



**THE UTILISATION OF ENTERPRISE RISK MANAGEMENT IN FAST-FOOD SMALL,  
MEDIUM AND MICRO ENTERPRISES OPERATING IN THE CAPE PENINSULA**

**by**

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## **DECLARATION**

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## **ABSTRACT**

It is widely accepted that small, medium and micro enterprises (SMMEs) are pivotal to any country's economic growth. In a South African dispensation, these business entities are believed to be the panacea to the economic challenges facing the country. Consequently, a number of initiatives have been deployed by national government to assist these business entities, inter alia, the formation of the Ministry of Small Business Development in 2014. Notwithstanding government support these business entities have received over the years, the sustainability of South African SMMEs still remains among the worst in the world. One of the main cited reasons for this weak sustainability is a lack of management skills, particularly risk management skills. Taking the latter into account, it comes as no surprise that previous studies show that South African SMMEs make use of customised risk management initiatives which are regarded as inadequate and/or ineffective. For this research study, the main objective was to determine the extent to which South African SMMEs utilise enterprise risk management (ERM) – a formal approach to manage risks in a holistic manner. To achieve the latter, a literature review was conducted from which relevant terms were conceptualised (see Chapter 2). Subsequently, primary data were collected using questionnaires, while taking into account various ethical considerations, and gleaned responses were analysed using both descriptive and inferential statistics (see Chapter 4). Although the inferential statistics suggested that the sampled South African SMMEs made use of ERM initiatives, further investigation revealed that these initiatives were used by chance as opposed to choice. Hence, it was concluded that these entities did not make use of ERM. In essence the results echoed the notion from scholarly literature that South African SMMEs unknowingly use ERM initiatives which are customised, inadequate and/or ineffective. Stemming from the conclusions reached, relevant recommendations were articulated to assist these business entities towards the implementation of ERM in a structured manner.

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## **DEDICATION**

I wish to dedicate this piece of work to my late father, Kurai Jestias Masama, whose dream was to see me excelling in my studies.

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## LIST OF ABBREVIATIONS

Abbreviation	Meaning
<b>ACCA</b>	Association of Chartered Certified Accountants
<b>ACI</b>	Applied Communications Inc
<b>BBC</b>	British Broadcasting Corporation
<b>CCTV</b>	Closed-Circuit Television
<b>COSO</b>	Committee of Sponsoring Organisations of the Treadway Commission
<b>ECO</b>	Economic Cooperation Organization
<b>ERM</b>	Enterprise Risk Management
<b>GDP</b>	Gross Domestic Product
<b>GEM</b>	Global Entrepreneurship Monitor
<b>IDC</b>	Industrial Development Corporation
<b>IMF</b>	International Monetary Fund
<b>IRMSA</b>	Institute of Risk Management South Africa
<b>ISO</b>	International Organization for Standardization
<b>KMO</b>	Kaiser-Meyer-Olkin
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PWC</b>	PricewaterhouseCoopers
<b>SBP</b>	Small Business Project
<b>SME</b>	Small and Medium Enterprise
<b>SMME</b>	Small, Medium and Micro Enterprise
<b>UCLA</b>	University of California, Los Angeles
<b>US\$</b>	United States Dollar

## LIST OF TERMINOLOGY

Term	Conceptualised definition/definition/explanation
<b>Adequacy</b>	Adequacy refers to whether something is sufficient for a specific need (Merriam-Webster, 2017a).
<b>Business entity</b>	An organisation that is created by one or more natural persons, with the intention to conduct business (Perez, 2015).
<b>Customise</b>	To change something so that it can suit one's needs (Merriam-Webster, 2017b) (see Footnote 10 for further clarification).
<b>Effective</b>	Effectiveness refers to the ability to produce a desired effect (Merriam-Webster, 2017c).
<b>Enterprise risk management</b>	It is a process that is implemented by senior management in order to identify and manage risks that may affect the entity, thereby providing reasonable assurance regarding the achievement of entity objectives (Steinberg et al., 2004:2).
<b>Failure</b>	When a business entity ceases its operations, owing to its inability to generate profits (Financial Dictionary, 2017).
<b>Gross domestic product</b>	The monetary value of all final goods and services that are produced within the borders of a country during a given period of time (normally 12 months) (Callen, 2012).
<b>Risk</b>	The chances of threats and/or opportunities occurring, materialising and/or impacting, either positively or negatively, on the attainment of a business's overall sustainability (conceptualised in Chapter 2).
<b>Risk management</b>	It is the step-by-step process whereby potential threats (and opportunities) are identified and analysed in order to mitigate their realisation and potential impact (spur on their realisation and potential impact), with the main intent to provide reasonable assurance surrounding the attainment of relevant business objectives in the foreseeable future (conceptualised in Chapter 2).
<b>Sound</b>	Having characteristics of both adequacy and effectiveness.
<b>Sustainability (general definition)</b>	The long-term existence of a business entity through achieving set economic objectives, social objectives and/or environmental objectives, as implemented and agreed upon by relevant stakeholders of the relevant business entity (conceptualised in Chapter 2).
<b>Sustainability (South African SMME context)</b>	The long-term existence of an SMME through its attainment of sound financial performance and position in order to achieve relevant economic and social objectives as implemented and agreed upon by relevant stakeholders of the relevant business entity (conceptualised in Chapter 2).
<b>Unemployment (broad definition)</b>	The percentage of the labour workforce in a country not working, but actively seeking employment. In essence, this definition excludes those individuals that are unemployed and are not actively seeking employment (discouraged people) (South African Reserve Bank, 2017a).
<b>Unemployment (narrow definition)</b>	It refers to the percentage of total workforce, between 18 years and 64 years of age, who are unemployed, including those individuals who are looking for a paid job and those who have become discouraged to do so (Høj & Lewis, 2015:14).

# CHAPTER 1

## INTRODUCTION TO THE RESEARCH STUDY

### SYNOPSIS

For this research study, a methodical process was followed whereby each chapter built on the previous chapter. This process is depicted below.

#### Chapter 1: Introduction to the research study

- Background to the research study
- Statement of research problem
- Research questions and research objectives
- Research design, research methodology and research methods
- Contribution of the research study
- Conclusion and relevance of the research study

#### Chapter 2: Literature review

#### Chapter 3: Research design, research methodology and research methods

#### Chapter 4: Data analysis, results and discussion

#### Chapter 5: Conclusion

## 1.1 BACKGROUND TO RESEARCH STUDY

A large proportion of business entities in developing countries<sup>1</sup> take the form of small, medium and micro enterprises (hereafter referred to as SMMEs) (Gollin, 2008:219; Agwu & Emeti, 2014:102; Mbuyisa & Leonard, 2015:859). The definition of SMMEs differs from one country to another, and in South Africa these entities are defined by the *National Small Business Act No. 102 of 1996* (South Africa, 1996:2) as separate and distinct business entities including co-operative enterprises and non-governmental organisations, managed by one owner or more, which can be classified as a micro, a very small, a small or a medium enterprise. The abovementioned classifications are achieved by means of the number of full-time employees, their annual turnover, and/or by their total gross asset value. This is shown in Table 1.1.

**Table 1.1:** Classification of South African SMME sizes (**Source:** South Africa, 1996:16)

Category	Employees	Turnover	Gross Asset Value
Micro	0 – 5	R0 – R150 000	R0 – R100 000
Very small	6 – 10	R150 001 – R1 000 000	R100 001 – R200 000
Small	11 – 50	R1 000 001 – R5 000 000	R200 001 – R1 000 000
Medium	51 – 100	R5 000 001 - R10 000 000	R1 000 001 – R2 000 000

In looking at the classification criteria for employees, it is evident that South African SMMEs should play a pivotal role in the reduction of inequality through job creation (Ramukumba, 2014:20). In essence, these business entities add value to the national economy of South Africa, particularly through means of employing at least 55% of the national workforce (Ramukumba, 2014:19) and contributing between 30% and 57% to the national Gross Domestic Product (GDP) (Department of Trade and Industry, 2013; Bruwer & Coetzee, 2016:201).

Notwithstanding the aforesaid, it has been close to two decades since the South African government formally recognised SMMEs as the panacea to certain economic challenges facing the country (Maye, 2014). Given the support<sup>2</sup> these entities have received from government over the years, one would expect these economic challenges to have been resolved to a great extent (Ramukumba, 2014:22). Unfortunately, previous research studies (McGroarty, 2013; Maye, 2014; Zulu, 2014a; South African Reserve Bank, 2016:5) show that South Africa is still plagued with

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<sup>1</sup>A developing country is a country in which the majority of the population lives on less money, with fewer basic public services, compared with other countries around the world. In essence, a developing country has a weak industrial base (Tella & Tella, 2013:191).

<sup>2</sup> Government support to SMMEs is evident from the formulation of various institutions like Ntsika Enterprise Promotion Agency and Khula Enterprise Finance, and the subsequent formulation of the Ministry of Small Business Development (Maye, 2014; South Africa, 2014).

poverty, unemployment and inequality (in terms of wealth dissemination). The latter view is supported by the South African unemployment rate (narrow definition<sup>3</sup>) which has remained along the lines of 25%, while the Gini index<sup>4</sup> has remained in the region of 0.7 (Lehohla, 2014:14; Statistics South Africa, 2015; Nedbank, 2017). This is quite concerning as more than 50% of the South African population is regarded as poor (Lehohla, 2014:12, South African Reserve Bank, 2015). Stemming from the aforementioned, the assumption can be made that South African SMMEs, to a large extent, do not achieve their legally imposed objectives. This sentiment is supported by a previous research study (Tustin, 2015:84) where it was found that the sustainability<sup>5</sup> of South African SMMEs is among the worst in the world.

To place the sustainability of South African SMMEs in better perspective, Brink et al. (2003:1) express the view that since the early 2000s, between 70% and 80% of South African SMMEs were believed to fail after being in operation for three years; resulting in millions of rands being lost to the national economy. In more recent times, research studies (Friedrich, 2016; Nicolson, 2017) found that approximately 70% of these business entities fail within their first four years of existence. This sentiment is greatly supported by Neneh and Van Zyl (2012:3364), who note that approximately 75% of newly established SMMEs cease to exist after being in operation for only five years. Although debatable, these statistics are quite disconcerting when taking into account that nothing much has changed with regard to the overall sustainability of these business entities over the years, when an estimated 800 000 South African SMMEs were believed to be in operation during the mid-1990s; during the early 2000s this number was estimated at 5 979 510 (South Africa, 1995; FinScope, 2010). Previous research studies have pinned the dismal sustainability of South African SMMEs on economic factors.

No business entity is immune from the influence of economic factors. In laypersons' terms, economic factors are variables in the economy that affect business operations (Fernando, 2011:41), and direct the movement of a nation's economy (Makos, 2015). More often than not,

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<sup>3</sup> The narrow definition of unemployment denotes the percentage of the labour workforce in a country that is not working, but actively seeking employment. In essence, this definition excludes those that are unemployed and are not actively seeking employment (discouraged people) (South African Reserve Bank, 2017a).

<sup>4</sup> The Gini index measures inequality with regard to income distribution in a given country, ranging from 0 (absolute equality) to 1 (absolute inequality) (Lehohla, 2014:35).

<sup>5</sup> The term 'sustainability' is conceptualised in Chapter 2.

economic factors are demarcated into macro-economic factors (those factors that have a direct influence on the economy of a country which are beyond the control of a business's management), and micro-economic factors (factors that have a direct effect on productivity of individual firms which can be controlled by a business's management) (De Beer, 2008:20; Delgado et al., 2012:10). According to previous research studies, the following economic factors, inter alia, have been found to have a direct influence on the sustainability of South African SMMEs: 1) changes in inflation rates, 2) changes in interest rates, 3) fluctuating economic growth, 4) changes in foreign exchange rates, 5) fluctuations in supply and demand, 6) employee satisfaction, and 7) stiff competition (Burda & Wyplosz, 2013:4; Kokemulle, 2016). For this very reason, it is imperative that these economic factors should be managed effectively. Based on previous research studies (Dzansi, 2004:139; Friedrich, 2016, Ayandibu & Houghton, 2017:137), however, one of the most common causes of business failure, especially in relation to South African SMMEs, is that of lack of management skills.

Management can be defined as a function which comprises the following four activities: 1) planning activities (formulation of business objectives, and ways to achieve them), 2) organising activities (mobilisation of resources and assigning of activities to be completed), 3) leading activities (motivating employees to attain set business objectives) and 4) controlling activities (measuring performance against set business objectives) (Norman, 2016). Although all activities are of equal importance, controlling activities are of great value when having to manage economic factors in and around any business. Specifically, controlling activities assist any business entity to achieve its relevant objectives in the foreseeable future through means of identifying, preventing and mitigating economic variables that may impede the attainment of its set objectives (Norman, 2016). In order to do so effectively, risk management<sup>6</sup> initiatives are often used.

Risk management can be regarded as a scientific process of well-defined, sequential steps that support better decision making through means of providing greater insights into risks and their actual and/or potential impacts (Endicott & Gardiner, 2011:20). Otherwise stated, risk management has to do with the identification, analysis, evaluation, and treatment of risks, with the main intent to enhance the attainment of relevant business objectives in the foreseeable future (Longenecker et al., 2013:632). In essence, risk management should enhance the sustainability of business entities (Nieman, 2001:446; McKay, 2016:62). Notwithstanding the latter, South

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<sup>6</sup> The terms 'risk' and 'risk management' are conceptualised in Chapter 2.



African SMMEs seem not to appreciate its importance. This is especially the case as previous research (Winks, 2008:20) shows that many of these business entities regard risk management to be relevant to large business entities only. Longenecker et al. (2013:632) concur in noting that risk management is mostly neglected by SMMEs to the detriment of their sustainability. This is of concern, since the sustainability of South African SMMEs is deemed poor, and ultimately adversely influence the national economy (Industrial Development Corporation, 2015). In core, regardless of the nature of a business entity, risk management is crucial since poorly managed risks can threaten a business's overall existence (Howard & Jawahar, 2002:95; Nichifor, 2016:250).

## **1.2 STATEMENT OF RESEARCH PROBLEM**

Stemming from the above, it appears that a large proportion of South African SMMEs do not make use of effective<sup>7</sup> and/or adequate<sup>8</sup> risk management initiatives (in general). As such, it culminates in a struggle for these business entities to become sustainable, ultimately having an adverse influence on their overall existence. Hence, for this study, the perception was formulated that South African SMMEs have a weak sustainability 'track record', owing to their insufficient utilisation of sound<sup>9</sup> risk management initiatives – particularly those related to enterprise risk management<sup>10</sup> (hereafter referred to as ERM).

## **1.3 RESEARCH QUESTIONS AND RESEARCH OBJECTIVES**

Below, the research questions that guided this study, together with their objectives, are elaborated on. For the remainder of this section, discussions take place under the following headings: 1) primary research question and primary research objective, and 2) investigative research questions and secondary research objectives.

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<sup>7</sup> Effectiveness refers to the ability of producing a desired effect (Merriam-Webster, 2017c).

<sup>8</sup> Adequacy refers to whether something is enough for a specific need (Merriam-Webster, 2017a).

<sup>9</sup> Sound risk-management initiatives are both effective and adequate.

<sup>10</sup> Enterprise risk management entails the continuous identification, analysis, evaluation, and treatment of risks across an organisation, holistically, in order to minimise unexpected losses (Lam, 2017:11).

### 1.3.1 Primary research question and primary research objective

Based on the identified research problem, the primary research question within the ambit of this study reads as follows:

*Do South African fast-food SMMEs operating in the Cape Peninsula utilise ERM to help enhance their overall sustainability?*

The aim of the primary research question above was to achieve the primary research objective, which reads as follows:

*To ascertain whether South African fast-food SMMEs operating in the Cape Peninsula utilise ERM to help enhance their overall sustainability.*

### 1.3.2 Investigative research questions and secondary research objectives

Building on the primary research question and primary research objective above (see Section 1.3.1), a total of three investigative research questions and three secondary research objectives were identified. The latter are summarised in Table 1.2.

**Table 1.2:** Summary of the investigative research questions and secondary research objectives

<b>Sub-Question</b>	<b>Objectives</b>
What are the risks which South African fast food SMMEs in the Cape Peninsula face?	To determine the risks that South African fast-food SMMEs in the Cape Peninsula face.
How are these risks treated by South African fast-food SMMEs in the Cape Peninsula?	To understand the risk-management initiatives used by South African fast food SMMEs in the Cape Peninsula, in dealing with the identified risks.
Are the risk treatments used by South African fast-food SMMEs in the Cape Peninsula aligned to ERM?	To compare the risk-management initiatives used by South African fast food SMMEs in the Cape Peninsula, against the COSO ERM framework, and determine if the initiatives are in accordance with this framework.

## 1.4 RESEARCH DESIGN, RESEARCH METHODOLOGY AND RESEARCH METHODS

According to Mouton (2001:55), the research design of a research study pertains to the plan of how the actual study will be conducted. In essence, a research design can be categorised in terms of the:

- type of research study (empirical versus non-empirical);
- source of data (primary data versus secondary);
- nature of data (numerical versus textual); and
- level of control (structuring of the data-collection tool).

This research study was empirical in nature as it pertained to the observation of the status quo in South African fast-food SMMEs in the Cape Peninsula, regarding the utilisation of ERM. In order to establish a frame of reference, secondary data were used to develop relevant conceptual frameworks through means of a literature review (see Chapter 2), while primary data were collected through means of survey research in order to address the research questions within the ambit of this research study.

Data were collected through means of a standard questionnaire tool (see Annexure A) which comprised mostly closed-ended questions. Primary data were obtained from a representative sample size of a targeted population, namely that of members of management in South African fast-food SMMEs,<sup>11</sup> situated in the Cape Peninsula. To achieve this, non-probability sampling methods were deployed, particularly a mixture of purposive sampling and convenience sampling (see Section 3.3). Furthermore, members of management and their respective South African fast-food SMMEs had to adhere to relevant delineation criteria (see Section 3.3), and a total of 116 responses received were regarded as valid. After data were collected, they were appropriately analysed and discussed (see Chapter 4), while also taking into account appropriate ethical considerations throughout (see Section 3.4).

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<sup>11</sup> Owing to the ever-increasing levels of fast-food intake in South Africa (Maharaj, 2015; Holmes, 2016), it is not surprising that most South African entrepreneurs are starting their businesses in the fast-food industry. One of the reasons why most entrepreneurs prefer the fast-food industry is that this industry is not severely affected by an economic downturn (*Entrepreneur Magazine*, 2009:38). It is because of this growth in the fast-food industry that the researcher decided to focus on SMMEs in this industry, considering that the sustainability of these entities will generally entail the sustainability of the South African SMME sector as a whole.

## **1.5 CONTRIBUTION OF THE RESEARCH STUDY**

The topic of risk management has recently received much attention from regulators and senior management of organisations around the world (Guimond et al., 2010; Aven, 2016:1). In this study, risk-management initiatives utilised by South African fast-food SMMEs were investigated in order to add value to relevant stakeholders. In essence, this study does the following:

- Provides assistance to management of South African fast-food SMMEs to understand the status of their risk-management practices in relation to ERM, and also suggests areas where improvement can be effected. This is achieved through the conclusions and recommendations made in relation to the research problem, primary research question and primary research objective (see Chapter 5).
- Contributes to the body of knowledge through means of: 1) developed conceptual frameworks (see Chapter 2), 2) results and discussions that expound the risk-management initiatives used by South African fast-food SMMEs and their relevance to ERM (see Chapter 4), and 3) relevant conclusions and recommendations pertaining to the identified research problem, primary research question and primary research objective (see Chapter 5).
- Generates awareness among South African policy makers about the support needed by South African fast-food SMMEs in order to cultivate sound risk-management practices. This is done through the recommendations (see Chapter 5).

To add value to the abovementioned stakeholders, fundamental aspects in this study were shared (and will be shared in future) in the form of research articles and conference papers.

## **1.6 CONCLUSION AND RELEVANCE TO THE RESEARCH STUDY**

It is widely accepted that SMMEs are key economic drivers around the world. In a South African dispensation, these entities have received considerable attention owing to their immense contribution to employment creation, reduction of inequality (wealth dissemination) and the eradication of poverty. Notwithstanding the support which these business entities have received from national government over the years, their sustainability leaves much to be desired. In essence, the failure rate of South African SMMEs is among the highest in the world, and has been attributed to the various economic factors these entities face. Although these economic factors cannot be avoided, they can be managed using sound risk-management practices.

Using the above as foundation, a research problem was identified together with relevant research questions and objectives. Moreover, the research design, research methodology and research methods used in this research study were also briefly discussed in this chapter.

The remaining chapters which follow Chapter 1 are briefly explained below:

- **Chapter 2:** The main concepts introduced in Chapter 1 are expanded on in this chapter. Relevant conceptual frameworks guiding this study are developed, and general discussions (supported by theory) are provided in relation to the sustainability of South African SMMEs, economic factors affecting South African SMMEs and the economic landscape of South Africa, risk and risk management, risk-management approaches, enterprise risk-management frameworks, and risk management in South African SMMEs.
- **Chapter 3:** In this chapter, focus is placed on the research design, research methodology and research methods deployed in this research study. Furthermore, the ethical considerations taken into account for this research study are discussed, while emphasis is also placed on the questions in the data-collection tool.
- **Chapter 4:** The primary data gleaned are analysed by means of descriptive and inferential statistics, and the results are both presented and discussed in this chapter. The results were used to answer relevant research questions and, in turn, attain relevant research objectives.
- **Chapter 5:** Conclusions are drawn and relevant research questions and research objectives are revisited in this chapter. Recommendations are also made in order to mitigate the identified problem.

## CHAPTER 2

### LITERATURE REVIEW

#### SYNOPSIS

For this research study, a methodical process was followed whereby each chapter built on the previous chapter. This process is depicted below.

**Chapter 1:** Introduction to the research study

**Chapter 2:** Literature review

- Introduction
- An overview of the sustainability of South African SMMEs
- Economic factors influencing the sustainability of South African SMMEs and the economic landscape of South Africa
- Risk and risk management
- Risk-management approaches
- Enterprise risk-management frameworks
- Risk management in South African SMMEs
- Conclusion and relevance to the research study

**Chapter 3:** Research design, research methodology and research methods

**Chapter 4:** Data analysis, results and discussion

**Chapter 5:** Conclusion

## 2.1 INTRODUCTION

SMMEs are often referred to as the lifeblood of many economies around the world (Hubbard & Ashton, 2013:9; Sippitt, 2014; Murisa & Chikweche, 2015:304; Musa & Chinniah, 2016:254; Ayandibu & Houghton, 2017:133). This view is supported by previous research studies (Association of Chartered Certified Accountants, 2010; Naidoo & Urban, 2010:234; Servon et al., 2010:301; Anane et al., 2013:1003; Small Business Project, 2013) where it was found that the socio-economic contribution of these business entities is of such an extent that policy makers around the world regard SMMEs as the driving forces of their respective economies. In a South African dispensation, these business entities account for at least 55% of total employment opportunities, while simultaneously contributing between 30% and 57% to the national GDP (Cant & Wiid, 2013:707; Ramukumba, 2014:19; Bruwer & Coetzee, 2016:201). Notwithstanding the notable contributions of South African SMMEs to the national economy, the sustainability of these entities still leaves much to be desired.

The sustainability of South African SMMEs is believed to be among the worst in the world (Smit & Fatoki, 2012:1136; Mafini & Muposhi, 2017:1). This sentiment is supported by Lekhanya (2015:412) and Small Business Project (2013) who share the view that about 70% of South African SMMEs fail within their first four years of operation, while Wiese (2014:38), Herrington et al. (2015:17), and Bruwer and Van den Berg (2017:8), state that close to 75% of South African SMMEs fail in their first 42 months of existence. In addition to the high failure rate of these business entities, South Africa's unemployment statistics further suggest that these SMMEs may not be sustainable since one of their core socio-economic objectives, to reduce unemployment, is not being achieved effectively (South Africa, 1995:11; Trading Economics, 2016a).

Notwithstanding the above, the weak sustainability of South African SMMEs is often pinned on a plethora of economic factors (Bruwer et al., 2013; Bruwer & Van den Berg, 2017:4) while operating in a harsh economic landscape (South Africa, 2016:2), giving rise to an abundance of risks. In quintessence, when these risks materialise, they may have an adverse influence on the sustainability of South African SMMEs (Howard & Jawahar, 2002:95; Pollard & Stephen, 2008; Duren, 2016; RobecoSAM, 2016). Though risks are inevitable, they can and should be managed through the deployment of sound risk-management initiatives (Louisot & Ketcham, 2014).

Risk management pertains to the identification of potential risks in advance, their analysis, and taking steps to treat these risks to help achieve the objectives of a business entity (Ramakrishna,

2015:215). According to previous research studies (Duong, 2009:22; Chakabva, 2015:59), South African SMMEs do not have systematic processes to manage risks, as they rely mostly on their own customised<sup>12</sup> internal controls to manage relevant risks (Smit & Watkins, 2012:6328; Bruwer & Siwangaza, 2016:112).

