

Informal risk management practices within SMMEs in the Vaal region

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BCom Hons. Risk Management

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ABSTRACT

Risk is an inherent characteristic of doing business. Whether that risk originates from the events and changes in the environment that the business functions in or from within the business itself, the business must always seek to optimise the risk reward relationship so that it optimises profitability. Risks are, traditionally, individually defined within practice, with the definition being contextually bound to the source of the risk, the nature of the risk, or some archetype relating to the specific outcomes of a risk event or situation. To manage these risks, risk management systems have been devised to aid the manager in addressing the potential risk sources.

A risk management strategy provides direction as to what risks should be mitigated, when they should be mitigated, and to what degree they should be mitigated. SMMEs generally lack formal risk management skills with the cost of a risk management system being beyond SMMEs capability to afford. The complexity and technical application of a holistic risk management system is also beyond the scope of SMME managers.

The lack of risk management skills within SMMEs leads to inadequate risk management across the enterprise and result in losses and business failure SMMEs thus resort to risk avoidance through unstructured crisis management, which tends to be non-systematic and unevenly applied within the organisation. The SMME crisis manages with reactionary measures such as lending to cover operational costs and losses, or attempt to transfer risks by means of insurance to a third party. SMMEs do not implement formal risk management strategies.

The purpose of this study was to identify the informal risk management practices within small, medium, and micro enterprises (SMMEs) in the Vaal region. The study aimed to identify whether there are inherent/innate decisions taken by SMMEs that constitute an informal risk management process. The study did this by determining the SMME risk perspective, identifying the informal risk management practices in use, comparing the aforementioned process to formal risk management methods/strategies and creating context for this within South Africa.

The target population for this study is small, medium, and micro enterprises (SMME) within the Gauteng province. Gauteng has South Africa's largest population of SMMEs in the country. The sampling frame for the study constitutes a sample of SMMEs within the

Vaal region in the Gauteng province. Data has been gathered using a non-probability sampling technique. Face to face interviews were used to gather the perspectives and what constituted the risk management processes of the SMMEs

This study utilised SMMEs within the Vaal region as selected case studies on which to base the empirical analysis. Face-to-face interviews were conducted in order to gather data from the selected cases. Once SMMEs were identified, they were recruited for participation in the study. The recruited participants were only interviewed once the purpose of the study and the interview process was clear to them. Informed consent was gathered and interviews commenced.

The theme of SMME risk identified the risks that SMMEs were aware of in their business, from their perspective of what a risk was. In relation to the other main identified risk, business risk, awareness of this risk was spurred on by the potential losses that could be experienced due to the lack of a sufficient business offering in relation to the competitive forces at play in the market place. The awareness of business risk is unsophisticated in the sense that it only accounts for a very limited portion of what comprises business risk and is reactionary when present. SMME owners identified their risk from a practical business or operations perspective. They do not have a structured way to identify, classify, or manage against their risks and tend to deal with their risks as they come or once they have experienced it previously.

The theme of SMME risk management systems addresses those actions taken by SMMEs in an attempt to improve their business viability and reduce the risks that they faced on a day to day basis. The strategies followed cannot be classified as a risk management system since there is no feedback loop. However, this theme gives insight into what is perceived as risk management by SMMEs. Beyond the strategies outlined, the SMME owners identified certain actions as their risk management strategy, however, this came up to personal judgement calls and a personalised relations with their clientele. The approach of the SMME owner was consistently shown to be reactionary, and not precautionary. The actions taken to minimise risks always occurred after a risk was already experienced. The risk management in the case of SMMEs is thoroughly lacking in the sense that it does not incorporate the aspects of a business's strategic orientation, account for vital success or failure conditions, it does not rate risks on a scale of effectuality nor differentiate between the importances of risks that are present in the

business. Controls are resourced and reactions are planned at the moment that a risk occur. In the absence of a large cash flow reserve this could result in bankruptcy.

The participant interviews have produced the key insight that SMMEs do not have a formal risk management system and are wholly dependent on their personal experience and judgement in both identifying and responding to risk. In addition to the confirmation of the lack of a formal risk management system it was shown that the informal risk management system can, at best, be qualified as a non-iterative risk reaction process. In a follow up encounter with the participants of the study participants were asked if they would be interested in an SMME risk management system. The majority of participants (71 percent) indicated interest in a SMME risk management system. The remainder of the participants were hesitant but not opposed to a SMME risk management system because of expected costs of implementing the system. Whether they would be willing to accept assistance in implementing a risk management system rendered a strong response with all of the participants saying that they would take this assistance. The main finding from this question is that the SMMEs are indeed willing to implement risk management at a SMME scale and that they would like to be partner in the development of such systems within their own businesses if they were assisted.

Key terms: small, micro, medium enterprises, risk, risk management, Risk management system, qualitative methodology

DECLARATION

I, Niël Almero Krüger, student number 23587202, hereby declare that this dissertation is my own original work and has been submitted in fulfilment for the degree Magister Commercii in Risk Management at North-West University (Vaal Triangle Campus), and that it has not be presented at any other university for a similar or any other degree.

.....

...../...../.....

Mr Niël Almero Krüger

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17 November 2017

To whom it may concern

This is to confirm that I, the undersigned, have language edited the **dissertation** of

N.A. Krüger

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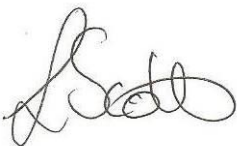
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The responsibility of implementing the recommended language changes rests with the author of the dissertation.

Yours truly,



Linda Scott

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LIST OF ABBREVIATIONS

AIRM	:	Association of Insurance and Risk Managers
BER	:	Bureau for economic research
BSP	:	Business Support Programmes
CAQDAS	:	Computer-Aided Qualitative Data Analysis Software
DTI	:	Department of Trade and Industry
HU	:	Hermeneutic Unit
IRM	:	Institute of Risk Management
ISO	:	International Organization for Standardization
IT	:	Information Technology
NAMAC	:	National Manufacturing Advisory Centre
NFRMPS	:	National Forum for Risk Management in the Public Sector
P-Docs	:	Primary documents
RM	:	Risk Management
RMS	:	Risk Management System
SDI	:	Spatial Development Initiatives
SEDA	:	The Small Enterprise Development Agency
SMME	:	Small, Micro, and Medium Enterprise
TBI	:	Technological Business Incubators

CHAPTER 1: INTRODUCTION AND PROBLEM STATEMENT

1.1 INTRODUCTION

Risk can be defined as a situation or event in which some form of value is vulnerable to being damaged and in which uncertainty exists concerning the manner in which such damage will take place or the scope of the effect of such damage (Aven & Renn, 2009). Risk can also be defined as anything that impedes a business from meeting their objectives and goals, which are determined by the risk appetite of the company (Marx & de Swardt, 2014; Aven & Ren, 2009). Uncertainty of outcome, loss, probability and exposure to events are the defining characteristics of risk when definitions are compared (Lowrance, 1976; Kaplan & Garrick, 1981; Knief, 1991; Graham & Weiner, 1995; Rosa, 1998; ISO, 2002; Cabinet Office, 2002).

Risk comes from both internal and external sources (Marx & de Swardt, 2014). Risk originates from events or situations in which there is uncertainty in terms of the outcome and potential loss. Within the business context, risk is present in all aspects and at all levels of management (Tchanokova, 2002; Verbano & Venturini, 2013). As an outworking to survive and compete for limited resources within the business environment, risks have been classified and organised to be able to be dealt with in compartmentalised and manageable parts (Willis, 2007; Aven, 2007). The widely identified risk types are market risk, credit risk, liquidity risk, operational risk, legal and regulatory risk, business risk, strategic risk and reputation risk (Pidegeon *et al.*, 2003; Campbell, 2005; IRGC, 2005; Aula, 2010; Rose & Hudgins, 2013; Marx *et al.*, 2013; Gatzert *et al.*, 2015; Bonime- Blanc, 2016). More broadly, risks can fall into the categories of: uncertainty-based risk, opportunity-based risk and hazard risk, each stemming from the nature of these risks (NSW, 2005). Risk management is concerned with preparing plans for how risks will be mitigated upon occurrence and requires the co-operation of stakeholders (Verbano & Venturini, 2013).

To manage these risks, risk management systems must be devised to aid the manager in addressing the potential risk sources. Risk management is a proactive, forward-looking, ongoing and systematic process that assesses the probability of an event occurring, estimates the potential severity of loss and aims to control said risk (South

Africa, 1996; Tchanokova, 2002; Mulcahy, 2010; Valsamakis *et al.*, 2013; Verbano & Venturini, 2013; Marx & de Swardt, 2014).

A risk management strategy provides direction as to what risks should be mitigated, when they should be mitigated and to what degree they should be mitigated (Valsamakis *et al.*, 2013). Well-designed risk management strategies also reduce over-management of specific risks, thus allowing the organisation to address a wider scope of risks (Smit & Watkins, 2012; Gwangwava *et al.*, 2014). The benefits of a risk management strategy extend beyond simply avoiding risks, incorporating the utilisation of risky scenarios to advance the interests of the company (NSW, 2005).

Formal risk management strategies, also known as integrated risk management models, exist with certain approaches being more appropriate to some organisations than others and depending strongly on the risk appetite and risk culture of the organisation (CIMA, 2008; Verbano & Venturini, 2013). Selecting the right approach or combination of approaches for an organisation is a resource-intensive endeavour that if not handled with aptitude can result in losses and potential failure of an organisation (NSW, 2005; CIMA, 2008).

1.2 PROBLEM STATEMENT

Enterprises often have to conform to legislature and regulations such as the Companies Act of 2008, COSO, ISO 31000, ISO31010 and the King Accords (King & Bowes, 1999). Risk management, in this regard, becomes a compliance issue that usually is managed by a separate risk management department (Valsamakis *et al.*, 2013). Small, medium and micro enterprises (SMMEs), due to their small size, do not have to conform to best corporate governance standards (Cliff, 2004; Niekerk & Labaschagne, 2006). The lack of legally enforced corporate governance results in a lack of development in risk management strategies for SMMEs (Ntlhane, 1995; King, 2002; Smit & Watkins, 2012).

SMMEs generally lack formal risk management skills (Janney & Dess, 2006) as the cost of a risk management system usually is beyond SMMEs capability to afford (Gwangwava *et al.*, 2014). The complexity and technical application of such a system is also beyond the scope of SMME managers (O'Hara *et al.*, 2005; Gwangwava *et al.*, 2014).

The lack of risk management skills within SMMEs leads to inadequate risk management across the enterprise and results in losses and business failure (O'Connell, 1973:34). SMMEs thus resort to risk avoidance through unstructured crisis management, which tends to be non-systematic and unevenly applied within the organisation (Turpin, 2002; Matthews & Scott, 1995; Gwangwava *et al.*, 2014). SMMEs manage crises with reactionary measures such as lending to cover operational costs and losses, or attempting to transfer risks by means of insurance to a third party (Ntlhane, 1995; Smit & Watkins, 2012; Gwangwava *et al.*, 2014). SMMEs do not implement formal risk management strategies (Bobala, 2010). However, SMMEs must manage and mitigate risks in some informal way since some risks can only be managed proactively and failure to do so would result in the termination of business (Watson, 2004; Naicker, 2006; O' Gorman, 2001).

The purpose of this study is to identify the informal risk management practices within SMMEs in the Vaal region. The study aims to identify whether there are inherent/innate decisions taken by SMMEs that constitute an informal risk management process.

1.3 DEMARCATION OF THE STUDY

The study is demarcated to SMMEs within the Vaal. The Vaal is a colloquial term used to describe the combined municipal zones of the Metsimaholo, Midvaal and Emfuleni municipalities, which cumulatively function as an integrated economic unit (Grobler, 2004; Viljoen, 2011). The Vaal is also referred to as the Vaal Triangle because of the triangular area formed by Sasolburg, Vereeniging and Vanderbijlpark (Anon, 2017). The Vaal Triangle cumulatively serves as an industrial powerhouse (Anon, 2017). The local settlements within each of these municipal areas are listed below as per the areas allocated by the Demarcation Board, (2017).

Within Metsimaholo, the following settlements are identified:

- Zamdela;
- Coalbrook;
- Oranjeville;
- Refenkgotso;
- Deneysville;

- Sasolburg; and
- Viljoensdrif.

Within Emfuleni the following settlements are identified:

- Vereeniging;
- Tshepiso;
- Vanderbijlpark;
- Roshnee;
- Sharpville;
- Sebokeng;
- Rust Ter Vaal;
- Everton;
- Bophelong;
- Boitumelo; and
- Boipatong.

Within Midvaal the following settlements are identified:

- Walkerville;
- Risiville;
- Meyerton; and
- Randvaal.

1.4 OBJECTIVES OF THE STUDY

The following objectives were formulated for the study:

1.4.1 Primary objective

The purpose of this study was to identify the informal risk management practices within SMMEs in the Vaal region. The study aimed to identify whether there are inherent/innate decisions taken by SMMEs that constitute an informal risk management process. The study did this by determining the SMME risk perspective, identifying the informal risk management practices in use, comparing the

aforementioned process to formal risk management methods/strategies and creating context for this within South Africa.

1.4.2 Theoretical objectives

To achieve the primary objective the study, the following theoretical objectives were identified:

- Discuss the origin of risk;
- Define and discuss risk and risk types;
- Define, discuss and compare different risk management models;
- Outline risk management strategies; and
- Define and discuss SMMEs within the South African context.

1.4.3 Empirical objectives

To achieve the primary objective the study, the following empirical objectives were identified:

- Identify risks faced by SMMEs in the Vaal region;
- Identify the informal risk management process of SMMEs; and
- Determine the willingness of SMMEs to adopt a risk management system.

1.5 RESEARCH DESIGN AND METHODOLOGY

Perceptions and individual actions are complex and cannot be captured fully through quantitative methods (Ritchie & Lewis, 2005). As such, this study followed a qualitative approach. This study followed a constructivist paradigm. The constructivist paradigm views knowledge as socially constructed and may change depending on circumstance or the individual that it applies to (Hippis, 1993; Johnson, 1995). Constructivism values the multitude of individualistic realities held by individuals making it suitable for the study (Creswell, 2003).

1.5.1 Literature review

The secondary data sources used in the study comprised of several books on risk management, journal articles, dissertations and theses, websites, newspapers and magazine articles (including electronic versions).

1.5.2 Empirical study

The empirical portion of the study constitutes several subsections.

1.5.2.1 Target population

The target population for this study is small, medium and micro enterprises within the Gauteng province. Gauteng has South Africa's largest population of SMMEs (SEDA, 2016) and is the largest contributor to South Africa's gross domestic product (GDP) (GautengOnline, 2017). An SMME, within the context of the study, can be defined by the turnover of a business in terms of the National Small Business Amendment Bill and varies in regards to the sector addressed (SEDA, 2016).

1.5.2.2 Sampling frame

The sampling frame for the study constitutes a sample of SMMEs within the Vaal region in the Gauteng province. This area was chosen as it is the industrial powerhouse of the province (Worku, 2016).

1.5.2.3 Sampling method

Data has been gathered using a non-probability sampling technique. Non-Probability sampling can be defined as a sampling technique within which the probability for selection of a participant within the population is unknown (Blackstone, 2017). A sample of SMMEs in the Vaal Triangle has been gathered.

1.5.2.4 Sample size

Due to the nature of qualitative research, no clear guideline exists when it comes to the suggested sample size of a qualitative study (Creswell, 2003).

1.5.2.5 Measuring instrument and data collection method

Yin (1994) defines a case study as an empirical inquiry that seeks to answer a question that originates from some real life contemporary phenomenon. Case studies are well suited to qualitative studies because they seek to answer the questions of 'why' and 'how' without biasing the data and in so doing they provide a tool with which to gain an understanding of the topic at hand (Ken & Packwood, 1995). This study utilised SMMEs within the Vaal region as selected case studies on which to base the empirical analysis. Face-to-face interviews were conducted in order to gather data from the selected cases. Once SMMEs were identified, they were recruited for participation in the study. The recruited participants were only interviewed once the purpose of the study and the interview process was clear to them. Informed consent was gathered and interviews commenced.

The interviews were arranged at a time and place that was convenient for the participant. The interview was transcribed after every interview. The transcript was sent to the participant in order to verify that the transcripts were accurate representations of the participant's responses. Field notes and question responses were then coded immediately after every interview. Data were subsequently co-coded to insure consistency and validity. Thematic analysis was applied in the dissemination of the information.

1.5.3 Statistical analysis

Data has been analysed and coded using Atlas.ti Version 7 for Windows. Once the participant verified the transcripts, coding commenced. Coding was done directly after each interview and data collection continued until data saturation was reached.

1.6 ETHICAL CONSIDERATIONS

The information provided by the participant was and will continue to be treated as highly confidential and only the researcher had and will have access to this information. Anonymity of the participants has and will be ensured by keeping the consent letter and interview transcripts separate with no identifying markers on any document that could link the participant to their responses. Transcripts of the

interviews contain no personal information or details that could be used to identify the participant.

Fully informed and signed consent was obtained from each participant and issues pertaining to confidentiality of their responses, the right to immediate withdrawal without penalty and other ethical matters will be clearly outlined prior to all surveys and interviews. This study has sought ethical clearance from the Social and Technological Sciences Research Ethics Committee of the Faculty of Economic Sciences and IT at North-West University (Vaal Triangle Campus). The ethical clearance number received is ECONIT-2017-018 and is included on the informed consent form.

