management in small businesses can really benefit business owners and managers.

5.8 CONCLUSION

The primary objective of this study was to explore the factors contributing to the performance of SMEs in the Capricorn District Municipality, Limpopo province. This involved investigating the risk management and financial decision-making competencies. Behavioural and technical competencies were discovered to be the required competencies in managing risk. Furthermore, capital budgeting techniques, liquidity ratios, cash and accrual accounting and working capital management were discovered to be the financial decision-making competencies required for SMEs to grow. The study was also aimed at determining whether there is a relationship between risk management competencies and financial decision-making competencies. It was concluded that there is a relationship between the two variables. Over severe testing of hypotheses, all the objectives of the study were successfully achieved. The findings of this study offer recommendations and insights for SME owners/managers, government decision makers, training providers and communities that obtain services from SMEs. They have addressed issues relating to risk and financial management in SMEs and suggested areas for further research.

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QUESTIONNAIRE

APPENDIX



My name is Mapelo Rosah Rameetse, a Master of Commerce student from the University of Limpopo, School of Management and Law. My research focuses on **RISK MANAGEMENT, FINANCIAL DECISION-MAKING COMPETENCIES AND THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN THE CAPRICORN DISTRICT MUNICIPALITY LIMPOPO PROVINCE**. I am requesting your assistance by completing this questionnaire. Your privacy will be respected, as the data collected is for research purposes only. All information you provide will remain confidential, and no personal names will be used in any part of the research. You may withdraw from the study any time. The research study will be conducted with integrity, adhering to scientific standards, and all data will be securely protected.

Filling out this questionnaire will take approximately 30 minutes of your time, and I would greatly appreciate your cooperation.

CONSENT FORM

Research title: Risk management, financial decision-making competencies and the performance of small and medium enterprises in Capricorn District Municipality Limpopo Province.

Researcher:

I, _____ hereby
voluntarily consent to take part in the upcoming project:

.....

I comprehend that:

1. My responses will be kept confidential and used solely for the purposes of this research.
2. I will not face any impairment or risk by participating in the study.
3. The objectives of the research project have been clearly explained to me.
4. I am not required to answer any question I feel uncomfortable with.
5. Access to records concerning my participation will be restricted to the research team only.
6. Any questions I have about the study or related issues will be addressed by the researcher.
7. Participation is entirely voluntary, and I may withdraw at any point.
8. I have comprehended the information provided about my participation and consent to take part in the study.

Signature of an interviewee
witness

Signature of

Signature of interviewer

Signed at _____ on this ____ day of _____ 20 ____

INSTRUCTION

GUIDANCE

This survey consists of several questions regarding the business that you manage. Please read each question thoroughly and select the number that best represents your opinion. There are no right or wrong answers to opinion-based questions. We simply ask that you provide your honest perspective.

ANNEXURE A:QUESTIONNAIRE

Section A: DEMOGRAPHIC PROFILE

This section contains items regarding your demographic features such as gender, age and qualification level. The researcher is interested in learning a bit more about you. This information will be used to define the group of people that completed the survey. Please place a cross (x) in the appropriate block.

1. Please specify the number of workers you employ.

Less than 5	Between 5 and 9	Between 10 and 40	Between 49 and 100	100 and above
1	2	3	4	5

2. Please specify your occupation/title in the company.

Business owner	Business manager	Risk manager	Financial manager	Operations manager
1	2	3	4	5

SECTION B: PROFILE OF BUSINESS ACTIVITIES

1. What type of business are you involved in?

Manufacturing	Wholesaler	Retail
1	2	3

Other (specify) _____

2. For how long has your business been in operation?

Less than 5 years	6-10 years	11-15 years	16-20 years	21 and above
1	2	3	4	5

3. How many employees do you have in the financial/administrative section?

Less than 5 employees	Between 6 and 10	Between 11 and 15	Between 16 and 20	21 and above
1	2	3	4	5

4. Which of the following government support programs have you benefited from?

Small Enterprise Development Agency (SEDA)	National Empowerment Fund (NEF)	Small Enterprise Finance Agency (SEFA)	National Youth Development Agency (NYDA)	Council for Science and Industrial Corporation (CSIR)	KHUL A Limited	Non e
1	2	3	4	5	6	7

Other (specify) _____

SECTION C: RISK MANAGEMENT COMPETENCIES

From the questions below, please indicate how you agree or disagree by crossing the appropriate number: Strongly Disagree scores 1, Disagree scores 2, Neutral scores 3, Agree scores 4, Strongly Agree scores 5.