Taking the above into account, it becomes apparent that the adequate management of risks is of paramount importance in South African SMMEs, as supported by their weak sustainability rates. For the remainder of this chapter, the following phenomena are discussed in greater detail: 1) the sustainability of South African SMMEs, 2) economic factors influencing the sustainability of South African SMMEs and the economic landscape of South Africa, 3) risks and risk management, 4) risk-management approaches, 5) enterprise risk-management frameworks, and 6) risk management in South African SMMEs.

## **2.2 AN OVERVIEW OF THE SUSTAINABILITY OF SOUTH AFRICAN SMMEs**

In South Africa, SMMEs are defined by the National Small Business Act No. 102 of 1996 (South Africa, 1996:2), as separate and distinct business entities including co-operative enterprises and non-governmental organisations, managed by one owner or more, which can be classified (see Section 1.1) as micro enterprises, very small enterprises, small enterprises or medium enterprises. Based on this piece of legislation, these business entities have three main socio-economic objectives, namely, to: 1) create jobs, 2) foster economic growth, and 3) alleviate poverty through the equal dissemination of wealth (Abor & Quartey, 2010:218; Masutha & Rogerson, 2014:141; Bruwer & Coetzee, 2016:201).

When taking into account that approximately 91% of all operational South African business entities are regarded as SMMEs (Abor & Quartey, 2010:219; Ayandibu & Houghton, 2017:135), their socio-economic importance to the national economy is placed in better perspective. It is therefore not surprising that the South African government regards SMMEs as a pivotal part of the national economy (South Africa, 1995:11), which is further substantiated by the establishment of the Ministry of Small Business Development in 2014 (South Africa, 2014). The importance of

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<sup>12</sup> The term 'customise' means to change something so that it can suit one's needs (Merriam-Webster, 2017b). South African SMMEs use internal controls that satisfy the requirements of managers and/or owners of these entities (Smit & Watkins, 2012:6328). In essence, most of these individuals have a limited understanding of risk management; hence it can be expected that these customised internal controls will be far from ideal (University of Stellenbosch Business School, 2014; Sunjka & Emwanu, 2015:1469).



these entities are further clarified by previous research studies (National Planning Commission, 2012:140; Department of Trade and Industry, 2013; Makakane, 2014; Zulu, 2014a; Bureau for Economic Research, 2016:31; Kelley et al., 2016:105; Banking Association South Africa, 2017; Herrington & Kew, 2017:93) where it was found that South African SMMEs were responsible for:

- creating more than 50% of local employment opportunities in 2014;
- contributing more than 40% of the country's total remuneration in 2014;
- contributing an average of 40% to the national GDP in 2014;
- contributing an average of 36% to the national GDP in 2015; and
- providing employment to about 60% of the national labour force in 2016.

Hence, clear tangent planes emerge as to why South African SMMEs are actively supported by national government, especially through its National Development Plan 2030, where it is expected that these business entities will be at the forefront of job creation within the next few years (National Planning Commission, 2012:140). Taking the above into account, it becomes apparent that South African SMMEs do add immense socio-economic value to the national economy. Notwithstanding the aforementioned, South African SMMEs are believed to have one of the worst sustainability rates in the world (Bruwer & Coetzee, 2016:201).

Before elaborating on the sustainability of South African SMMEs, the term 'sustainability' needs to be conceptualised within the ambit of this study. In layperson's terms, sustainability generally refers to the capacity of a business entity to continue operating while meeting its various set objectives, as implemented by various stakeholders (Pollard & Stephen, 2008). However, the term 'sustainability' is still very broad in nature as the objectives which can be attained by any business entity can be demarcated into three types of objectives, namely: 1) economic objectives,<sup>13</sup> 2) environmental objectives,<sup>14</sup> and 3) social objectives<sup>15</sup> (Zink et al., 2008:10; Bruwer & Coetzee, 2016:202). To assist with the conceptualisation of the term 'sustainability', a non-exhaustive list of definitions is provided in Table 2.1.

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<sup>13</sup> Economic objectives are those goals that relate to the optimisation of financial performance and financial position of a business entity (Willard, 2012:11), and examples are the attainment of profitability, solvency, liquidity and efficiency (Dwivedi, 2002:280; Plumridge, 2010:281; Bruwer & Coetzee, 2016:201).

<sup>14</sup> Environmental objectives are those goals that relate to the protection of natural resources, and examples include the prevention of water pollution and air pollution (Okuboyejo, 2013:9).

<sup>15</sup> Social objectives refers to those goals that relate to the betterment of society at large (Conservation Gateway, 2017), and examples include the reduction of income inequality and poverty levels (Sustainable Environment, 2016).

**Table 2.1:** Non-exhaustive list of definitions of the term 'sustainability'

Definition	Source
<i>Long-term continuation of a business entity through means of achieving its relevant objectives; relative to the fulfillment of economic responsibilities, environmental responsibilities and social responsibilities</i>	Bruwer & Coetzee (2016:202)
<i>Ability [of a business entity] to last or continue for a long time</i>	Merriam-Webster (2016b)
<i>Use of well-balanced, functional solutions, to create value in the economic, social and ecological realms of corporate performance</i>	Flouris & Yilmaz (2016)
<i>Creation of long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments</i>	RobecoSAM (2016)
<i>[It] includes longevity and retaining of core principles or objectives, regardless of internal and external changes over time</i>	Bateh et al. (2013:1)
<i>Meeting society's expectation that [business entities] add social, environmental and economic value from their operations, products and services</i>	Hopkins (2012:20)
<i>Being resilient and able to create economic value, healthy ecosystems and strong communities</i>	Laughland & Bansal (2011)
<i>Capacity of a business to continue to operate successfully</i>	Pollard and Stephen (2008)

Stemming from the definitions in Table 2.1 above, although sustainability is defined in many ways, it encompasses two main aspects: 1) the long-term existence of a business entity, and 2) the attainment of core objectives (relative to economic objectives, social objectives and/or environmental objectives). Therefore, using the aforementioned as basis, the term 'sustainability' is conceptualised as follows throughout this research study:

*The long-term existence of a business entity through achieving set economic objectives, social objectives and/or environmental objectives, as implemented and agreed upon by relevant stakeholders of the relevant business entity.*

In a South African SMME dispensation, though the above conceptualisation holds truth, these business entities' objectives are more aligned towards social- and economic objectives. This view is supported by previous research studies (Vijfinkel et al., 2011:7; Sokoto & Addullahi, 2013:189) where it was found that the sustainability of South African SMMEs are mostly influenced by their attainment of relevant socio-economic objectives, which include the decreasing of unemployment rates and the alleviation of poverty. In order to attain the aforementioned, these business entities should have sound financial performance and financial positions, especially for them to remain in existence for the foreseeable future. This view is supported by past research studies (Wiese, 2014:60; Tustin, 2015:84), which share the notion that most South African SMMEs fail because

of poor financial sustainability.<sup>16</sup> Therefore, building on the latter, the term ‘sustainability’, in a South African SMME dispensation, can be conceptualised as follows:

*The long-term existence of an SMME through its attainment of a sound financial performance and financial position, in order to achieve relevant economic objectives and social objectives, as implemented and agreed upon by relevant stakeholders of the relevant business entity.*

To obtain a better impression of South African SMMEs’ weak sustainability, recent research studies (Maye, 2014; Herrington et al., 2015:17) show that up to 75% of South African SMMEs fail within their first 42 months of existence. This is quite concerning considering that since the formal recognition of South African SMMEs, through the implementation of the National Small Business Act No. 102 of 1996 (South Africa, 1996), their long-term existence has not improved to any great extent (Ligthelm, 2010:140; Bruwer et al., 2013; Tustin, 2015:84; Hendricks et al., 2015:87). A plausible reason for this is that these business entities’ financial performance is generally regarded as poor (Kupka & Thomas, 2014:3200; Peters et al., 2014:1131). In addition, the financial position of South African SMMEs also leaves much to be desired (Chakraborty, 2015:227; Kengne, 2015:120). A possible reason for SMMEs’ poor financial performance and/or financial position, *inter alia*, is inefficiencies in their business operations (Enow & Brijlal, 2014:11)

When taking into account that South African SMMEs’ contribution to the national GDP was estimated at 52% in 2013, 45% in 2014 and 39% in 2015 (Zulu, 2014b; Bureau for Economic Research, 2016:31; Kelley et al., 2016:105; Herrington & Kew, 2017:93), it is apparent that the contribution of these business entities to the national economy is diminishing. This view is supported by previous research studies (Groepe, 2015:2; Høj & Lewis, 2015:14; Kengne, 2015:113), where it was found that the growth rate of the South African economy is insufficient to absorb the current supply of labour in the country. In essence, these business entities’ contributions to the national GDP are drifting away from the idealistic expected contribution (between 60% and 80%), as set by the government (Zulu, 2014b). This notion is further supported

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<sup>16</sup> Financial sustainability refers to the ability of a business to obtain revenues in order to sustain productive processes, thereby resulting in the attainment of business objectives (León, 2001:11). It includes profitability, liquidity and solvency (Wiese, 2014:35)

by the South African unemployment rate (broad definition<sup>17</sup>) which has been hovering around 33% in recent years (Statistics South Africa, 2014; Statistics South Africa, 2015; Statistics South Africa, 2016; Nedbank, 2017; Statistics South Africa, 2017b).

In summation, when focus is shifted to the business discontinuance rate<sup>18</sup> of South African SMMEs, it was estimated at 4.9% in 2013, 3.9% in 2014, 4.8% in 2015, and 10% in 2016 (Kelley et al., 2016:21; Herrington & Kew, 2017:109). Although these percentages appear small, it should be noted that at least nine out of every ten South African businesses are regarded as SMMEs (Okuboyejo, 2013:2), meaning that in recent times a reasonable number of South African SMMEs had to close their doors (see above), which led to the probable layoff of employees, adversely influencing national unemployment and national poverty (Fatoki, 2014:926; Zulu, 2015).

Stemming from the above, it becomes apparent that South African SMMEs have weak sustainability rates. The weak sustainability alluded to above is mainly attributed to expansive economic factors which affect these business entities (Pilinkienė et al., 2016:23).

### **2.3 ECONOMIC FACTORS INFLUENCING THE SUSTAINABILITY OF SOUTH AFRICAN SMMEs AND THE ECONOMIC LANDSCAPE OF SOUTH AFRICA**

Similarly to a ‘factor’, which is defined as a phenomenon that influences a particular result (Merriam-Webster, 2016a), an economic factor refers to any influencer that may have an impact on the national economy of a country, including its inhabitants (natural- and legal persons) (Fernando, 2011:41; Plan Projections, 2015). In general, economic factors are categorised into two groups: micro-economic factors and macro-economic factors (Kraja & Osmani, 2015:122). The two subsets of economic factors are briefly explicated below:

- **Macro-economic factors:** Macro-economic factors are those economic factors that affect an entire economy (i.e. natural and legal persons) and to a large extent cannot be controlled by

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<sup>17</sup> The broad definition of unemployment denotes the percentage of total workforce (between 18 years and 64 years of age) who are unemployed, including those people who are actively looking for a paid job and those who have become discouraged from doing so (Posel et al., 2013).

<sup>18</sup>The business discontinuance rate is the percentage of individuals aged between 18 years and 64 years of age who, in the past 12 months, have discontinued a business they owned, either by selling it, shutting it down, or otherwise discontinuing an owner/management relationship with the business (Singer et al., 2015:24). These discontinuation rates mostly constitute businesses that cease their operations.

management (Ngary et al., 2014:912; Bruwer & Coetzee, 2016:205). Macro-economic factors are categorised under social-demographic factors, economic factors, political-legal factors and technological factors (Glowik & Smyczek, 2015). Examples of macro-economic factors which impact on the South African economy include, inter alia, high crime and corruption rates, high water costs, unreliable supply of raw materials, low demand, high unemployment, high interest rates, high inflation rates, expensive and unreliable electricity supply, strict government regulations, stiff external competition, poor infrastructure, and rapid changes in technology (Prescott et al., 2002:489; Von Ketelhodt & Wöcke, 2008:4; Karpak & Topcu, 2010:67; Watson, 2010:1; Kadocsa & Francsovcics, 2011:30; Africagrowth Institute, 2012:7; Verma, 2012; Small Business Project, 2013; Gossow et al., 2015; Bureau for Economic Research, 2016; Pilinkienė et al., 2016:23, Bruwer & Van den Berg, 2017:7).

- Micro-economic factors: Micro-economic factors are those economic factors which affect individual business entities but can be controlled by management to a large extent (Research & Education Association Editors & Fogiel, 2012:2). In addition, micro-economic factors also affect natural persons (i.e. customers and employees) residing in the applicable economy in which they exist (Lin et al., 2011:313). Unlike macro-economic factors that are usually homogeneous across a country's economy, significant micro-economic factors vary from one industry to another and from one business entity to another (Koralun-Bereźnicka, 2013:9). Examples of micro-economic factors that impact on the South African business entities include, but are not limited to, lack of access to credit facilities, lack of proper marketing skills, non-payment by debtors/customers, availability of substitute products, lack of business infrastructure, weak business locations, and poor management skills (Abor & Quartey, 2010:218; Hussain et al., 2012:1582; Sunjka & Sklar-Chik, 2012:741; Kotelnikov, 2013; Agwu & Emeti, 2014:104; Mthabela, 2015:ii; Nwankwo & Aiyeku, 2015:17; Bruwer & Van den Berg, 2017:7).

Notwithstanding the above, economic factors have a mammoth influence on the economic landscape<sup>19</sup> of any country in which business entities have to operate (Fagerberg, 2013:27).

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<sup>19</sup> Economic landscape refers to the *painted picture* of an economy that arises from a combination of various economic indicators (Opdam, 2006:54). Alternatively, an economic landscape can be defined as the condition/state of a country's economy that influences business entities and natural persons alike (Pushparaj, 2015; *Cambridge Dictionary*, 2016)

Based on the examples of economic factors which influence the South African economy, the inference can be made that the South African economic landscape is unfavourable for SMMEs to operate in. This view is supported by previous studies (South African Risk and Vulnerability Atlas, 2009; Bruwer, 2016:263), where the South African economic landscape is described as 'harsh'. In order to have a better understanding of how the South African economic landscape appears, a total of seven<sup>20</sup> key economic indicators were analysed (Smith, 2011; Wealth Management; 2014; Trading Economics, 2016b). These economic indicators are expanded on below:

- GDP (real): The monetary value of all final goods and services that are produced within the borders of a country during a given period of time (normally 12 months) (Callen, 2012). This indicator is used to measure national income, national output and national expenditure, and is usually stated in US\$ – the effects of inflation are factored out in calculating real GDP (Chowdhury, 2008:53). It is the real GDP that gives a better picture of a country's economic development (McTaggart et al., 2013:444). Furthermore, this indicator is mostly used to determine the overall health of an economy (Coyle, 2015:4).
- GDP per capita (real): It is calculated by dividing the GDP (real) by the estimated population size, and it depicts the average expected income per person in a country (Pettinger, 2011). Otherwise stated, this indicator shows the average value which each citizen should have added to the relevant country's economy (Bruwer, 2016:111) – the effects of inflation are factored out. This indicator can be used to measure the average income of a country's population, thereby giving a broad picture of the wellbeing of a country's population (Organisation for Economic Co-operation and Development, 2009; Kula et al., 2010:431).
- Unemployment rate (broad definition): It refers to the percentage of total workforce, between 18 years and 64 years of age, who are unemployed, including those individuals who are looking for a paid job and those who have become discouraged from doing so (Høj & Lewis, 2015:14). The broad definition of unemployment accurately depicts the unemployment problem in a country (Posel et al., 2013:6).
- Population: The estimated number of people that are deemed official inhabitants (citizens) of a country.

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<sup>20</sup> Although there are many key economic indicators, the researcher made use of only seven. The reasoning behind the use of the selected seven indicators is as follows: the GDP, GDP per capita, Gini index and unemployment are directly connected to the socio-economic objectives of South African SMMEs, whereas inflation rate and interest rate constitute major factors that are perceived to impede South African SMMEs from achieving their objectives. The economic indicator of population was mainly included to draw inferences on statistics pertaining to the other economic indicators.

- Gini index: Measures inequality with regard to income distribution in a given country, ranging between 0 (absolute equality) and 1 (absolute inequality) (Lehohla, 2014:35).
- Inflation rate: The percentage increase in prices of basic goods and services (World Bank, 2016). Although the prices change constantly, it is the average annual change that will be focused on.
- Prime interest rate: The interest rate at which the reserve bank lends money to commercial banks (*Financial Dictionary*, 2016), which becomes the foundation which commercial banks use to lend money to individuals and business entities (Neiman, 2010).

Relevant statistics pertaining to the seven economic indicators above are summarised in Table 2.2 for 2013 to 2016, after which they are analysed and interpreted accordingly.

**Table 2.2:** Economic indicators used to measure the South African economic landscape (**Sources:** World Bank, 2013; Statistics South Africa, 2014; International Labour Organization, 2015:19; Forslund, 2016; Kganyago, 2016; Statistics South Africa, 2015; International Monetary Fund, 2016; Knoema, 2016; Kganyago, 2016; Liberta, 2016; South African Government News Agency, 2016; South African Reserve Bank, 2016; Statistics South Africa, 2016; South Africa, 2016; Trading Economics, 2016c; USForex, 2016; World Bank, 2016; Worldometers, 2016; Clarno, 2017:213; Inflation.eu, 2017; Knoema, 2017; Nedbank, 2017; South African Reserve Bank, 2017b; Statistics South Africa, 2017a; Worldometers, 2017)

Indicator	2013	2014	2015	2016
GDP (real)	US\$324 billion	US\$329 billion	US\$333 billion	US\$336 billion
GDP per capita (real)	US\$6 090	US\$6 086	US\$6 057	US\$5 966
Unemployment rate (broad definition)	35.3%	35.3%	34.8%	37.8%
Population (estimated)	53 416 609	53 969 054	54 490 406	54 978 907
Gini index	0.63	0.77	N/A	N/A
Average annual inflation rate	5.77%	6.15%	4.51%	6.59%
Average annual prime interest rate	8.5%	9.1%	9.4%	10.5%

From the statistics in Table 2.2, the following observations and inferences are made:

- GDP (real): The changes in real GDP for the four years under review entailed an increase of 1.5% (US\$5 billion) between 2013 and 2014, a 1.2% (US\$4 billion) increase between 2014 and 2015, a 0.9% (US\$3 billion) increase between 2015 and 2016, and a net increase of 3.70% (US\$12 billion) from 2013 to 2016. Stemming from the net increase in GDP over the applicable period, it can be inferred that: 1) there was an increase in the productivity of citizens, 2) an increase in capital investments, and/or 3) there was a decrease in national unemployment. Although the GDP has been on the rise, signalling an increase in volumes of goods and services produced, the increase noted above is regressive, since the increase in one year is less than the increase in the previous year.

- GDP per capita (real): Notwithstanding the GDP figures, the real GDP per capita figures decreased from year to year between 2013 and 2016. The changes in real GDP per capita are as follows: a decrease of 0.07% (US\$4) between 2013 and 2014, a decrease of 0.48% (US\$29) between 2014 and 2015, a decrease of 1.5% (US\$91) between 2015 and 2016, and a net decrease of 2.04% (US\$124) between 2013 and 2016. This implies that the growth in the GDP did not match the growth in the country's population. When taking into consideration that the GDP per capita can be used to show the average monetary value added by the average South African citizen, the above trend suggests that the productivity of South African citizens diminished over the four years in consideration. This nullifies the assumption made earlier that GDP might have increased owing to the increased productivity of South African citizens. Finally, if GDP per capita is used as an informal basis to measure poverty, this trend suggests that the majority of South Africans are getting poorer instead of getting richer, thereby resulting in inequality in the distribution of income. This view is supported by research studies (Grant, 2015; Musgrave, 2015; Nicolson, 2015; South African Reserve Bank, 2015) where it was found that approximately 54% (27 million) of South Africans lived below the national poverty line<sup>21</sup> in 2015.
- Unemployment rate (broad definition): For the period under review, the unemployment rate has been in the region of 33%. The changes in unemployment from 2013 to 2016 are as follows: an increase of 1.26% between 2013 and 2014, a decrease of 0.93% between 2014 and 2015, an increase of 3.78% between 2015 and 2016 and a net increase of 4.11% between 2013 and 2016. The marginal increase between 2013 and 2014, together with a decrease between 2014 and 2015, supports the assumption made earlier that the GDP could have increased because of a reduction in unemployment. In the same vein, the increase in unemployment in 2016 tallies with the minor change in GDP for the same year. Although the abovementioned changes might seem insignificant, thereby suggesting a general improvement in the unemployment pandemic in South Africa, current unemployment levels are still extremely high. To have a better understanding of the quagmire regarding unemployment, the number of unemployed persons should be considered. The number of unemployed persons in South Africa was approximated at 7 216 750 in 2013, 7 493 000 in 2014, 7 678 000 in 2015, and 8 138 500 in 2016. These estimated figures translate to an increase of 276 250 unemployed citizens (3.83% increase) between 2013 and 2014, an

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<sup>21</sup> Poverty line refers to the minimum monthly amount that a person needs for daily survival. In essence, individuals living below the poverty line earn less than R779 per month (Grant, 2015).



increase of 185 000 unemployed citizens (2.47% increase) between 2014 and 2015, an increase of 460 500 unemployed citizens (6% increase) between 2015 and 2016, and a net increase of 921 750 unemployed citizens (12.77% increase) between 2013 and 2016. Since the level of unemployment in a country affects the buying power of citizens in that country, the South African unemployment rates are of great concern as they will likely translate to insufficient demand of good and services, adversely impacting on the economy as a whole in the foreseeable future.

- Gini index: The statistics shown give an impression that the South African Gini index is moving towards 1 rather than the desired 0. Although the last measurement of the South African Gini index was done in November 2014 (Clarno, 2017:213), it can be expected that the current Gini index is above 0.77, considering the trend depicted by the real GDP per capita. This affirms the assumption made above that economic inequality is still a problem (Jones, 2017), particularly since the productivity of South African citizens is decreasing. This view is shared by recent studies (Keeton, 2014:29; Sanieni-Pour, 2015; Bond, 2016), which show that wealth is not equally shared in South Africa. In essence, South Africa is regarded as one of the most unequal countries with regard to wealth distribution (Landman et al., 2003:3; Keeton, 2014:29; BBC News, 2015).
- Average annual inflation rate: The inflation rate increased year on year, meaning that the cost of living also increased year on year between 2013 and 2016. In laypersons' terms, if an item had a cost of R20.00 at the start of 2013, this same item would cost R21.15 at the start of 2014, R22.45 at the start of 2015, R23.46 at the start of 2016, and R25 at the start of 2017. The inflation rate was highest in 2016, which could be a possible reason why the GDP growth in 2016 was somewhat dismal. In essence, inflation rates may have resulted in increased costs of production while simultaneously eroding the disposable income of consumers, which may be a possible reason why the GDP growth rates are well below the expectations set by national government (Vermeulen, 2015:2).
- Average annual prime interest rate: For the four years under review, the prime interest rate increased by 7.06% between 2013 and 2014, increased by 3.30% between 2014 and 2015, and increased by 11.70% between 2015 and 2016, resulting in a net increase of 23.53% between 2013 and 2016. The significant effect of high and increasing prime interest rates is that it limits new investments in business entities, particularly SMMEs, as they cannot access

relevant financial resources through external funding, owing to the extensive cost of obtaining financing (Schmidt et al., 2016). This also adds to the above possible reasons as to why the growth rate of South African GDP has been sluggish, and serving as an avenue for further research.

Based on the above, it appears that the South African economic landscape is quite 'harsh' and not ideal for optimising business entities' (especially SMMEs) operations and/or sustainability. The latter is particularly true as South Africa's entrepreneurial framework conditions<sup>22</sup> were regarded as insufficient in a recent Global Entrepreneurial Monitor (GEM) report (Kelley et al., 2016:138) – there is much improvement required in relation to the South African economic landscape (Gossow et al., 2015; South African Government News Agency, 2016). Taking into account the aforementioned, it is not surprising that the South African economic landscape is referred to as a sort of 'breeding ground' for many risks (Miles, 2011:19; Bruwer et al., 2013), particularly for South African SMMEs. Since approximately 75% of South African SMMEs fail after being in existence for 42 months (Herrington et al., 2015:17), it is highly probable that these business entities are not managing risks effectively.

## **2.4 RISKS AND RISK MANAGEMENT**

Risks are inevitable and evident in all business entities across the globe (Shaw, 2010:25; Bruwer, 2016:131). In a business environment, the term 'risk' is strongly associated with the materialisation of uncertain events which will impact (positively or negatively) on the attainment of business objectives (Akintoye et al., 2012:194; Aven, 2012; Firoozye & Ariff, 2015:xvi). Owing to the subjectivity existing around the term 'risk' (State of Queensland, 2011:7; Smit, 2012:26; Grose, 2014; Haimes, 2015:51), a non-exhaustive list of definitions is provided in Table 2.3 overleaf.