1.7 CHAPTER OUTLINE

Chapter 1: Introduction and background to the study

This chapter serves to introduce the topic of the study. Furthermore, it indicated the problem statement of the study. This chapter also states the overall research objectives, as well as the theoretical and empirical objectives of the study.

Chapter 2: Risk in the South African context

This chapter served to provide an extensive background of risk within the South African context. This chapter addressed definitions of risks and risk types and disclosed the origin of risk, from both internal and external sources. This chapter, furthermore, outlined and discussed the fundamental components that a risk management process contains and discussed risk management methods with examples of formal risk models.

Chapter 3: SMMEs in South Africa

This chapter served to outline the significance and role of corporate governance in risk management. This chapter defined and discussed SMMEs in the South African context and indicated the importance of SMMEs role in the South African economy. This chapter also discussed the success and failure factors of SMMEs whilst placing risk into the SMME context. The chapter included a discussion of the rationale for the development of SMME-specific risk management practices.

Chapter 4: Data and methodology

This chapter provided information about research methodology and data collection techniques, which included explanations of the sample size, choice of sample and the data collection process.

Chapter 5: Analysis and discussion

The results and findings of the interviews conducted were presented in order to determine the extent of the application of informal risk management procedures amongst SMMEs.

Chapter 6: Summary, conclusions and recommendations

This chapter provided a summary and conclusion for the study. The summary and conclusion were based on the results and findings presented. Thereafter, recommendations were made according to the study results.

CHAPTER 2: RISK AND RISK MANAGEMENT

This chapter contains a discussion of risk and risk management. The chapter begins by creating a holistically inclusive and robust definition of risk and discussion of its nature. Risk is then discussed in its plurality of forms and expressions, addressing subtypes within other classifications. Subsequently, the chapter addresses risk management and risk management systems by addressing the question of when is risk management applicable, what risk management steps should we follow, what is the benefits of risk management, what is the risk management framework, and what the risk management standards are.

2.1 NATURE AND DEFINITION OF RISK

Risk comes about by means of events or changes in the external environment and/or scenarios within which an organisation operates (Olsson, 2002; Marx & De Swardt, 2014). Events and structural changes take place internally within and external from the entity (Borghesi & Gaudenzi, 2013). Risk is a subjective matter in that it relates to all actors within a system differently and individually (Chicken, 1996; Cabinet Office, 2002). Risk is brought about through inconsistency of an internal actor or systemic shift within an otherwise balanced system (Borghesi & Gaudenzi, 2013).

Risk has traditionally been linked with a negative possibility that goes along with it (Valsamakis *et al.*, 2013). If the negative outcome was the only matter to consider, it would thus be a logical action to eliminate the risk altogether, however, risk often must be undergone in order to achieve the potential for some form of gain (Hopkins, 2013). Risk thus has a dual character in that it has the capacity to produce financial gains or lead to financial losses (ISO, 2002; Warwick, 2003). Due to the conflicting, relative and individual nature of risk, defining risk holistically can be difficult (Borghesi & Gaudenzi, 2013).

To circumvent this complexity, risks are individually defined in practice with the definition being contextually bound to the source of the risk, the nature of the risk, or some archetype relating to the specific outcomes of a risk event or situation (Valsamakis *et al.*, 2013; Marx & De Swardt, 2014). Traditionally, risk is defined as the possibility of an undesired or negative consequence of an event or scenario (Chicken,

1996); however, this definition does not fully encapsulate a functional conceptualisation of risk (Olsson, 2002). Risk is a pre-requirement that must often be undergone to create an opportunity for gain (Knief, 1991; Hopkins, 2013). Application of optimum logical risk management, using this definition, would result in economic standstill as non-action would be the most efficient risk minimising managerial action (Kaplan and Garrick, 1981; Borghesi & Gaudenzi, 2013).

In response to the limitations of the traditional train of thought, the general definition of risk was modified to include the concepts of uncertainty and the expectations of applicable parties (Warwick, 2003; Marx & De Swardt, 2014). Uncertainty of outcome or loss, probability of risk event, or the risk exposure as a result of an event are the defining characteristics of risk when definitions are compared (Kaplan and Garrick, 1981; Graham & Weiner, 1995; Rosa, 1998; Valsamakis *et al.*, 2013). The inclusion of uncertainty of whether expectations would be met, resulted in individual definitions for risk being constructed for any scenario undergone, within the risk contexts of all applicable parties, allowing for new degrees of specification of tolerance levels (Cabinet Office, 2002; Valsamakis *et al.*, 2013). Risk definition now includes the concept of loss aversion and the concept of uncertainty of the possibility of variation of actual outcome from expected outcome (Lowrance, 1976; Valsamakis *et al.*, 2013).

Risk can be argued to be a deviation from an expected scenario that results in a shortfall below the expectations of the applicable party, losses, or losses that are beyond the initial expectations of the applicable party (Warwick, 2003; Borghesi & Gaudenzi, 2013). Risk, thus exists as the uncertainty, in regards to the frequency or consequence of events that could have a negative influence on any party of relevance, in reference to the degree of deviation of actual outcome from the individually established expected outcome (Chicken, 1996; Olsson, 2002; Warwick, 2003; Aven & Renn, 2009; Valsamakis *et al.*, 2013).

2.2 CLASSIFICATION OF RISK

Risk can be classified by its outcome or by its origin. These are discussed in the sections to follow.

2.2.1 Risk by outcome

Risks can be classified broadly into one of three major groups because of their outcomes as shown in Figure 2.1 (Hopkin, 2013). These classifications are pure risks, control risks and opportunity risks (Hopkin, 2013). Pure and control risks, once identified, usually have the capacity to be insured against (Kahane & Kroll, 1985; Valsamakis et al., 2013). It should however be noted that of the potential risks from an event, comparatively few can be insured against (Ewald, 1991). Opportunity risks differ from the former two in that they are entered into willingly as a part of doing business and are usually uninsurable (Williams, 1966).

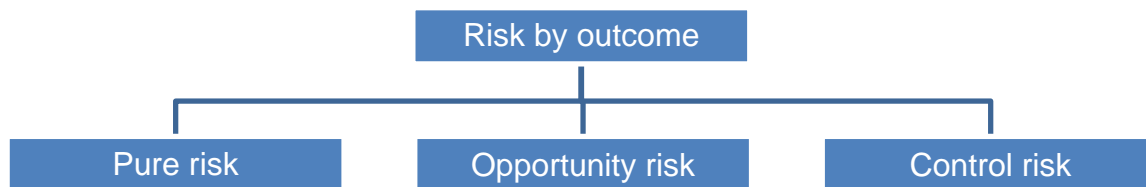


Figure 2.1: Risk by outcome

Source: Own construction (2017)

2.2.1.1 Pure risk

Pure risk is a risk that can only have a negative outcome (Hopkin, 2013). Pure risk, furthermore, can be classified as physical hazards, which are objective catalysts for exasperating risks and moral hazards that come about from the subjective, individual decisions of actors that stand in contrast to what is ideal for the organisation (Gahin, 1967; Borghesi & Gaudenzi, 2013).

2.2.1.2 Opportunity risk

Opportunity risks, also known as speculative risks, are risks entered into in order to make a gain potentially (Borghesi & Gaudenzi, 2013; Hopkin, 2013). Opportunity risks are the main focus for the business function of organisations (Williams, 1966).

2.2.1.3 Control risk

A control risk, also known as uncertainty risk, is a risk that has a large degree of uncertainty surrounding it (Borghesi & Gaudenzi, 2013; Hopkin, 2013). Uncertainty in this regard can exist in regard to the source from which the risk arises or from the uncertainty of the effect of the focus, the latter being insurable (Borghesi & Gaudenzi, 2013).

2.2.2 Risk by origin

Although an arrangement of risk by its outcome might be considered appropriate in determining the worthiness or unworthiness of a potential investment, this arrangement can make the identification and subsequent mitigation of risk difficult, as it does not account for the traits of the risks that it needs to address for holistic risk management. In order to facilitate meaningful risk, management risks must be broken down into individually identifiable themes of risk or specifically identified risks, which each can be approached in a way that addresses that risk.

Theory suggests that risk be classified initially as internal and external, fundamental or particular and systematic or unsystematic (Chen, 2007). The risk can come about from within the organisation and its day-to-day operations or from events and situations that arise from the external business environment, within which the organisation exists. Figure 2.2 illustrates risks by origin.

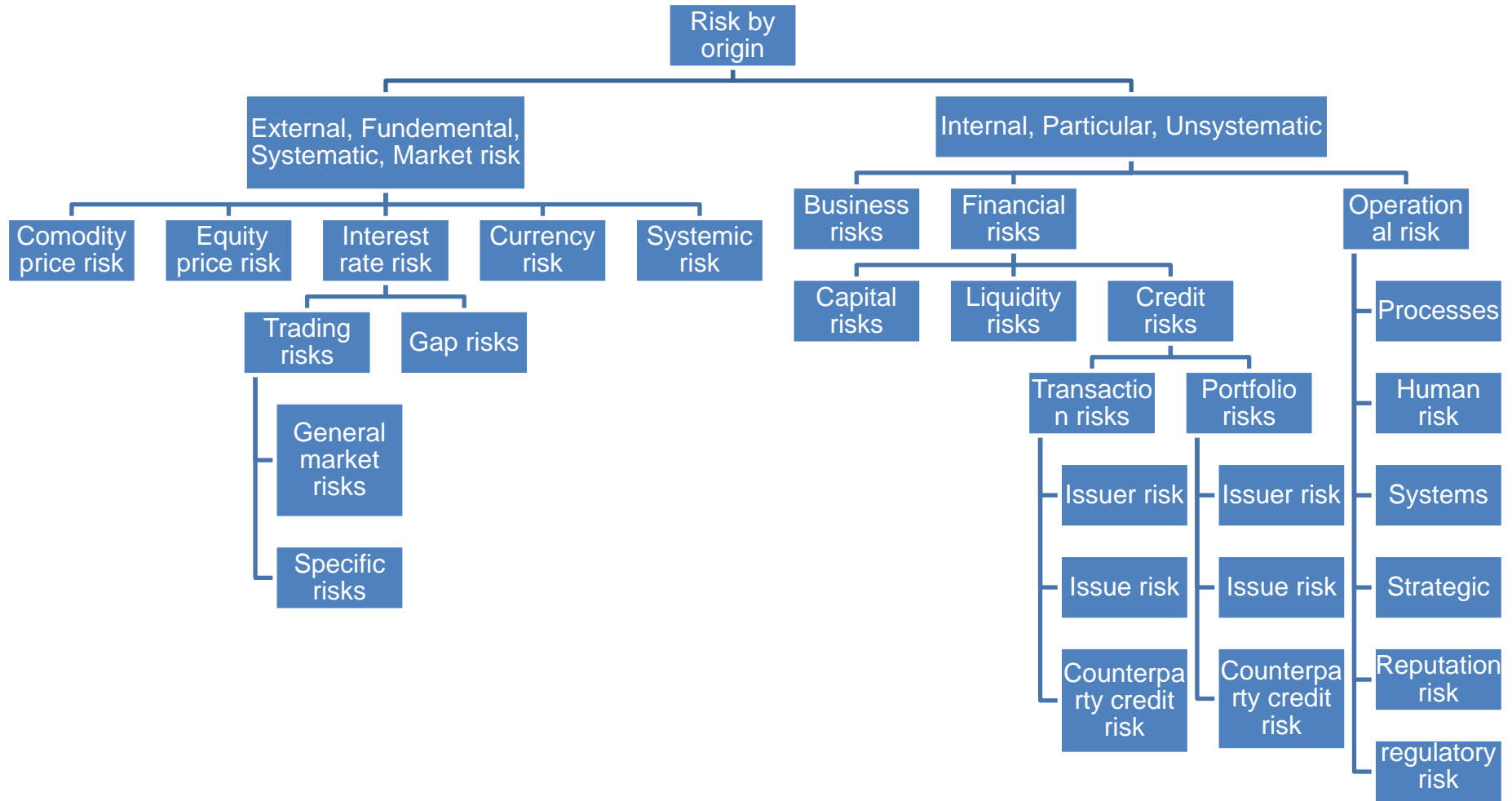


Figure 2.2: Risk by origin

Source: Own construction (2017)

2.2.2.1 Fundamental and particular risk

Fundamental risk is defined as an exposure or loss that originates from: the exterior periphery of the business environment; the political realm; as a result of social interdependence; from a purely physical event such as famine; or natural disaster (Valasamakis *et al.*, 2014). The external risk environment is defined as that area of activities that is beyond the business to influence and includes political & socio-economic movements, natural disasters or, so called acts of God, reputational risk events and decisions by legal or regulatory bodies (Borghesi & Gaudenzi, 2013; Valsamakis *et al.*, 2014). Despite being incapable of controlling external risk they must be considered due to the risk they carry and measures must still be taken and a corporate culture developed to create a buffer against losses resulting from them (Da Costa-Lewis, 2004). The main tools used in practice are some form of insurance or the retention of a capital buffer (Ewald, 1991).

A particular risk arises from events that are isolated to the individual from whom the risk event originates and that risk that is directly responsible for potential losses, such as a fire (Vayanos, 2010). The remainder of the risks fall within the internal environment, which also is described as that risk which is within the scope of the business to manage and arises from the activities of the organisation (Abkowitz, 2008; Hopkin, 2013). Due to the origin of these risks from within the organisation, internal risks tend to be within the conceptual framework of the organisation (Chicken, 1996; Frost *et al.*, 2001).

Despite the difference in the degree of focus, fundamental and particular risks often are separated from each other as classification terms by nothing more than the subjective judgements of the society to whom they pertain (Chen, 2007). This subjectivity and the capacity for overlap in risk sources makes it difficult for strict classification of particular risks under this classification method across the board (Vayanos, 2010).

2.2.2.2 Systematic risk

Risk can be arranged into two broad categories of risk, which are systematic and unsystematic (Valasamakis *et al.*, 2013). Systematic risk deals with the risks that affect the business through market events, thus it is also called market risk and is by nature non-diversifiable and a measure of market volatility (Mills, 2001). Systematic risk is a risk that fluctuations in market prices and rates will devalue the organisation or assets held

by the organisation, such as securities held by the organisation or the financial portfolio of the organisation at large (Chatterjee & Lubatkin, 1990; Reiley). Correlation to the market determines the scope of the effect of a systematic risk and thereby is another measure of market risk (Hamada, 1972).

Market risk can be subdivided further into a general price effect carried by the entire market and that price effect that is pertinent to any one specific transaction undergone by the organisation (Lakonishok & Shapiro, 1986). Market risk comes about from individual assets from their positions in the market, which are exposed, that is to say that are unhedged (Dowd, 2002a). Measures of market risk differ in regards to the context in which they appear but usually are defined as a deviation from some benchmark (Bos & Newbold, 1984; Gencay *et al.*, 2005). Crouhy *et al.* (2014) identifies four major types of market risks: commodity price risk, equity price risk, interest rate risk and currency risk, which will be discussed briefly below.

2.2.2.2.1 Commodity price risk

Commodity price risk is the risk that commodity prices might fluctuate and thereby lead to losses for the organisation to whom the sale and purchase thereof is applicable (Linsmeier *et al.*, 2002). The characteristics of commodities that amplify the price risk that surrounds it are the small number of commodity suppliers, inconsistent trading liquidity amongst suppliers and cost and ease of storage (Crouhy *et al.*, 2014).

2.2.2.2.2 Equity price risk

Equity price risk is the level of sensitivity a portfolio or instrument carries in relation to volatility in stock market indices (Crouhy *et al.*, 2014). The individual equity risk created by the characteristics of the firm can be diversified; however, the general equity price risk that comes about from market activities cannot be eliminated through diversification (Constantinides, 1978).

2.2.2.2.3 Interest rate risk

Interest rate risk is the risk of potentially negative variations in interest rates that could lead to a decrease in net interest income (Valsamakis *et al.*, 2013). Interest rate risk can come about from an increase in market interest rates when the interest rate on an asset held by the organisation maintains a fixed interest rate (Hull & White, 1990).

When assets are held together in a portfolio, the complexity of interest rate risks are increased and must factor in matters of asset maturities, asset cash flows, the gap between liability- and asset-like instruments and reset dates (Hellwig, 1994). Even when maturities between assets that counterbalance each other's interest positions are present, basis risk can still come about if the positions are not perfectly correlated (Hull & White, 1990). Basis risk is a term that represents the potential for a failure in the relationship between the price of a product and the price of the price-hedging instrument used to offset it (Crouhy *et al.*, 2014).

2.2.2.2.4 Currency risk

Currency risk, also known as foreign exchange risk, is the risk that a change in currency values will adversely affect the cost associated with the purchase of goods or reduce the price at which they will be sold (Greene & Serbein, 1983; Adler & Dumas, 1984). Currency risk appears when a position is left imperfectly hedged or naked in regard to the assets or liabilities that are denominated in the foreign currency (Valsamakis *et al.*, 2013). Currency risk can also appear as a result of business activities and not as a result of a conscious attempt to trade currency, which can result in variability in not only profits but also asset valuation (Borghesi & Gaudenzi, 2013).

Within the scope of a country, a depreciation of the domestic exchange rate against another increases the export competition advantage for the domestic country and can be achieved through quantitative easing (Chiu-Ming, 2017). Businesses adapt and adjust to price differentials given enough time (Adler & Dumas, 1984; Chiu-Ming, 2017); however, fluctuations during a transaction period can lead to: significant losses of returns; the creation of a competitive disadvantage; large operating losses; and significantly reduced investment (Crouhy *et al.*, 2014). Currency risk is driven primarily by international interest rate fluctuations and imperfect correlations of different currency prices (De Santis *et al.*, 2003).