Number	Question	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
	Technical and negotiation skills, and ability to influence people					
1	I have the ability to influence my employees					
2	I am able to listen and inspire my employees					
3	I do discuss potential risks together with my employees					
4	I can manage my employees and aspects of their work					
	Problem-solving and analytical skills; In our SME, we;					
1	Can identify problems					
2	Can investigate problems					
3	Can find logical solutions to problems off owner					
4	The business' goals, mission and vision are managed					

5	The potential top risks are managed					
6	we have effective feedback methods and risk reviews					
	Strategic thinking capability: In our SME					
1	I have analytical skills					
2	We understand potential risks both at department and in a wider business' perspective.					
3	There is sufficient strategies that help us to lessen risk					
	Networking ability, new concerns and changing environment adaptability; In our SME,					
1	We are able to use technology and social networks					
2	In my SME, we are connected with other professionals through Twitter, LinkedIn or other platforms					
3	We manage relationships between various departments and external groups such as stakeholders					
4	We are good in dealing with changes in the political environments					

5	We are good in dealing with new financial environments					
6	We are good in dealing with new technical environments					
	Financial acumen					
1	We understand and can use financial reports					
2	We are used to working with financial tools					
3	We are able to identify which risks can be managed and the ones that are beyond my control					
4	There is a financial contingency plan should anything go wrong					
	Holding academic credentials in finance and risk					
1	I do have academic qualifications in finance					
2	I do have academic qualifications in risk management					
3	I am able to attain and develop skills to sustain the business					
	Risk management principles; In our SME:					

1	We are familiar with the various ISO standards to be followed when dealing with risk					
2	The ISO 31000 helps us in identifying the risk management information functions					
3	We value the effectiveness of risk management					
4	There are internal and external communication and consultation regarding risk					
5	We are using risk management and are not just doing it for the sake of compliance					
	Risk management framework in our SME:					
1	We have a risk management policy					
2	The risk objectives of the organization align with the risk strategies					
3	We review the policies to see plans if they are still appropriate and effective.					
4	We review the risk plans to see if they are still appropriate and effective.					
5	We approve the policy of risk management.					

6	We ensure that legal and regulatory requirements are met					
7	The culture of our business aligns with the risk management policy					
8	We reserve resources for risk management					
9	We communicate about risk both at the internal and external level					
	Risk management process. In our SME:					
1	We analyze the weaknesses, strengths, opportunities and threats that could affect the business					
2	We are able to determine the risk tolerance for risks					
3	We are able to assess the likelihood and impact of risks					
4	We develop response strategies					
5	We respond to risk by making sure it cannot happen					
6	We respond to risk by insuring it.					
7	We respond to risk by installing warning systems					
8	We respond to risk by training employees					

9	We monitor risk by evaluating people, processes, facilities, systems and the external environment on a continuous basis					
10	We review risk by evaluating people, processes, facilities systems and the external environment on a continuous basis					

SECTION D: FINANCIAL DECISION-MAKING COMPETENCIES

**Please indicate how you agree or disagree by crossing the appropriate number:
Strongly Disagree scores 1, Disagree scores 2, Neutral scores 3, Agree scores 4,
Strongly Agree scores 5.**

Number	Question	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Capital budgeting techniques; In our SME	1	2	3	4	5

1	We make analysis on the determination of which investments will yield best returns in the future					
2	We take into consideration the level of risk involved when making capital budgeting decisions					
3	We make use of 'non-discounted cash' flow method when evaluating capital budgeting such as 'Accounting Rate of Return' (ARR)					
4	We make use of 'non-discounted cash' flow method when evaluating capital budgeting such as the 'Payback Period'					
5	We make use of the 'Net present value' (NPV) method when evaluating capital budgeting					
6	We make use of the 'internal rate of return' (IRR) method when evaluating capital budgeting					
7	We make use of the 'discounted payback' when evaluating capital budgeting					
8	We make use of the profitability index (PI) when evaluating capital budgeting					
	Liquidity ratios					