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<sup>22</sup> Entrepreneurial framework conditions are those socio-economic conditions that enhance and/or hinder new business creation and their growth (Global Entrepreneurship Monitor, 2017).

**Table 2.3:** A non-exhaustive list of definitions of the term ‘risk’

Definition	Reference
<i>Possibility that an undesirable event will occur, thereby negatively affecting the attainment of business objectives</i>	Ramakrishna (2015:214)
<i>An event that may adversely affect a business’s ability to achieve its objectives and execute its strategies</i>	McNeil et al. (2015:3)
<i>The potential for [the] realisation of unwanted, adverse consequences [in a business environment]</i>	Society for Risk Analysis (2013)
<i>The possibility of economic or financial losses or gains, as a consequence of the uncertainty associated with a specific plan of action</i>	Verbano & Venturini (2013:187)
<i>The function of an event’s likelihood and its consequences on the achievement of business objectives</i>	Dumbravă & Iacob (2013:78)
<i>The negative or positive effect of uncertainty on an organisation’s objectives</i>	International Organization for Standardization (2009)
<i>Positive or negative effect of the consequence of an uncertain event or activity on something that humans value</i>	International Risk Governance Council (2005)
<i>Combination of the probability of an event occurring and the consequences of that event on the achievement of an organisation’s objectives</i>	Institute of Risk Management (2002)

Stemming from the above, the inference can be made that risks have to do with the occurrences of uncertain events and their effects on the attainment of business objectives, particularly their overall sustainability. In some cases, risks can also impact on the manner in which strategies (operational and non-operational) are deployed in business entities. The latter view is greatly supported by previous research studies (Brockett & Rezaee, 2012; Duren, 2016; Flouris & Yilmaz, 2016:5) where it was found that risks affect the performance, continuation, and resilience of businesses. Using the aforementioned as basis, the term ‘risk’ is conceptualised as follows throughout this study:

*The chances of threats and/or opportunities occurring, materialising and/or impacting, either positively or negatively, on the attainment of a business’s overall sustainability.*

There exist many different types of risks which may influence business entities’ sustainability (Kaplan & Mikes, 2012:50). More often than not, risks are demarcated into four broad categories: 1) strategic risks, 2) operational risks, 3) reporting risks, and 4) compliance risks (Epstein & Buhovac, 2006:10; Curtis & Carey, 2012; Godbole, 2012; Deloitte, 2013:8). Each of these four categories is briefly expanded on below:

- **Strategic risks:** Strategic risks refer to those threats and/or opportunities that influence the attainment of strategic objectives (Mohammed & Sykes, 2012; Taylor, 2012:8). In essence,

these risks significantly influence the attainment of a business's vision and mission (Bruwer, 2016:48); hence, they impact on a business in its entirety (Mohammed & Sykes, 2012). If not managed properly, strategic risks can threaten a business's existence (Allan & Beer, 2006; Frigo & Anderson, 2011; Tonello, 2012). Examples of strategic risks include competition, changes in economic conditions, changes of customer preferences, changes in legislation, weak business growth, delays in supply chain process, access to long-term financing, and changes in customer demands (Institute of Risk Management, 2002:3; Allan & Beer, 2006; Association of Chartered Certified Accountants, 2015).

- Operational risks: Operational risks refer to threats and/or opportunities resulting from the economy, effectiveness and efficiency of procedures or systems of a business entity (Bank for International Settlements, 2011:3; Rawson, 2013; Kelliher et al., 2016). Operational risks are inherent in daily business operations (Hussain & Shafi, 2014), and if not managed appropriately, they may result in loss of income. Examples of operational risks include occupational theft and fraud, poor product quality, poor service quality, lack of qualified employees, human error in processing transactions, and system failures, to mention but a few (Muehlenbrock et al., 2012; Ayandibu & Houghton, 2017:136; Risk Management Association, 2017).
- Reporting risks: These are threats and/or opportunities that affect the reliability and effectiveness of both internal and external reporting of business operations (Rittenberg, 2006; Wurzler, 2013:2), which can be either financial or non-financial in nature (Von Rössing, 2007:26). In businesses, reporting risks emanate from people who are responsible for gathering and analysing data, processes and systems (Center for Audit Quality, 2012). More often than not, reporting risks may result in financial loss, and/or loss of reputation (Institute of Directors in Southern Africa, 2009). Examples of reporting risks include the generation of incomplete information, inaccessibility of information, information accessed by unauthorised persons, and the loss of information (Harrer, 2008:79; Jules Halpern Associates, 2010; Cumming, 2012; Cain et al., 2014). Although reporting risks influence access to funding for SMMEs, they are deemed not to significantly influence the sustainability of South African SMMEs (Stainbank, 2008:8).

- Compliance risks: Compliance risks are threats and/or opportunities associated with the non-adherence and/or adherence to relevant laws, regulations, policies and procedures (Moeller, 2011; Brockett & Rezaee, 2012; Sales, 2014). These risks are synonymous with those events which lead to legal sanctions, financial loss, or reputational loss as a result of failure to comply with laws and regulations, codes of conduct, and standards of best/good practice (Economic Cooperation Organization Trade and Development Bank, 2007). Examples of compliance risks include violation of local tax laws, violation of employment-related laws, and non-adherence to health and safety rules (Johnson & Johnson, 2013).

The conceptualised definition of South African SMMEs' sustainability (see Section 2.2) is primarily related to their attainment of sound financial performance and financial position. Thus it can be concluded that reporting risks do not significantly influence the sustainability of South African SMMEs, as these risks do not significantly impact the actual financial performance and position of these entities but rather the reporting of the latter phenomena. Stemming from the above, it is highly likely that the sustainability of South African SMMEs is mostly affected by a combination of three types of risks – operational risks, strategic risks and compliance risks – as explained above. This is especially the case since these business entities operate in a 'harsh' economic landscape (see Section 2.3) which significantly impacts the operations of these business entities. It is therefore imperative for every business entity to adequately and effectively manage risks by means of sound risk-management initiatives (Institute of Risk Management, 2002; Haran, 2014:50; Aven, 2016:4).

In laypersons' terms, risk management pertains to a process that economically, effectively and efficiently reduces the potential negative consequences of risks (potential and realised), while simultaneously maximising the potential positive consequences and/or realisation of opportunities, resulting in optimal business sustainability (Bruwer, 2016:63). Taking into account that the term 'risk management' relates to the concept of 'risk', it is not surprising that the term is broadly defined. Therefore, a non-exhaustive list of definitions is provided in Table 2.4 to conceptualise 'risk management' within the ambit of this study.

**Table 2.4:** Non-exhaustive list of definitions of the term 'risk management'

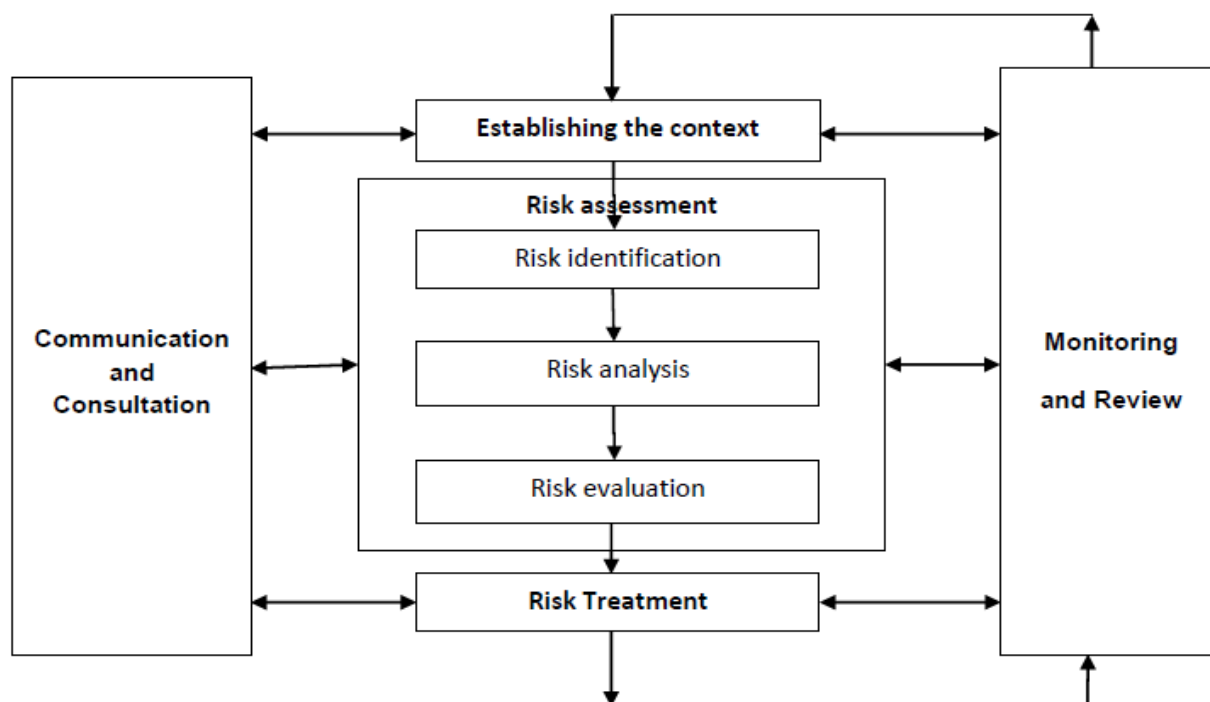
Definition	Reference
<i>Risk management refers to the understanding, analysing and addressing of risks, in order to ensure that organisations achieve their objectives</i>	Institute of Risk Management (2016)
<i>The identification, analysis, assessment, control, and avoidance, minimization, or elimination of unacceptable risks</i>	<i>Business Dictionary</i> (2016a)
<i>Risk management is a customised and systematic process that entails the appropriate identification, analysing and adequate treatment of uncertain events in and around an organisation</i>	Bruwer (2016:xix)
<i>Coordinated activities and methods that are used to direct an organisation and to control the risks that can affect its ability to achieve its objectives</i>	<i>Risk Management Dictionary</i> (2016)
<i>Process of identifying, evaluating and ranking the priority of risks, followed by a coordinated and cost-effective application of resources which focuses on monitoring and controlling the probability or impact of uncertain events</i>	Cagnin et al. (2016:489)
<i>Risk management is a systematic approach that aligns strategy, people, technology, processes and knowledge with the purpose of assessing, evaluating and managing the risk that an organisation faces</i>	Dabari & Saidin (2014:629)
<i>Process which pertains to the identification of risks, the assessment of risks and the treatment of risks</i>	Yusuf & Dansu (2013:83)
<i>A scientific process of well-defined, sequential steps that supports better decision making by providing greater insights into risks and their impacts</i>	Endicott & Gardiner (2011:20)

From the definitions in Table 2.4 above, the inference can be made that risk management pertains to the identification of possible threats and opportunities, in a logical manner, including their analysis, with the main intent to implement ways to treat such threats and/or take advantage of such opportunities. This view is supported by previous research studies (Godbole, 2012; Mwangi, 2014:13; Levery, 2015) where it was found that business entities which appropriately managed risks tended to achieve their set objectives while allowing them to create value through seizing opportunities and/or mitigating risks. Using the aforementioned as a basis, 'risk management' is conceptualised throughout this research study as follows:

*It is the step-by-step process whereby potential threats (and opportunities) are identified and analysed in order to mitigate their realisation and potential impact (spur on their realisation and potential impact), with the main intent to provide reasonable assurance surrounding the attainment of relevant business objectives in the foreseeable future.*

Notwithstanding the aforementioned definition, risk management is regulated by professional institutions (e.g. Committee of Sponsoring Organisations of the Treadway Commission (hereafter referred to as COSO), the Institute of Risk Management, and International Organization for Standardization) (PricewaterhouseCoopers, 2009). When focus is shifted on the ISO 31000:2009 standard covering the risk management process, it is mentioned that this process is not a one-

size-fits-all process. This is particularly the case since the size and nature of business entities will always differ from one another, meaning that their risks will be unique (Erard, 2010; Bird, 2016). This risk management process, as per the International Organization for Standardization (2009), is depicted in Figure 2.1.



**Figure 2.1:** Risk management process (Source: International Organization for Standardization, 2009:14)

Each of the initiatives in the risk management processes above is explained below:

- Communication and consultation: This is deemed the first step in the risk-management process, and it entails the obtaining and exchange of information about possible areas of concern, among others, with the main intent to devise a plan of action to address these areas of concern (Advisory, Conciliation and Arbitration Service, 2016). Within the context of risk management, the first objective of communication and consultation is to identify those who will be involved in the risk-management process (Kanona & Tawalbeh, 2007). Other issues like the risks to be managed, how often they will be managed, benefits of risk management, the media and methods to be used for communication and consultation, should also be clarified (Kanona & Tawalbeh, 2007; PricewaterhouseCoopers, 2015:2; Institute of Risk Management, 2016). In essence, communication and consultation occur at various levels in (and around) a business entity, throughout the entire risk-management process (Broadleaf Capital International, 2014).

- Establishing the context:** The next step is to establish relevant contexts pertaining to areas of concern, which entails outlining the parameters and defining the relevant scope of the risk-management process (Kouns & Minoli, 2011). In general, there are three contexts that should be defined: 1) external context (factors outside a business which affect a business entity's ability to achieve its objectives), 2) internal context (factors within a business entity that influence the way its risks are managed), and 3) risk-management context (objectives, resources, scope and limits of risk management activities) (Pojasek, 2013:84, Hopkin, 2014:83; Tsiouras, 2015). In core, establishing the contexts ensures the smooth sailing of other steps in the risk-management process (Broadleaf Capital International, 2014).
- Risk assessment:** Although some may consider risk assessment as the most cumbersome activity in the risk management process, it is perhaps the most crucial one (Taroun et al., 2011:87). Risk assessment encompasses three sub-activities: 1) risk identification (identification of threats and/or opportunities and their sources), 2) risk analysis (assessment of probability and consequences of identified risks), and 3) risk evaluation (prioritisation of risks with regard to the set risk criteria) (Institute of Risk Management, 2002:2; International Organization for Standardization, 2009:17; Garrido et al., 2011:243; Renn, 2012; Dumbravă & Iacob, 2013:87; Green, 2015:5; Sadgrove, 2016:71; Tulashie et al., 2016:211).

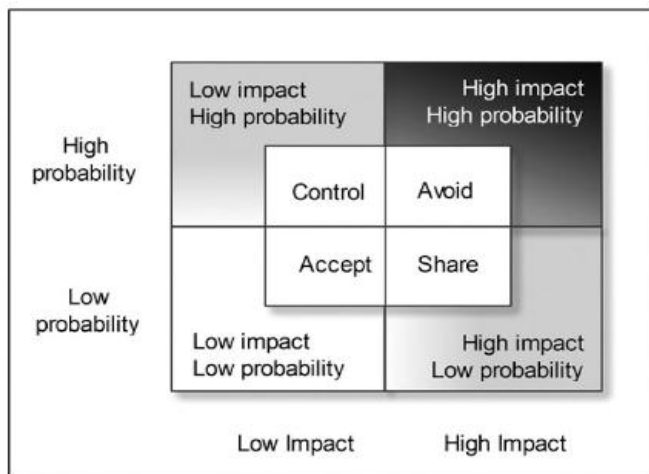
In order to ensure effective and adequate treatment of risks, their probability of materialising and potential impact on objectives should be thoroughly assessed, leading to correct evaluation of identified risks. This can be achieved using a risk matrix as depicted in Figure 2.2.

		Impact →				
		Negligible	Minor	Moderate	Significant	Severe
Likelihood ↑	Very Likely	Low Med	Medium	Med Hi	High	High
	Likely	Low	Low Med	Medium	Med Hi	High
	Possible	Low	Low Med	Medium	Med Hi	Med Hi
	Unlikely	Low	Low Med	Low Med	Medium	Med Hi
	Very Unlikely	Low	Low	Low Med	Medium	Medium

**Figure 2.2:** Risk matrix (Source: Davies, 2015)



- Risk Treatment:** As mentioned above, the treatment of risks stems from the results of risk analysis and risk evaluation. The International Organization for Standardization (2009:18) and Institute of Risk Management (2002:10) define risk treatment as the use of at least one risk-reduction action. In essence, it encompasses three activities: 1) identification of risk treatments (all possible available treatments are identified), 2) evaluation and selection of risk-treatment options (cost-benefit analysis of all identified treatments – option and selection thereof), and 3) preparing and implementing and/or applying the treatment option(s) (Rodríguez-Perez, 2012:76; Smit, 2012:282; Reniers & Van Erp, 2016:70). With regard to risk treatments, risks can be avoided, transferred, mitigated or tolerated, based on their probability of materialising and potential impact (Mishra, 2015; Sadgrove, 2016:71). To better understand the linkage between the abovementioned risk treatments and the risk matrix (see Figure 2.2), Figure 2.3 shows the four treatment options in relation to probability and impact of evaluated risks.



**Figure 2.3:** Four risk treatment options (**Source:** Sadgrove, 2016:211)

- Monitoring and review:** Monitoring refers to the supervision of activities to ensure they are completed timely and meet the set objectives (*Business Dictionary*, 2016b), while review refers to the analysis of activities to determine if they are still functioning/operating as intended (Refsdal et al., 2015:23). Constant monitoring and review will enable the timeous detection of changes in risk management activities (Refsdal, et al., 2015:24). Furthermore, the monitoring and review of the risk treatment option(s) implemented will avoid control failure, thereby ensuring that risk levels are always within acceptable margins. In essence, review of all the risk-management activities is a prerequisite for effective risk management, as it ensures that risks are effectively identified and assessed and that appropriate controls and responses are

in place (Institute of Risk Management, 2002:11). During monitoring and review, new risks can be identified, and these new risks will go through the whole process from the beginning (i.e. communicated to all stakeholders, assessment and treatment) (Refsdal, et al., 2015:24).

Though International Organization for Standardization's risk management process is both universal and used as foundation in many business entities across the globe (Tsiouras, 2015), there are two main ways in which risk management can be approached.

## **2.5 RISK-MANAGEMENT APPROACHES**

In literature, two common approaches to risk management exist, namely, risk management in silos (traditional approach) and ERM (Hohenwarter, 2014). In order to understand their derivation, a brief historic overview is provided on each approach below:

- Traditional approach: Prior to the development of the holistic<sup>23</sup> management of risks in 1992, risk management was largely focused on the management of 'pure risks'<sup>24</sup> – risks that presented possibilities of financial losses (Simona-Iulia, 2014:277; Society of Actuaries, 2016). In this timeframe, pure risks were also viewed as unrelated to one another (Dabari & Saidin, 2014:628), as it was common practice for them to be managed in silos (i.e. per team, per department, per function). This approach was regarded as adequate between the early 1960s and mid-1970s, especially since most of the international companies had satisfactory financial results (Bruwer, 2016:38).

With the passing of time, during the late 1970s, more risks (mostly financial risks) started to materialise, and this attracted the attention of many stakeholders in business entities across the globe (Razali & Tahir, 2011:9; Braine, 2015). As a result, the management of risks in silos proved inadequate (Walker & Shenkir, 2008:31; Godbole, 2012; Simona-Iulia, 2014:276), mainly owing to the realisation of financial risks (Lam, 2014) that had an adverse influence on the sustainability of many well-established business entities (Krosinsky, 2013). This resulted

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<sup>23</sup> Holistic risk management refers to the management of risks, across the entire organisation, while simultaneously taking into consideration their relationships among other identified and/or unidentified risks (Caroll, 2010:9).

<sup>24</sup> A pure risk refers to an uncertain event that presents an opportunity for loss but not for gain (International Risk Management Institute, 2016).

in the questionability surrounding the effectiveness of risk management in silos (Wolf, 2008:20).

In addition to its inability to deal with the expansion of risks, the silo approach focused on individual departments, resulting in other departments being more efficient than others, but at the expense of the overall performance of the business (Lewis, 2012:141; Chiu, 2015:91). Furthermore, independence between the departments resulted in the inefficient use of resources (Lam, 2014:10; Zhao et al., 2015:38). In essence, it is after the collapse of some big businesses that the business world, together with regulators, realised the need for a more rigorous way to manage risks; an approach that was more proactive, unlike the silo approach that is reactive (ACI Worldwide Inc., 2011; Meyer et al., 2011:366; Hohenwarter, 2014; Bromiley et al., 2015:265; Pezzuto, 2016:332).

- ERM approach: With the need to better manage risks holistically, and to manage them from a different perspective, ERM emerged (Hohenwarter, 2014). Although the term 'ERM' became popular in 2004, the concept of managing risks holistically had started in 1992 (Graham, 2015; Magan, 2016). The plethora of risks that bombarded business entities between 1970 and 1985 (Beck & Kewell, 2014:55; Shenkir & Walker, 2011:6; Bruwer, 2016:39) necessitated a change in the way risks were managed. In 1985, an organisation by the name of COSO was formed by the Treadway Commission, and one of its core objectives was to provide guidance on the holistic management of risks in businesses (Hayne & Free, 2014:311; Bruwer, 2016:39). COSO developed a framework known as the *COSO Internal Control – Integrated Framework* of 1992 (Gelinias et al., 2014:232), which became a recognised framework used to holistically address risks through the implementation of a sound system of internal control.

Although there was now a recognised framework that could assist business entities to manage risks holistically, its adequacy was still questioned (Moeller, 2013; Stamler et al., 2014:178). In 2001, after the scandals of business entities such as Enron, COSO, in partnership with PricewaterhouseCoopers, embarked on a process to develop a new framework to adequately manage risks (Steinberg et al., 2004:v; Bruwer, 2016:58). The *COSO Internal Control – Integrated Framework* of 1992 was then used as the foundation for the new framework, the *COSO Enterprise Risk Management: Integrated Framework* (hereafter referred to as COSO ERM Framework), which was introduced in 2004 (Stamler et al., 2014:178). Apart from being robust, ERM included 'opportunities' in the definition of risks, unlike the Silo approach that

only considered threats (Hampton, 2014:77). Over the years, the popularity of ERM has continued to grow (Hoyt & Liebenberg, 2011:795; Shenkir & Walker, 2011:7), especially because of its thorough approach. Hence it is of no surprise that ERM has become the new minimum standard to manage risk in and around business entities (Rao, 2007:170; Krause, 2015:35).

From the historic overview above, it is apparent that the ERM approach manages risks from a broad and integrated perspective, while simultaneously considering both positive and negative risks which may have an influence on the achievement of business objectives (Okhahlamba Local Municipality, 2013:5; Hohenwarter, 2014; Simona-Iulia, 2014:277; Beasley et al., 2017:1). According to previous research studies (Smit, 2012:118; Dornberger et al., 2014:1; Ashkenas, 2015), although some business entities still make use of the traditional approach to manage risks, most business entities favour managing risks in a holistic manner. This is particularly beneficial, since an ERM approach to risk management assists with, inter alia, 1) compliance with applicable laws, 2) management of multiple and cross-enterprise risks, and 3) minimisation of possible financial risks (Havenga, 2006:21)

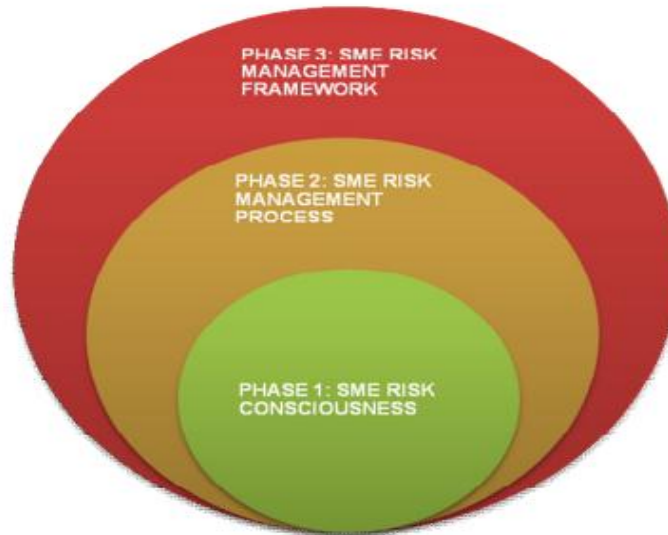
The ERM approach to risk management has been found to have a positive influence on the sustainability of business entities (Dornberger et al., 2014:2), particularly since it provides a greater sense of reasonable assurance surrounding the attainment of relevant business objectives (Rao, 2007:168; Mandel, 2008:10; Shortreed, 2010:10). Notwithstanding the above, relevant ERM frameworks were developed for an array of business entities subsequent to the introduction of the COSO ERM Framework (Gilbert, 2007:3). Two ERM frameworks are discussed within the ambit of SMMEs below.

## **2.6 ENTERPRISE RISK-MANAGEMENT FRAMEWORKS FOR SMMEs**

A risk-management framework refers to a set of initiatives that support and sustain the risk-management process (see Section 2.4) (International Organization for Standardization, 2014). As previously mentioned, there exist numerous ERM frameworks which business entities across the globe can use (Olson & Wu, 2008:3). From a South African SMME perspective, however, there exist two major risk management frameworks (models), the SME Risk Architecture Model and the COSO ERM Framework. These frameworks are discussed at length overleaf.