2.2.2.2.5 Systemic risk

Systemic risk is the risk of the collapsing of a system by means of the propagation of one market participant's economic distress, through sequential and increased financial transactions, that thereby destabilise the entire market and potentially the global economy (Rochet & Tirole, 1996; Haldane & May, 2011). Systemic risk can be triggered by the

perception of greater risk or institutional losses that may disrupt the entire market where assets are highly correlated (Acharya, 2009), including healthy market segments that were formerly thought to be uncorrelated (Das & Uppal, 2004). This disruption leads to panic and panic leads to margin calls across the board, which leads to liquidity seeking behaviour by institutions at a significant devaluation, which leads to a drop in asset values across the board, which in turn triggers another round of additional margin calls and asset devaluations (De Nicolo & Kwast, 2002; Billio *et al.*, 2012). The size and interconnectedness of economic entities add to systemic risk, not only in the capacity of these enterprises, but also in regards to the time it would take to repair functional relationships between these entities (Battiston *et al.*, 2012).

2.2.2.2.6 Unsystematic risk

Risks that are in the hands of the organisation, as opposed to being predetermined by the market, make up unsystematic risks (Crouhy *et al.*, 2014). Unsystematic risk is the focus of management and includes the specific classifications of: marketing risk, financial risk, resource management risk, environmental risk (Doherty, 1985), property and personnel risk, and personnel and production risks (Greene & Serbein, 1983). Within the managerial and corporate environment, managerial risks are further subcategorised into incidental and inherent risks (Valsamakis *et al.*, 2013).

Inherent risks include risks such as sales variability, operating leverage, resource risks, profit margin and turn over risks (Graham & Weiner, 1995). Sales variability is a measure of the degree of deviation from the mean sales over a period of time, caused by market factors affecting demand (Kaplan & Garrick, 1981). Operating leverage is a measure of percentage change in operating earnings divided by the percentage change in sales (Aven & Renn, 2009). Resource risks are changes in the cost or availability of resources needed to produce the product (Chicken, 1996). Profit margin and turnover risk come about from a change in the business environment (Graham & Weiner, 1995). Increased levels of competition force product margins down, resulting in reduced turnover and act as a risk to shareholder earnings (Marx & De Swardt, 2014).

Incidental risks are risks that come about from business activities and a natural result (Warwick, 2003). Incidental risks include a range of financial risks such as: interest rate risks, liquidity risks, investment/ capital risks, credit risks and currency risks (Marx & De Swardt, 2014).

2.2.2.2.7 Financial risk

Financial risks are those associated with financial assets and relate to the ability to meet financial claims (Marx & De Swardt, 2014). Although commodity price risk, equity price risk, interest rate risk and foreign exchange risk, significantly affect financial risk, they are systematic and thus do not result from the actions of the organisation (Grable, 2000). Major financial risks that are within the capacity of the organisation to control include liquidity, capital and credit risks (Jorion, 2007).

Liquidity risk is the risk of operating finance shortfall (Young, 2010). Liquidity is required to meet the financial obligations of the enterprise on a short-term basis (Crouhy *et al.*, 2014). Liquidity risk comes about from the size of assets and liabilities and the difference in their size and has a trading component and a funding component (Valsamakis *et al.*, 2013).

Trading liquidity risk comes about from a situation in which the organisation becomes incapable of completing a transaction at the market price because there is no demand for the offer being made to the market within the market (Pastor & Stambaugh, 2003). Trading liquidity risk could result in a decreased capacity to hedge and manage market risk or meet liquidity shortfalls through asset liquidation (Glosten, 1989).

Funding liquidity risk relates to a firm's ability to procure the needed cash or cash equivalents to satisfy capital withdrawals; to meet the margin, collateral and cash, requirements of counterparties; and to roll over its debt (Hui *et al.*, 2011). Funding liquidity risk is related to the urgency and size of the transaction, with faster and/or larger transactions exacerbating the losses more greatly (Brunnermeier & Pedersen, 2009). Funding liquidity risk can be managed through holding cash and cash equivalents, setting credit lines in place and monitoring buying power (Drehmann & Nikolaou, 2013).

Capital risk is the risk of degradation, devaluation or loss of an organisation's human capital and physical capital assets or investments as a result of physical, financial, and human perils to which the organisation is exposed to (Sandmo, 1969). Capital risk, within a banking context, refers to the level of liquidity of its financial assets (Altunbas *et al.*, 2007). Krebs (2003) observed that reducing human capital risk is an efficient driver of economic development.

Credit risk is the risk of deviation from the terms of a financial contract, or that a contractual party will resort to default (Young, 2010). Credit risk can be further broken down into four main types: downgrade risk, default risk, bankruptcy risk and settlement risk (Crouhy *et al.*, 2014). Downgrade risk is the risk that the credit rating of the borrower or counterparty might be downgraded action by the rating agencies (BIS, 2011). The downgrade results in an increased premium for credit and might result in default (Sandmo, 1969). Default risk corresponds is the risk that applicable parties might not be capable, or might refuse to meet their debt obligations (Crouhy *et al.*, 2014). Bankruptcy risk is the risk of actually taking over the assets of a defaulted borrower or counterparty that were collateralised or escrowed (Altman & Saunders, 1998). Settlement risk is the risk that a transaction is not going to be completely settled and is greatest when currency value differentials over time zones and foreign exchange differentials are volatile (Crouhy *et al.*, 2000). Settlement risk has also been called counterparty credit risk (Chapman, 2013)

2.2.2.3 Operational risk

Operational risks are risks that derive from non-financial activities within the business, are non-speculative and have no capacity to result in profits (Valasamakis *et al.*, 2013; Crouhy *et al.*, 2014). Operational risk has been defined by BIS (2011) and supported by Young (2010) as the potential for a loss that comes about from failed or insufficient internal human resources, processes and systems or as per the result of external events that the enterprise is unable to cope with.

2.2.2.3.1 Process risk

Operational risk can be broken down into two fundamental components, namely: operational integrity, which are those matters of sufficient operational and governance controls, and service delivery, which deals with the business functions of the organisation (Frost *et al.*, 2001). Process risk is the risk that those processes that must be in place for proper service delivery, are not sufficiently in place, inclusively addressing available data, or incorporating the latest proven innovations (Young, 2010).

2.2.2.3.2 Human risk

Human factor risk, also known as people risk, relates to the losses that may result from human misconduct or error (Young, 2010). Within the scope of operational risk, people

risk includes fraud and a dependency on key people (Valsamakis *et al.*, 2013). The latter can also lead to risk exposures on systems or processes depending on the position the individual filled (Abkowitz, 2008).

2.2.2.3.3 Systems risk

Systems risk also is referred to often as technology risk (Scandizzo, 2010). Systems risk deals with the technical aspects of the data processing and include the risk of data corruption, programming errors, or fraudulent activity from within the business and from the external environment (Crouhy *et al.*, 2014).

2.2.2.4 Strategic risk

Strategic risks are risks that threaten the sustainability of an entity and include the planning of activities, as well as the long term: financial, environmental, social and human concerns (Crouhy *et al.*, 2014). Strategic risk refers to the uncertainty about success and profitability of significant investments (Frost *et al.*, 2001). Strategic risk also comes about from the change in strategy of competitors and the organisation itself with failures of new strategies resulting in losses and reputational damage (Valsamakis *et al.*, 2013).

2.2.2.5 Reputation risk

Reputation risk can be divided into two main classes: the trust in an organisation to fulfil its obligations to counterparties and creditors; and the belief that the organisation follows fair and ethical practices (Young, 2010). Reputational risk is a bi-directional risk, in that the more good a company does the more it supports the narrative of being a good company and builds reputational gains and the failure to do so results in reputational losses (Fombrun *et al.*, 2000).

Organisations are under increasing pressure to prove that their actions account for the social, environmental and ethical concerns according to a global standard (Crouhy *et al.*, 2014). Due to globalisation and the ease of communication facilitated through the Internet, reputational risk is present not only from real operational failures, but can be propagated through merely the perception thereof (Aula, 2010).

2.2.2.6 Legal and regulatory risk

Legal and regulatory risks can come about from violations of non-compliance, with the rules established and enforced by authoritative institutions (Young, 2010). Legal and regulatory risks result from some operational event that precedes them; thus, they are classified as operational risks (BIS, 2004).

2.2.2.7 Business risk

Business risk is that risk that business structures need to be modified in order to remain capacitated to compete within the market place (Chernobai et al., 2007). Business risks encompass risks relating to business strategy, matters of competition, the socio-economic-political environment, technological capacity, product vulnerability, capital limitations, compliance, credit foreign exchange, liquidity, commodity price risk, reputation risks and transaction risks (Duckert, 2011; Chapman, 2013).

2.2.2.8 Model risk

Models are simplified structures of reality that form formal frameworks that can be used to determine outputs that could be used in decision making (Talay & Zheng, 2002). Model risk is the risk that a model is wrong, in the sense of a model containing some internal error, being misapplied, fed the wrong input information or having the results it produces misinterpreted (Hull & Suo, 2002; Olivares, 2008). A model is incorrect if there are mistakes in the solution it renders. A model is also incorrect if it is based on wrong assumptions about the underlying processes that assets follow (Down, 2002b). Even if a model is mathematically correct and generally applicable within reality, there still exists the capacity that it might be misapplied within a situation (Schmidt, 2008).

2.3 RISK MANAGEMENT

2.3.1 Definition of risk management

Risk management is the a collective, interactive and perpetual process that considers all events, conditions, activities and actions taken as coordinated parts of a whole so as to direct and control risks associated with organisation activities at levels that are acceptable to the business and thereby create a balance of concerns across the organisation (Chicken, 1996 Aven, 2010). Risk management is a collective approach of the business to evaluate, control, monitor hazards, and control opportunity risks (Hopkins, 2013).

Risk management is done with the intention to engender the most favourable outcome whilst minimising the variability of its volatility (Knight, 2012; Hopkins, 2013). Risk management is thus not the avoidance of risk but the selection of those risks a business should take and those which should be avoided or mitigated, followed by action to avoid or reduce risk (Knight, 2012). Risk is either managed project by project across the organisation, or across both (Raz & Hillson, 2005). According to the Institute of Risk Management/National Forum for Risk Management in the Public Sector/ Association of Insurance and Risk Managers (IRM/NFRMPS/AIRM) (2002) (IRM/NFRMPS/AIRM, 2002) risk management follows steps that, when executed in order, allows for growth in management capacity, improved decision making and improved performance (Reuvid, 2013).

Risk management is a proactive, forward looking, ongoing and systematic process that assesses the probability of an event to occurring, estimates the potential severity of loss and aims to control said risk (Mulcahy, 2010; Valsamakis *et al.*, 2013; Verbano & Venturini, 2013; Marx & Swart, 2014). Risk management is about preparing plans for how identified and assessed risks will be mitigated if and/or when they occur and thus requires the co-operation of stakeholders and feedback as to the progress in addressing identified risks (Reuvid, 2013; Verbano & Venturini, 2013).

2.3.2 When is risk management applicable

Risk management is only of purport or significance when exposure, to the extent desired by the organisation, is present (Aven, 2010). Exposure is gained by means of organisational activity that must be undergone to potentially meet profitability and performance targets or through external scenarios that require response (Chicken, 1996; Aven, 2010). Managing risk requires measurement tools with which to identify and ascertain the scope of the significance of a risk situation, measures that indicate a movement away from acceptable tolerance levels (Reuvid, 2013). Risk measures usually are determined by a risk audit and require an inspection of the technical, economic and socio-political factors that are relevant (Chicken, 1996).

2.3.3 Steps in risk management

Risk management functions as a dynamic process, executed by means of identifying risks, designing risk management systems, continually monitoring risk, identifying highly

volatile risks, taking actions and then adjusting the system on the basis of experience and revision. (Chicken, 1996; Beck, 2006). To facilitate enterprise wide engagement a framework must be present (Borghesi & Gaudenzi, 2013). The active components of a successful risk management system are its communication and reporting channels in addition to the eight Rs and four Ts of a basic risk management model (Hopkins, 2013). Illustrated in Figure 2.1, is the standard risk management process, which shows how the process flows (Hopkins, 2013; Reuvid, 2013).

2.3.3.1 Risk identification

Before risk can be managed or measured, it must be perceived and therewith the features and repercussions of risks identified (Chicken 1996). Risk identification is the first integral step of risk management; it begins with identifying potential loss and gain scenarios (Aven, 2010). Risk audits define not only the risks pertinent to the organisation but their scope and capacity to produce losses using a set of criteria to determine acceptability (Borghesi & Gaudenzi, 2013). In a SMME this could be a problem as the owner could have so many responsibilities that the time needed to manage risk nor the specialised knowledge needed to address all risks might not be present (Chicken, 1996). Large businesses tend to have access to a large variety of specialists, however, decisions and actions from those decisions take a lot longer to implement than in small businesses and thus require premeditated systems and action channels (Borghesi & Gaudenzi, 2013).

Before actions can be taken, the implications and characteristics of a risk must be known and only once that understanding and the mastery of that type of risk's effects is earned can appropriate action can implemented (Marx & Swart, 2014). Identification and assessment of risk requires a thorough, enterprise-wide understanding of all activities undertaken by the business entity (Chicken, 1996). Identification includes concerns such as technical standards and limitations that predetermine allowable thresholds (Aven, 2010). The identification process incorporates identifying performance standards, technical indicators, political factors, or opportunities for co-operation (Aven, 2010; Borghesi & Gaudenzi, 2013). Risk description is an additional component of risk identification and functions to provide further details of the risks (Institute of Risk Management/ National Forum for Risk Management in the Public Sector/ Association of Insurance and Risk Managers, 2002).

2.3.3.2 Risk assessment

Risk analysis and risk evaluation/estimation, together, are referred to as a risk assessment (Verbano & Venturini, 2013). Risk analysis looks at cause and effect analysis and acts as a descriptor of risk (Aven, 2010). Risks, once determined by analysis, are evaluated (Tchanokova, 2002). Risk evaluation is the process of comparing analysis results with predefined reference levels or criteria (Aven, 2010).

Risks can be qualitatively, quantitatively and/or semi quantitatively estimated and profiled as upside risk or downside risks (IRM/NFRMPS/AIRM, 2002). Factors to account for in risk evaluation are effectiveness, efficiency, the minimisation of negative side effects, sustainability, fairness, political and legal acceptability, ethical acceptability and public acceptance (Aven, 2010; Valsamakis *et al.*, 2013).

Regulators, who employ technical specialists, specify acceptable levels of risk by qualitative criteria (Verbano & Venturini, 2013). Regulation improves as time continues because as experienced is gained, so is proficiency (Barbour, 1998; Tchanokova, 2002). Regulation is perpetuated through the need of the enterprise and stakeholders, which require more well-constructed risk reducing procedures and more socially and corporately responsible behaviours (Chicken, 1996). Regulators are required to increase the knowledge about the technical, economic and social-political aspects of risk in order to ensure relevance (Mulcahy, 2010). Once these factors are addressed, a broad evaluation is made and subsequently met with a judgement between the options that are available (Mulcahy, 2010). SMMEs are limited by comparatively less resources than big business counterparts are and the costs of meeting certain regulatory needs might be beyond their capacity (Chicken, 1996).

2.3.3.3 Risk treatment

Assessment is followed by treatment, which is a process to address risk by means of avoidance, reduction, transfer or retention of risk (Marx & Swart, 2014). Since knowledge without taking action thereupon is useless, decisions must be made as to which options will be accepted or rejected (Aven, 2010). Managing the identified risk requires having all business-function-participants knowing how to respond to specific risks that they, specifically, are likely to encounter (Burns, 2010). How well a business can attend to risks is dependant of the size, influence, political connectedness and mandate of the

organisation and its financial strength as opposed to the size of the risk faced (Perry, 2001). Risk treatment can be applied in one of four methods depending on the degree of expected losses and the likelihood of loss (Hopkins, 2013).

2.3.3.3.1 Tolerate risk

Risk tolerance is the degree to which a person is willing to accept risk in order to achieve their desired outcomes (Hopkins, 2013). Risk tolerance includes legal aspects in addition to traditional business factors (Chicken, 1996). This approach is applicable where the risk exposure falls within the risk tolerance of the organisation and the likelihood is low (Tchanokova, 2002).

2.3.3.3.2 Treat risk

Risk is treated when the likelihood of the event is high but the impact is low (Hopkins, 2013). Corrective measures are applied during treatment to help reduce the effects of a risk event (Reuvid, 2013).

2.3.3.3.3 Transfer risk

Risk transfer is the process by which risk and the potential gains that accrue there are shared (Aven, 2010). This form of risk management is applicable in scenarios in which the risk is unlikely but has a large impact (Hopkins, 2013). Risk can also be transferred by insuring against them, however, the extent of cover is contingent on certain criteria being met in reality before an insurer will pay out the amount required; thus, there is some controversy on its effectiveness (Lalonde & Borial, 2012). The decision to insure hinges on the probable direct and indirect losses that would be experienced and the associated costs of getting coverage (Measor, 1985; Lalonde & Borial, 2012). Assessments are made on qualitative bases when quantification is not possible (Smit & Watkins, 2012). Risks are to be given priority in line with their scope, severity and probability of occurring (Chicken, 1996).

2.3.3.3.4 Terminate risk

Risk termination is employed when the likelihood of losses are big in addition to the potential losses being outside of the risk appetite of the organisation (Leitch, 2010). Risk can only be eliminated by means of reducing exposure to nil, which can only happen by withdrawing all involvement (Smit & Watkins, 2012).