1	As the ratio increases, the risk decreases, whereas a lower ratio indicates a higher risk of unpaid short-term liabilities					
2	We know that the liquidity position of a business and its day to day activities can affect the investment decisions.					
3	We do take the performance measures into consideration					
4	The analysis of the liquidity ratio helps us in the identification of areas of weakness and strength in our SME					
	Cash and accrual accounting					
1	We use cash and accrual methods to keep track of the business' financial gain and expenses					
2	We use the cash method, that is, revenue is only calculated after it is received					
3	We use the accrual method, that is, revenue is calculated soon as the sale takes place					
4	We understand that the method we decide to use can affect the debtor's control of the business					

5	We understand that the method we decide to use can affect the growth and sustainability of the business					
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SECTION E: THE PERFORMANCE OF SMEs

Please indicate how you agree or disagree by crossing the appropriate number: 1= Decreased at a low rate, 2= Decreased at a high rate, 3= Remained the same, 4= Increased at a low rate, 5= Increased at a high rate.

Number	Question: Change in performance of the supply chain in the last three years	Decreased at a high rate	Decreased at a low rate	Remained the same	Increased at a low rate	Increased at a high rate
	The performance of SMEs	1	2	3	4	5
1	In the past 3 years the sales of the business have?					
2	The turnover of the business has?					
3	The number of employees has?					
4	The number of customers has?					
5	The sustainability of the business has?					
6	The number of financial queries has?					
	The number of financial loss incidents has?					
7	The number of loss incidents such as					

	Operational incidents has?					
8	The speed of operations has?					
9	The flexibility of operations has?					
10	The reliability of operations has?					
11	The cost of operations has?					
12	The quality of operations has?					

THANK YOU FOR YOUR TIME, OPINION AND COOPERATION.

ANNEXURE B: ETHICAL CLEARANCE



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TURFLOOP RESEARCH ETHICS COMMITTEE ETHICS CLEARANCE CERTIFICATE

MEETING: 10 December 2020

PROJECT NUMBER: TREC/445/2020: PG

PROJECT:

Title: Risk management, financial decision making competencies and the performance of small and medium enterprises in the Capricorn District Municipality Limpopo Province

Researcher: MR Rameetse

Supervisor: Prof GPJ Pelsier

Co-Supervisor/s: N/A

School: Economics and Management

Degree: Master of Commerce in Business Management

PROF P MASOKO

CHAIRPERSON: TURFLOOP RESEARCH ETHICS COMMITTEE

The Turfloop Research Ethics Committee (TREC) is registered with the National Health Research Ethics Council, Registration Number: REC-0310111-031

Note:

- i) This Ethics Clearance Certificate will be valid for one (1) year, as from the abovementioned date. Application for annual renewal (or annual review) need to be received by TREC one month before lapse of this period.
- ii) Should any departure be contemplated from the research procedure as approved, the researcher(s) must re-submit the protocol to the committee, together with the Application for Amendment form.
- iii) PLEASE QUOTE THE PROTOCOL NUMBER IN ALL ENQUIRIES.

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ANNEXURE C: EDITOR'S LETTER



Stand 507 Caledon Village, Cell +27794848449, Email: kubayijoe@gmail.com

08 October 2024

Dear Sir/Madam

SUBJECT: EDITING OF DISSERTATION

This is to certify that the dissertation entitled 'Risk management, financial decision-making competencies and the performance of small and medium enterprises in the Capricorn District Municipality, Limpopo Province' by Mapelo Rosah Rameetse has been copy-edited. Unless further tampered with, I am satisfied that the dissertation adheres to editorial principles of consistency, cohesion, clarity of thought and precision.

Kind regards

A handwritten signature in black ink, appearing to read "SJ Kubayi", enclosed within a simple oval outline.

Prof SJ Kubayi

ANNEXURE D: TURN-IT-IN REPORT FOR PLAGIARISM

2ND SUB Dissertation Rameetse MR.docx

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