### 2.6.1 SME Risk Architecture Model

The SME Risk Architecture Model was developed in 2012, and states that risks are best managed (through the adoption of an ERM approach to risk management) through three phases, namely 1) SME risk consciousness, 2) SME risk-management process, and 3) SME risk-management framework (Smit, 2012:253). The SME Risk Architecture Model is depicted in Figure 2.4.

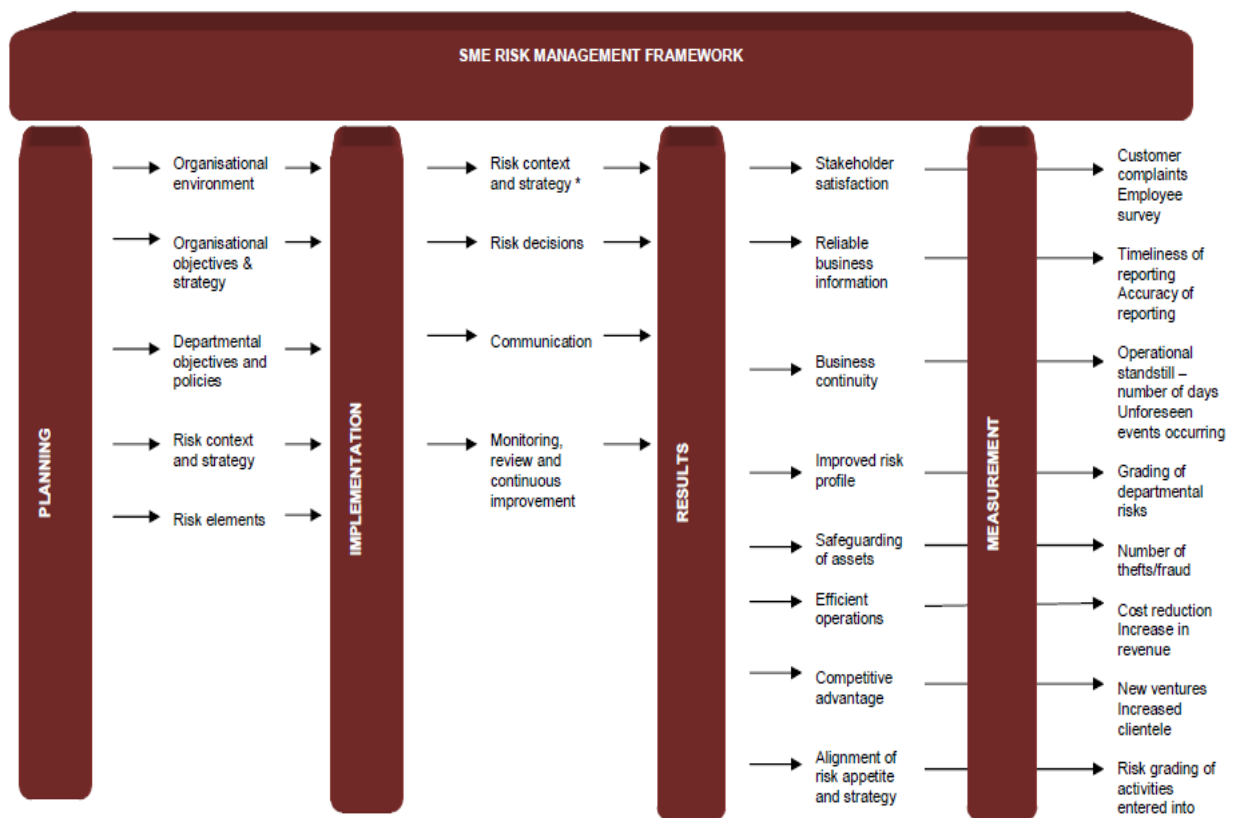


**Figure 2.4:** SME Risk Architecture Model (**Source:** Smit, 2012:255)

Each of the three phases is briefly explained below:

- Phase 1: SME risk consciousness: Firstly, SMMEs should identify relevant sources of risks which may impact on their overall sustainability. When identifying the risk sources, both the internal and external risk areas should be considered. Since the identified risk sources will be transferred to the risk-management process (Phase 2), this phase should be conducted thoroughly as an unidentified risk source result in risks that will not be managed.
- Phase 2: SME risk-management process: The SME risk-management process has four initiatives: 1) risk context and strategy (understanding of business's internal and external environment; defining of objectives, risk criteria and resources required for risk-management process), 2) risk decisions (identification of risks, followed by their analysis, evaluation, and treatment), 3) communication (gathering and sharing of relevant information), and 4) monitoring, review and continuous improvement (checking if all risk-management activities are being carried out effectively).

- Phase 3: SME risk-management framework:** The SME risk-management framework is basically the synergy of the first two phases, and constitutes: 1) planning (establishment of business and risk-management objectives, and the determination of the sources of risks), 2) implementation (implementation of the risk-management process, which includes risk identification, analysis and evaluation, among others), 3) results (recording of key performance indicators in respect of the achievement of business objectives), and 4) measurement (assessment of the effectiveness of the risk-management process in achieving business objectives). The relationship of the above-mentioned initiatives is depicted in Figure 2.5 below.



**Figure 2.5: SME Risk Management Framework (Source: Smit, 2012:289)**

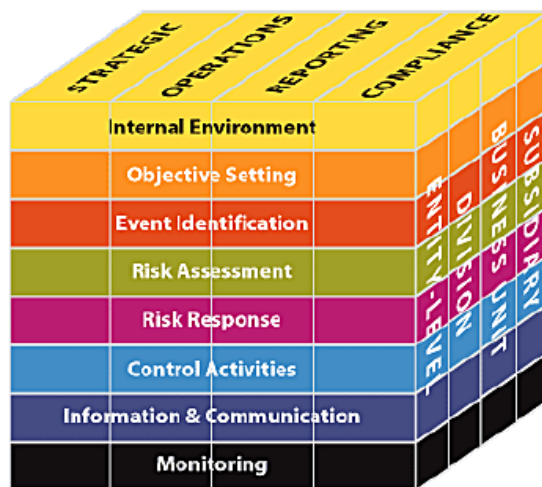
Although the SME Risk Architecture Model is comprehensive in its coverage, while also being tailor-made for South African SMEs, its effectiveness is yet to be determined by empirical research studies. For this reason, this model was not used as basis for this research study.

## 2.6.2 COSO Enterprise Risk Management: Integrated Framework (COSO ERM Framework)

According to COSO, ERM can be defined as follows:

*[It] is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite,<sup>25</sup> to provide reasonable assurance regarding the achievement of entity objectives (Steinberg et al., 2004:2).*

The COSO ERM framework comprises eight components (Hillson, 2003:141-143; Liebenberg & Hoyt, 2003:40; Steinberg et al., 2004:4; Broadleaf Capital International, 2007:4; Cox, 2007:4; Gilbert, 2007:3; Harvey, 2008:8; Olson & Wu, 2008:37; Walker & Shenkir, 2008:32; Payne, 2009:28; Brandt, 2010:26-27; Shaw, 2010:20; Olson & Wu, 2010:696; ACI Worldwide Inc., 2011; Beaumier & DeLoach, 2011:46; Diaz-Garrastacho & Dickins, 2011:61; Hyden, 2011:100-101; Shahzad et al., 2011:2072; Chew, 2012; Gates et al., 2012:31; Smit & Watkins, 2012:6328; Curkovic et al., 2013:16; Hayne & Free, 2014:311; Lundquist, 2014:169; Rubino & Vitolla, 2014:321-322; Agrawal, 2016:121-122; Bruwer, 2016:59; Moeller, 2016:157), as depicted in Figure 2.6, with each component expanded on overleaf for the sake of clarity.



**Figure 2.6:** The COSO ERM Framework (Source: Steinberg et al., 2004:5)

<sup>25</sup> Risk appetite refers to the level of risk an organisation's management is willing to accept (McKay, 2016:61).

- Internal environment: Internal environment refers to a business's attitude towards risk and risk management, and it comprises the tone at the top, risk appetite, integrity and ethical values. In essence, the internal environment relates to control environment.<sup>26</sup> As ERM requires a top-down approach, a strong internal environment can be achieved if top management reflects transparency, honesty, integrity, ethical behaviour, and commitment to continuous improvement, to note but a few. In essence, internal environment is regarded as the cornerstone of ERM.
- Objective setting: Based on the conceptualised definition of risk (see Section 2.4), it is evident that if business objectives are not clearly defined, the risk-management process may very likely be ineffective and futile. All business objectives should be well defined at all levels, from entity to subsidiary level, to ensure that all possible risks are dealt with. Furthermore, objectives should be classified under the following areas: strategic, operations, reporting, and compliance. This will facilitate the grouping of risks into the four major risk categories. Also during this stage, business entities should define their risk-appetite levels.
- Event identification: Event identification can be used in place of risk identification, and relates to risk identification as per ISO 31000 (see Section 2.4.1). Both internal and external risks should be considered, and there should be a clear distinction between threats and opportunities. All the levels (i.e. business unit, division) should be considered when identifying the events that might impact the attainment of objectives. With the current volatile business environment (see Section 2.3), risks keep on increasing and changing, requiring business entities to regard event identification as a continuous process. Furthermore, interdependencies between risks should also be noted at this stage. In essence, failure to identify some risks may result in the business suffering loss or missing an opportunity; hence this stage should be done thoroughly.
- Risk assessment: This stage relates to risk assessment and evaluation under ISO 31000 (see Section 2.4.1). At this stage, risks are analysed and evaluated, taking cognisance of the likelihood and impact of the identified risks. Stemming from the scientific definition of risk, 'Risk = Impact × Probability', the impact and likelihood values should be used in risk ranking

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<sup>26</sup> The control environment is a collection of expected norms, expected qualities and expected actions that should be in place to provide an important foundation for attaining a sound level of internal control in a business entity (Bruwer, 2016:80).



(see Figure 2.2). Technological advances have made risk quantification and analysis less cumbersome, as there are various techniques that can be used to determine the significance of risks. Risks that are unlikely to materialise, and with insignificant consequences, pose no immediate danger to a business, while those risks with a high likelihood and moderate to catastrophic consequences should be given first priority when determining risk responses

- **Risk response**: This relates to the manner in which risks are treated (see Section 2.4.1). Once identified and analysed, risks need to be managed effectively if their effects are to be minimised. This is where management develops actions to reduce risks until they are within an acceptable level. Not all risks must be responded to, as some might have to be tolerated, depending on the probability of occurrence and the impact associated with the identified risks. In essence, the possible risk treatments are: accepting, avoiding, sharing and controlling.
- **Control activities**: The best controls should be selected to deal adequately with the identified risks. With regard to the treatment of risks, there are three types of controls a business entity can implement: preventative controls,<sup>27</sup> detective controls<sup>28</sup> and corrective controls.<sup>29</sup> Furthermore, control activities are often in the form of segregation of duties, proper authorisation activities, adequate document usage and design, safeguarding of assets, and independent checks. Management should implement controls that ensure that the residual risk is within the business entity's risk appetite, and the cost is reasonable in relation to the benefit. These controls need to be communicated and understood for them to be effective. To ensure effectiveness and operating efficiency of established controls, they must be evaluated regularly through periodic assessments and monitoring.
- **Information and communication**: This relates to communication and consultation of ISO 31000 (see Section 2.4.1). Information and communication affect all other activities, as there should be constant interaction throughout the ERM process. Relevant information should be gathered, stored and disseminated to relevant people on time, allowing them to achieve their individual objectives. It is therefore important for a business entity to have a dedicated

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<sup>27</sup> Preventative controls are those controls which aim to ensure that a risk does not materialise (Hernandez, 2016:646).

<sup>28</sup> Detective controls are those controls which ensure that risks are timeously noticed once they materialise (Hernandez, 2016:646).

<sup>29</sup> Corrective controls are those controls which aim to remedy situations after risks have materialised (Whittington, 2015).

information system that can provide information timeously to all levels, in the format requested. For effective communication to exist there should be a free flow of information vertically,<sup>30</sup> and laterally.<sup>31</sup> Furthermore, constant communication with external parties is also vital. The quality of decisions made is greatly affected by the effectiveness of communication in a business. Thus, for an effective and quality decision-making process, a business entity should ensure that there is effective communication.

- Monitoring: All the activities of ERM should be monitored through management activities – separate evaluations or both. This entails the measurement of a business entity's performance to determine if it meets the set standards. All the stages in the risk- management process, together with their respective outputs, should be monitored effectively to ensure that maximum value is derived from this process. The controls implemented also need to be monitored to determine if they are operating as intended. In addition, management should also ensure that adequate resources, as defined in the risk treatment plans, have been allocated. In essence, it is vital to monitor risk-management performance to ensure the overall effectiveness of implemented risk-management policies and processes.

If implemented correctly, the above framework will enhance the sustainability of a business entity, as it enhances the achievement of business objectives (McNally & Tophoff, 2015:30). In this study, the COSO ERM Framework was used as the foundation to address the identified research problem (see Section 1.3.1) for the following four reasons: 1) it is the most widely used ERM framework around the world (Hopkin, 2014:62), 2) it applies to businesses of all sizes, regardless of the industry in which they operate (Weller, 2015), 3) it is the most common ERM framework in South Africa (Institute of Risk Management South Africa, 2014), and 4) it was the first standardised framework which business entities used to benchmark their respective risk-management initiatives (Steinberg et al., 2004:v).

Despite the fact that COSO's ERM Framework is used by most businesses worldwide (Beasley et al., 2010; Moeller, 2013), research shows that South African SMMEs make limited use of it (Knox, 2012).

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<sup>30</sup> Vertical communication refers to the flow of information from senior management to lower-level employees (top-down), and from lower-level employees to senior management (bottom-up) (Lussier, 2008:344).

<sup>31</sup> Lateral communication refers to interaction between employees of the same level within a business entity (Dwyer, 2012:150).

## 2.7 RISK MANAGEMENT IN SOUTH AFRICAN SMMEs

Notwithstanding that risk-management processes should be thorough and holistic, previous research studies (Institute of Directors in Southern Africa, 2010; Smit & Watkins, 2012:6326; Vadiveloo & Parsa, 2012) show that risk management in South African SMMEs is generally carried out solely by owners/managers of these entities owing to the limited resources at these business entities' disposal. This suggests that risk-management initiatives deployed by these business entities may not be effective and/or adequate as the owners/managers often lack the requisite risk management skills. (Janakiraman, 2015). Despite the above, previous studies (Verbano & Venturini, 2013:187; Aren & Sibindi, 2014:96; Ngary et al., 2014:919; Sunjka & Emwanu, 2015:1469; Siwangaza et al., 2014:170; Aziz & Yazid, 2015:297; Bruwer, 2015:58; Chakabva, 2015:53; Enow & Kamala, 2016:233) do however indicate that South African SMMEs make use of customised risk- management initiatives to manage operational risks, which include, inter alia, budget controls, code of ethics, cash counts, access controls to entrances, limited access to safes, CCTV camera usage, reconciliations, staff supervision, and segregation of duties.

A thorough investigation of various research-related databases revealed only a few previous studies conducted in relation to the utilisation of ERM in South African SMMEs. In general, South African SMMEs do not give ERM the attention it ought to be given (Payne, 2010:23). This view is supported by the fact that most South African SMMEs unknowingly engage in ERM initiatives, without having formally implemented any ERM framework (Ayinde et al., 2008:217; Masama et al., 2012:11786; Smit, 2012:20; Vadiveloo & Parsa, 2012; Chakabva, 2015:65; Bruwer & Siwangaza, 2016:112). In essence, the risk-management initiatives utilised by South African SMMEs are, most of the time, relevant to the COSO ERM Framework in the sense that they relate to the setting of clear objectives and the right tone at the top, the communication of risks, and the monitoring of risks (Masama et al., 2012:11785; Bruwer et al., 2013:1023; Chakabva, 2015:53).

With regard to the maturity of risk management, there are four levels which business entities pass through: 1) non-existent/ad hoc (only responds after something has gone wrong – known as reactive management), 2) internal control only (use of formal internal controls to manage risks), 3) stand-alone risk management and internal control (risk-management process does not function in conjunction with a business's management system), and 4) integrated risk- management process (risk management is an integral part of a business's management system) (McNally &

Tophoff, 2015:31). With regard to the risk-management levels above, in conjunction with the aforementioned risk-management initiatives used by South African SMMEs, the inference can be made that most South African SMMEs are at level two – the use of internal controls to manage risks. This view is affirmed by Smit and Watkins (2012:6328) when stating that risk-management initiatives of South African SMMEs tend to focus on the use of controls to minimise mostly financial losses. Although South African SMMEs have formal controls in place, these controls are perceived to be ineffective and/or inadequate to manage a plethora of risks hindering these business entities (Bruwer & Coetzee, 2016:207). In essence, it appears that South African SMMEs do not make proper use of ERM to identify and manage risks (Duong, 2009:22; Chakabva, 2015:59).

## **2.8 CONCLUSION AND RELEVANCE TO THE RESEARCH STUDY**

In this chapter, relevant concepts introduced in Chapter 1 were expanded upon. Furthermore, relevant discussion took place to guide this study, particularly surrounding: 1) the sustainability of South African SMMEs, 2) the economic factors affecting South African SMMEs, 3) risk and risk management, 4) risk-management approaches, 5) enterprise risk management, and 6) risk management in South African SMMEs. Moreover, relevant terms were also conceptualised within the ambit of this research study for the sake of clarity.

Despite their immense contribution to the national GDP and to employment creation, South African SMMEs' sustainability is considered among the worst in the world. Although sustainability is generally related to the attainment of three core objectives (economic, social, and environmental), in this chapter, SMME sustainability was conceptualised as a phenomenon relating to the long-term existence of these entities and their achievement of socio-economic objectives. Unfortunately, research shows that at least 75% of South African SMMEs fail in the first 42 months of operation, thereby implying that these business entities are not able to fulfil their socio-economic objectives. The weak sustainability of South African SMMEs is believed to be adversely influenced by a 'harsh' economic environment, as influenced by an array of macro-economic and micro-economic factors. After analysing a total of seven economic indicators, the economic landscape of South African SMMEs was found to be 'harsh' – as supported by: 1) a GDP mediocre net increase of 3.70% (US\$12 billion) between 2013 and 2016, 2) a GDP per capita net decrease of 2.04% (US\$124), 3) an unemployment rate net increase of 4.11% between 2013 and 2016, 4) a deterioration in the Gini index, 5) an inflation rate net increase of 14.21%

between 2013 and 2016, and 6) a prime interest rate net increase of 23.53% between 2013 and 2016. In essence, this economic landscape can be referred to as the 'breeding ground' for risks that influence the sustainability of South African SMMEs.

Stemming from the abovementioned adverse economic landscape, South African SMMEs were perceived to be affected by a range of risks which pertained to operational risks, strategic risks, and compliance risks. In order to manage these risks adequately, the two ERM frameworks available to South African SMMEs are the SME Risk Architecture Model, and COSO ERM Framework. In order to understand the risk-management practices of South African SMMEs, the risk-management initiatives used by South African SMMEs were investigated. According to scholarly literature, implemented risk-management initiatives by these business entities are customised, ineffective and/or inadequate. Although these risk-management initiatives mostly relate to ERM initiatives, it is perceived that these initiatives are used by chance as opposed to choice.

In the next chapter, the research design, research methodology and research methods used in this research study are discussed.

## CHAPTER 3

### RESEARCH DESIGN, RESEARCH METHODOLOGY AND RESEARCH METHODS

#### SYNOPSIS

For this research study, a methodical process was followed whereby each chapter built on the previous chapter. This process is depicted below.

**Chapter 1:** Introduction to the research study

**Chapter 2:** Literature review

**Chapter 3:** Research design, research methodology and research methods

- Introduction
- Research design and research methodology
- Research methods
- Ethical consideration
- Research limitations
- Data validity
- Data-collection tool
- Conclusion and relevance to the research study

**Chapter 4:** Data analysis, results and discussion

**Chapter 5:** Conclusion

### 3.1 INTRODUCTION

In Chapter 1, the research problem, relevant research questions and research objectives pertaining to this research study were identified, while in Chapter 2, a thorough literature review was conducted in respect of the identified research problem. In this chapter, emphasis is placed on the research design, research methodology and research methods deployed in this research study. Hence, for the remainder of this chapter, discussion takes place under the following headings: 1) research design and research methodology, 2) research methods, 3) ethical considerations, 4) research limitations, 5) data validity, and 6) data-collection tool.

### 3.2 RESEARCH DESIGN AND RESEARCH METHODOLOGY

A research design can be deemed a 'building plan'; as it provides direction on how to conduct a research study (Mouton, 2001:55; Hair et al., 2003:57). Moreover, a research design should ensure that all relevant research questions are fully addressed (Hair et al., 2003:57; Durrheim, 2006:34; Saunders et al., 2012:159), thereby ensuring accurate testing of the research proposition. The research design of any research study can be categorised in terms of: 1) type of research study (empirical versus non-empirical), 2) source of data (primary data versus secondary data), 3) nature of data (numerical versus non-numerical), and 4) level of control (structuring of the data-collection tool) (Mouton, 2001:144). The research design used in this study is described below, under the aforementioned categories:

- Type of study: Although this study consisted of both empirical and non-empirical research, it was predominantly empirical in nature through the collection of primary data, with a small part being non-empirical, taking the form of a literature review (see Chapter 2).
- Source of data: Both primary and secondary data were obtained in this research study. The primary data obtained stemmed from responses gathered from respondents (SMME owners and/or managers) through survey research, while the secondary data were gleaned from the review of literature; applicable to the specific research problem (see Chapter 1).
- Nature of data: The primary data collected were predominantly numerical, and the survey responses were coded<sup>32</sup> in order to analyse them statistically. All secondary data were predominantly non-numerical in nature (see Chapter 2).

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<sup>32</sup> Coding refers to the assignment of numbers to individual responses in a dataset, to enable a computer to make sense of relevant collected data (Babbie & Mouton, 2001:412).

- Level of control: Although there was no control exercised over secondary data; though a suitable level of control was exercised during the collection of primary data. The purpose of the control was to manage errors in the data collected; this took the form of using a structured questionnaire,<sup>33</sup> piloting the structured questionnaire, and validating responses provided by respondents.

Using the above as foundation, the research design deployed in this research study was that of survey research. Survey research pertains to the collection of data from a population or sample through means of a questionnaire, with the aim of describing, exploring, and/or explaining a construct of interest (Burton, 2007:4).

Notwithstanding the above, the research methodology refers to the steps which need to be followed to realise a particular research design (Saunders et al., 2012:160). In essence, there are three options available with regard to the research methodology of any study: 1) quantitative research methodology, 2) qualitative methodology, and 3) mixed-methods research methodology (i.e. both qualitative and quantitative) (Edmonds & Kennedy, 2012:3; Creswell, 2014:3). Considering that the researcher is a proponent of the positivistic research paradigm,<sup>34</sup> a quantitative research methodology was deemed appropriate for this research study (Leedy & Ormrod, 2005:179). According to McKimm et al. (2017:7), quantitative research involves the selection of research subjects (samples) and entails the collection of primary quantitative (numerical) data through means of using relevant data-collection tools. In particular, survey research was conducted (Saunders et al., 2007:139; Singh & Bajpai, 2007:169) as primary data were collected from a relatively large number of units (Singh & Bajpai, 2007:169; Gropper & Smith, 2008:567; Saunders et al., 2012:177) through means of a questionnaire tool (Picciano, 2016:55).

### **3.3 RESEARCH METHODS**

Research methods refer to the various procedures performed by a researcher in order to collect, analyse and interpret data (Creswell, 2014:17), subsequently supporting the relevant research methodology (Collis & Hussey, 2009:73). Research methods can be grouped into four categories:

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<sup>33</sup> A structured questionnaire refers to a set of questions that has a limited number of possible responses (Zikmund et al., 2013:194).

<sup>34</sup> Positivistic research entails the collection of data in order to gain greater insight into certain variables evident in society. The results from data analysis are generally used to support or refute the formulated hypothesis concerning such researched variables (Collis & Hussey, 2009:58; Creswell, 2014:7).



1) sampling methods, 2) data measurement, 3) data-collection methods, and 4) data-analysis methods (Babbie & Mouton, 2001:75). The research methods deployed in this research study, as categorised, are discussed below:

- Sampling methods: As previously mentioned (see Section 1.4), the target population of this research study constituted members of management of South African fast-food SMMEs. As the exact number of these business entities was unknown, non-probability sampling techniques were used, specifically a mixture of the purposive sampling method<sup>35</sup> and the convenience sampling method,<sup>36</sup> as supported by the following relevant delineation criteria:
  - All respondents had to be regarded as owners and/or managers of their respective SMMEs.
  - All SMMEs should have been regarded as fast-food<sup>37</sup> enterprises.
  - All SMMEs should have been regarded as non-franchised business entities.
  - All SMMEs should have adhered to the formal definition of an SMME as per the Small Business Act No. 102 of 1996.
  - All SMMEs should have been regarded as either micro enterprises or small enterprises.
  - All SMMEs should have employed fewer than 50 full-time employees.
  - All SMMEs should have been deemed either sole traders or partnerships.
  - All SMMEs should have been in existence for at least two years.
  - All SMMEs should have operated within the perimeters of the Cape Peninsula.