2.3.3.3.5 Resourcing controls

Once the decision of whether to tolerate, treat, transfer or terminate identified risks, resources must be gathered to ensure that such an action can be executed (Hillson 2002). Resources that are required to act in line with accepted policy should be determined throughout the business at every level (Institute of Risk Management/ National Forum for Risk Management in the Public Sector/ Association of Insurance and Risk Managers, 2002).

2.3.3.3.6 Reaction planning

In addition to already identified risks that have bi-directional capacity for gains or losses, additional planning must be done on how to respond to hazards or opportunities; this is done with reaction planning (Chapman, 2003). Reaction planning includes setting up reserves for disaster recovery, pure risk and potential business community planning. (Hopkins, 2013).

2.3.3.3.7 Reporting and monitoring risk

Reporting and monitoring relate to how information flows from performance evaluations, events and actions up and down the architecture of the organisation to the applicable parties (Institute of Risk Management/National Forum for Risk Management in the Public Sector/ Association of Insurance and Risk Managers, 2002).

2.3.3.3.8 Reviewing risk

Reviewing risk is the final step is reviewing and updating the entire risk management system, including procedures used to audit the organisation, with the new experience and information that was gathered throughout the process (Aven, 2012).

2.3.4 Principles and objectives of risk management

Beyond the goal of maximising value to the shareholder, risk management operates according to certain underlying principles (Lalonde & Borial, 2012). The principles that are considered fundamental in this initiative are suggested to be proportionality between the degree of risk management to the level of risk experienced by the organisation; alignment with business activities; comprehensive and systematic structure; embedded

within the business process; and dynamic, iterative and responsive to change (Purdy, 2010). These principles are referred to collectively, by the acronym PACED (Lark, 2015)

In addition to the underlying principles, certain objectives are sought to be addressed by risk management (Hopkins, 2013). The first amongst them is compliance with applicable rules and regulations that apply to the business to which it relates (Purdy, 2010). Assurance that risk management and internal control complies with the principles of PACED is the next important point to note (Lalonde & Borial, 2012). The third objective is that decision making that ensures that appropriate risk-based information is available to support decision making (Purdy, 2010). Finally, the three Es of: efficient operations, effective processes and efficacious strategy are required to minimise volatility and promote the greatest outcome (Reuvid, 2013; Lark, 2015). This is referred to as CADE3 (Lark, 2015).

2.3.5 Benefits of risk management

Risk management helps organisations identify threats and opportunities (ISO, 2009a). Risk management helps understand, evaluate and take action on all their risks with a view to increasing the probability of success through proactive management and thereby reducing the likelihood of failure (South Africa, 1996; Hillson, 2002; Tchanokova, 2002). A risk management process provides benefits to all stakeholders of an organisation in that it promotes the survival and efficient operation of the organisation and thereby raises the governance standards and builds up stakeholder trust (Reuvid, 2013). Risk management encourages health and safety as well as environmental protection.

A risk management strategy provides direction as to what risks should be mitigated, when they should be mitigated and to what degree they should be mitigated, reducing over-management of specific risks and allowing the organisation to address a wider scope of risks (Smit & Watkins, 2012; Gwangwava *et al.*, 2014). Risk management benefits a company by means of ensuring compliance with legal and regulatory standards (COSO, 2016). In addition to this, risk management provides assurance that significant risks have been dealt with (Hopkins, 2013).

Risk management contributes to efficient operations, effective processes and efficacious strategy, which can be summarised as an enhancement of the overall efficiency and capacity of a business through the utilisation of risky scenarios (IRM/NFRMPS /AIRM,

2002; Gwangwava *et al.*, 2014). Risk management aligns risk appetite with risk strategy through objectives and the development of risk mitigating mechanisms (ISO, 2009c; Aven, 2010); enhancing risk response decisions by creating frameworks within which to make decisions between avoidance, reduction, sharing and acceptance (Reuvid, 2013); reducing operational surprises and losses (Smit & Watkins, 2012); and identifying and managing cross-organisational risk seizing opportunities through the identification and proactive management of risks, which improve capital deployment (Aven, 2010). Risk management creates awareness of the need to identify and treat risk and improves organisational learning, which allows for better experiential feedback (British Standard Institute, 2002). Risk management allows for more detailed information to be provided, in exploring potential risks and thus assists in making decisions and improving the reporting capacity (NSW, 2005; ISO, 2009b).

2.3.6 The risk management framework

The terminology of risk standard and risk framework tends to be used synonymously (Chapman & Ward, 2003). However, within this section the two terms are distinct in that a standard is considered a set of guiding principles to be used in practice that follows from the risk framework that is, in turn, a process derived from the risk policy of an organisation or generic principles identified by regulators or standardisation bodies

A framework is a collective term used to describe the tri-part concept of risk architecture (RA), risk strategy (RS) and risk protocols (RP) within the tri-part environment of the external, internal and risk management (RM) context (Raz & Hillson, 2005), illustrated and described in Figure 2.4. The risk management policy is the core driver of risk management and the scaffolding around which RA, RS and RP are built (British Standards Institute, 2002; Hopkins, 2013). These three factors cumulatively contribute to and support the risk management process by contextualising risk and risk management. Figure 2.3 provides an illustration thereof (Chapman & Ward, 2003).

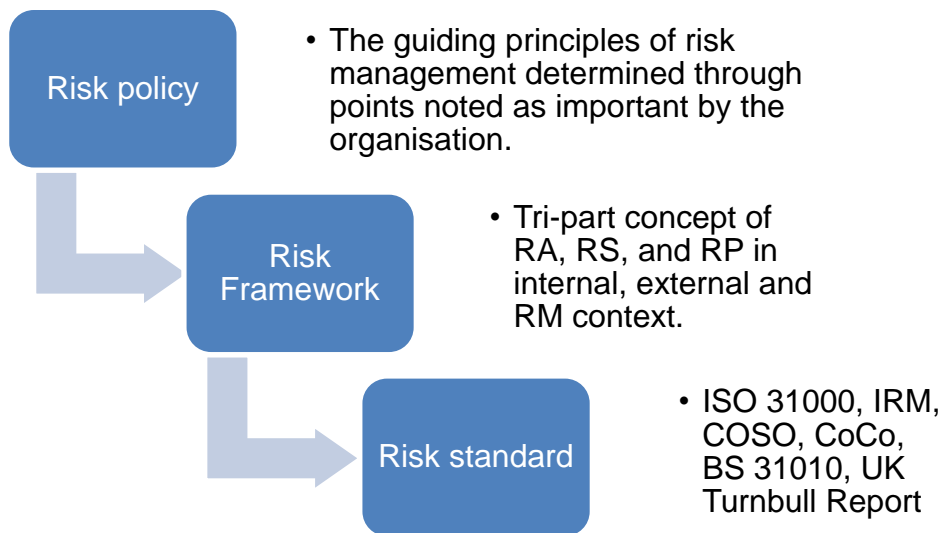


Figure 2.3: Flowchart from policy to standard

Source: Own construction (2017)

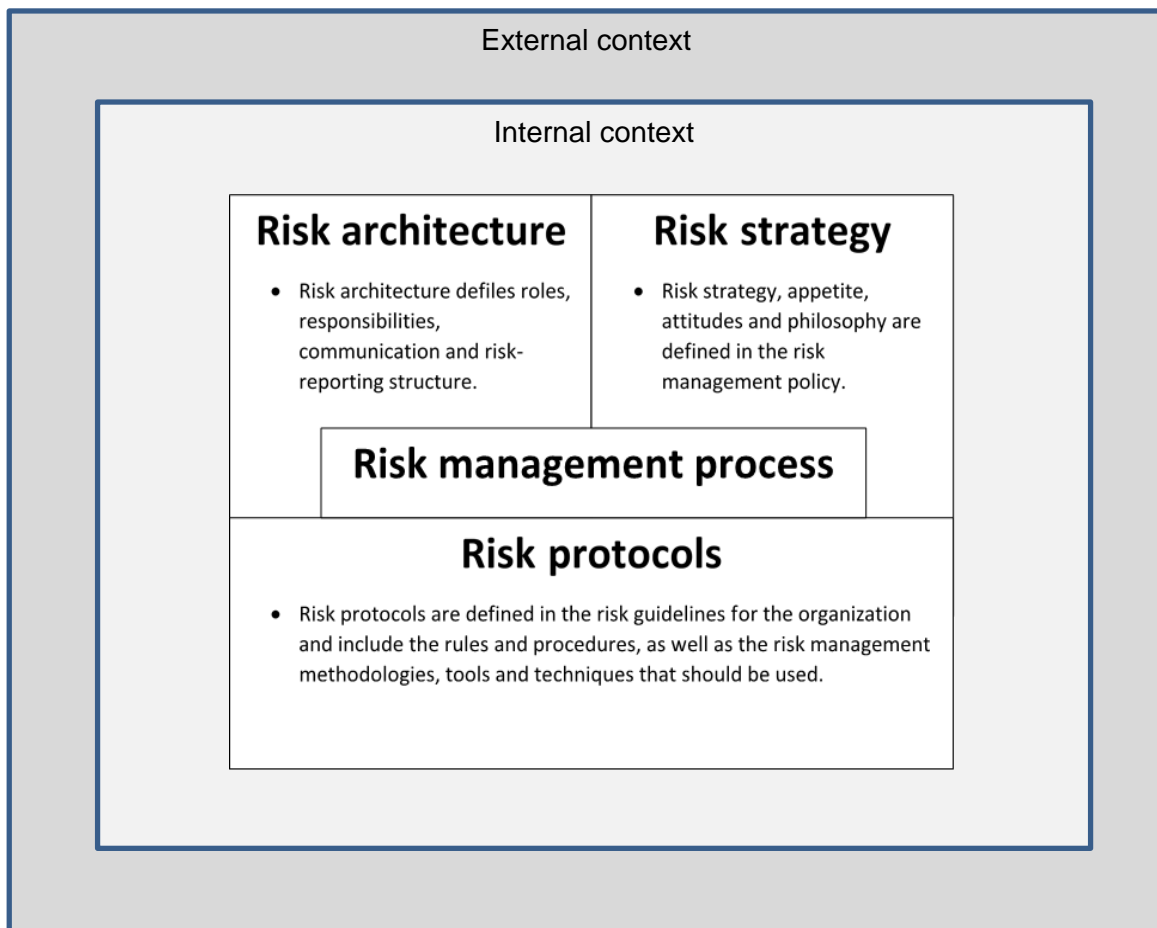


Figure 2.4: Risk management framework

Source: Hopkins (2013:78)

To facilitate holistic engagement a framework is designed in each organisation (Hopkins, 2013). The three components of RA, RS and RP cumulatively make up the risk

management context of a risk management framework (Badenhorst-Weiss *et al.*, 2013). The internal context is indicative of the capacities, activities and requirements of the stakeholders of an organisation (Badenhorst-Weiss *et al.*, 2013). The external environment is the physical, political, economic and social context within which the organisation functions (Andersen, 2006).

2.3.7 Risk management standards

The Norsk Standard, designated NS5814:1991, was the first risk standard (Norges Standardiseringsforbund, 1991). This standard, along with multiple other standards were incomplete in their regard to address all of the factors and/or processes that are required to manage a risk in its entirety (Raz & Hillson, 2005). From 1991, multiple other standards have come into play that address the full scope of risk management from their own perspectives (Hopkins, 2013). The following section will address these standards in brief. What is important to note is that despite the different focal points and the variation in the scope of description of risk management in each of these subsequent approaches, they all address risk using the same process outlined in Figure 2.1 with little variation.

The key difference is where the focus is set. Internal control is the process drafted by the internal agents of an organisation, through which reasonable assurance can be given of an organisation's continued capacity to meet its goals and obligations whilst complying with legal, regulatory and reporting criteria by means of a more holistic identification, understanding and management of risks that the company faces (Hopkins, 2013). Unlike the risk aware culture or the standard risk management approach, greater emphasis is placed on the risk management responsibility of agents within the business (Aabo & Simkins, 2005).

2.3.7.1 Institute of Risk Management (IRM) standard

The IRM standard is a risk management standard that was produced through the work of major risk management standards in the UK and around the world (IRM/NFRMPS/AIRM, 2002). Within this standard, definitions are maintained according to the definitions in the ISO/IEC guide 73 (Ward & Chapman, 2003). IRMs risk management steps parallel the cumulative descriptors of the steps previously given (Kent, 1992). The IRM Standard is non-prescriptive; thus, it is not exhaustive in regards to the definitions given and instead seeks to provide a way of thinking about how risks can be identified, described, estimated,

analysed, profiled, evaluated, reported, communicated, treated, monitored and reviewed through short discussions for these topics (IRM/NFRMPS/AIRM, 2002). The IRM standard also provides further discussion of risk management policy considerations, and internal and external environment contexts (Raz & Hillson, 2005). The IRM standard also provides a list of identification techniques and methods within its appendices to provide direction to prospective users (Cohen *et al.* 2002).

2.3.7.2 ISO:31000:2009

The ISO Technical Management Board Working Group created ISO 31000 (ISO, 2009a). The ISO 31000 standard encourages the progressive and continual development and implementation of a standard that integrates risk management into the organisation's culture and pervades throughout the organisation at all levels (ISO, 2009b; Leitch, 2010). ISO 31000, as a standard, serves as a consistent, efficient, coherent, systematic, transparent and credible process, that is consistent with risk management theory and serves as a multidisciplinary risk framework that can be applied in any scope or context (ISO, 2009c; Purdy, 2010). In addition to developing ISO 31000 and the guide to risk management terminology, named Guide 73 (Knight, 2012; Hopkins 2013). An additional guide to risk management techniques was also created called ISO/IEC 31010, which serves as a comprehensive publication containing a wide array of risk assessment techniques that are aligned with modern good practice (Lalonde & Borial, 2012; Dali & Lajthat, 2017).

2.3.7.3 British Standard 31100:2011

The British Standard 31100:2011 (BS) gives recommendations for implementing ISO 31000 standards in its entirety (BS 31100:2011, 2011). The principle behind it is to aid risk managers or those who are responsible for the risk management function within the business to fall in line with compliance criteria (BS 31100:2011, 2011). BS does not add any new content but provides explanations, recommendations and guidance on risk management that is founded on more generic risk management theory and is consistent with the risk management process (BS 31100:2011, 2011).

2.3.7.4 COSO ERM

The Committee of Sponsoring Organisations of the Treadway Commission (COSO) is a co-operative interaction between the American Accounting Association, the American

Institute of Certified Public Accountants, Financial Executives International, the Association of Accountants and Financial Professionals in Business and the Institute of Internal Auditors that work together to provide guidance and frameworks on enterprise risk management, the avoidance of fraud and internal controls (COSO, 2016). COSO enterprise risk management (ERM) is a complex, holistic and integrated approach to risk management (Carroll, 2015).

COSO ERM can be defined as a framework and strategy followed by a business that aids in the attainment of an organisations goals by means of addressing all risks in all risk contexts and managing the sum impact of those risks as a single collection of interrelated risk (Bowling & Rieger, 2005a; Opengorth 2017). COSO ERM provides a standardised process for approaching and dealing with risk from objective setting to monitoring: addresses the internal and external contexts by means of addressing strategic, operations, reporting, & compliance issues: identifying which internal context it is operating in (Bowling & Rieger, 2005b). The internal contexts of ERM are the subsidiary level, the business unit level, the division level, or the entity- level (Hopkins, 2013). Figure 2.5 lustrates COSO ERM.



Figure 2.5: COSO ERM cube

Source: COSO (2016)

2.3.7.5 Turnbull Report

The Turnbull Report is a paper that is intended to provide guidance in regards to internal risk control for companies listed on the London Stock Exchange (Zaman, 2001). The Turnbull Report guides the reader on the application of Principle D2 of the Combined Code, which to maintain, or establish if not present, an internal risk management system with the aim of safeguarding the assets of the company (Turnbull, 1999a; Turnbull, 1999b). Within the Turnbull Report, guidance is given on: a descriptor of needed documentation for compliance with the Code; who the responsible parties for internal control are; what the details are that must be considered when addressing the completeness and credibility of internal control (Price Waterhouse, 1993). The Turnbull Report incorporates the standard steps of risk management but places special emphasis on the internal control aspects of the business with the main focus on reviewing, reporting, monitoring and auditing (Page & Spira, 2004; Carey, 2001). The Turnbull Report is broad in its approach and in its word choice, this is done intentionally to give organisations the space to operate as they see fit and to innovate their responses to risks as an outworking of their own peculiarities while gaining minimum required assurance to comply with reasonable corporate socially responsible practice standards (Friedman & Miles, 2001).

2.3.7.6 The Criteria of Control Board of the CICA (CoCo)

CoCo is a risk management standard written for the internal agents of the business that includes 20 criteria for effective control spread across four areas of the organisation, which are broken up into the categories of purpose, obligation, capacity and monitoring & learning (Canadian institute of Chartered Accountants, 1995; Bruwer *et al.*, 2017). CoCo does not provide a set of statutory requirements but instead provides a framework for decision making in regards to controls, corporate governance and risk management (Spira & Page, 2002; Canadian institute of Chartered Accountants, 1995).

CHAPTER 3: SMMES WITHIN THE SOUTH AFRICAN ENVIRONMENT

This chapter will serve as the conceptual entry into the multidisciplinary discussion of SMMEs and SMME needs in regards to the discipline of holistic risk management. This chapter will contextualise the SMME in the South African context by means of defining the characteristics associated with SMMEs. Subsequently, the reasons for failure and success, as well as the factors that contribute to failure and success will be discussed. The SMME will then be framed within the risk context of the internal and external business environment and subsequently discussed in relation to the national policies that have been enacted to promote SMMEs within South Africa. The chapter concludes by bringing the three factors of SMME theory, risk management, and government policy together in a preliminary conceptual model from which further work can be done.

3.1 DEFINITION AND CLASSIFICATION OF SMMES

In discussing SMMEs, it is difficult to find a single definition that holds true universally. Defining characteristics are variable to the degree where businesses that are considered small in the United States of America can often be considered large in South Africa. This section aims to create the needed context that will allow for insight into the classification of SMMEs and their predominant characteristics.

3.1.1 General definition of SMMEs

There is little international agreement by way of a single definition for an SMME. There is also variation as to what classifies an SMME between economic sectors (ILDP, 2014). A business can be classified as an SMME by the criteria of a country's policy but tends to generally be described by the factors of its turnover (which is low), number of employees (which are few) and structure (which is informal) (Zimmerer & Scarborough, 2002; April, 2005). Beyond the three criteria mentioned, small businesses are also independently managed, all equity and capital comes from one or very few people, and operation takes place in geographically immediate and/or nearby markets, which are limited (Bezuidenhout, 2003; Martin, 2006; ILDP, 2014). SMMEs are relatively small compared to big businesses and are not a subsidiary to any other business (Hogarth-Scott & Jones, 1993). SMMEs are also not a market leader in their respective fields (Carland *et al.*, 1984). The point at which businesses are considered to no longer be strictly a SMME, is the point at which the control systems and organisational systems become more formal and

structured by necessity (Nieuwenhuizen, 2003). SMMEs, alternatively, are defined as a business within all categories except large enterprises, corporations, or publicly owned enterprises (Watson, 2001). The definitions of SMMEs have even gone so far as to include an SMME descriptor when being able to be categorised as black-, women-, family-, or cooperatively-owned within South Africa to address the historically repressed conditions of these groups or the collectively small scale of their form (DTI, 2005).

3.1.2 Definition of SMMEs in the South African context

In South Africa an SMME can be classified and defined on the basis of its income and employment (ILDP, 2014). The definition of an SMME is dependent on the economic, social and political environment within which it functions (Moos, 2014). To bring this to light, SMMEs have been classified as businesses between one and 500 employees, depending on the industry and the development status of the country from which the definition arises (Kroon & Moolen, 1992; Van Aardt & Van Aardt, 1997; April, 2005; SEDA, 2005). This holds true regardless of whether the SMME is a for-profit, or non-profit organisation (Kroon & Moolen, 1992).

What defines an SMME is broken down and laid out in the schedule of the National Small Business Act 102 of 1996. The Act (South Africa, 1996) states that SMMEs are split into one of four categories, namely , micro, very small, small and medium by the categories of their total number of full-time equivalent or paid employees, their total yearly turnover and the total gross value of their assets with specifics relating to the sector in which the business exists.

A small business must be distinct as a separate entity that may not be a subsidiary of any other group, may not have its own subsidiaries or branches, must be owner managed and exist as a legal entity (SEDA, 2012). Quantitatively, it must fall within the boundaries of employment, revenue, or capital as laid out in the schedule within the (South Africa, 1996) with respect to the industry that it is within. To be classified as an SMME the enterprise must have between one and 200 employees, between 1 and 100 employees, or between 1 and 50 employees depending on their sector or subsector (South Africa, 1996).

Getting turnover and gross asset values from businesses is difficult because this information often is considered very personal to the SMME owner, thus the focus will be

placed on the number of employees for this study. Due to non-uniformity of definitions of an SMME in the general literature, this study defines an SMME as being compliant to the smallest maximum number of employees that qualify as an SMME under the act's schedule. Upon review of the Act, the lowest maximum of employees for all classification of SMME to still fall within all respective definitions is 50 employees. This definition allows all sectors inclusivity, whilst eliminating the inclusion of large businesses. Table 3.1 below lists the broad definitions of SMMEs based off of income and employee cut off points.

Table 3.1 Broad definition of SMMEs

Title:	Characteristic:
Survivalist enterprise:	Income does not exceed the poverty line.
Micro-enterprise:	Income level does not qualify value added tax registration
Very Small enterprise:	Less than 10 paid employees
Small enterprise:	No more than 50 employees
Medium enterprise:	No more than 200 employees

Source: ILDP (2014)

3.2 CHARACTERISTICS OF SMMES

SMME characteristics are more consistent than the definitions that have been provided across the academic literature and international policy. Due to the more stable nature of the characteristics of SMMEs, identification of SMMEs can be done with greater accuracy when recognised through these characteristics. This section will explore the characteristics of SMMEs, beginning with the structure of SMMEs then moving onto the characteristics of SMMEs. The discussion will then delve into the general characteristics and then define the beneficial and detrimental characteristics.

3.2.1 General characteristics of SMMEs

SMMEs are owned and operated independently by the SMME owner, by a small set of partners or from within a family (Manalova *et al.*, 2011). SMMEs are not market dominators, nor do they engage in risk activities proactively (Kuratko & Hodgetts, 2007). SMMEs are oriented internally towards an established status quo, their social position, their current period of survival, and personal profits. The risk adverse drive for security results in SMMEs often remaining small for extended periods of time (Kuratko & Hodgetts, 2007; Nieman, 2006). The expectation that is hoped to be maintained by SMMEs is one of stable, revenue, profits and growth (Moos, 2014).

The characteristics of small businesses differ from large businesses in four individual respects: culture, influence, resources and ambition (Ehlers, 2000). The culture of a SMME, in comparison to big business, is more flexible and independent, garners closer relations with suppliers and clients on an individual and personal level, can tolerate great uncertainty and, generally, have a short-term view (Herbst, 2001; Ehlers, 2000). In contrast to big business, SMMEs tend to have limited influence economically or politically in isolation of each other (Ehlers, 2000; April, 2005). Resources are also comparatively limited and often insufficient, due to limited financing growth is slow and cash supply is usually in deficit (April 2005).

The final differentiating characteristic of SMMEs is their ambition, SMMEs tend to have less ambition and a less professional management teams in comparison to big business (Andreassi, 2003; Ehlers, 2000). SMME organisational structures are informal and flat with a few employees performing a multitude of varied tasks (April, 2005). Tasks are assigned after being identified internally and sorted into functional subsections (Andreassi, 2003). The hiring of specialists is usually reserved for moments of absolute necessity due to the cost of employing specialists, despite the potential cost of failure stemming from a lack of expert knowledge (Herbst, 2001).

3.2.2 Beneficial characteristics of SMMEs

There are characteristics within small businesses that serve to their benefit when compared to big businesses. The management processes of SMMEs are less bureaucratic, which translates into decisions being made quickly (April, 2005). Small organisations are more flexible in meeting consumer needs and thus provide better

customer care (Herbst, 2001). Small businesses are faster learners than big business (Herbst, 2001). National government policy, generally, is more gracious with SMMEs regarding support initiatives and has less regulation relative to big business (Ehlers, 2000). SMMEs also have the capability to meet the needs of smaller market groups, which might not be profitable for big business to engage with (Andreassi, 2003).

3.2.3 Detrimental Characteristics of SMMEs

SMMEs have negative general characteristics that put them at a disadvantage to big business. Poor management skills because of poor skills training is the foremost and most cited source of failure for SMMEs amongst these detrimental characteristics (Audrestsch, 2005; Havenga, 2008; Preuss, 2011; Moos, 2014). Second to poor management is the lack of financial control such as cash flow management, planning provisions and accurate bookkeeping (Havenga, 2008). Poor communication with the external environment comes about because of poor marketing and advertising campaigns often left incomplete regarding feedback (Preuss, 2011). Competition is orientated towards price competition, despite innovation and quality competition being vital for holistic competition (Audrestsch, 2005).

Low motivation to improve the value offering of their goods or services continually, beyond what is needed, is also a characteristic of SMMEs (Scarborough & Zimmerer, 2003). Additionally, SMME policies create a regulatory business environment that is overly restrictive, overburdening administratively and requires that professionals be outsourced at rates that strain the financial position of the SMME to abide by regulation that is passed (Moos, 2014).

3.3 SMME FAILURE

SMMEs fail within South Africa at an alarming rate of 75 percent (SEDA, 2007). This failure comes about as a result of a collection of many factors, which will be discussed within this section in detail. This section will propose a definition of SMME failure that draws from the available academic literature. The sources for failure, as well as the consequences of failure, will be addressed. Although any single one factor could result in SMME failure, the cumulative, synergetic interaction of more than one of these factors, at any time, has the capacity to devastate the capacity of an SMME to survive.

3.3.1 Definition of SMME failure

SMME failure is defined differently between developed and developing nations. Within developed nations, the main characteristic of failure for SMMEs is the inability to meet the goals it sets (Van Aardt & Van Aardt, 1997). The more general elements, that are focused on in both developed and developing nations, that contribute to a definition of failure are a combination between asset and liability costs, the overall cost to the level of revenue generated, how well production/output can keep up sourcing/ inputs and how closely demand and supply predictions follow on each other (Van Aardt & Van Aardt, 1997; April, 2005; SEDA, 2005).

When categorising these failures, the themes of insolvency, cessation of trading, a decline in performance, deviation from goals, cessation after decline, costs that exceed revenue, declining financial performance, a lack of growth, net liabilities exceeding net assets and the voluntary closing of an endeavour by the SMME owner become the defining characteristics of SMME failure (April, 2005). Within context of this study SMME failure is a term used to define a point at which insolvency is present and continued operation will result in financial and/or legal distress (SEDA, 2005).

3.3.2 Source of SMME failure

Over the course of investigation, common causes for failure within businesses have confirmed themselves across the board. These main contributing factors to business failure are managerial incompetence, poor financial cash flow controls, the lack of experience, the lack of strategic planning, inappropriately managed growth, poor stock control, wrong working attitudes, lax credit granting, capital shortage and inappropriate location (Lussier, 1996; Henderson, 1999; Cannon & Edmondson, 2005; Probst & Raisch, 2005). The most common factors that contribute to SMME failure can be broadly grouped under one of four main branches which are: poor management, lack of financial management, lack of continuation, and competitive issues. (Watson & Everett, 1993; Sheppard & Chowdhury, 2005; Medway & Byrom, 2006; Burns, 2010).

Poor management encapsulates the lack of business specific skills, lack of management skills, ignoring the human factor in planning, poor time management, SMME owner's lack of adaptability to change and poor strategic plan. (Watson & Everett, 1993). Lack of financial management includes poor credit management, poor financial control and an

subject lack of accounting knowledge, (Sheppard & Chowdhury, 2005). Lack of continuation addresses uncontrolled growth and poor growth management (Medway & Byrom, 2006) Competitive issues include inattentiveness to marketing and sales, poor location, incorrect pricing, (Burns, 2010)

3.3.2.1 Poor management

Management is a critical issue with which SMME owners tend to fail in consideration to both human resources and the more technical aspects of managing a business (Ritchie & Richardson, 2004). Managerial failure includes the aspects of strategic planning, which starts with assessing the current business environment and forming a cohesive plan of action to most ideally position the business within this environment for success (Honjo, 2000). Growth management is another matter that must be addressed as a factor, that if absent, could lead to failure rates of up to 75 percent (Coelho & McClure, 2005). Growth leads to increasing levels of business complexity, which is often not met with the required capacity for complexity.

Creating a corporate culture that is inclusive of all stakeholders can help develop complexity by means of enhancing business wide awareness of what growth is needed and what growth is currently occurring (Lussier & Pfeifer, 2001; Zacharakis *et al.*, 1999). Other sources claim this impediment exists because of a lack of training, experience and capacity as well as the number of managerial tasks being multitudinous; whereas, the responsibility usually lies on only a few and, in many cases, one individual (Zimmerer & Scarborough, 2002; Gitman, 2009).

3.3.2.2 Lack of continuation

SMMEs are also rarely perpetuities, a SMME cannot continue if there is no successor (Cressy, 2006). In addition to a potential loss of the purpose and vision of the company, the leadership, company values and skill capacity can also be threatened if plans for succession are not clearly laid out in advance (Headd, 2003). With the loss of continuity, the business either fails or closes as a natural consequence (Thornhill & Amit, 2003). Alternatively, the skills that were lost need to be recovered or learned from scratch by whoever takes over the business by means of experience since SMMEs rarely engage in formal skills training (Thornhill & Amit, 2003).

3.3.2.3 Competitive issues

In addition to the considerations discussed above, competitive issues are also present that hamper the success potential of a SMME (Friedland & Morris, 1976). Business location, customer service, operations, marketing and quality control all contribute to the survival and success of an SMME in pure business terms (Friedland & Morris, 1976; Jennings & Beaver, 1995). Production within an SMME must render goods of superior or comparable quality to survive in a modern competitive environment where quality and price is controlled (McCartan-Quinn & Carson, 2003).

The challenge arises in that an SMME must accomplish this feat with fewer resources – professional and financial – than their big business counterparts (SEDA, 2007). To achieve this SMMEs must develop innovative production systems, which are complete and efficient, with product designs that provide a greater utility to consumers (Seshadri, 2007); marketing by means of altering the cosmetic characteristics of produced goods so that they align with the demands of specifically identified customers, setting up price levels for differentiated goods, establishing sales and advertising methods and combining them all into one plan (April, 2005).

3.3.2.4 Lack of financial management

Financial management is another critical success factor, the improper management of which can and will result in SMME failure (Thompson, 1996). Financial management begins with accurate and up to date data on operations, operational failures, budgetary movements and compliance with regulatory institutions (Shepherd *et al.*, 2009). Financial data can then be used to track liquidity and capital throughout the SMME (Scarborough & Zimmerer, 1996). Where an SMME does not manage its finances effectively the losses can cause operations to grind to a standstill when wages cannot be paid due to liquidity shortfall or capital not maintained (Scarborough & Zimmerer, 1996). Without an accounting system that records and tracks these phenomena and provides meaningful information, SMMEs cannot make the informed decisions they need to grow and survive (Bezuidenhout, 2003).

Inventory control is another aspect of financial management and includes concepts of cash, capital and cash equivalents (Friedland & Morris, 1976). Within SMMEs, there exists a propensity towards a mismatch between stock needs and what usually is held

(Seshadri, 2007). When there is an excess or deficit of stock held it results in an opportunity loss as lost interest or the inability to complete a sale (Shepherd *et al.*, 2009). Stock mismanagement could also result in cash costs of storage or depreciation by deterioration or out datedness (April, 2005).

3.3.2.5 SMME specific considerations

Due to the small size of an SMME, employee motivation has different dynamics to big business and tends to be more personal and flexible than formal and rigid (McGrath, 1999). Small businesses claim that finding highly qualified employees is one of their most challenging business problems (Richardson *et al.*, 1994). The informal dynamic can be draining to the SMME owner, who must balance the concerns of the employee with business objectives and needs (Shepherd, 2003).

Opportunities to learn and grow, along with intangible rewards such as additional responsibility and public recognition, have been identified as a potent motivator of employees within small businesses (Van Aardt & Van Aardt, 1997). What is essential for employee motivation within an SMME environment are the identification, utilisation and recognition of individuality of the SMME employees (Thornhill & Amit, 2003). Abiding by legislative considerations, organisational procedure and policy and by abiding with the societal morality of its stakeholders improves the competitive position of a company (Koksal & Arditi, 2004).

3.3.3 Consequences of SMME failure

SMME failure can come about because of one or a combination of various factors and they are especially vulnerable due to their small size (Argenti, 1976; Cook, 2001). SMME failure affects not only the SMME but extends the effect to the society and in turn to the larger national economy (Dimitras *et al.*, 1996). Financial consequences extend beyond the SMMEs failure and translate into wasted national resources, both economic and human, regarding support given and capital costs (Bezuidenhout, 2003). Loss of employment and employment opportunities is also a direct consequence of SMME failure and can slow down future endeavours due to the psychological impact of severe failure (Scarborough & Zimmerer, 1996). A failure stigma can be created within society, which makes the risk of loss of social position or status outweigh potential financial gains in the event of a success (Kuratko & Hodgetts, 2001).

3.4 CONTRIBUTING FACTORS OF SMME SUCCESS

The discussion of skills and competencies that lead to SMME success can be broken up into the categories of technical skills, personal skills, entrepreneurial and business skills (Perry, 2001). Technical skills include production and development skills of the product or service (Van Witteloostuijn, 1998). Personal skills extend to literacy and numeracy, networking, the ability to learn, problem solving, leadership, persistence, inner control, achievement motivation and commitment, and decision making (Sarasvathy, 2001). Entrepreneurial skills encompass the gathering of resources, the establishment of role models, innovation, creativity, risk and a scenario of market/industry opportunity (Luthans *et al.*, 2000). Business skills include communication, legal skills, human resources, marketing, financial management, operational management and strategic and operational planning (Wiesenfeld *et al.*, 2008).

3.4.1 Managerial skills

First amongst the reasons for SMME success is the development of managerial skills (Shepherd *et al.*, 2009). For example, reading about business and acquiring management knowledge, skills and competencies would be what constitutes development (Shepherd *et al.*, 2009). One can bypass this process by bringing in a partner, or hiring a consultant that is more managerially inclined (Temtime & Pansiri, 2004). However, SMMEs rarely develop these activities due to the immense time costs associated with being a sole proprietor and the resource costs of formal training.