The student selected a sample of SMMEs that were conveniently reachable, and they had to satisfy the above delineation criteria. The selected sample size was 150, of which 130 responded favourably, constituting a 86.66% response rate. However, of the 130 responses received, only 116 were regarded as valid.

- Data measurement: In order to address all posed research questions (see Section 1.3), the most suitable data measurements<sup>38</sup> were identified and implemented in the questionnaire tool. Since perceptions were obtained from South African SMME owners and/or managers, the

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<sup>35</sup> A sampling method where respondents are selected based on certain criteria to ensure better control of significant variables (Sharma, 1997:123; Burton, 2007:13).

<sup>36</sup> A sampling method where respondents are selected based on their availability and/or proximity to a researcher (Ruel et al., 2016:150).

<sup>37</sup> Only SMMEs operating in the fast-food industry were considered in this study.

<sup>38</sup> There are four data types: nominal data (variables that can only be counted), 2) ordinal data (variables that can be ordered), 3) interval data (grouped variables that can be ranked), and 4) ratio data (variables where zero has an actual meaning) (Trochim, 2006; Phillips & Phillips, 2016:107).

data collected from respondents were mostly ordinal in nature, with a few responses providing ratio data and nominal data.

- Data-collection methods: Although questionnaires and/or interviews can be used to obtain data through survey research (Sincero, 2012), only a questionnaire consisting mainly of closed-ended questions was used for this research study. After the questionnaire was piloted, it was self-administered by the researcher to the respondents. The questionnaire comprised five sections (see Section 3.6), all with the main intent of addressing the research questions applicable to this research study (see Section 1.3). All collected data were captured and coded accordingly.
- Data analysis method: By using IBM® SPSS Statistics® software, relevant descriptive and inferential statistical analysis were performed (Trochim, 2006). In relation to descriptive statistics, frequency distribution tables and graphs were mostly generated from the collected data, while the inferential statistics pertained to that of exploratory factor analysis (see Chapter 4).

### **3.4 ETHICAL CONSIDERATIONS**

Ethical considerations are a set of standards of behaviour which should provide guidance to a researcher in relation to his/her rights and those of his/her research subjects when conducting his/her research study (Saunders et al., 2012:226). In essence, ethical considerations should be considered throughout the duration of a research study (Anderson, 2009:79). For this research study, the following ethical considerations were taken into account (Anderson, 2009:79-85; Collis & Hussey, 2009:45-47; Cooper & Schindler, 2011:33-49; Zikmund et al., 2013; UK Data Archive, 2017):

- Quality of data: To obtain meaningful results from data analysis, the researcher should ensure that collected data are of good quality (in relation to accuracy, completeness, reliability, etc.). Firstly, the researcher ensured that the data gleaned were of good quality, by self-administering the questionnaire. Since some of the questionnaires were completed in the absence of the researcher, data quality was further ensured by calling some SMMEs to confirm if indeed they had completed the questionnaire (validation). Lastly, the researcher

reviewed each of the received questionnaires to determine if all questions were correctly and completely answered.

- Deception: Deception is when the truth is compromised during respondents' briefing on a study. In laypersons' terms, researchers should not withhold any important information or purposely lure potential respondents to participate in the study. In this study, the researcher did not withhold any relevant information (i.e. purpose of study, how the responses would be used) from respondents, while simultaneously not falsely promising anything in return for participating in the research study.
- Voluntary participation: All respondents should participate in a study voluntarily, without the use of undue influence from the researcher. All respondents were informed that participation in this research study was voluntary, and that they could withdraw from the research study at any time without recrimination. There also was no coercion of respondents to participate (see 'Deception', above).
- Informed consent: The researcher should explain the procedures of the study, thereby enabling respondents to make informed decisions. Before respondents voluntarily took part in this research study, they were informed of what the research study entailed. In addition, consent was provided by each respondent prior to participating in the research study.
- Confidentiality and anonymity: Anonymity entails the non-identification of respondents with their opinions on the questionnaire, while confidentiality entails the non-disclosure of respondents' sensitive information. Respondents were guaranteed that all information provided by them would only be used for research purposes, and would not be shared with anyone. In addition, the anonymity of individuals who completed the questionnaire was guaranteed by not requesting their personal details (i.e. name and surname).
- Protection from harm: If any research study has the possibility of causing harm to the researcher and/or respondents, relevant controls should put in place to manage it. In this study, since a questionnaire tool was used to obtain data, the researcher and all respondents were protected from harm. In addition, to ensure protection from harm for both researcher and research subjects, the research proposal was approved by the Research Ethics Committee of the Faculty of Business and Management Sciences at CPUT, and ratified by the Higher Degrees Committee.
- Fair and accurate reporting: Researchers should not tweak results in order to present a favourable outcome to identified research problems and/or developed hypotheses – all results should be reported accurately. For this research study, after data were captured, they were analysed accordingly, while all relevant results were reported on as truthfully as possible.

### **3.5 RESEARCH LIMITATIONS**

Research limitations are defined by Baltimore County Public Schools (2015) as influences that restrict a research study, and are beyond the control of a researcher. The limitations pertaining to this study are briefly discussed below:

- Although the results were generalised to fast food South African SMMEs, only fast-food SMMEs in the Cape Peninsula were considered during data collection. Nevertheless, focusing on fast-food SMMEs is reasonable since the fast-food industry contributes immensely to the South African economy (Stofile et al., 2011:1; Maumbe, 2012:148), contributing approximately R170 billion to the national economy in 2015 (Murray, 2017).
- The SMMEs included in the study are from the Cape Peninsula, in the Western Cape. According to Statistics South Africa (2016), the Western Cape province is among the top three provinces that significantly contribute to the economy of South Africa. With the Cape Peninsula regarded as one of the major contributors to the economic growth of the Western Cape province, it stands to reason that this area also has a large number of SMMEs operating within its borders (Van Weele & Maree, 2013:8; Western Cape Government Provincial Treasury, 2015:114). In addition, the Cape Peninsula is a major tourist attraction, both provincially and nationally (Western Cape Government Provincial Treasury, 2015:67; SA Places, 2016), thereby translating to a significant number of fast-food outlets.
- The number of SMMEs in the Cape Peninsula was unknown, making it difficult to support the size of the sample used in this study statistically. However, with quantitative research it is generally agreed that basic statistical analysis requires a minimum of 30 responses to obtain results that are statistically significant (O'Leary, 2005:89). Therefore, a sample size of 116 respondents, all of whom adhered to strict delineation criteria, was regarded as sufficient to provide statistically significant results for this study.

### **3.6 DATA VALIDITY**

According to Heale and Twycross (2015:66), validity refers to the extent to which a construct is correctly measured. In this study, two validity measures were used, and these are content validity and construct validity (Drost, 2011:114-117). Content validity relates to the appropriateness and adequacy of the content used in relation to the construct under study (Bernard, 2000:47; Krishnaswamy et al., 2009:265); while construct validity relates to whether the content truly

measures the construct under study (Goodwin & Goodwin, 2016:103). Content validity was partially enhanced by ensuring that research questions and objectives were clearly articulated, since these were the foundation of questions in the collection tool. In addition, a thorough literature review was conducted, and main concepts within the construct under study were conceptualised. Consequently, the literature review formed the basis for the variables used in the collection tool. Regarding the questions, the researcher ensured that all questions were clear, simple and unambiguous. Finally, the collection tool was piloted by the researcher to determine if respondents could easily answer the questions. Construct validity was enhanced by consulting with senior researchers in the field of risk management, and they ascertained that the content indeed measured the construct under study.

### 3.7 DATA-COLLECTION TOOL

As previously mentioned (see Section 3.3), a questionnaire tool was used to obtain data from respondents. The questionnaire tool used consisted of five sections (A to E), comprising mostly closed-ended questions. For the sake of clarity, each section in the questionnaire tool is discussed at greater length below:

#### 3.7.1 Questionnaire tool: Section A

This section consisted of questions about the demographic characteristics of the SMMEs and the respondents. Basically, the questions in this section were used to validate each completed questionnaire (see Table 3.1).

**Table 3.1:** Questions in the questionnaire tool – Section A

Question number	Question type	Question
A1	Fill in the blank (Nominal)	In what industry does your business operate?
A2	Fill in the blank (Ratio)	How long has your business been in existence? (years)
A3	Fill in the blank (Ratio)	How many employees do you employ? (number)
A4	Multiple Choice	Are you part of a franchise?
A5	Multiple choice	Are you the owner, manager, owner and manager, or other?

#### 3.7.2 Questionnaire tool: Section B

The objective of this section was to understand the economic factors that affect the sustainability of South African SMMEs. The questions in this section identified the various factors perceived to

affect the sustainability of South African SMMEs. A four-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = agree, 4 = strongly agree) was used, and the questions started with the following base statement: *The following barriers affect my business's sustainability* (see Table 3.2).

**Table 3.2:** Questions in the questionnaire tool – Section B

Question number	Question type	Question
B1	Likert scale	Food prices of suppliers affect my business's sustainability.
B2	Likert scale	Unemployment rates affect my business's sustainability.
B3	Likert scale	Inflation rates affect my business's sustainability.
B4	Likert scale	Size of the business affects my business's sustainability.
B5	Likert scale	Difficult access to finance (capital) affects my business's sustainability.
B6	Likert scale	Stiff competition affects my business's sustainability.
B7	Likert scale	Low demand for products and/or services affects my business's sustainability.
B8	Likert scale	Location of the business affects my business's sustainability.
B9	Likert scale	Ineffective marketing affects my business's sustainability.
B10	Likert scale	'Substitute' products and/or services at cheaper price affect my business's sustainability.
B11	Likert scale	Unproductive employees affect my business's sustainability.
B12	Likert scale	Poor service quality affects my business's sustainability.
B13	Likert scale	Poor product quality affects my business's sustainability.
B14	Likert scale	Cost of electricity affects my business's sustainability.
B15	Likert scale	Cost of water affects my business's sustainability.
B16	Likert scale	Lack of adequate credit facilities affects my business's sustainability.
B17	Likert scale	Unreliable supply of raw materials affects my business's sustainability.
B18	Likert scale	Interest rates affect my business's sustainability.
B19	Likert scale	Legislation, rules and regulations affect my business's sustainability.
B20	Likert scale	Labour costs affect my business's sustainability.
B21	Likert scale	Crime rate affects my business's sustainability.
B22	Likert scale	Bad debts (customers not pay debts) affect my business's sustainability.
B23	Likert scale	Taxation affects my business's sustainability.
B24	Likert scale	Rapid change in technology affects my business's sustainability.

### 3.7.3 Questionnaire tool: Section C

The objective of this section was to identify the risks that affect the sustainability of South African SMMEs. The questions identified the common risks perceived to affect the sustainability of South African SMMEs. A four-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = agree, 4 =

strongly agree) was used, and the questions started with the following base statement: *My business is faced with the following problem:* (see Table 3.3).

**Table3.3:** Questions in the questionnaire tool – Section C

Question number	Question type	Question
C1	Likert scale	My business is faced with the following problem: poor service quality.
C2	Likert scale	My business is faced with the following problem: employee theft.
C3	Likert scale	My business is faced with the following problem: large expenses (in relation to income).
C4	Likert scale	My business is faced with the following problem: increase in cost prices of products.
C5	Likert scale	My business is faced with the following problem: poor product quality.
C6	Likert scale	My business is faced with the following problem: weak business profitability (profits).
C7	Likert scale	My business is faced with the following problem: weak business liquidity (cash).
C8	Likert scale	My business is faced with the following problem: weak business solvency (more liabilities).
C9	Likert scale	My business is faced with the following problem: weak business efficiency (poor efficiency).
C10	Likert scale	My business is faced with the following problem: health and safety risks.
C11	Likert scale	My business is faced with the following problem: employee risks (immigration, etc.).
C12	Likert scale	My business is faced with the following problem: environmental risks (waste, etc.).
C13	Likert scale	My business is faced with the following problem: strong competition.
C14	Likert scale	My business is faced with the following problem: low demand for products.
C15	Likert scale	My business is faced with the following problem: delays in supply chain process.

#### 3.7.4 Questionnaire tool: Section D

The objective of this section was to gain insight into the risk-management initiatives utilised by South African SMMEs to combat the identified risks. A four-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = agree, 4 = strongly agree) was used, and the questions started with the following base statement: *My business deals with the aforementioned risks by means of:* (see Table 3.4 overleaf).

**Table 3.4:** Questions in the questionnaire tool – Section D

Question number	Question type	Question
D1	Likert scale	My business deals with the aforementioned risks by means of a code of ethics (principles guiding employees).
D2	Likert scale	My business deals with the aforementioned risks by means of risk policies.
D3	Likert scale	My business deals with the aforementioned risks by means of setting the right 'tone at the top'.
D4	Likert scale	My business deals with the aforementioned risks by means of setting of risk appetite(s).
D5	Likert scale	My business deals with the aforementioned risks by means of an adequate business strategy.
D6	Likert scale	My business deals with the aforementioned risks by means of setting clear objectives.
D7	Likert scale	My business deals with the aforementioned risks by means of internal interviews and discussion (e.g SWOT).
D8	Likert scale	My business deals with the aforementioned risks by means of external sources (e.g. risk consultants).
D9	Likert scale	My business deals with the aforementioned risks by means of tools diagnostics and processes (e.g. checklists).
D10	Likert scale	My business deals with the aforementioned risks by means of risk analysis.
D11	Likert scale	My business deals with the aforementioned risks by means of risk evaluation(s).
D12	Likert scale	My business deals with the aforementioned risks by means of risk treatment(s) (reducing actual risks).
D13	Likert scale	My business deals with the aforementioned risks by means of implementing controls to reduce the effect of risks.
D14	Likert scale	My business deals with the aforementioned risks by means of using budgets.
D15	Likert scale	My business deals with the aforementioned risks by means of using policies and procedures.
D16	Likert scale	My business deals with the aforementioned risks by means of timely communication of risks.
D17	Likert scale	My business deals with the aforementioned risks by means of consulting risk management experts.
D18	Likert scale	My business deals with the aforementioned risks by means of conducting performance appraisals regularly.
D19	Likert scale	My business deals with the aforementioned risks by means of performing separate evaluations.

### 3.7.5 Questionnaire tool: Section E

This purpose of this section was to determine the level of understanding and implementation of ERM by respondents in South African SMMEs. A six-point Likert scale (1= none, 2 = little, 3 = very little, 4 = average, 5 = some, 6 = a lot.) was used (see Table 3.5).

**Table 3.5:** Questions in the questionnaire tool – Section E

Question number	Question type	Question
E1	Likert scale	How well do you understand the ERM process?
E2	Likert scale	How many of the ERM initiatives have you implemented in your business?
E3	Likert scale	How much value does ERM add to your business?



### **3.8 CONCLUSION AND RELEVANCE TO THE RESEARCH STUDY**

In this chapter, emphasis was placed on the research design, research methodology and research methods deployed in this research study to answer relevant research questions to, in turn, achieve the relevant research objectives (see Section 1.3). For this research study, quantitative methods were used to implement the survey research design. In order to answer the research questions adequately, the researcher conducted both non-empirical research (by means of a literature review) (see Chapter 2) and empirical research (by deploying survey research).

To select the envisaged sample size of 150, a combination of purposive sampling and convenience sampling in conjunction with strict delineation criteria were used. Since most primary data collected were numerical, a structured questionnaire was deemed the appropriate tool to glean data. After the piloting of the questionnaire, the researcher self-administered the questionnaires to the envisaged sample. Only 130 respondents responded favourably, translating to a response rate of 86.67%; however, only 116 responses were regarded as valid. The data collected were captured and coded with the assistance of IBM® SPSS Statistics® software, and thereafter analysed using descriptive and inferential statistics (exploratory factor analysis) (see Chapter 4) . In addition, relevant ethical considerations were taken into account, while the limitations of the research study were also addressed.

Lastly, the questions posed in the questionnaire were addressed. The structured questionnaire, comprising mostly closed-ended questions, contained five sections, namely: 1) Section A (biography of SMMEs), 2) Section B (economic factors affecting South African SMME sustainability), 3) Section C (risks influencing South African SMME sustainability), 4) Section D (risk-management initiatives used by South African SMMEs), and 5) Section E (understanding and implementation of ERM by South African SMMEs' owners and/or managers). With most of the data being ordinal, a four-point Likert scale was used for Section B to D, while a six-point Likert scale was used for Section E. In Section A, there was a mixture of ratio questions and multiple-choice questions.

In the next chapter, results from the analysis are presented and discussed accordingly.

## CHAPTER 4

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### SYNOPSIS

For this research study, a methodical process was followed whereby each chapter built on the previous chapter. This process is depicted below.

**Chapter 1:** Introduction to the research study

**Chapter 2:** Literature review

**Chapter 3:** Research design, research methodology and research methods

**Chapter 4:** Data analysis, results and discussion

- Introduction
- Data validity
- Data reliability
- SMME demographic information
- Economic factors affecting South African SMMEs
- Risks faced by South African SMMEs
- Risk-management initiatives used by South African SMMEs
- Alignment of risk-management initiatives used with COSO ERM
- Perceptions of respondents regarding ERM
- Conclusion and relevance to the study

**Chapter 5:** Conclusion

## 4.1 INTRODUCTION

For this research study, the following primary research question was asked (see Section 1.3.1):

*To what extent do South African SMMEs utilise ERM to help enhance their overall sustainability?*

In order to address this research question, the following investigative research questions were asked (see Section 1.3.2):

- What are the risks which South African fast-food SMMEs in the Cape Peninsula face?
- How are these risks treated by these business entities?
- Are these risk treatments aligned to ERM?

Although the first two investigative questions were theoretically investigated by conducting a literature review (see Chapter 2), all of the three investigative questions were empirically investigated by means of survey research (see Section 3.2). In this chapter, results from the data analysis are both provided and discussed under the following headings: 1) data validity, 2) data reliability, 3) demographic information of SMMEs, 4) economic factors affecting South African SMMEs, 5) risks faced by South African SMMEs, 6) risk-management initiatives used by South African SMMEs, 7) alignment of risk-management initiatives used with the COSO ERM, and 8) perceptions of respondents regarding ERM.

## 4.2 DATA VALIDITY

In any study, it is important to ensure that the collected data are valid (Bernard, 2000:46); otherwise incorrect conclusions can be made. Data validity can be regarded as the suitability of collected data with regard to the construct under study (Leung, 2015:324). Since this study was quantitative in nature, data validity was enhanced by ensuring the validity of the data-collection tool used (Sullivan, 2011:119). In essence, two types of validity measures were used to enhance the validity of the data-collection tool, namely content validity and construct validity (see Section 3.6).

Notwithstanding the above, the validity of data was also subject to a strict list of delineation criteria (see Section 3.3), where each respondent had to adhere to certain core characteristics before their responses would be regarded as valid. Out of 130 responses received, a total of 116 (89%) were regarded as valid.

#### 4.3 DATA RELIABILITY

The data-collection tool used to collect data in any research study should be reliable in order to provide credible data. Data reliability entails that collected data are adequate, complete and accurate, with the intent to measure the relevant construct under investigation (Morgan & Waring, 2004:2). This was of particular importance for this study since collected data had to shed empirical light on the first two investigative questions, while answering the final investigative question (see Section 1.3.2). For this study, a questionnaire comprising nine questions was used to collect data from respondents (see Annexure A). In this data-collection tool, four Likert-scale questions were asked.

In order to determine the reliability of the data obtained through the questionnaire, relevant Cronbach's Alpha<sup>39</sup> values were calculated to determine internal consistency,<sup>40</sup> particularly for the four Likert-scale questions. According to the Institute for Digital Research and Education (2017) at UCLA, a Cronbach's Alpha value of 0.700, for internal consistency testing, is deemed acceptable. The relevant Cronbach's Alpha values for the four Likert-scale sections, as analysed, are presented in Table 4.1.

**Table 4.1:** Cronbach's Alpha values for the four Likert-scale questions in the questionnaire

Section	Items tested	Cases	Cronbach's Alpha
B	24	116	0.822
C	17	116	0.868
D	19	116	0.907
E	3	116	0.934

<sup>39</sup> Cronbach's Alpha is a statistical measure that examines how closely related a set of items are (Institute for Digital Research and Education, 2017).

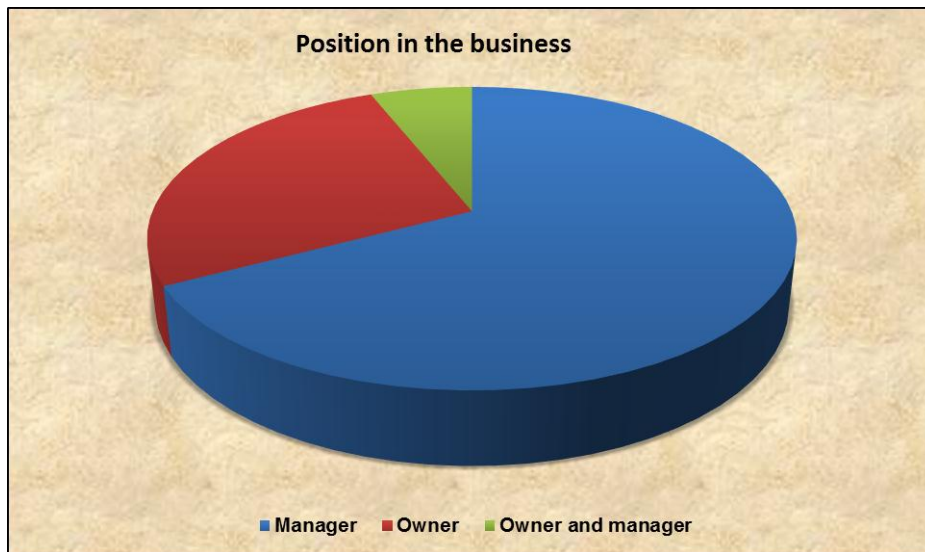
<sup>40</sup> Internal consistency refers to the extent to which a number of items (variables) in a questionnaire measure the same general construct (Tang et al., 2014:205).

From the above, the inference can be made that the data collected for this research study, particularly from the four Likert-scale questions, were deemed reliable. This view is supported by the fact that all Cronbach's Alpha values were significantly larger than the 0.700 threshold.

#### 4.4 DEMOGRAPHIC INFORMATION

For respondents to be regarded as valid respondents, they had to satisfy a range of delineation criteria (see Section 3.3). In particular, respondents had to be owners and/or managers of non-franchised fast-food SMMEs which had been in operation in the Cape Peninsula for at least two years. Of the targeted 150 respondents, a total of 116 (77%) were deemed valid respondents; only their provided data were used to perform relevant data analysis.

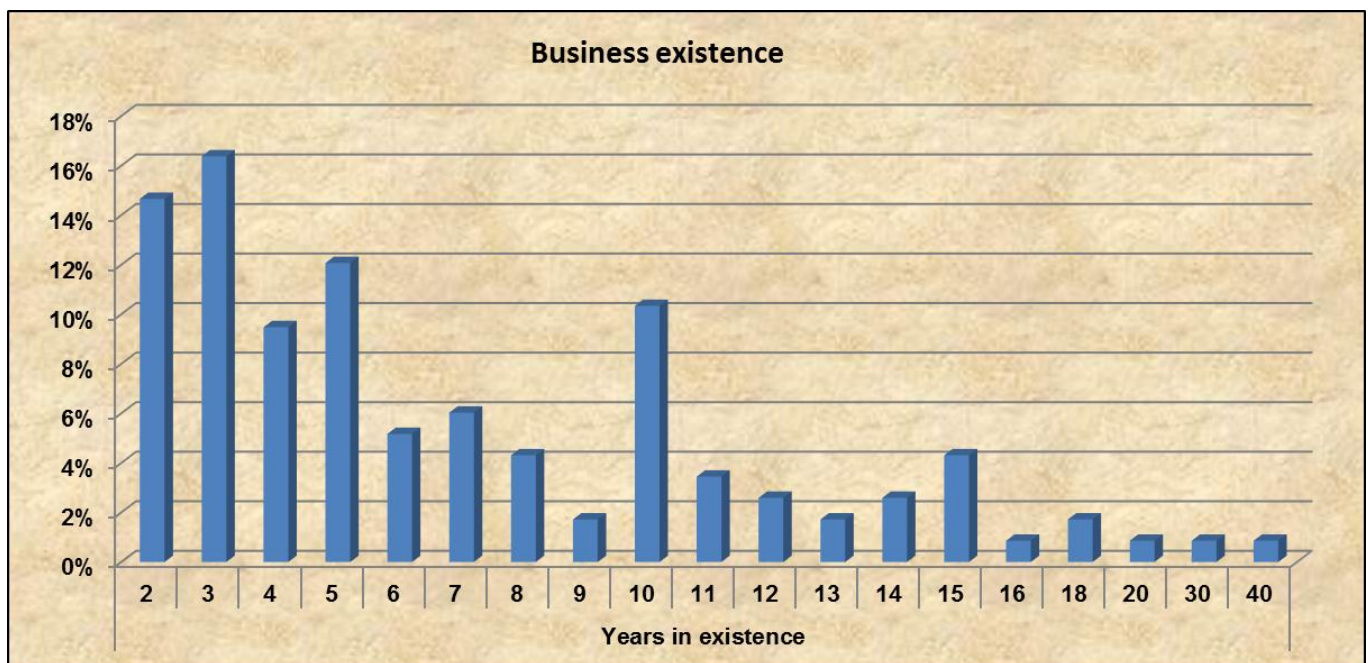
When respondents were asked about the positions they fulfilled in their respective SMMEs, 67.25% indicated that they were managers, 26.72% indicated that they were owners, while 6.03% indicated that they were both owner and manager of their respective enterprises. A summary of these results are depicted in Figure 4.1.