3.4.2 Record keeping

Secondly, good record keeping has been shown to contribute greatly to SMME success (Kuratko & Hodgetts, 2001). The reason for this is that needed information on sales, customers, suppliers, appointments, discussion notes, finances, employee hours, stock levels and share values are readily available and neatly arranged, allowing for quick decision making and speedy responses to opportunities (Scarborough & Zimmerer, 1996; Bezuidenhout, 2003).

As with the development of managerial skills, few SMME owners receive formal training in regard to record keeping due to the time required to acquire these skills and the costs of tuition that accompany it (Kuratko & Hodgetts, 2001). The resulting implication of this

is that skilled employees must often be recruited, at great expense, to facilitate this function (Balkenhol & Evans-Clock, 2003).

3.4.3 Cash-flow management

The third contributing factor to SMME success is cash flow management. It is important to note that poor cash flow management has historically been the cause of failure for SMMEs (Kuratko & Hodgetts, 2001). SMMEs experience cash flow problems due to their nature, the extension of credit terms that are too generous; the purchasing of unprofitable stock, products, or services; the propensity to seek to buy property or expensive equipment instead of operating on a lease or rental agreement (Temtime & Pansiri, 2004). Without a well-designed and well-maintained book keeping system, the effects of poor cash flow management can be exacerbated. These two factors must thus be balanced out against each other.

3.4.4 Adaptability

Fourthly, the capacity to adapt as the size, scope, or position of the business changes, within the environment that it operates in and within itself is essential. Adaptability contributes to the capacity for an SMME to succeed by allowing it to adjust its behaviours towards survival (Perry, 2001). Beyond survival, adaptability is essential in restructuring itself and allowing for new forms of development within the business. Adaptability thus has the capacity to help streamline and facilitate new growth, as well as allow for the editing and optimisation of antiquated management practices and conventions already in place within the business.

3.4.5 Marketing

Fifthly, an efficient marketing strategy that incorporates market research and analysis. It is important that a market feedback system is kept going that critically analyses the product offering of an SMME as this allows an SMME to play to its strengths and adapt rapidly (Van Gelder *et al.*, 2007). To do this one must first know what the critique is on a product or service, secondly a market plan must be formulated, thereafter identifying what needs a client has and what competition stands capacitated to meet that needs (Van Gelder *et al.*, 2007) . Thereafter it is a matter of the SMME to meet that need more effectively (Van Gelder *et al.*, 2007). This process must carry on indefinitely and continuously.

3.4.6 Planning

The sixth factor that makes an SMME successful is its capacity to plan at every level. Planning starts at its core objective, which must be real and doable (Wiesenfeld *et al.*, 2008). Thereafter resource and financing planning must be done to achieve the core objective (Luthans *et al.*, 2000). Planning must be specific in stating what guidelines should be followed in its planning to ensure that it aligns with business culture (Luthans *et al.*, 2000). Plans must be time bound with execution dates that drive the SMME to achieve its goal quickly and surely (Sarasvathy, 2001). For planning to be effective, the success of actions taken and success indicators for any plan to come must be determined and spelled out in meticulous detail (Van Witteloostuijn, 1998).

3.5 BUSINESS ENVIRONMENT AND SMMES

SMMEs are affected by the economic environment that they exist in, within the South African context, the factors of economic stability, economic growth, economic policy and SMME support programmes have a core effect on the ability for small business to survive (Brand, 2006). The informal economy is in large part driven by circumstances in the primary economy (Bates *et al.*, 2005). Failure within the primary economy leads to unemployment and thus stimulates this secondary economy as people aim to survive within it by means of formal and informal SMMEs as the vehicle towards this end (Balkenhol & Evans-Clock, 2003). Changing market forces, legislative changes, technological development and ever changing societal needs and responsibilities initiate and drive business through opportunity and the need to survive (Balkenhol & Evans-Clock, 2003; Brand, 2006).

3.5.1 External environment

All SMMEs act in the business environment, which includes the unified internal and external risk context (Nieuwenhuizen, 2011). The business environment is broadly composed of the macro-environment, the market environment and the business micro-environment (Diedericks, 2014). The three environments are interconnected; thus, effects from the macro-environment affect and influence the market environment, which in turn affects the business micro-environment (Nieuwenhuizen, 2011). The macro/external-environment is broad and includes the international, physical and technological environments as well as the social issues, political factors and broad economic issues

(Bezuidenhout, 2003). The market environment is influenced through the combined actions of competitors, the needs and purchasing power of the consumer, suppliers and intermediaries, however, it still exists as part of the external environment (Bridge *et al.*, 2003).

3.5.2 Internal environment

The business micro-environment is the environment that is fully within the internal control of the business, which includes the resources, management systems and the vision, mission and objectives of the business (Brand, 2006; Nieuwenhuizen, 2011). Within the context of start-up SMMEs, the formality of these factors might be lacking initially (Steinburg *et al.*, 2004). The internal environment has a direct influence on how risk is perceived, identified and managed within the SMME and is thus closely aligned with the fundamental aspects of risk management (PriceWaterhouseCoopers, 2011; Diedericks, 2015).

Factors affecting the internal environment have elements of risk management such as risk appetite, operational risk, risk feedback and management systems (Booyesen & Visser, 2012). However, despite being fundamental to the survival of business, there exists a disconnect between what is known in academic risk management theory and the actions that SMMEs within South Africa take to manage their risks (Balkenhol & Evans-Clock, 2003; ISO:31000, 2009; Nieuwenhuizen, 2011). SMMEs are formed by, and take on, the legal forms of sole proprietorships, partnerships, or closed corporation, private company, or public company, although, the latter is rarely considered a form of ownership affiliated with SMMEs (Herbst, 2001). New SMME owners can also come into ownership of an SMME by franchising, business buyouts, or entering a pre-established family business (Andreassi, 2003).

3.5.3 Current SMME state in South Africa

Having discussed the internal and external environment of SMMEs in general, the discussion now shifts to the South African perspective. This section will address the latest figures that are available on SMMEs. The discussion that follows will include a discussion on the transition from past results to present results. SMMEs have been stated to produce many seats of permanent employment faster than established big businesses (Sexton & Landström, 2000). This is reaffirmed by the Bureau for Economic Research (BER) (2016)

report that stated that 69 percent of SMMEs employ additional staff. SMMEs are small and thus must foster innovation to stay alive, increasing technology development nationally (Kroon & Moolen, 1992). SMMEs can absorb excess demand from larger organisations and address market niches that big business cannot, which benefit large businesses by creating the capacity to spill over contracts received, to SMMEs (Sexton & Landström, 2000). SMMEs can serve as an accessible vehicle for upward class mobility (Kroon & Moolen, 1992). With organisations becoming more and more mechanised there now exists a trend towards companies with fewer employees (Ehlers, 2000). All these factors work together synergistically to make SMMEs a powerful tool to address the myriad of social issues that are faced in South Africa, foremost, poverty and unemployment (April, 2005).

3.5.3.1 Informal versus formal SMMEs

SMMEs within South Africa operate in both the formal and informal sectors. The characteristics of both these environments are outlined in Table 3.2. The formal sector is the larger employer between the two, while the informal sector is roughly double the size of the formal sector in the number of SMME owners present within it (BER, 2016). This phenomena translates in a higher capacity to do business within the formal sector than the informal sector, thus the need to employ more people.

Table 3. 1 Characteristics of informal and formal SMME sectors

Informal sector	Formal sector
1.Ease of entry	1. Restricted entry
2. Indigenous resources	2. Reliance on national and foreign
3. Family ownership	3. Corporate ownership
4. Small-scale operation	4. Large-scale operations
5. Labour-intensive and adapted	5. Capital-intensive and imported
6. Skills acquired outside the formal	6. Formally acquired skills
7. Unregulated and competitive markets	7. Protected markets

Source: ILDP (2014)

Formal sector SMMEs have significantly higher levels of income than informal sector SMMEs, the difference being on a magnitude of up to 65 times that of informal SMMEs

when mean incomes are compared (BER, 2016). It thus becomes apparent that there is a barrier that once crossed allows the SMME to accelerate its growth.

3.5.3.2 Provincial distribution of SMMEs

Changes in SMME numbers from 2008 to 2015 and the distribution of SMMEs amongst sectors are represented in table 3.3 and illustrated in Figure 3.1. Statistical analysis indicates that SMMEs declined in four of the nine provinces over the seven-year period (BER, 2016). Consistently, informal SMMEs outnumber formal SMMEs in every province except for the Northern- and Western Cape, which indicates an inability to raise the productive capacity to the levels required for formal taxation (BER, 2016). 46 percent of all formal SMMEs exist within Gauteng and thus the employment power-houses are grouped together tightly making it an ideal location from which to draw larger sample sizes in the future (BER, 2016).

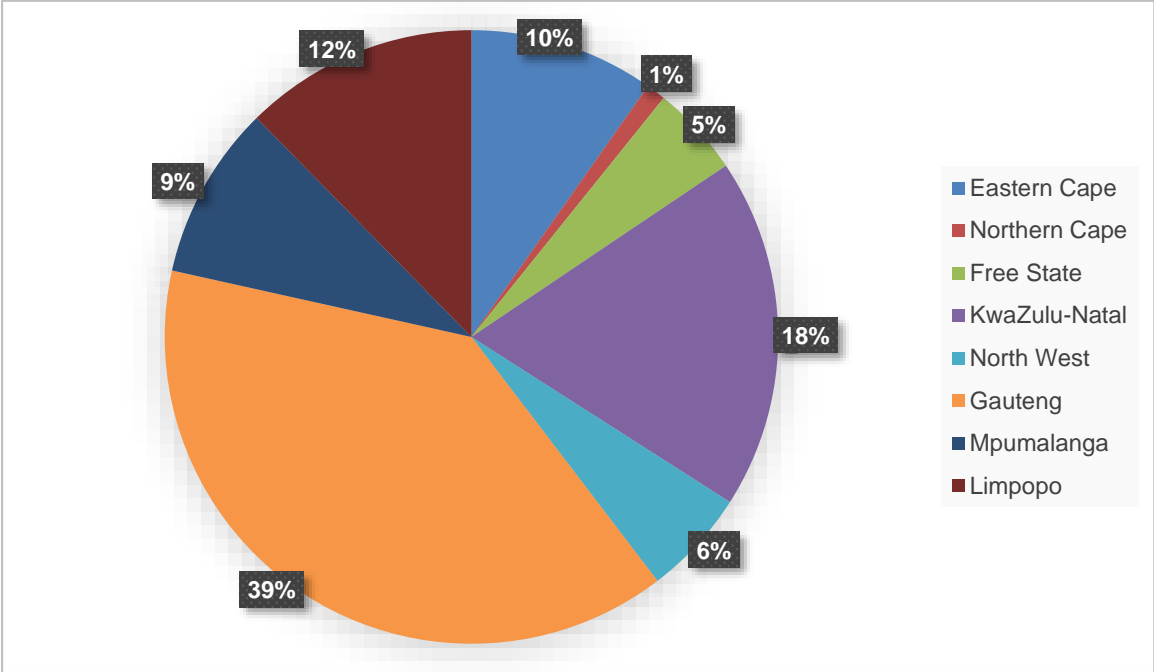


Figure 3.1: Percentage of total SMMEs per province

Source: BER (2016)

SMME policy has managed to only produce a growth in the number of officially reported SMMEs by 3.16 percent over the seven-year period of 2008 Quarter 1 to 2015 Quarter 2 (BER, 2016). When compared to the 14 percent growth rate in GDP for the same period it indicates underperformance of government support initiatives on a national scale (BER, 2016). What has hampered policy effectiveness drastically is the pervasive lack of

awareness of SMME support initiatives, weak to non-existent service delivery, the costs of accessing support and poor interaction with stakeholders in regards to the design and formulation of policy (Storey, 2008).

SMMEs are not distributed equally throughout South Africa with more than 50 percent of them distributed only between Gauteng and KwaZulu-Natal. The skewing of the numbers towards these locations indicates an urbanisation effect taking place. The urbanisation effect translates to greater skills density per square kilometre within these areas, which can facilitate a faster dissemination of skills towards the needs that exist within these areas.

Table 3.2 Provincial distribution of SMMEs

SMMEs	Number (2008:Q1)				Number(2015:Q2)			
	Total	Formal	Informal	Other	Total	Formal	Informal	Other
Total	2,182,823	666,501	1,420,933	95,389	2,251,821	667,433	1,497,860	86,528
Western Cape	223,933	114,976	95,212	13,745	230,324	110,107	110,188	10,030
Eastern Cape	218,865	56,579	154,631	7,655	197,366	50,670	141,739	4,957
Northern Cape	29,894	11,450	11,768	6,676	20,611	8,534	9,058	3,019
Free State	114,949	31,040	76,127	7,783	96,846	26,224	60,816	9,806
KwaZulu- Natal	418,406	102,591	289,347	26,468	373,434	74,976	283,165	15,293
North West	109,860	25,817	76,855	7,188	112,856	27,430	79,153	6,273
Gauteng	687,556	270,093	405,180	12,283	785,321	306,231	465,100	13,989
Mpumulanga	193,259	29,760	156,814	6,685	185,399	35,208	141,129	9,063
Limpopo	186,101	24193	115,001	6,907	249,633	28,054	207,512	14,098

Source: BER (2016)

3.5.3.3 SMMEs per economic classification

Figure 3.2 shows the distribution of SMMEs per sector within South Africa. Within South Africa, SMMEs are predominantly in trade and accommodation at 41.94 percent of total SMMEs. Community, construction, finance and business services are the closest contributors at 13.57 percent, 13.29 percent and 12.07 percent respectively. The remainder of the economic classifications are shown below in relation to the aforementioned. Of the 2.25 million SMMEs within South Africa, 1.5 million of them exist as informal enterprises (BER, 2017). The enterprises that comprise a share of less than 10 percent exist within capital-intensive enterprises, the costs of which impede entry. It is also difficult to remain in the classification of an SMME once one has entered into a capital intensive industry as increasing scales of production continuously reduce the cost per unit created, allowing for greater competition and market reach. These factors push an SMME out of its classification by extending beyond the boundaries of the number of people employed or maximum turnover.

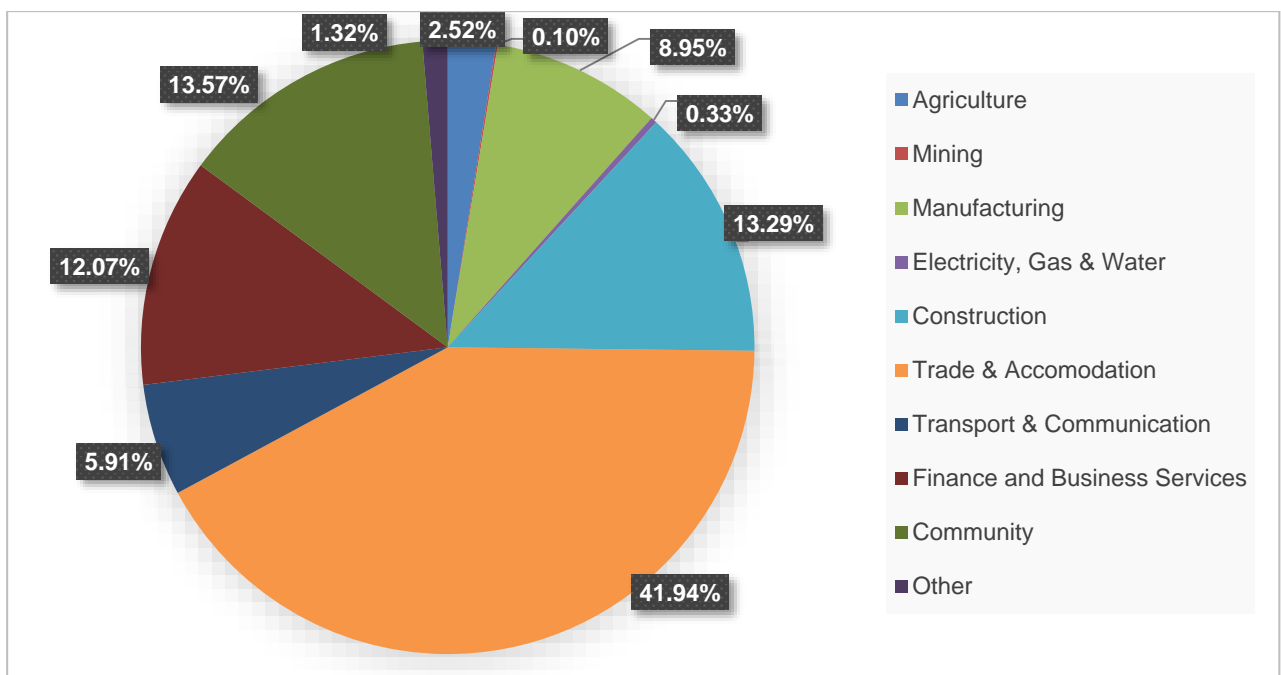


Figure 3.2: SMMEs by economic classification

Source: BER (2016)

3.5.3.4 SMME ownership by racial demographic

From 2008 until 2015, there has been a decline of white- and coloured-owned SMMEs while Black and Indian owned SMMEs have increased in number (BER, 2016).

Whether this is as a result of progression to big business for the declining groups or closure is unsure due to the hesitance of SMME owners to declare their income (BER, 2016). From figure 3.3 it can be seen that formal SMME ownership distributions are 34 percent for blacks, 51 percent for whites, 10 percent for Indians and five percent for mixed race (BER 2016). Informally, blacks own the greatest share of SMME business at 89 percent. Informal businesses produce significantly lower incomes and rates of growth than formal business. The lack of transition from informal to formal SMMEs can be explored as a potential factor in the pervasive poverty experienced within the South African context.