**Figure 4.1:** Position of sampled respondents in their respective SMMEs

Stemming from the above, the inference can be made that the respondents had the necessary authority to make business decisions in their respective SMMEs.

Respondents were also asked to indicate the number of years their businesses had been in existence. On average, it was found that these businesses had been in existence for 7.18 years, with a modal<sup>41</sup> and median<sup>42</sup> duration of 3 years and 5 years respectively. Although the above-average duration gave the impression that sampled SMMEs had been in existence for longer periods than generally found in the literature (see Section 2.1), only 58.5% of sampled SMMEs had existed for four years or longer. Moreover, the modal duration of 3 years and a median duration of 5 years suggest that the number of years that these sampled SMMEs had been in existence is not as remarkable as portrayed by the average duration of 7.18 years. This view is substantiated by the fact that the calculated average is significantly higher than both the mode and median. A probable explanation for the latter dispensation is that there were a few businesses (5.2% of respondents) that had been in existence for more than 15 years. Thus, the inference can be made that the existence rate of sampled SMMEs leaves much to be desired, since it is almost identical to the theoretical depiction of these businesses' existence rate as per scholarly literature (see Section 2.1). A summary of these results is presented in Figure 4.2.



**Figure 4.2:** Number of years which sampled SMMEs had been in existence

<sup>41</sup> Mode refers to the value that has the highest frequency (Gravetter & Wallnau, 2013:73).

<sup>42</sup> Median is the value that is in the middle of a distribution. Stated otherwise, it is a value where 50% of the observations fall below it and the other 50% fall above it (Gravetter & Wallnau, 2013:72).

When respondents were asked to indicate their number of full-time employees, the results show that 51.7% of sampled SMMEs employed between 0 and 5 full-time employees, 20.7% employed between 6 and 10 full-time employees, while 27.6% employed between 11 and 50 full-time employees. Using the classification of SMME sizes as foundation (see Section 1.1), the inference can be made that 51.7% of respondents were owners and/or managers of micro enterprises, 20.7% of respondents were owners and/or managers of very small enterprises, and 27.6% of respondents were owners and/or managers of small enterprises. Moreover, the average number of employees was calculated at 9.77, with a calculated median value of 5 and a calculated modal value of 3. Although typical enterprises of respondents could be regarded as very small enterprises (using an average of 9.77 employees), the majority of enterprises (51.7%) were actually regarded as micro enterprises. This view is supported by the median and modal values noted above. The above results are similar to the ones from a recent study by Bruwer (2016:188). In essence, the number of employees of these SMMEs do not correspond with the years these entities has been in existence for. Thus, the inference can be made that the job-creation ability of the sampled SMMEs is undesirable. A summary of the results is depicted in Figure 4.3.



**Figure 4.3:** Number of full-time employees by sampled SMMEs

In order to understand the financial sustainability of sampled SMMEs, respondents were asked to provide their agreement in respect of statements which related to their respective SMMEs' profitability, liquidity, solvency and efficiency. To achieve this, a four-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = agree, 4 = strongly agree) was used, and each statement



started with the following base sentence: *My business is faced with the following problem ....* A summary of the results is presented in Table 4.2.

**Table 4.2:** Perceived financial sustainability of sampled SMMEs

My business is faced with the following problem:	Valid				Total Agreement	Median value	Mean value	Standard Deviation
	Strongly disagree	Disagree	Agree	Strongly agree				
Weak business profitability (weak profits)	11.20%	33.60%	42.20%	12.90%	55.10%	3	2.6	0.86
Weak business efficiency (takes long to make money)	11.20%	44.80%	35.30%	8.60%	43.90%	2	2.4	0.80
Weak business liquidity (little cash on hand)	11.20%	48.30%	30.20%	10.30%	40.50%	2	2.4	0.82
Weak business solvency (more liabilities than assets)	19.00%	44.80%	29.30%	6.90%	36.20%	2	2.2	0.84

The two central measures used to represent the perception of the sampled SMMEs were mean and median. This was specifically determined as mean values can be used to rank and/or prioritise items, while median values provide insight into the absolute middle average (Gravetter & Wallnau, 2013:72). Using the above as a basis, a four-point Likert scale will have a point of neutrality when a mean value is 2.5. In the same vein, a mean greater than 2.5 will entail agreement, while a mean less than 2.5 will entail disagreement. Thus, the further the mean is from the neutrality point (above 2.5), the stronger the level of agreement, and the further the mean is from the neutrality point (below 2.5), the stronger the level of disagreement.

From the results in Table 4.2, it is apparent that the majority (at least 56.1%) of respondents did not perceive their respective SMMEs as having weak efficiency, solvency or liquidity. Nonetheless, the perceived efficiency and liquidity of sampled SMMEs were not perceived as very good either. This view is supported by the calculated mean values which were very close to 2.5 (neutrality point). Thus, the inference can be made that sampled SMMEs had close-to-average business efficiency (56.10% of the time), close-to-average business liquidity (59.50% of the time) and an above-average business solvency (63.80% of the time). This is strengthened by the modal value of 2 for each of these three elements – indicating that respondents’ absolute balanced perception was to disagree with the respective statements that their respective SMMEs had weak business efficiency, weak business liquidity, and weak business solvency.



A probable reason for these business entities experiencing only moderate business efficiency, moderate business liquidity, and moderate business solvency may be attributed to their operating in a harsh economic environment (see Section 2.3). This view is particularly justified when emphasis is placed on the results surrounding business profitability. The inference can be made that sampled SMMEs experienced weak profitability (perceived), since the calculated mean amounted to 2.6, with the calculated median amounting to 3. Otherwise stated, respondents leaned slightly towards agreeing with the statement (55.10% of the time) that their respective SMMEs experienced weak profitability. In essence, this affirms what was found in a recent GEM report that 41.2% of the SMMEs that discontinued their operations in 2016, did so because of weak profitability (Herrington & Kew, 2017:112).

In summary, while taking all applicable demographical information into consideration, the average respondent for this research study was a manager of a very small non-franchised business entity, with 9.77 full-time employees, while being in existence for 7.18 years, and that possessed a relatively moderate financial sustainability.

#### **4.5 ECONOMIC FACTORS AFFECTING SOUTH AFRICAN SMMEs**

In order to understand the economic environment in which sampled SMMEs operated, respondents were asked to identify the various economic factors which influenced their respective SMMEs' sustainability (including their financial sustainability). To achieve this, a four-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = agree, 4 = strongly agree) was used, and each statement started with the following base sentence: *The following barriers affect my business's sustainability ....* A summary of the results is presented in Table 4.3 overleaf.

**Table 4.3:** Economic factors affecting the sustainability of sampled SMMEs

	Valid				Total agreement	Median value	Mean value	Standard Deviation
	Strongly disagree	Disagree	Agree	Strongly agree				
<b>The following barriers affect my business's sustainability:</b>								
Cost of electricity	4.3%	12.9%	28.4%	54.4%	<b>82.8%</b>	<b>4</b>	<b>3.3</b>	<b>0.86</b>
Inflation rates	5.2%	11.2%	49.1%	34.5%	<b>83.6%</b>	<b>3</b>	<b>3.1</b>	<b>0.81</b>
Food prices of suppliers	6.9%	13.8%	38.8%	40.5%	<b>79.3%</b>	<b>3</b>	<b>3.1</b>	<b>0.90</b>
Stiff competition	6.9%	16.4%	31.9%	44.8%	<b>76.7%</b>	<b>3</b>	<b>3.1</b>	<b>0.93</b>
Difficult access to finance (external funding)	12.1%	17.2%	28.4%	42.3%	<b>70.7%</b>	<b>3</b>	<b>3.0</b>	<b>1.04</b>
Unemployment rates	6.0%	31.0%	34.5%	28.5%	<b>63.0%</b>	<b>3</b>	<b>2.9</b>	<b>0.91</b>
Labour costs	12.1%	20.7%	40.5%	26.7%	<b>67.2%</b>	<b>3</b>	<b>2.8</b>	<b>0.97</b>
Interest rates	11.2%	23.3%	39.7%	25.8%	<b>65.5%</b>	<b>3</b>	<b>2.8</b>	<b>0.95</b>
Crime rate	15.5%	20.7%	31.9%	31.9%	<b>63.8%</b>	<b>3</b>	<b>2.8</b>	<b>1.06</b>
Cost of water	18.1%	19.0%	28.4%	34.5%	<b>62.9%</b>	<b>3</b>	<b>2.8</b>	<b>1.11</b>
Legislation, rules and regulations	12.9%	28.4%	36.2%	22.5%	<b>58.7%</b>	<b>3</b>	<b>2.7</b>	<b>0.97</b>
Size of business (capacity to meet demand)	14.7%	27.6%	33.6%	24.1%	<b>57.7%</b>	<b>3</b>	<b>2.7</b>	<b>1.00</b>
Substitute products and/or services at cheaper prices	8.6%	34.5%	44.8%	12.1%	<b>56.9%</b>	<b>3</b>	<b>2.6</b>	<b>0.81</b>
Lack of adequate credit facilities	12.1%	38.8%	35.3%	13.8%	<b>49.1%</b>	<b>2</b>	<b>2.5</b>	<b>0.88</b>
Low demand for products and/or services	17.2%	37.9%	34.5%	10.4%	<b>44.9%</b>	<b>2</b>	<b>2.4</b>	<b>0.89</b>
Taxation	31.9%	20.7%	32.8%	14.6%	<b>47.4%</b>	<b>2</b>	<b>2.3</b>	<b>1.07</b>
Unreliable supply of raw materials	22.4%	36.2%	31.9%	9.5%	<b>41.4%</b>	<b>2</b>	<b>2.3</b>	<b>0.92</b>
Ineffective marketing	24.1%	34.5%	26.7%	14.7%	<b>41.4%</b>	<b>2</b>	<b>2.3</b>	<b>1.00</b>
Rapid change in technology	25.0%	37.1%	25.0%	12.9%	<b>37.9%</b>	<b>2</b>	<b>2.3</b>	<b>0.98</b>
Unproductive employees	37.9%	19.8%	25.9%	16.4%	<b>42.3%</b>	<b>2</b>	<b>2.2</b>	<b>1.12</b>
Poor service quality	35.3%	25.9%	25.9%	12.9%	<b>38.8%</b>	<b>2</b>	<b>2.2</b>	<b>1.05</b>
Location of business	28.4%	34.5%	21.6%	15.5%	<b>37.1%</b>	<b>2</b>	<b>2.2</b>	<b>1.04</b>
Bad debts (customers not paying)	44.0%	18.1%	24.1%	13.8%	<b>37.9%</b>	<b>2</b>	<b>2.1</b>	<b>1.11</b>
Poor product quality	36.2%	31.9%	17.2%	14.7%	<b>31.9%</b>	<b>2</b>	<b>2.1</b>	<b>1.05</b>

On average, all the economic factors with a median value of 3 and higher were regarded by respondents as adversely affecting their business sustainability. Using the calculated mean values as a basis, the most predominant economic factors were the cost of electricity (mean of 3.3), inflation rates (mean of 3.1), food prices of suppliers (mean of 3.1), stiff competition (mean of 3.1), and difficult access to finance (external funding) (mean of 3.1). Other economic factors also perceived to be negatively impacting the sampled SMMEs' sustainability were unemployment rates (mean of 2.9), labour costs (mean of 2.8), interest rates (mean of 2.8), crime rate (mean of 2.8), cost of water (mean of 2.8), legislation, rules and regulations (mean of 2.7), size of business (capacity to meet demand) (mean of 2.7), and substitute products and/or services at cheaper prices (mean of 2.6). All the economic factors with a median value of less than 3 were regarded by respondents as not adversely affecting their relevant businesses' sustainability. These economic factors were lack of adequate credit facilities (mean of 2.5), low demand for products and/or services (mean of 2.4), taxation (mean of 2.3), unreliable supply of raw materials (mean of 2.3), ineffective marketing (mean of 2.3), rapid change in technology (mean of 2.3), unproductive employees (mean of 2.3), poor service quality (mean of 2.2), location of business (mean of 2.2), bad debts (customers not paying) (mean of 2.1), and poor product quality (mean of 2.1). Although there are several other economic factors which may influence the sustainability of SMMEs, only the above economic factors were covered in this study as they were regarded by scholarly literature as being the most influential on business sustainability (see Section 2.3).

Taking into account the above, it becomes apparent that sampled SMMEs were affected by mostly macro-economic factors (see Section 2.3), particularly those of cost of electricity, stiff competition, and inflation. Hence, the inference can be made that the economic environment in which these SMMEs had to operate was undesirable and/or harsh. Therefore, it is highly probable that sampled SMMEs may have been adversely affected by a plethora of risks which could emanate from the harsh economic environment in which they operate.

#### **4.6 RISKS FACED BY SOUTH AFRICAN SMMEs**

Taking into account that sampled SMMEs operate in a harsh economic environment (see Section 4.5), which is regarded by scholarly literature as a type of 'breeding ground' for risks (see Section 2.3), it is highly likely that these entities' sustainability was influenced by an array of risks. To determine whether this was the case, respondents were asked to provide their perceptions on relevant risks which affect their respective SMMEs' sustainability. This was done by using a four-

point Likert scale (1 = strongly disagree, 2 = disagree, 3 = agree, 4 = strongly agree), with each statement starting with the following base sentence: *My business is faced with the following problem ....* A summary of the results is presented in Table 4.4.

All the risks with a median value of 3 or more were the ones which respondents perceived as influencing their respective businesses' sustainability. Considering the mean values, the risks that influenced these businesses the most (perceived) were those of strong competition (mean of 3.4) and increase in cost prices of products (mean of 3.0). Other risks that were also perceived as influencing the business sustainability of sampled SMMEs were employee theft (mean of 2.6), large expenses (in relation to income) (mean of 2.6), unstable business conditions (mean of 2.6), low demand for products (mean of 2.6), weak business growth (mean of 2.6), low demand for products (mean of 2.5), and environmental risks (waste, etc.) (mean of 2.5). Although the mean values for low demand for products and environmental risks (waste, etc.) suggested that respondents were neutral (mean of 2.5), the median values (3) and agreement percentages (52.6%) serve as justification that respondents leaned towards agreement on the relevant statements. Respondents regarded the following risks as not influencing their businesses' sustainability: employee risks (immigration, etc.) (mean of 2.3), delays in supply chain process (mean of 2.3), poor product quality (mean of 2.2), and poor service quality (mean of 2.0). The abovementioned four risks all had a median value of 2, which indicates that respondents disagreed that these risks did influence their SMMEs' sustainability to a large extent. As indicated by the agreement level of 50% and a median value of 2.5, the risk which SMMEs were undecided on was health and safety.

In essence, stemming from the results above, these businesses were mostly affected by strategic risks (strong competition) and operational risks (employee theft and increases in cost prices of products and services), most of which may have stemmed from economic factors (e.g. stiff competition, inflation rates, and cost of electricity). Nevertheless, without sound risk-management initiatives, these risks may realise and result in economic losses (e.g. weaker profitability, weaker liquidity, weaker efficiency and/or weaker solvency) and/or non-economic losses (e.g. lost customer loyalty). The potential impact of these risks may be greater for these business entities, taking into account that scholarly literature suggests that they do not make use of sound risk-management initiatives (see Section 2.7).

**Table 4.4:** Risks which affected sampled SMMEs' sustainability

My business is faced with the following problem:	Valid				Total agreement	Median value	Mean value	Standard Deviation
	Strongly disagree	Disagree	Agree	Strongly agree				
Strong competition	5.2%	10.3%	27.6%	56.9%	<b>84.5%</b>	<b>4</b>	<b>3.4</b>	<b>0.87</b>
Increase in cost prices of products	4.3%	19.8%	50.9%	25.0%	<b>75.9%</b>	<b>3</b>	<b>3.0</b>	<b>0.79</b>
Employee theft	27.5%	12.1%	37.1%	23.3%	<b>60.4%</b>	<b>3</b>	<b>2.6</b>	<b>1.13</b>
Large expenses (in relation to income)	19.0%	23.3%	37.9%	19.8%	<b>57.7%</b>	<b>3</b>	<b>2.6</b>	<b>1.01</b>
Unstable business conditions	7.8%	37.1%	44.0%	11.1%	<b>55.1%</b>	<b>3</b>	<b>2.6</b>	<b>0.79</b>
Weak business growth	10.3%	37.1%	38.8%	13.8%	<b>52.6%</b>	<b>3</b>	<b>2.6</b>	<b>0.86</b>
Low demand for products	18.1%	29.3%	41.4%	11.2%	<b>52.6%</b>	<b>3</b>	<b>2.5</b>	<b>0.92</b>
Environmental risks (waste, etc.)	18.1%	29.3%	33.6%	19.0%	<b>52.6%</b>	<b>3</b>	<b>2.5</b>	<b>1.00</b>
Health and safety risks	23.3%	26.7%	38.8%	11.2%	<b>50.0%</b>	<b>2.5</b>	<b>2.4</b>	<b>0.97</b>
Employee risks (immigration, etc.)	23.3%	34.5%	28.4%	13.8%	<b>42.2%</b>	<b>2</b>	<b>2.3</b>	<b>0.98</b>
Delays in supply chain process	18.1%	46.6%	25.0%	10.3%	<b>35.3%</b>	<b>2</b>	<b>2.3</b>	<b>0.88</b>
Poor product quality	32.8%	25.0%	32.8%	9.4%	<b>42.2%</b>	<b>2</b>	<b>2.2</b>	<b>1.00</b>
Poor service quality	39.7%	31.9%	18.9%	9.5%	<b>28.4%</b>	<b>2</b>	<b>2.0</b>	<b>0.99</b>

#### 4.7 RISK-MANAGEMENT INITIATIVES USED BY FAST-FOOD SMMEs

In order to determine whether sampled SMMEs made use of effective and/or adequate risk-management initiatives, respondents were asked to identify the risk-management initiatives they used in dealing with the risks they faced (see Section 4.6). To achieve this, a four-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = agree, 4 = strongly agree) was used, with each statement starting with the following base sentence: *My business deals with the aforementioned problems by means of ....* A summary of the results is presented in Table 4.5.

The median values of almost all the risk-management initiatives listed are greater than 3, implying that respondents made use of almost all the listed initiatives. Furthermore, the mean values in Table 4.5 are significantly above the point of neutrality (mean of 2.5), thereby suggesting that there was a moderate to strong agreement among respondents concerning the use of the identified risk-management initiatives. Stated otherwise, these SMMEs used these risk-management initiatives most of the time. Considering the agreement percentages as basis, the risk-management initiatives mostly used by sampled SMMEs were those of budgets (91.4% agreement), setting of clear objectives (88.8% agreement), using policies and procedures (85.4% agreement), using a code of ethics (82.7% agreement), using controls to reduce the effects of risk (85.4% agreement), and using an adequate business strategy (82.8% agreement). In essence, the above echo what is noted in literature, that South African SMMEs mostly use internal controls to manage risks (see Section 2.9). The only initiatives that the respondents did not use were risk-management experts (38% agreement) and risk-management consultants (33.2% agreement).

Since the respondents made use of almost all the listed risk-management initiatives (see Table 4.5), the inference can be made that the risk-management initiatives used by these businesses may have been effective and/or adequate. Taking into account that these business entities were still to a large extent influenced by risks which may have stemmed from economic factors (see Section 4.6), the effectiveness and/or adequacy of these risk-management initiatives should be regarded as an avenue for further research.

**Table 4.5:** Risk-management initiatives used by sampled SMMEs to manage risks

My business deals with the aforementioned problems by means of:	Valid				Total agreement	Median value	Mean value	Standard Deviation
	Strongly disagree	Disagree	Agree	Strongly agree				
Using budgets	1.7%	6.9%	35.3%	56.1%	<b>91.4%</b>	<b>4</b>	<b>3.5</b>	<b>0.70</b>
Setting clear objectives	2.6%	8.6%	34.5%	54.3%	<b>88.8%</b>	<b>4</b>	<b>3.4</b>	<b>0.76</b>
Using policies and procedures	1.7%	12.9%	44.8%	40.6%	<b>85.4%</b>	<b>3</b>	<b>3.2</b>	<b>0.74</b>
Code of ethics (principles guiding employees)	5.2%	12.1%	44.0%	38.7%	<b>82.7%</b>	<b>3</b>	<b>3.2</b>	<b>0.83</b>
Implementing controls to reduce the effect of risks	3.4%	11.2%	52.6%	32.8%	<b>85.4%</b>	<b>3</b>	<b>3.1</b>	<b>0.75</b>
An adequate business strategy	4.3%	12.9%	52.6%	30.2%	<b>82.8%</b>	<b>3</b>	<b>3.1</b>	<b>0.78</b>
Internal interviews and discussion (e.g. SWOT)	6.0%	17.2%	36.2%	40.6%	<b>76.8%</b>	<b>3</b>	<b>3.1</b>	<b>0.90</b>
Performing separate evaluations	6.0%	16.4%	51.7%	25.9%	<b>77.6%</b>	<b>3</b>	<b>3.0</b>	<b>0.82</b>
Setting the right tone at the top	7.8%	14.7%	43.1%	34.4%	<b>77.5%</b>	<b>3</b>	<b>3.0</b>	<b>0.90</b>
Tools diagnostics and processes (e.g. checklists)	7.8%	15.5%	43.1%	33.6%	<b>76.7%</b>	<b>3</b>	<b>3.0</b>	<b>0.90</b>
Timely communication of risks	4.3%	21.6%	47.4%	26.7%	<b>74.1%</b>	<b>3</b>	<b>3.0</b>	<b>0.81</b>
Risk evaluation(s) (prioritising or ranking the identified risks)	4.3%	22.4%	43.1%	30.2%	<b>73.3%</b>	<b>3</b>	<b>3.0</b>	<b>0.84</b>
Risk analysis	3.4%	25.0%	44.0%	27.6%	<b>71.6%</b>	<b>3</b>	<b>3.0</b>	<b>0.82</b>
Conducting performance appraisals regularly	5.2%	17.2%	55.2%	22.4%	<b>77.6%</b>	<b>3</b>	<b>2.9</b>	<b>0.77</b>
Setting of risk appetite(s)	6.0%	22.4%	49.1%	22.5%	<b>71.6%</b>	<b>3</b>	<b>2.9</b>	<b>0.82</b>
Risk treatment(s) (reducing actual risks)	4.3%	24.1%	49.1%	22.5%	<b>71.6%</b>	<b>3</b>	<b>2.9</b>	<b>0.80</b>
Risk policies	5.2%	26.7%	46.6%	21.5%	<b>68.1%</b>	<b>3</b>	<b>2.8</b>	<b>0.82</b>
External sources (using risk-management consultants)	31.0%	31.0%	26.7%	11.3%	<b>38.0%</b>	<b>2</b>	<b>2.2</b>	<b>1.00</b>
Consulting experts (risk-management experts)	29.3%	34.5%	22.4%	13.8%	<b>36.2%</b>	<b>2</b>	<b>2.2</b>	<b>1.01</b>

## 4.8 ALIGNMENT OF SMME RISK-MANAGEMENT INITIATIVES WITH THE COSO ERM FRAMEWORK

Stemming from the results above, it appears that sampled SMMEs made use of an array of risk-management initiatives to identify, analyse and treat risks. Therefore, in order to determine the extent to which the risk-management initiatives utilised by sampled SMMEs held relevancy to the COSO ERM Framework, relevant inferential statistical analysis was conducted. Specifically, all variables as shown in Table 4.5 were analysed through the use of principle component analysis and principle axis factoring, otherwise known as exploratory factor analysis.<sup>43</sup> This was done with the main intent to reduce the number of variables (items) from 19 into a number of factors as close to 1 as possible (Fabrigar & Wegener, 2011:1). A summary of the exploratory factor analysis results is shown in Table 4.6.

**Table 4.6:** Summary of exploratory factor analysis results

	Component			
	1	2	3	4
8.1) A code of ethics (principles guiding employees)	<b>.623</b>	-.323	.084	.250
8.2) Risk policies	<b>.638</b>	-.031	.060	-.207
8.3) Setting the right 'tone at the top'	.416	-.393	.404	<b>.500</b>
8.4) Setting of risk appetite(s)	<b>.585</b>	-.045	.241	-.352
8.5) An adequate business strategy	<b>.714</b>	-.171	-.221	.009
8.6) Setting clear objectives	<b>.627</b>	-.445	.019	.129
8.7) Internal interviews and discussion (e.g. SWOT)	<b>.682</b>	.078	.288	.090
8.8) External sources (e.g. risk consultants)	.398	<b>.691</b>	.240	.310
8.9) Tools diagnostics and processes (e.g. checklists)	<b>.578</b>	.038	.328	.438
8.10) Risk analysis	<b>.739</b>	.084	.255	-.396
8.11) Risk evaluation(s)	<b>.809</b>	.160	.203	-.354
8.12) Risk treatment(s) (reducing actual risks)	<b>.731</b>	.086	.186	-.277
8.13) Implementing controls to manage risk	<b>.657</b>	.066	.020	.021
8.14) Using budgets	<b>.687</b>	-.313	-.202	-.006
8.15) Using policies and procedures	<b>.626</b>	-.166	-.451	.145
8.16) Timely communication of risks	<b>.676</b>	.053	-.424	.203
8.17) Consulting experts	.250	<b>.808</b>	-.104	.285
8.18) Conducting performance appraisals regularly	<b>.683</b>	.144	-.447	.030
8.19) Performing separate evaluations	<b>.642</b>	.230	-.308	-.152

Extraction Method: Principal Component Analysis. 4 components extracted.

Stemming from the results in Table 4.6, the inference can be made that of the 17 different risk-management initiatives used by SMMEs, a total of 16 (84.21%) related strongly to the COSO ERM Framework (see Section 2.6.2), forming a single factor in this regard. According to Rossoni et al. (2016:200), the minimum acceptable values for exploratory factor analysis in

<sup>43</sup> Factor analysis refers to the reduction of many factors into a lesser number of factors (Dictionary.com, 2017). Essentially, these new factors will constitute one or more of the initial individual factors.



relation to the Kaiser-Meyer-Olkin (KMO) test<sup>44</sup> and Cronbach's Alpha are 0.500 and 0.700 respectively. This single factor showed a KMO test value of 0.876 (a chi-squared value based on Bartlett's test of sphericity of 990.506) and a Cronbach's Alpha of 0.918 – justifying the legitimacy of the calculated factor. For all intents and purposes, the factor will be referred to as *COSOERM* for the remainder of this study. The mean (3.07), median (3), and standard deviation (0.54) for *COSOERM* indicated that the sampled SMMEs did make use of the factor. Stated otherwise, the risk-management initiatives which were used by these businesses held strong relevancy to the COSO ERM Framework.

#### 4.9 PERCEPTIONS OF RESPONDENTS REGARDING ERM

Using the above as a basis, clear tangent planes emerge that SMMEs made use of risk-management initiatives which were directly related to the COSO ERM Framework; however, the question remains whether respondents implemented *COSOERM* by choice or by chance. This is particularly important since it is claimed that South African SMMEs unknowingly make use of ERM initiatives (see Section 2.7). To help shed light on this, respondents' perceptions on ERM were gleaned using a six-point Likert scale (1 = none, 2 = very little, 3 = little, 4 = average, 5 = some, 6 = a lot) on three individual questions. The results are presented in Table 4.7

**Table 4.7:** Perceptions of respondents regarding ERM

	Valid						Median value	Mean value	Standard Deviation
	None	Very little	Little	Average	Some	A lot			
How well do you understand the ERM process?	21.60%	20.70%	10.30%	24.10%	15.50%	7.80%	<b>3.0</b>	3.15	1.62
How many of the ERM initiatives have you implemented in your business?	21.60%	21.50%	18.10%	23.30%	11.20%	4.30%	<b>3.0</b>	2.94	1.47
How much value does ERM add to your business?	19.80%	19.80%	19.80%	15.50%	17.30%	7.80%	<b>3.0</b>	3.14	1.59

The first question was intended to better understand how familiar respondents were with the ERM process. From the table above, it is clear that the majority (52.60%) had virtually no understanding thereof. This is of concern, since without sufficient understanding of the ERM process it is impossible to implement effective and/or adequate ERM initiatives. Consequently,

<sup>44</sup> The KMO test measures if the sample used in a study is adequate for factor analysis to be performed (Tabussum & Mahmood, 2015:61).

taking into account that most respondents had no understanding of the ERM process, it is highly probable that it may have adversely influenced the effectiveness and/or adequacy of implemented ERM initiatives. Thus, the inference can be made that the implemented ERM initiatives may have been implemented by chance. Stated otherwise, respondents may have unknowingly implemented ERM initiatives, without understanding the technicalities surrounding the ERM process.

Respondents were also asked to indicate the extent to which they had gone to implement ERM initiatives (as built on the COSO ERM Framework) in their respective businesses. As expected, the results of the second question were similar to those of the first question. A total of 61.20% of respondents indicated that they had implemented virtually none of the initiatives of the COSO ERM Framework. These results contradict the results stemming from Table 4.6, which suggested that respondents made use of *COSOERM*. This inconsistency may be due to respondents' unknowingly use of risk-management initiatives that are in line with the COSO ERM Framework, supporting the perception that respondents may have unknowingly implemented ERM initiatives without having any technical insight into the ERM process. In the same vein, it may also have been the case that respondents took a chance in relation to the implementation of ERM initiatives.

Furthermore, respondents were asked to indicate their perceptions on value added by ERM to their respective businesses. Considering that value added by ERM is most likely influenced by the ERM initiatives implemented, it is unsurprising that the results of this question corresponded to the results of the second question. From Table 4.6 it was established that the majority of respondents (59.4%) regarded the value added by ERM to their businesses as negligible. Hence, it was not surprising that more than half of respondents (61.20%) had not yet made significant efforts to implement ERM. Besides the ERM initiatives implemented, a lack of knowledge about ERM could have also contributed to the respondents' perceptions on the value added by ERM.

From the inferential statistics above, it is highly probable that the implemented ERM initiatives in sampled SMMEs were more likely implemented by chance than by choice. This view is underscored by the fact that the average respondent had virtually no understanding of ERM. Furthermore, this concurs with the results from recent studies, where it was established that most SMMEs do not have a formal risk-management framework in place (Chakabva, 2015:65; Bruwer & Siwangaza, 2016:112). This is a phenomenon which should be further investigated in future studies.

#### **4.10 CONCLUSION AND RELEVANCE TO THE STUDY**

The purpose of this chapter was to present the analysed data and subsequent discussion to adequately address the primary research question and relevant investigative research questions (see Section 1.3.2). Before the analysis and presentation of results, relevant issues of data validity and data reliability were addressed. In essence, the internal consistency of the variables in the questionnaire was analysed using computed Cronbach's Alpha values. Stemming from the calculated Cronbach's Alpha values, it was concluded that collected data were reliable.

The demographic information pertaining to the position of respondents in their respective businesses, the number of years their businesses had existed, and the number of employees, was analysed by means of descriptive statistics. This was done to provide background information on sampled SMMEs. Furthermore, the perceived financial sustainability of these SMMEs was analysed, and it was considered to be moderate. Results on the economic factors affecting these entities were also presented and discussed. Sampled SMMEs were mostly affected by macro-economic factors such as stiff competition, cost of electricity, and inflation rates. Regarding the risks affecting the sustainability of these businesses, the results showed that the most predominant risks were operational risks (employee theft, and increases in cost prices of products and services) and strategic risks (strong competition). The inference was made that the risk-management initiatives of these entities were ineffective and/or inadequate.

The risk-management initiatives utilised by the sampled SMMEs were analysed, and the results showed that these businesses used almost all the listed initiatives (see Section 4.7). However, the predominant risk-management initiatives used were budgets, setting of clear objectives, using policies and procedures, using a code of ethics, using controls to reduce the effects of risk, and using an adequate business strategy. In order to conclusively answer the third investigative research question (see Section 1.3.2), relevant inferential statistical analysis was performed in the form of exploratory factor analysis. The results showed that the risk-management initiatives used by sampled SMMEs had strong relevance to the COSO ERM Framework. Taking into account the results from respondents' perceptions on ERM, evidence was provided that these business entities most likely made use of such initiatives by chance as opposed to choice.

In the next chapter, the research problem, relevant research questions and research objectives are revisited, while relevant conclusions are drawn and recommendations made.

## CHAPTER 5

### CONCLUSION

#### SYNOPSIS

For this research study, a methodical process was followed whereby each chapter built on the previous chapter. This process is depicted below.

**Chapter 1:** Introduction to the research study

**Chapter 2:** Literature review

**Chapter 3:** Research design, research methodology and research methods

**Chapter 4:** Data analysis, results and discussion

**Chapter 5:** Conclusion

- Introduction
- Research problem revisited
- Primary research question and primary research objective revisited
- Investigative research questions and secondary research objectives revisited
- Conclusion of the research study
- Recommendations
- Avenues for further research

## 5.1 INTRODUCTION

The main purpose of this study was to address the identified research problem (see Section 1.2) by means of addressing relevant research questions (both primary and investigative), together with their respective research objectives (both primary and secondary) (see Section 1.3). The first two investigative questions were predominantly investigated through an extensive literature review (see Chapter 2). Related secondary research objectives were achieved by providing answers to the posed investigative research questions, from where certain concepts were conceptualised:

- Sustainability (in general) (see Section 2.2).
- Sustainability (in a South African SMME dispensation) (see Section 2.2).
- Risk (see Section 2.4).
- Risk management (see Section 2.4)

Although the first two investigative research questions were also partially addressed by empirical research, the final investigative research question predominantly relied on the latter in order to achieve the related secondary research objective. The questionnaire used in this study was developed from the literature review conducted in Chapter 2, and data were collected from owners and/or managers of fast-food SMMEs operating in the Cape Peninsula.

In order to select the units of analysis, a combination of purposive sampling and convenience sampling was used. Furthermore, these sampling methods were supported by strict delineation criteria which the units of analysis had to adhere to in order to be considered valid respondents. The gleaned data were analysed using predominantly descriptive statistics and partially inferential statistics, and the results were presented and discussed in Chapter 4. In essence, the data were analysed under the following headings:

- SMME demographic information (position of respondents in their respective businesses, number of employees, and years their businesses have been in existence) (see Section 4.4).
- Economic factors affecting South African SMMEs (see Section 4.5).
- Risks faced by South African SMMEs (see Section 4.6).
- Risk-management initiatives used by South African SMMEs (see Section 4.7).
- Alignment of risk-management initiatives used with the COSO ERM (see Section 4.8).
- Perceptions of respondents regarding ERM (see Section 4.9).

The purpose of this chapter is to draw final conclusions and make recommendations by revisiting the research problem, the primary research question, the three investigative questions, the primary research objectives, and the secondary research objectives.

## **5.2 RESEARCH PROBLEM REVISITED**

Following the background to the study in Chapter 1 (see Section 1.1), the study posited that South African SMMEs had weak business sustainability, mainly owing to their negligence in deploying proper risk-management initiatives. The term ‘sustainability’, in a South African SMME dispensation, was conceptualised in Chapter 2 (see Section 2.2). Despite the general consensus in literature regarding the neglect of sound risk-management initiatives by South African SMMEs in general, little was known about the risk-management initiatives used and the extent to which they were in accordance with ERM, particularly the renowned COSO ERM Framework. In essence, the problem statement that was identified in this study read as follows:

*South African SMMEs have a weak sustainability ‘track record’, owing to the insufficient utilisation of sound risk-management initiatives – particularly that of enterprise risk management (ERM).*

In order to address the above research problem, the relevant primary research question together with the related research objective was formulated.

## **5.3 PRIMARY RESEARCH QUESTION AND PRIMARY RESEARCH OBJECTIVE REVISITED**

To adequately address the identified research problem, the following primary research question was posed:

*Do South African fast-food SMMEs operating in the Cape Peninsula utilise ERM to help enhance their overall sustainability?*

The primary research objective stemming from the above primary research question, read:

*To ascertain whether South African fast-food SMMEs operating in the Cape Peninsula utilise ERM to help enhance their overall sustainability.*

In order to comprehensively answer the identified primary research question, with the main intent of attaining the primary research objective, three investigative research questions and the related secondary research objectives were formulated.

## **5.4 INVESTIGATIVE RESEARCH QUESTIONS AND SECONDARY RESEARCH OBJECTIVES REVISITED**

All of the three developed investigative research questions, together with the secondary research objectives, were closely linked to one another, including the primary research question and primary research objective. These investigative questions and their respective secondary objectives are revisited below.

### **5.4.1 First investigative research question and its relevant secondary research objective revisited**

In an attempt to answer the primary research question, the first investigative question read as follows:

*What are the risks which South African fast food SMMEs in the Cape Peninsula face?*

The aim of this investigative research question was to attain the following secondary research objective:

*To determine the risks that South African fast food SMMEs in the Cape Peninsula face.*

Considering that the risks affecting businesses emanate from the economic environment of the economies in which these businesses operate, it was deemed necessary first to consider the South African economic environment in conjunction with the economic factors affecting SMMEs. According to literature, the economic factors affecting South African SMMEs comprise two main categories, namely, macro-economic factors (e.g. high unemployment, high interest rates, high inflation rates, and expensive and unreliable electricity supply), and micro-economic factors (e.g. lack of access to capital, unreliable suppliers, availability of substitute products, and poor management skills) (see Section 2.3). Based on the literature review, the South African economic landscape was found to be undesirable for SMMEs to

operate in. In core, this environment was regarded as 'harsh' – a type of 'breeding ground' for a plethora of risks (see Section 2.3).

When focus is shifted to the sampled SMMEs in this study, based on the descriptive statistics performed (see Section 4.4), the typical respondent was revealed as a manager of a very small non-franchised business entity, with 9.77 employees, and having been in existence for 7.18 years with a relatively moderate financial sustainability (see Section 4.4). Most respondents indicated that their respective SMMEs' sustainability was predominantly affected by cost of electricity, inflation rates, food prices of suppliers, stiff competition, and difficult access to finance (external funding) (see Section 4.5).

Considering the above results, it became apparent that sampled SMMEs were mostly affected by macro-economic factors – those factors which to a large extent cannot be controlled by management. With this in mind, the finding from literature that the South African economic environment can be described as 'harsh' (see Section 2.3) is supported to a large extent. Thus the inference was drawn that sampled SMMEs faced numerous risks at a given time.

In order to adequately answer the first investigative research question, the term 'risk' was conceptualised (see Section 2.4), and this was achieved by examining a non-exhaustive list of definitions of the term 'risk' (see Table 2.3). In essence, the term 'risk' was conceptualised as the chances of threats and/or opportunities occurring, materialising and/or impacting, either positively or negatively, on the attainment of a business's overall sustainability (see Section 2.4). Furthermore risks were also demarcated into four broad categories: 1) strategic risks, 2) operational risks, 3) reporting risks, and 4) compliance risks (see Section 2.4).

Stemming from the results, sampled SMMEs were found to be affected by various risks, predominantly those of operational risks (i.e. employee theft, and increases in cost prices of products and services) and strategic risks (i.e. stiff competition). The literature review noted that the abovementioned risks can negatively impact a business's sustainability, especially if sound risk-management initiatives are not in place (see Section 2.4).

Hence, it was concluded that sampled SMMEs faced a range of risks which had the potential to negatively impact on their overall sustainability.



#### **5.4.2 Second investigative research question and its relevant secondary research objective revisited**

Stemming from the primary research question, the second investigative research question read as follows:

*How are these risks treated by South African fast-food SMMEs in the Cape Peninsula?*

The aim of this investigative research question was to attain the following secondary research objective:

*To understand the risk-management initiatives used by South African fast food SMMEs in the Cape Peninsula, in dealing with the identified risks.*

As previously mentioned, this question was interrogated through literature review, and before the question could be answered, the term 'risk management' was conceptualised. Stemming from the non-exhaustive list of definitions of risk management (see Table 2.4), the term 'risk management' was conceptualised as the step-by-step process whereby potential threats (and opportunities) are identified and analysed in order to mitigate their realisation and potential impact (spur on their realisation and potential impact), with the main intent to provide reasonable assurance surrounding the attainment of relevant business objectives in the foreseeable future (see Section 2.4). Despite the paucity of literature on risk-management initiatives utilised by South African SMMEs operating in the fast-food industry, it was inferred from the available literature that these business entities mostly use customised risk-management initiatives which generally take the form of internal controls which include, inter alia, budget controls, having a code of ethics, performing cash counts, and having access controls to entrances (see Section 2.7).

Stemming from the results it was found that sampled SMMEs made significant use of almost all listed risk-management initiatives in the questionnaire (see Section 4.4). The risk management initiatives that were used most frequently, compared with others, were: 1) using budgets, 2) setting clear objectives, 3) using policies and procedures, 4) having a code of ethics, 5) using controls to reduce the effects of risk, and 6) using an adequate business strategy. In essence, the abovementioned risk-management initiatives affirm the claims of literature in the sense that South African SMMEs mostly use customised risk-management initiatives which take the form of internal control activities (see Section 2.7). However,

considering that the sampled SMMEs made use of almost all the listed risk-management initiatives, it was inferred that these entities' risk management may have been effective and/or adequate.

Therefore it was concluded that the risk-management initiatives deployed by sampled SMMEs could possibly enable them to manage the risks they faced.

#### **5.4.3 Third investigative research question and its relevant secondary research objective revisited**

Also stemming from the primary research question, the third investigative research question read as follows:

*Are the risk treatments used by South African fast-food SMMEs in the Cape Peninsula aligned to ERM?*

The aim of this investigative research question was to attain the following secondary research objective:

*To compare the risk-management initiatives used by South African fast food SMMEs in the Cape Peninsula, against the COSO ERM framework, and determine if the initiatives are in accordance with this framework.*

Although this question was solely answered by conducting empirical research, the literature review enabled the researcher to elaborate on the COSO ERM Framework (see Section 2.6.2). It was against this background by which targeted participants' responses (in relation to risk-management initiatives they used) were 'benchmarked'. In essence, this framework comprises eight components: 1) internal environment, 2) objective setting, 3) event identification, 4) risk assessment, 5) risk response, 6) control activities, 7) information and communication, and 8) monitoring (see Section 2.6.2).

In order to determine whether sampled SMMEs deployed risk-management initiatives that conformed to the COSO ERM Framework, inferential statistical analysis, in the form of exploratory factor analysis, was performed to group the listed 19 risk-management initiatives (see Section 4.5). Of the 19 risk management initiatives, a total of 16 initiatives were found to conform to *COSOERM* (see Table 4.6), with a calculated KMO value of 0.876 and a Cronbach's Alpha of 0.918. These results suggested that sampled SMMEs were actually using

risk-management initiatives that were in line with the COSO ERM Framework (see Section 4.8).

Notwithstanding the above, before any final conclusions were drawn, it was important to determine whether respondents were using ERM-related initiatives by choice or by chance (shedding light on how appropriately risks are treated in relation to ERM). Three questions were posed to respondents where they had to share their perceptions on ERM from where it was found that most respondents had virtually no understanding of ERM.

Therefore, it was concluded that these entities were not using ERM in a formal manner (choice), but were merely using ERM-related initiatives by chance.

## **5.5 CONCLUSION OF THE RESEARCH STUDY**

Despite their undoubted paramount importance, South African SMMEs have the worst business sustainability in the world. Although their weak sustainability could be attributed to many factors, the researcher was of the opinion that it is mainly due to the insufficient utilisation of risk-management initiatives, particularly ERM.

The seven key economic indicators examined in the literature review revealed that the South African economic landscape is undesirable for businesses to operate and be sustainable in. In essence, this economic landscape was considered to be 'harsh' – a 'breeding ground' for a plethora of risks. This 'harsh' economic landscape is responsible for the various risks affecting South African SMMEs, and these risks are demarcated into four categories: 1) operational risks, 2) strategic risks, 3) compliance risks, and 4) reporting risks. In spite of the above, it was deduced that South African SMMEs use customised risk-management initiatives in the form of internal controls. Thus, the risk-management initiatives used by South African SMMEs were considered to be ineffective and/or inadequate. According to the analysed results, the overall financial sustainability of the sampled SMMEs was perceived to be moderate (above-average solvency, efficiency and liquidity; below-average profitability). This was not surprising, considering the numerous factors and risks which these entities identified as affecting their operations. The predominant economic factors which influenced sampled SMMEs' sustainability included the cost of electricity, inflation rates, food prices of suppliers, stiff competition, difficult access to finance (external funding), and increases in cost prices of products. Furthermore, it was found that the sustainability of these SMMEs was mostly influenced by operational risks (i.e. employee theft, and increases in cost prices of products and services) and strategic risks (i.e. stiff competition). The above results support the notion

stemming from literature that the South African economic landscape is 'harsh'. In essence, without sound risk-management initiatives in place, the identified economic factors and risks have the capacity to influence the sustainability of these SMMEs adversely.

Initially, the risk-management initiatives used by sampled SMMEs suggested that these business entities made use of ERM. However, an examination of the respondents' perceptions regarding ERM revealed that these ERM-related initiatives were used by chance as opposed to choice. Thus, it was concluded that the risk-management initiatives used by sampled SMMEs were ineffective and/or inadequate, considering that these SMMEs had virtually no understanding of ERM. This supports the views from literature that South African SMMEs unknowingly engage in ERM initiatives.

Since a typical respondent had virtually no understanding of ERM, it can be concluded that these SMMEs, in effect, did not make proper use of ERM. This could be a plausible reason why these business entities had only moderate financial sustainability, since they could not effectively and adequately manage the economic factors and risks that negatively influenced their business operations and overall sustainability.

## **5.6 RECOMMENDATIONS**

Taking into account the research conducted, the following propositions are recommended:

- Management of SMMEs should aim to acquire more knowledge and understanding of ERM. This can be achieved by attending risk-management training provided by reputable organisations like the Institute of Risk Management South Africa (IRMSA).
- Management of SMMEs should consult risk-management experts on an ongoing basis, particularly during the initial stages of ERM implementation.
- The government of South Africa should set up risk-management training institutions, exclusively for SMMEs. These institutions should conduct workshops on a regular basis, thereby assisting SMMEs to have sound risk-management initiatives in place.
- The government of South Africa should try to improve the economic landscape in which SMMEs operate, specifically in relation to inflation, interest rates, cost of electricity, crime rates, labour costs, and unemployment rates, to mention but few.
- The government of South Africa should offer financial support to those SMMEs intending to fund the implementation of ERM in their businesses.

## **5.7 AVENUES FOR FURTHER RESEARCH**

Avenues for further research, inter alia, are listed below:

- To determine the impact of utilising ERM on the sustainability of South African SMMEs.
- To ascertain whether risk management education has a positive influence on the sustainability of South African SMMEs.
- To determine the effectiveness and/or adequacy of risk-management initiatives utilised by South African SMMEs.

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## ANNEXURES

### ANNEXURE A: RESEARCH QUESTIONNAIRE

RESEARCHER DETAILS	
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RESEARCH TITLE
The utilisation of Enterprise Risk Management in fast-food Small, Medium and Micro Enterprises (SMMEs) operating in the Cape Peninsula

CONFIDENTIALITY AND ANONYMITY
Please note that ALL information provided by the respondent will be kept strictly confidential and that the anonymity of the respondent is guaranteed. The information provided will be used strictly for research purposes only. Respondents also may withdraw from this study at any point in time as participation is voluntary.

HOW TO COMPLETE THIS SURVEY
This survey comprises mostly closed-ended questions which require the respondent to fill in a numerical digit and/or mark an 'x' in the most appropriate boxes. Clear instructions for each question are given under each section. If respondents do not understand a specific question, please feel free to contact either the researcher and/or supervisor indicated on this front page. By completing and submitting this survey questionnaire, you are providing informed consent to participate in the research.