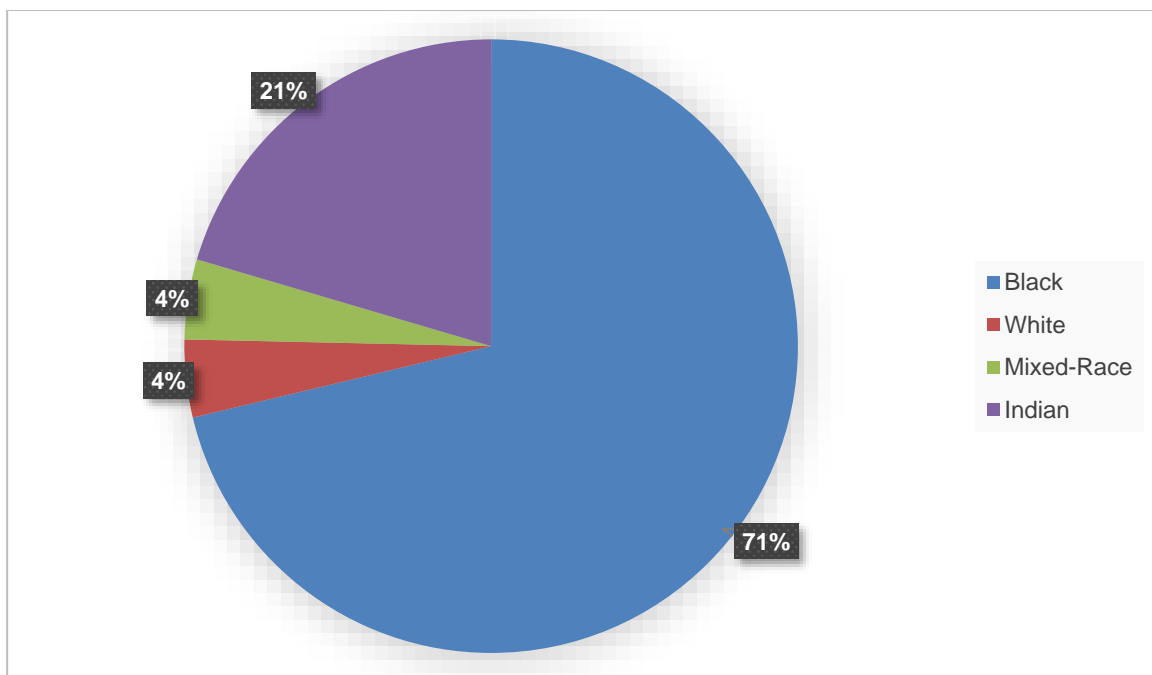


Figure 3.3: Racial demographic distribution of SMME owners

Source: BER (2016)

3.6 SMME POLICY IN SOUTH AFRICA

Within the South African context, many initiatives have been launched by government to aid SMMEs. This section explores the policies, the bodies set up to aid SMMEs, the shortfalls of policy and policy solutions. Before a discussion can be attempted, context must be created as it facilitates the intellectual backing for meaningful discussion.

3.6.1 SMME policy conceptualisation

The fundamental objective of SMME policy is the expansion of SMMEs within South Africa and includes concepts such as growth of existing SMMEs and the development of new SMMEs (Botha *et al.*, 2015). SMME policy seeks to achieve the goal of beneficially altering the business environment in such a way that it is conducive to the overall establishment and support of SMME activity through the reduction or elimination of administrative or trade barriers (Glancey, 1998).

SMME policy must seek to develop the adaptive capacity of the policy environment in relation to SMMEs and the inclusivity of stakeholders at large (Wickham, 2001). Policy also has different concerns at different levels of government and SMME policy must be applied within all these respective concerns for it to be effective, furthermore adding to the complexity of SMME policy (Van Vuuren & Botha, 2010).

The success or failure of a SMME is greatly dependant on the level of policy support that SMMEs receive within the country in which they exist. Policy determines the tariffs, taxes, rules and, by extension, the environment within which the SMME must abide by and exist (Begley *et al.*, 2005). SMME policy has the main focus of addressing the creation of sustainable employment, the acceleration and development of economic growth, the improvement of the capacity to compete in a globalised environment and the development of regional economies (Thorpe *et al.*, 2005). SMME policy is employed to increase the speed of economic growth, reduce poverty and create higher levels of income equality within a society (Troskie, 2008). However, policy can only be effective once it is reflective of real SMME challenges (Moos, 2014).

Different needs of different SMMEs/SMME types within the context of the country requires a dynamic policy (Storey, 2008). With effective policy implementation being as important as the policy being implemented (Litan *et al.*, 2006), the goals and needs of SMMEs must align with the policy being produced. Dissonance between what is desired and what is achieved is referred to as a policy gap (Lundström & Stevenson, 2005). Policy gap can come about from setting overly ambitious goals, lack of understanding and knowledge of policy implications and capacity issues and poor data prior to and after implementation (Brynard, 2007). To avoid policy gaps, policy needs

to be more flexible and sensitive to the specific conditions under which SMMEs use knowledge (Schofield, 2001).

3.7 POLICY SUPPORT

There is a stated support for SMME development across national publications (South Africa, 1996; DTI, 2005; SEDA, 2012). This support is iterated, for the most part, in South Africa (1996) and brought to action through governmental initiatives. The Small Enterprise Development Agency (SEDA) supports the growth of SMMEs through the improvement of the regulatory environment and encourages increased SMME establishment (SEDA, 2012). Spatial development initiatives (SDI) have been engaged in to provide support through the direction of investments and the maximisation of beneficial interaction between all spheres of government (Baumbach, 1983).

Business support programmes (BSP) serve to support SMMEs through focusing on specific aspects of SMME needs and include:

- the Khula Enterprise finance facility, which focuses on providing finance by playing the role of a credit intermediary with the capacity to provide credit guarantees to banks on behalf of SMMEs (Maritz, 2001);
- the national manufacturing advisory centre (NAMAC programme), which provides manufacturer specific advice and information (Hendrickson, 1998);
- Ntsika, which is a broad aid programme with the aim to improve international competitiveness and market penetration (Hodgetts, 1982); and
- Technological Business Incubators (TBI), established by government to further aid SMME start-ups by making technological innovation accessible to start-ups (Scarborough & Zimmerer, 1996).

Although there is agreement broadly that government can play a role in SMME development and indeed endeavours to, there is disconnect between policy and SMMEs (Resnik, 1998).

3.7.1 Policy shortfalls

Creation and development of SMMEs ultimately lie in the hands of individual SMME owners, yet skill shortages, the lack of investment and inadequate learning opportunities hold these individuals back (Bezuidenhout, 2003). Government policy and the initiatives provided were not sufficient due to focus, capacity and relevance mismatches (Botha *et al.*, 2015). In addition to the mismatches, irrelevance of some policy, the lack of capacity and the budget allocations between national government departments have been found to be lacking in coherence and pragmatism (Man *et al.*, 2002). Policy does not address development but instead favours maintaining the poor and marginalised, with little concern for the magnitude of the impact, or whether it develops the primary or informal economy (Erikson, 2002).

Policy mandated SMME support agencies did not meet their mandate effectively and policy is not clear and often the process is counter intuitive (Ucbasaran *et al.*, 2002; BER, 2016). Between government support agencies there is a pronounced lack of co-ordination between the support offerings (Darroch & Clover, 2005; BER, 2016). SMME policy implementation has also been slow with policy currently being too restrictive (Erikson, 2002; BER, 2016). Domestically, labour laws make hiring and firing, and thus healthy growth, difficult (Perks & Struwig, 2005; BER, 2016). Policy also does not provide ready access to practical business and SMME skills training, and training given is sub-par with other training institutions (Botha *et al.*, 2015; BER, 2016).

3.7.2 Policy solutions

Policy support can come in the form of formalising SMME skills training under the guise of entrepreneurship, or SMME industry specific support in the form of advantageous trade policy (Brynard, 2007). Suggested policy foci should be on improving the SMME business and financial environment (Bradford, 2007); improving the competitive stance of SMMEs through access to relevant information and markets, locally and abroad (DTI, 2004); fostering technology research, development and adoption, thereby developing knowledge-based economies (Ladzani *et al.*, 2011); Developing special focus on the areas of technical infrastructure, technological innovation, physical infrastructure and logistics, and human resource development (Lighthelm, 2013). This can be done by means of creating link ups with potential

financing facilities both privately and publicly through the means of tax relief, grants, subsidies and educational programmes (Gwija *et al.*, 2014); providing managerial skills training (Peters & Naicker, 2013); and reducing the burdens to development (Rwigema & Venter, 2004).

General SMME policy must account for the development of managerial skills in the fields of accounting, marketing and financing, as they have been shown to be a noteworthy point to focus on and an important factor (Lighthelm, 2013). Policy that reduces growth and development needs to be done away with, whilst maintaining the regulatory capacity to ensure that a breakdown in the economy does not occur and ethical business practices are maintained (South Africa, 1996). SMME policy should resonate with these criteria and focus primarily on how the environment within which SMMEs operate can be improved (Moos, 2014). SMME policy should, in addition to these goals, foster the environment needed for SMMEs to start up and grow in response to domestic and global competitive pressures with regard to their sector-specific needs (Bradford, 2007).

CHAPTER 4: RESEARCH METHODOLOGY

4.1 RESEARCH DESIGN

A research design is a plan and set of research procedures that are used to address the research question from its inception through to reporting and publishing (Punch, 2013; Creswell, 2014). Research designs propose to the reader methodical processes that provide assurance of scientific validity of the research presented (Mackenzie & Knipe, 2006; Mouton, 2006; Creswell, 2009; Fink, 2010). A research design primarily encourages a well-planned and holistically inclusive process (Greenstein *et al.*, 2003) and is used to build a logical connection between the research questions and what data needs to be collected (Hesse-Biber & Leavy, 2006; Yin, 2009).

A study can follow one of three general research designs, namely the quantitative approach, the qualitative approach or a mixed methods approach (Bradford, 2015). Both quantitative and qualitative research approaches have proven to be legitimate research approaches and are widely accepted (Smith & Heshusius, 1986). The most recent of the approaches, mixed-methods, is an approach that has been gaining more support in recent years, (Tashakkori & Teddlie, 2003; Johnson *et al.*, 2007; Babbie, 2011). Within each of the major approaches, there are sub approaches through which to apply them (Punch, 2013; Creswell, 2014). Discussion of the research approaches and their sub approaches must thus be undergone in order to elucidate what approach would be most appropriate for the study at hand.

4.2 QUANTITATIVE RESEARCH

Quantitative research is the oldest and most accepted of research approaches (Guba & Lincoln, 1994). Quantitative approaches seek to establish an objective relationship between variables that can be measured numerically (Bryman & Bell, 2007; Creswell, 2014). Quantitative research is the research approach of choice amongst those who study natural sciences (Guba & Lincoln, 1994; Gillham, 2000); however, application is by no means limited thereto and is suitable in certain aspects of social science research (Gherardi & Turner, 2002).

The main benefit of a quantitative research approach is that it can be used to describe a statistical relationship between variables (Bryman & Bell, 2007). Quantitative

approaches advocate and make use of deductive reasoning, a process by which reasoning travels from general observations towards specific predictions (Borrego *et al.*, 2009; Creswell, 2014). Due to the deductive nature of qualitative studies, the findings can be projected, objectively, onto a population and therein lies the popularity of this approach (Borrego *et al.* 2009). Quantitative studies have versatility, as these studies can be descriptive, relational or causal, allowing it to be used in a multitude of fields and towards answering a wide range of queries (Creswell, 2014). Within the quantitative approach, sub approaches can be classified broadly as experimental or non-experimental (Punch 2013; Creswell, 2014).

4.2.1 Quantitative methods

Within experimental research, there are experimental designs that can be followed based on the type of research that is done. The types of experimental approaches are true experiments, quasi-experiments (Campbell & Stanley, 1963), applied behavioural analysis and single subject experiments.

True experiments are separated from quasi-experiments based on how samples are selected with quasi experiments focusing on non-random/selected samples whilst a true experiment selects a true random sample (Bryman & Bell, 2007). Applied behavioural analysis is the process of applying interventions on an individual or control group and demonstrating that changes in participant behaviour are as a result of the intervention (Baer *et al.*, 1968; Sulzer-Azaroff & Mayer, 1991). Single subject research, also referred to as single case experiments, is a form of experimentation in which the subject has the dual role of being both the treatment and control group (Fraenkel & Wallen, 2006).

Non-experimental research such as causal comparative research correlational design and surveys can be used to gather quantitative data (Neuman & McCormick, 1995; Bryman & Bell, 2007; Cooper *et al.*, 2007; Fowler, 2009; Creswell 2014). Causal comparative research seeks to determine the effect, cause, or consequence of pre-existing differences between subjects or subject groups (Fraenkel *et al.*, 2015). Correlational research is a type of non-experiment in which the relationship of two variables with each other is assessed to determine a non-causal statistical correlation (Price *et al.*, 2015). Survey research is about gathering information as it pertains and

is experienced by the population from which the sample is selected (Visser *et al.*, 1998). Surveys use probability sampling combined with standardised measurement to produce accurate representations of a population's position in some material regard (Floyd & Fowler, 2014).

Due to the nature of the study at hand, any of these quantitative approaches would not be acceptable. The study seeks to expand on what risk perception is for SMMEs such a study is expansive in nature. Additionally the data that the study proposes to use are data that relates to human perception of the matter at hand and thus falls outside of the scope of these approaches.

4.3 QUALITATIVE RESEARCH

Qualitative research is a newer process of inquiry than its quantitative counterpart (Rule & John, 2011). The guiding directive with qualitative research is the expansion of knowledge relating to specific variables or factors that have already been identified within the study's context (Olds *et al.*, 2005; Welman *et al.*, 2007; Borrego. *et al.*, 2009). Qualitative methods also can be used to develop research objectives, new approaches to old problems and learn of phenomena in their environments of origin where context is material (Quailan *et al.*, 2015). Qualitative research methodologies are orientated towards understanding and exploring meanings that individuals assign to problems inherent to society or humanity (Creswell, 2014). Qualitative research is exploratory (Quinlan *et al.*, 2015). Qualitative approaches, thus, are useful especially in social sciences where they originate (Gillham, 2000; Gherardi & Turner, 2002). Distinction must be made between population and unit analysis in qualitative research as it affects the replication capacity of the study (Mouton, 2012).

A qualitative design uses word and text analysis instead of capturing numeric values for its research (Flick, 2007). A qualitative approach has the capacity to disambiguate the role that more intangible factors may play within the context of research (Myers & Newman, 2007). Quantitative research generates descriptive and/or explanatory data but can also be used as a confirmatory tool (Hesse-Bieber & Leavy, 2006; Quailan *et al.*, 2015). The inductive nature of qualitative research allows for the construction of generalised observations, creating a basis for further investigation (Howe, 1988; Creswell, 2014).

Within a qualitative approach, records of data are retrieved and constructed through means of observation, ethnographies, interviews, focus group discussion, surveys, discourse analysis, phase analysis and conversational analysis (Olds *et al.* 2005; Welman *et al.*, 2007, Borrego. *et al.* 2009, Mouton, 2012). Narrative research, phenomenological research, grounded theory, ethnography and case studies will be discussed due to their wide use and acceptance (Creswell, 2014).

4.3.1 Narrative research

Narrative research is a research approach where one gathers data on a specific subject over time that is compiled then into a narrative that follows the same chronological flow. (Clandinin & Connelly, 2000; Riessman, 2008; Creswell, 2014). It has been argued that narrative research has a quad-nature in that it functions as a referential framework, a tool for contemplation during data gathering, a research approach and a way in which a study can be presented (Moen, 2006). Within the context of this study, its function as a research approach will be explored.

Narrative research tends to have its focus on how humans experience their world (Gudmundsdottir, 2001) and can take on an explanatory or descriptive role (Polkinghorne, 1988). In the explanatory role, researchers try to give an account of why an event occurred (Sandelowski, 1992). In the descriptive role, narrative research seeks to describe the stories of individuals or groups; how the conditions within a story differ from other stories; how stories relate to each other and how certain key events lead to the point that justifies emplotment (Sandelowski, 1992). Narrative research is not limited to telling stories but can be used as a tool of analytical examination in regards to those understandings and conventions that the story illustrates (Bell, 2002). To validate this perspective it is imperative that the source narrative is open constantly to being reinterpreted as new, pertinent information arises (Golombek, 1998).

The advantage of narrative research is that it allows the researcher to observe the beliefs and experiences of the individual in its intricacy, which leads to a deep understanding of the experience or event (Bell, 2002). Narrative research also allows for the construction of a holistic narrative that stays true to the temporal nature of human experience, allowing for deep connection with readers (Golombek, 1998).

The limitation of narrative research is that it requires a significant time commitment for the study and also to build relationships with participants, which brings with it a flurry of ethical issues (Bell, 2002). The imposition of the researcher's interpretation of the narrative onto the participant's story can have a powerful effect on researcher/participant relations, which in turn affects the study and its validity (Josselson, 1996). Stories themselves usually are written to be vague and complex so that the researcher's subjectivity and perception of truth is clear (Peshkin, 1988). Another criticism is that this approach is used primarily because it appeals to the manner of communication between the individuals who use it (Moen, 2006).