PRIMARY OBJECTIVES OF THE SURVEY
<p>The Faculty of Business and Management Sciences of the Cape Peninsula University of Technology's research niche area reads: <i>The effective management of SMMEs</i>.</p> <p>Research has shown that approximately 80% of all small businesses which start up, fail within the first five years of existence. Essentially this research is based on the perception that small businesses do not make adequate use of risk management systems, particularly Enterprise Risk Management (ERM). The objectives of this survey include:</p> <ul style="list-style-type: none"><li>➤ To determine the factors that affect small and micro business sustainability.</li><li>➤ To determine the risks faced by small and micro enterprises.</li><li>➤ To gain insight into how small and micro enterprises deal with risks they face.</li><li>➤ To determine the extent to which small and micro businesses have implemented Enterprise Risk Management (ERM) or its elements.</li></ul>

SECTION A: BUSINESS IDENTIFICATION	
1) In what <b>industry</b> do you operate?	_____
2) How <b>long</b> has your business been in <b>existence</b> ? (years)	_____ years
3) How many <b>employees</b> do you employ? (number)	_____ employees
4) Are you part of a <b>franchise</b> ?	Yes <input type="checkbox"/> No <input type="checkbox"/>
5) <b>You</b> are the . . . (tick the best answer)	
Owner <input type="checkbox"/>	Manager <input type="checkbox"/>
Owner and manager <input type="checkbox"/>	Other <input type="checkbox"/>
5.1) If other, please specify	_____

SECTION B: FACTORS AFFECTING FAST FOOD SMMEs				
<b>6) Statement: The following barriers affect my business's sustainability:</b> (Mark an 'X' in the appropriate box below. 1 = strongly disagree, 2 = disagree, 3 = agree, 4 = strongly agree)				
	1	2	3	4
6.1) Food prices of suppliers				
6.2) Unemployment rates				
6.3) Inflation rates				
6.4) Size of the business				
6.5) Difficult access to finance (capital)				
6.6) Stiff competition				
6.7) Low demand for products and/or services				
6.8) Location of the business				
6.9) Ineffective marketing				
6.10) 'Substitute' products and/or services at cheaper price				
6.11) Unproductive employees				
6.12) Poor service quality				
6.13) Poor product quality				

6.14) Cost of electricity				
6.15) Cost of water				
6.16) Lack of adequate credit facilities				
6.17) Unreliable supply of raw materials				
6.18) Interest rates				
6.19) Legislation, rules and regulations				
6.20) Labour costs				
6.21) Crime rate				
6.22) Bad debts (customers not pay debts)				
6.23) Taxation				
6.24) Rapid change in technology				

SECTION C: RISKS FACED BY FAST-FOOD SMMEs				
<b>7) Statement: My business is faced with the following problems:</b> (Mark an 'X' in the appropriate box below. 1 = strongly disagree, 2 = disagree, 3 = agree, 4 = strongly agree)				
<b>STRATEGIC RISK</b>	1	2	3	4
7.1) Strong competition				
7.2) Low demand for products				
7.3) Delays in supply chain process				
7.4) Weak business growth				
7.5) Unstable business conditions				
<b>COMPLIANCE RISK</b>	1	2	3	4
7.6) Health and safety risks				
7.7) Employee risks (immigration, etc.)				
7.8) Environmental risks (waste, etc.)				
<b>FINANCIAL RISK</b>	1	2	3	4
7.9) Weak business profitability (profits)				
7.10) Weak business liquidity (cash)				
7.11) Weak business solvency (more liabilities)				
7.12) Weak business efficiency (poor efficiency)				
<b>OPERATIONAL RISK</b>	1	2	3	4
7.13) Poor service quality				
7.14) Employee theft				
7.15) Large expenses (in relation to income)				
7.16) Increase in cost prices of products				
7.17) Poor product quality				

<b>SECTION D: RISK MANAGEMENT BY FAST FOOD SMMEs</b>				
<b>8) Statement: My business deals with the aforementioned problems by means of:</b> (Mark an 'X' in the appropriate box below. 1 = strongly disagree, 2 = disagree, 3 = agree, 4 = strongly agree)				
<b>Risk management methods</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
8.1) A code of ethics (principles guiding employees)				
8.2) Risk policies				
8.3) Setting the right 'tone at the top'				
8.4) Setting of risk appetite(s)				
8.5) An adequate company strategy				
8.6) Setting clear objectives				
8.7) Internal interviews and discussion (e.g SWOT)				
8.8) External sources (e.g. risk consultants)				
8.9) Tools diagnostics and processes (e.g. checklists)				
8.10) Risk analyses				
8.11) Risk evaluation(s)				
8.12) Risk treatment(s) (reducing actual risks)				
8.13) Implementing controls to reduce the effect of risks				
8.14) Using budgets				
8.15) Using policies and procedures				
8.16) Timely communication of risks				
8.17) Consulting risk management experts				
8.18) Conducting performance appraisals regularly				
8.19) Performing separate evaluations				

<b>SECTION E: ENTERPRISE RISK MANAGEMENT (ERM)</b>						
Mark an 'X' in the appropriate box below. 1= None 2 = Little, 3 = Very little, 4 = Average, 5 = Some, 6 = A lot						
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
9.1) How well do you understand the ERM process?						
9.2) How many of the ERM initiatives have you implemented in your business?						
9.3) How much value does ERM add to your business?						

<b>THANK YOU</b>	
Thank you for your time and effort in completing this survey for the benefit of academic research in the field of internal auditing.	
<b>Business Name:</b>	
<b>Address</b>	
<b>Telephone</b>	

Would you like <b>e-mail feedback</b> of this study?	
Yes	<input type="checkbox"/>
No	<input type="checkbox"/>
If yes, please supply e-mail address:	



## ANNEXURE B: DEMOGRAPHICS OF SAMPLE

### Business demographics

In what industry do you operate?

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Fast-food industry	1.00	116	100.00	100.00	100.00
Total		116	100.00	100.00	

How long has your business been in existence? (years)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
	2.00	17	14.66	14.66	14.66
	3.00	19	16.38	16.38	31.03
	4.00	11	9.48	9.48	40.52
	5.00	14	12.07	12.07	52.59
	6.00	6	5.17	5.17	57.76
	7.00	7	6.03	6.03	63.79
	8.00	5	4.31	4.31	68.10
	9.00	2	1.72	1.72	69.83
	10.00	12	10.34	10.34	80.17
	11.00	4	3.45	3.45	83.62
	12.00	3	2.59	2.59	86.21
	13.00	2	1.72	1.72	87.93
	14.00	3	2.59	2.59	90.52
	15.00	5	4.31	4.31	94.83
	16.00	1	.86	0.86	95.69
	18.00	2	1.72	1.72	97.41
	20.00	1	0.86	0.86	98.28
	30.00	1	0.86	0.86	99.14
	40.00	1	0.86	0.86	100.00
Total		116	100.00	100.00	

How many employees do you employ? (number)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
	1.00	5	4.31	4.31	4.31
	2.00	15	12.93	12.93	17.24
	3.00	19	16.38	16.38	33.62
	4.00	12	10.34	10.34	43.97
	5.00	9	7.76	7.76	51.72
	6.00	4	3.45	3.45	55.17
	7.00	6	5.17	5.17	60.34
	8.00	3	2.59	2.59	62.93
	9.00	4	3.45	3.45	66.38
	10.00	7	6.03	6.03	72.41
	11.00	3	2.59	2.59	75.00
	12.00	4	3.45	3.45	78.45
	13.00	1	0.86	0.86	79.31
	15.00	6	5.17	5.17	84.48
	16.00	1	0.86	0.86	85.34
	18.00	3	2.59	2.59	87.93
	20.00	2	1.72	1.72	89.66
	25.00	1	0.86	0.86	90.52
	27.00	1	0.86	0.86	91.38
	30.00	2	1.72	1.72	93.10
	31.00	1	0.86	0.86	93.97
	35.00	1	0.86	0.86	94.83
	40.00	2	1.72	1.72	96.55
	50.00	4	3.45	3.45	100.00
Total		116	100.00	100.00	

Are you part of a franchise?

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
No	2.00	116	100.00	100.00	100.00
Total		116	100.00	100.00	

You are the . . . (tick the best answer)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Owner	1.00	31	26.72	26.72	26.72
Manager	2.00	78	67.24	67.24	93.97
Owner-manager	3.00	7	6.03	6.03	100.00
Total		116	100.00	100.00	

## ANNEXURE C: FREQUENCIES OF ORDINAL DATA

### Economic factors affecting the sustainability of sampled SMMEs

The following barrier affects my business's sustainability: Food prices of suppliers

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	8	6.90	6.90	6.90
Disagree	2.00	16	13.79	13.79	20.69
Agree	3.00	45	38.79	38.79	59.48
Strongly agree	4.00	47	40.52	40.52	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Unemployment rates

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	7	6.03	6.03	6.03
Disagree	2.00	36	31.03	31.03	37.07
Agree	3.00	40	34.48	34.48	71.55
Strongly agree	4.00	33	28.45	28.45	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Inflation rates

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	6	5.17	5.17	5.17
Disagree	2.00	13	11.21	11.21	16.38
Agree	3.00	57	49.14	49.14	65.52
Strongly agree	4.00	40	34.48	34.48	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Size of the business

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	17	14.66	14.66	14.66
Disagree	2.00	32	27.59	27.59	42.24
Agree	3.00	39	33.62	33.62	75.86
Strongly agree	4.00	28	24.14	24.14	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Difficult access to finance (capital)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	14	12.07	12.07	12.07
Disagree	2.00	20	17.24	17.24	29.31
Agree	3.00	33	28.45	28.45	57.76
Strongly agree	4.00	49	42.24	42.24	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Stiff competition

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	8	6.90	6.90	6.90
Disagree	2.00	19	16.38	16.38	23.28
Agree	3.00	37	31.90	31.90	55.17
Strongly agree	4.00	52	44.83	44.83	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Low demand for products and/or services

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	20	17.24	17.24	17.24
Disagree	2.00	44	37.93	37.93	55.17
Agree	3.00	40	34.48	34.48	89.66
Strongly agree	4.00	12	10.34	10.34	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Location of the business

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	33	28.45	28.45	28.45
Disagree	2.00	40	34.48	34.48	62.93
Agree	3.00	25	21.55	21.55	84.48
Strongly agree	4.00	18	15.52	15.52	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Ineffective marketing

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	28	24.14	24.14	24.14
Disagree	2.00	40	34.48	34.48	58.62
Agree	3.00	31	26.72	26.72	85.34
Strongly agree	4.00	17	14.66	14.66	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: 'Substitute' products and/or services at cheaper prices

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	10	8.62	8.62	8.62
Disagree	2.00	40	34.48	34.48	43.10
Agree	3.00	52	44.83	44.83	87.93
Strongly agree	4.00	14	12.07	12.07	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Unproductive employees

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	44	37.93	37.93	37.93
Disagree	2.00	23	19.83	19.83	57.76
Agree	3.00	30	25.86	25.86	83.62
Strongly agree	4.00	19	16.38	16.38	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Poor service quality

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	41	35.34	35.34	35.34
Disagree	2.00	30	25.86	25.86	61.21
Agree	3.00	30	25.86	25.86	87.07
Strongly agree	4.00	15	12.93	12.93	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Poor product quality

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	42	36.21	36.21	36.21
Disagree	2.00	37	31.90	31.90	68.10
Agree	3.00	20	17.24	17.24	85.34
Strongly agree	4.00	17	14.66	14.66	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Cost of electricity

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	5	4.31	4.31	4.31
Disagree	2.00	15	12.93	12.93	17.24
Agree	3.00	33	28.45	28.45	45.69
Strongly agree	4.00	63	54.31	54.31	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Cost of water

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	21	18.10	18.10	18.10
Disagree	2.00	22	18.97	18.97	37.07
Agree	3.00	33	28.45	28.45	65.52
Strongly agree	4.00	40	34.48	34.48	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Lack of adequate credit facilities

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.000	14	12.07	12.07	12.07
Disagree	2.000	45	38.79	38.79	50.86
Agree	3.000	41	35.34	35.34	86.21
Strongly agree	4.000	16	13.79	13.79	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Unreliable supply of raw materials

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	26	22.41	22.41	22.41
Disagree	2.00	42	36.21	36.21	58.62
Agree	3.00	37	31.90	31.90	90.52
Strongly agree	4.00	11	9.48	9.48	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Interest rates

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	13	11.21	11.21	11.21
Disagree	2.00	27	23.28	23.28	34.48
Agree	3.00	46	39.66	39.66	74.14
Strongly agree	4.00	30	25.86	25.86	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Legislation, rules and regulations

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	15	12.93	12.93	12.93
Disagree	2.00	33	28.45	28.45	41.38
Agree	3.00	42	36.21	36.21	77.59
Strongly agree	4.00	26	22.41	22.41	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Labour costs

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	14	12.07	12.07	12.07
Disagree	2.00	24	20.69	20.69	32.76
Agree	3.00	47	40.52	40.52	73.28
Strongly agree	4.00	31	26.72	26.72	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Crime rate

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	18	15.52	15.52	15.52
Disagree	2.00	24	20.69	20.69	36.21
Agree	3.00	37	31.90	31.90	68.10
Strongly agree	4.00	37	31.90	31.90	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Bad debts (Customers do not pay debts)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	51	43.97	43.97	43.97
Disagree	2.00	21	18.10	18.10	62.07
Agree	3.00	28	24.14	24.14	86.21
Strongly agree	4.00	16	13.79	13.79	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Taxation

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	37	31.90	31.90	31.90
Disagree	2.00	24	20.69	20.69	52.59
Agree	3.00	38	32.76	32.76	85.34
Strongly agree	4.00	17	14.66	14.66	100.00
Total		116	100.00	100.00	

The following barrier affects my business's sustainability: Rapid change in technology

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	29	25.00	25.00	25.00
Disagree	2.00	43	37.07	37.07	62.07
Agree	3.00	29	25.00	25.00	87.07
Strongly agree	4.00	15	12.93	12.93	100.00
Total		116	100.00	100.00	

### Risks influencing the sustainability of sampled SMMEs

My business is faced with the following 'problem': Strong competition

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	6	5.17	5.17	5.17
Disagree	2.00	12	10.34	10.34	15.52
Agree	3.00	32	27.59	27.59	43.10
Strongly agree	4.00	66	56.90	56.90	100.00
Total		116	100.00	100.00	

My business is faced with the following 'problem': Low demand for products

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	21	18.10	18.10	18.10
Disagree	2.00	34	29.31	29.31	47.41
Agree	3.00	48	41.38	41.38	88.79
Strongly agree	4.00	13	11.21	11.21	100.00
Total		116	100.00	100.00	

My business is faced with the following 'problem': Delays in supply-chain process

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	21	18.10	18.10	18.10
Disagree	2.00	54	46.55	46.55	64.66
Agree	3.00	29	25.00	25.00	89.66
Strongly agree	4.00	12	10.34	10.34	100.00
Total		116	100.00	100.00	

My business is faced with the following 'problem': Weak business growth

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	12	10.34	10.34	10.34
Disagree	2.00	43	37.07	37.07	47.41
Agree	3.00	45	38.79	38.79	86.21
Strongly agree	4.00	16	13.79	13.79	100.00
Total		116	100.00	100.00	

My business is faced with the following 'problem': Unstable business conditions

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	9	7.76	7.76	7.76
Disagree	2.00	43	37.07	37.07	44.83
Agree	3.00	51	43.97	43.97	88.79
Strongly agree	4.00	13	11.21	11.21	100.00
Total		116	100.00	100.00	

My business is faced with the following 'problem': Health and safety risks

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	27	23.28	23.28	23.28
Disagree	2.00	31	26.72	26.72	50.00
Agree	3.00	45	38.79	38.79	88.79
Strongly agree	4.00	13	11.21	11.21	100.00
Total		116	100.00	100.00	

My business is faced with the following 'problem': Employee risks (immigration, etc.)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	27	23.28	23.28	23.28
Disagree	2.00	40	34.48	34.48	57.76
Agree	3.00	33	28.45	28.45	86.21
Strongly agree	4.00	16	13.79	13.79	100.00
Total		116	100.00	100.00	

My business is faced with the following 'problem': Environmental risks (waste, etc.)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	21	18.10	18.10	18.10
Disagree	2.00	34	29.31	29.31	47.41
Agree	3.00	39	33.62	33.62	81.03
Strongly agree	4.00	22	18.97	18.97	100.00
Total		116	100.00	100.00	

My business is faced with the following 'problem': Weak business profitability (profits)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	13	11.21	11.21	11.21
Disagree	2.00	39	33.62	33.62	44.83
Agree	3.00	49	42.24	42.24	87.07
Strongly agree	4.00	15	12.93	12.93	100.00
Total		116	100.00	100.00	



My business is faced with the following 'problem': Weak business liquidity (cash)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	13	11.21	11.21	11.21
Disagree	2.00	56	48.28	48.28	59.48
Agree	3.00	35	30.17	30.17	89.66
Strongly agree	4.00	12	10.34	10.34	100.00
Total		116	100.00	100.00	

My business is faced with the following 'problem': Weak business solvency (more liabilities)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	22	18.97	18.97	18.97
Disagree	2.00	52	44.83	44.83	63.79
Agree	3.00	34	29.31	29.31	93.10
Strongly agree	4.00	8	6.90	6.90	100.00
Total		116	100.00	100.00	

My business is faced with the following 'problem': Weak business efficiency (poor efficiency)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	13	11.21	11.21	11.21
Disagree	2.00	52	44.83	44.83	56.03
Agree	3.00	41	35.34	35.34	91.38
Strongly agree	4.00	10	8.62	8.62	100.00
Total		116	100.00	100.00	

My business is faced with the following 'problem': Poor service quality

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	46	39.66	39.66	39.66
Disagree	2.00	37	31.90	31.90	71.55
Agree	3.00	22	18.97	18.97	90.52
Strongly agree	4.00	11	9.48	9.48	100.00
Total		116	100.00	100.00	

My business is faced with the following 'problem': Employee theft

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	32	27.59	27.59	27.59
Disagree	2.00	14	12.07	12.07	39.66
Agree	3.00	43	37.07	37.07	76.72
Strongly agree	4.00	27	23.28	23.28	100.00
Total		116	100.00	100.00	

My business is faced with the following 'problem': Large expenses (in relation to income)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	22	18.97	18.97	18.97
Disagree	2.00	27	23.28	23.28	42.24
Agree	3.00	44	37.93	37.93	80.17
Strongly agree	4.00	23	19.83	19.83	100.00
Total		116	100.00	100.00	

My business is faced with the following 'problem': Increase in cost prices of products

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	5	4.31	4.31	4.31
Disagree	2.00	23	19.83	19.83	24.14
Agree	3.00	59	50.86	50.86	75.00
Strongly agree	4.00	29	25.00	25.00	100.00
Total		116	100.00	100.00	

My business is faced with the following 'problem': Poor product quality

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	38	32.76	32.76	32.76
Disagree	2.00	29	25.00	25.00	57.76
Agree	3.00	38	32.76	32.76	90.52
Strongly agree	4.00	11	9.48	9.48	100.00
Total		116	100.00	100.00	

### Risk-management initiatives used by sampled SMMEs

My business deals with the aforementioned problems by means of: A code of ethics (principles guiding employees)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	6	5.17	5.17	5.17
Disagree	2.00	14	12.07	12.07	17.24
Agree	3.00	51	43.97	43.97	61.21
Strongly agree	4.00	45	38.79	38.79	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: Risk policies

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	6	5.17	5.17	5.17
Disagree	2.00	31	26.72	26.72	31.90
Agree	3.00	54	46.55	46.55	78.45
Strongly agree	4.00	25	21.55	21.55	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: Setting the right 'tone at the top'

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	9	7.76	7.76	7.76
Disagree	2.00	17	14.66	14.66	22.41
Agree	3.00	50	43.10	43.10	65.52
Strongly agree	4.00	40	34.48	34.48	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: Setting of risk appetite(s)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	7	6.03	6.03	6.03
Disagree	2.00	26	22.41	22.41	28.45
Agree	3.00	57	49.14	49.14	77.59
Strongly agree	4.00	26	22.41	22.41	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: An adequate company strategy

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	5	4.31	4.31	4.31
Disagree	2.00	15	12.93	12.93	17.24
Agree	3.00	61	52.59	52.59	69.83
Strongly agree	4.00	35	30.17	30.17	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: Setting clear objectives

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	3	2.59	2.59	2.59
Disagree	2.00	10	8.62	8.62	11.21
Agree	3.00	40	34.48	34.48	45.69
Strongly agree	4.00	63	54.31	54.31	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: Internal interviews and discussion (e.g SWOT)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	7	6.03	6.03	6.03
Disagree	2.00	20	17.24	17.24	23.28
Agree	3.00	42	36.21	36.21	59.48
Strongly agree	4.00	47	40.52	40.52	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: External sources (e.g. risk consultants)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	36	31.03	31.03	31.03
Disagree	2.00	36	31.03	31.03	62.07
Agree	3.00	31	26.72	26.72	88.79
Strongly agree	4.00	13	11.21	11.21	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: Tools diagnostics and processes (e.g. checklists)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	9	7.76	7.76	7.76
Disagree	2.00	18	15.52	15.52	23.28
Agree	3.00	50	43.10	43.10	66.38
Strongly agree	4.00	39	33.62	33.62	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: Risk analyses

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	4	3.45	3.45	3.45
Disagree	2.00	29	25.00	25.00	28.45
Agree	3.00	51	43.97	43.97	72.41
Strongly agree	4.00	32	27.59	27.59	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: Risk evaluation(s)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	5	4.31	4.31	4.31
Disagree	2.00	26	22.41	22.41	26.72
Agree	3.00	50	43.10	43.10	69.83
Strongly agree	4.00	35	30.17	30.17	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: Risk treatment(s) (reducing actual risks)

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	5	4.31	4.31	4.31
Disagree	2.00	28	24.14	24.14	28.45
Agree	3.00	57	49.14	49.14	77.59
Strongly agree	4.00	26	22.41	22.41	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: Implementing controls to manage risk

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	4	3.45	3.45	3.45
Disagree	2.00	13	11.21	11.21	14.66
Agree	3.00	61	52.59	52.59	67.24
Strongly agree	4.00	38	32.76	32.76	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: Using budgets

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	2	1.72	1.72	1.72
Disagree	2.00	8	6.90	6.90	8.62
Agree	3.00	41	35.34	35.34	43.97
Strongly agree	4.00	65	56.03	56.03	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: Using policies and procedures

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	2	1.72	1.72	1.72
Disagree	2.00	15	12.93	12.93	14.66
Agree	3.00	52	44.83	44.83	59.48
Strongly agree	4.00	47	40.52	40.52	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: Timely communication of risks

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	5	4.31	4.31	4.31
Disagree	2.00	25	21.55	21.55	25.86
Agree	3.00	55	47.41	47.41	73.28
Strongly agree	4.00	31	26.72	26.72	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: Consulting experts

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	34	29.31	29.31	29.31
Disagree	2.00	40	34.48	34.48	63.79
Agree	3.00	26	22.41	22.41	86.21
Strongly agree	4.00	16	13.79	13.79	100.00
Total		116	100.00	100.00	

My business deals with the aforementioned problems by means of: Conducting performance appraisals regularly

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	6	5.17	5.17	5.17
Disagree	2.00	20	17.24	17.24	22.41
Agree	3.00	64	55.17	55.17	77.59
Strongly agree	4.00	26	22.41	22.41	100.00
Total		116	100.00	100.0	

My business deals with the aforementioned problems by means of: Performing separate evaluations

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1.00	7	6.03	6.03	6.03
Disagree	2.00	19	16.38	16.38	22.41
Agree	3.00	60	51.72	51.72	74.14
Strongly agree	4.00	30	25.86	25.86	100.00
Total		116	100.00	100.00	

### Enterprise Risk Management

How well do you understand the ERM process?

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
None	1.00	25	21.55	21.55	21.55
Little	2.00	24	20.69	20.69	42.24
Very little	3.00	12	10.34	10.34	52.59
Average	4.00	28	24.14	24.14	76.72
Some	5.00	18	15.52	15.52	92.24
A lot	6.00	9	7.76	7.76	100.00
Total		116	100.00	100.00	

How many of the ERM components have you?

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
None	1.00	25	21.55	21.55	21.55
Little	2.00	25	21.55	21.55	43.10
Very little	3.00	21	18.10	18.10	61.21
Average	4.00	27	23.28	23.28	84.48
Some	5.00	13	11.21	11.21	95.69
A lot	6.00	5	4.31	4.31	100.00
Total		116	100.00	100.00	

How much value does ERM add to your business?

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
None	1.00	23	19.83	19.83	19.83
Little	2.00	23	19.83	19.83	39.66
Very little	3.00	23	19.83	19.83	59.48
Average	4.00	18	15.52	15.52	75.00
Some	5.00	20	17.24	17.24	92.24
A lot	6.00	9	7.76	7.76	100.00
Total		116	100.00	100.00	

**ANNEXURE D: FACTOR ANALYSIS**

Value Label	Value	Frequency	Percent	Valid Percent	Cumulative Percent
	1.07	1	0.86	0.86	0.86
	1.33	1	0.86	0.86	1.72
	1.87	1	0.86	0.86	2.59
	1.93	3	2.59	2.59	5.17
	2.33	3	2.59	2.59	7.76
	2.40	4	3.45	3.45	11.21
	2.47	3	2.59	2.59	13.79
	2.53	3	2.59	2.59	16.38
	2.60	8	6.90	6.90	23.28
	2.67	2	1.72	1.72	25.00
	2.73	4	3.45	3.45	28.45
	2.80	1	0.86	0.86	29.31
	2.87	2	1.72	1.72	31.03
	2.93	7	6.03	6.03	37.07
	3.00	9	7.76	7.76	44.83
	3.07	2	1.72	1.72	46.55
	3.13	5	4.31	4.31	50.86
	3.20	6	5.17	5.17	56.03
	3.27	9	7.76	7.76	63.79
	3.33	3	2.59	2.59	66.38
	3.40	5	4.31	4.31	70.69
	3.47	8	6.90	6.90	77.59
	3.53	2	1.72	1.72	79.31
	3.60	6	5.17	5.17	84.48
	3.67	6	5.17	5.17	89.66
	3.73	6	5.17	5.17	94.83
	3.87	5	4.31	4.31	99.14
	3.93	1	0.86	0.86	100.00
Total		116	100.00	100.00	