Due to the subjectivity and variability of interpretation inherent to this method, the academic world is rife with criticism to this approach's validity as one for empirical inquiry, under a positivistic paradigm, due to the ease with which bias can work its way into the analysis (Carter 1993; Josselson 1996; Lieblich *et al.*, 1998). Creswell (1998) defends the validity of the use of the narrative approach as a tool within the constructivist worldview, which can be used to uncover the socially constructed meaning.

4.3.2 Phenomenological research

Phenomenological research, or the research of shared experiences and phenomena, is a meta-theoretical approach, which originated in psychology and philosophy (Moustakas, 1994; Groenewald, 2004; Creswell, 2014; Hofmann, 2016). The purpose within phenomenological research is the identification of phenomena, or a framework for phenomena, through how they are experienced by participants in the studied scenario (Lester, 1999; Holroyd, 2001). Phenomenological research is applicable amongst a variety of fields extending from existential psychology all the way through to pedagogy (Holroyd, 2001).

Despite the differences in these fields, there are certain basic tenants that can be followed unilaterally throughout (Giorgi, 1994; Crotty 1996). What is of primary importance is that phenomenological research must be open and flexible so that it is adjustable towards the phenomena (Spradley, 1979; Crotty, 1998). The reason for this is that the focus of phenomenological research is depth of understanding of experiences as opposed to study structure (Pollio *et al.*, 1997). Phenomenological

studies have a tendency to be constrained by the large time investments that they require and the capacity of the researcher to maintain focus on the questions of the study and not influence the participant (Gorden 1969; Spradley, 1979; Oakley, 1981; Plummer, 1983; Measor, 1985).

The ideal research done under the phenomenological research approach is when the researcher has taken an unbiased and objective position (Plummer, 1983; Stanley & Wise, 1993; Haney, 1994; Lester, 1999). To do this the researcher undergoes the process of stripping itself of its individual position through the steps of bracketing, epoch and eidetic reduction (Giorgi, 1997; McKenna, 1997; Ehrich, 1999). Through the indicated process, a thematic index can be built up for every participant, which serves as a personal list of applicable themes that can later be combined into a unified thematic index (Giorgi, 1994; Valle & Mohs, 1998). The thematic index then allows for the development of themes by which the meaning of experience can be interpreted and thereby establish an unchanging and universally applicable core of the phenomena in question (Valle & King, 1978; Van Manen, 1990).

4.3.3 Grounded theory

Grounded practices and approaches are amongst the most popular of qualitative research methods, with its roots in sociology from which it spread to a multitude of specialist fields (Strauss & Corbin, 1997a). As a design of inquiry, grounded theory begins with a generalist, abstraction of a phenomena that is grounded in the conceptual framework of research participants (Corbin & Strauss, 1990; Charmaz, 2008; Creswell, 2014). Progress is then made towards the research question through continual and systematic refinement and analysis of data and the linking of categorical information within the research context (Strauss & Corbin, 1997b; Corbin & Strauss, 2015). The discovery of conditions is a material aspect of grounded theory, however, an exploration of how participants respond to change in conditions and their own actions fall within its scope of interest (Park & Burgess, 1921; Mead, 1934).

Grounded theories are extracted from data, as a result, they have the capacity to provide the researcher with new insight, augment understanding and provide a meaningful guide to understanding the object of research (Sandelowski, 1995). Grounded theory is both descriptive and explanatory in nature (Corbin & Strauss,

1990). The theoretical foundation of grounded theory lies in the philosophical ideologies of pragmatism and symbolic interaction (Dewey, 1925). Description of these philosophical worldviews are not required, however, two principles must be brought to light as material to the theory (Corbin & Strauss, 1990; Charmaz, 2014). The first principle is that grounded theory must construct change through its application and secondly, that it must take a moderate view on the determinism/non-determinism scale (Corbin & Strauss, 1990, Glaser & Strauss, 2012). Coding within the grounded theory is identical to coding via observation or interview and can take the form of open coding, axial coding, or selective coding (Glaser & Strauss, 1967; Hughes, 1971).

4.3.4 Ethnography

Ethnography has its origins in anthropology and sociology (Creswell, 2014). Ethnography primarily is concerned with matters requiring in depth investigation of a culture (Hammersley & Atkinson, 1983). Ethnographical research requires an immersion in the culture of investigation whilst maintaining their own position to research abnormalities in the culture being immersed in without being enculturated (Quinlan *et al.*, 2015).

Ethnography is the study of how people live the lives they have been given (Anderson, 2009). Beyond this general statement, there is incongruity between views of ethnography's main function. Spradley (1979) believes the main function is drawing out cultural knowledge. Gumperz (1981) argues that ethnography's main function is enquiry into patterns of cultural and societal collaboration. Lutz (1981), alternatively, argues that knowledge and patterns are incomplete parts of a full study of societies and that ethnographies should be orientated towards deep and inclusive studies of societies.

Usually, data are captured through observation and interview, thereby creating a representational understanding of the subject matter being addressed (Willis & Trondman, 2002). However, it should be noted that ethnographers are considered methodical pragmatists that will use any data gathering tool that allows them to draw the data that they need for their studies (Quinlan *et al.*, 2015).

4.3.5 Case studies

A case study is a scientific inquiry that seeks to answer a question that originates from some real life modern phenomenon (Yin, 1994). Case studies allow for detailed analysis within the context of a limited number of conditions, events, dynamics and their relationships (Eisenhardt, 1989; Soy, 1997). The main use of a case study is in depth exploration or analysis of a specific aspect of a research subject, phenomena, issue, or unit of analysis within a single setting (Eisenhardt, 1989; Baharein & Noor, 2008). Case studies are well suited to qualitative studies because they seek to answer the questions of 'why' and 'how' without biasing the data and in so doing they provide a tool with which to gain a holistic understanding of the topic at hand (Ken & Packwood, 1995; Baharein & Noor, 2008).

Case studies can be explanatory, exploratory or descriptive and produce or test theories, allowing for wide usability in qualitative, quantitative, or mixed methods studies (Kidder, 1982; Anderson, 1983; Harris & Sutton, 1986; Pinfield, 1986; Gersick 1988; Eisenhardt, 1989; Yin, 1994). Case studies also can come in single case and multiple case form (Eisenhardt, 1989).

Case studies widely are used, contributing to the validity of their use (Gerring, 2011; Creswell, 2014). However, there is controversy on whether case studies, with a small number of cases, can be considered as a scientifically rigorous and reliable tool with which to generalise findings (Soy, 1997; Flyvbjerg, 2006). A single case can be adequate if that single case is sufficient in its capacity to explain a phenomenon; however, the use of multiple cases is advocated as this allows for generalisation (Yin 1994, Baharein & Noor, 2008). In cases where context-dependant knowledge is sought out (as in social studies), a low number of cases is permissible and contributes scientifically to the dissemination of a particular phenomenon (Flyvbjerg, 2006).

In order to promote claims of validity and acceptance of case study results, case study researchers have established a six-step process by which to implement case studies methodically (Simons, 1980; Yin, 1984; Eisenhardt, 1989; Stake, 1995). The six-step process is as follows: 1. shape and define the research questions; 2, select cases and determine data gathering and analysis techniques; 3. prepare to collect the data; 4.

collect field data; 5. evaluate and analyse data and; 6. prepare the report. (Simons, 1980; Yin, 1984; Eisenhardt, 1989; Stake, 1995)

4.4 MIXED METHODS

The mixed methods approach stands as a research approach of its own, that serves as the practical link between quantitative and qualitative approaches (Tashakkori & Teddlie, 2003; Johnson *et al.*, 2007; Babbie, 2011). Mixed method studies use a synthesis of qualitative and quantitative data, integrating the two data types to produce a more holistic investigation platform by making provisions for the shortcomings of their respective counterparts (Creswell, 2014). Due to the juvenile nature of mixed methods as a research approach there is little consensus on what would constitute a holistically sufficient mixed methods approach (Johnson & Onwuegbuzie, 2004; Leech & Onwuegbuzie, 2009).

By applying a mixed methods methodology, a study can be reopened and expanded on, allowing databases and understanding to be expanded beyond the original research (Tashakkori & Teddlie, 2010). Leech and Onwuegbuzie, (2009) propose a three-dimensional typology of mixed methods design that can further be split into partially- and fully-mixed methods. How the integration occurs is a matter of significance and should be a problem-driven affair as opposed to being method driven (Gillham, 2005; Flyvbjerg, 2006; Morgan, 2014).

Table 4.1: Typography of mixed methods

Factors/types	Convergent parallel mixed methods	Explanatory sequential mixed methods	Exploratory mixed methods
Data mixing	Qualitative and quantitative	Qualitative and quantitative	Qualitative and quantitative
Data collection process	Sequential and concurrent	Sequential	Concurrent
Data type focus	Quantitative and qualitative	Quantitative	Qualitative
Goal	Identifying Incongruence and contradictions	Uncovering information with predictive capacity	The exploration of a topic for more depth of understanding

Sources: Sale *et al.* (2002); Tashakkori & Teddlie (2003); Downward & Mearman (2006); Mearman (2006); Johnson *et al.* (2007); Leech & Onwuegbuzie (2009); Creswell & Plano Clark (2011); Plowright (2011); Frels & Onwuegbuzie (2013); Caruth (2013); Creswell (2014)

After having researched the methods and approaches discussed, the study will be conducted as a qualitative study that will employ case study methodology for data capturing using SMMEs in the Vaal region as the cases under study. The topic requires a qualitative approach due to the nature of the focus of the study being a descriptive, explorative, explanatory evaluation of the informal risk management practices applied by SMMEs.

4.5 PHILOSOPHICAL ASSUMPTIONS

Philosophical assumptions set the foundation from which a study takes place by imposing assumptions on the nature of reality, knowledge and knowing (Guba & Lincoln, 1994). This section will discuss four such philosophies, namely constructivism, positivism, participatory and pragmatism. Once discussed, a philosophy will be selected for application to the study at hand.

4.5.1 Constructivism

The constructivist paradigm proposes that knowledge and reality are given meaning through social perception and individual experience (Perkins, 1999). Reality in this paradigm is unlike, non-singular and relative (Perkins, 1999). Constructivism values the multitude of individual realities held by individuals and the cultural, historical and social perspectives that form them (Creswell, 2014). Knowledge and the meaning attached to it is a subjective, context driven, variable and manifold matter that is created in research findings (Johnson, 1995). Under the constructivist view, inquiry is an attempt of the researcher to uncover meaning within the subjective reality of participants as they interact with other participants' realities (Von Glaserfeld, 1995). Those interpretations are done using dialectical and hermeneutical techniques (Guba & Lincoln, 1994).

Researchers in this approach lend credibility to their work by expanding on their own cultural, historical and social background, explaining how interpretation will be affected by their own experiences and background (Cunningham & Duffy, 1996; Golafshani, 2003). The constructive paradigm is expansive, aiming to achieve a broad understanding of the matter of inquiry (Steffe & Gale, 1995). The constructivist paradigm requires the use of an inductive approach (Creswell, 2003).

The constructivist paradigm begins with, and relies on, the participant's views and works its way towards uncovering broad patterns in society (Von Glaserfeld, 1995; Golafshani, 2003). Questions asked are open-ended and general, which allows a participant to project their views in their answers by interpreting the question as they see fit (Harvey & Cobb, 2003). Discussion is used then to expand on these views (Harvey & Cobb, 2003). Due to the nature of the constructivist paradigm, it is an approach well suited to qualitative research (Creswell, 2014).

4.5.2 Positivism and post-positivism

Positivism advocates a position of objective truth, one singular and absolute reality (Guba & Lincoln, 1994). Data, rational deliberations and evidence form knowledge within this philosophy (Hirschman, 1986). Researcher objectivity is an essential component of meaningful inquiry and bias must ever be sought to be eliminated (Bunniss & Kelly, 2010). Positivism is deterministic in that it is believed that cause

drives effect (Creswell, 2003). Positivism is also reductionist, in that, within its framework, ideas can be reduced into variables and component sets of ideas that can be tested as hypotheses and research questions (Mertens, 2005). Due to the assumptions of determinism and reductionism, it becomes possible to discover the cause and effect relationships between variables (O'Leary, 2004). Subsequent development of predictive models with which to answer questions that pertain to the object of inquiry allows for a practical application of research that follows this philosophy (O'Leary, 2004).

Although positivists seek objective truth, they are of the conviction that absolute truth can never be found, in so much as that evidence established in research is always imperfect, fallible and, therefore, provisional (Khun, 1962; Creswell, 2014). Positivist research often will undergo multiple phases of refinement in an attempt to develop statements that are increasingly true, pertinent, descriptive, or that illuminate a situation more holistically (O'Leary, 2004). The method of inquiry in the case of positivism is deductive and exploratory, beginning with a null hypothesis that is sought to be tested (Darke *et al.*, 1998). The scientific method is tied closely with positivism and is accepted as a valid approach towards promoting validity, reliability and reducing bias when addressing physical phenomena (Creswell, 2014). The process begins with a theory or an idea that is hypothesised, objective data are then gathered and analysed and conclusions are drawn (Darke *et al.*, 1998). Positivism is an appropriate philosophy for quantitative research (Hack, 1993; Mackenzie & Knipe, 2006).

Post-positivism augments positivism by proposing that researchers cannot be positive about knowledge claims when studying the behaviour and actions of humans (Cook & Campbell, 1979; Mertens, 2005). Post-positivists assume that any research done always is being influenced by other studies and theories making the world variable and one with multiple subjective realities (O'Leary, 2004). Post positivistic approaches can use qualitative or quantitative methods (Bunniss & Kelly, 2010).

4.5.3 Participatory paradigm

Advocates of the participatory paradigm feel that the absolutistic nature of positivism did not fit the subjective reality of marginalised individuals and by consequence, detracted from important issues in society that affected them (Van der Riet, 2008).

They also felt that constructivism did not advocate an agenda to help these marginalised communities to such a degree that it was acceptable (Downing *et al.*, 2008). A participatory worldview is one from which political agenda cannot be separated and contains within it an action plan with proposed actions and effects for the specific topic of research undertaken (Ponterotto, 2005).

A participatory philosophy seeks to identify the structures that oppress marginalised individuals and plot a route towards their emancipation (Creswell, 2014). Additionally, this approach espouses that important contemporary social issues should be addressed within the research; such matters are usually the beginning point of participatory research (Downing *et al.*, 2008). Participatory ideologies seek to advocate for a voice and power for marginalised individuals, while simultaneously educating them and advancing political debate for their benefit (Van der Riet, 2008). To this end, philosophical assumptions and theoretical perspectives can be joined in constructing a holistic understanding of the study focus as well as what is required for an effective action-plan (Ahmed *et al.*, 2004).

The approach is collaborative and seeks to empower marginalised groups by focusing on their needs (Ahmed *et al.*, 2004). Approaches can be either deductive or inductive as is required and usually applies a synthesis of both approaches (Creswell, 2014). Within this collaborative sense, participants have the ability to aid in the construction of questions, may collect data, analyse information and reap the rewards as per the action agenda (Ahmed *et al.*, 2004). In this manner, the subjective realities of the participants are empowered to challenge societal biases (Downing *et al.*, 2008). The participatory paradigm is characteristically associated with qualitative research but can also be used as a basis for quantitative research (Van der Riet, 2008). Due to the dual applicability of approaches it usually is associated with mixed methods and is either dialectical or recursive in nature (Ponterotto, 2005).

4.5.4 Pragmatism

Pragmatism concerns itself with that which is practical and those consequences that originate from action or event (De Waal, 2005). What is of material importance in this worldview is that which solves a problem (Guba & Lincoln, 2005). The manner in which research is conducted and what is researched, therefore, is dependent on the intended

consequences of that research (Bentz & Shapiro, 1998). The pragmatic approach is particularly suitable for mixed methods research as it draws attention to the research query and then applies all available approaches to collect data about the problem (Creswell 2014). Within a pragmatic study, deductive or inductive research approaches can be used (Morgan, 1998; Guba & Lincoln, 2005). It can also be used exclusively within qualitative and quantitative approaches, however, pragmatists do not see the world in absolutes, therefore, limitation to a single approach is in contrast with this philosophy (Mills, 1969).

Pragmatism avails itself to many philosophical paradigms and views of reality (Patton, 1988). Researchers are given liberty to choose the procedures that they will use as well as techniques and methods that they deem appropriate in order to answer the research question best (Morgan, 2007). Pragmatists will concede that the research environment has a multitude of contexts influencing it and that there is both an internal and external reality within the human context (Rescher, 2000). However, the matter of importance is not what reality is, what truth is, or what the effect of the human mind has on interpretation but rather on that which solves the problem at the time (Maxcy, 2003).

4.6 SAMPLING STRATEGY

This section discusses the theory relating to population selection, sample selection, sample size, sampling frames and various probability and non-probability sampling techniques.

4.6.1 Sample

National data can be out of the reach of many researchers as there are significant costs attached to the process of acquiring data (Bernard & Ryan, 2010; Thompson, 2012; Maree 2016). Delays in the coding of data due to the quantity of data, travel costs and participant unavailability also lead to outdated and incomplete data being captured (Levy & Lemeshow, 2008). Most research, quantitative or qualitative in nature, only addresses that targeted population of people or phenomena relevant to the research question at hand (Thompson, 2012). These target populations still, however, can be large and cumbersome to deal with (Levey & Lemeshow, 2008). To address the problem with large population data sampling was introduced.

A sample is a subset of the population (De Vos *et al.*, 2011; Chandra & Sharma, 2013). The theory behind sampling is that a sample can be statistically representative of the population in question as long as the sample is selected or chosen appropriately (Som, 1996; Bernard & Ryan, 2010). The main argument in favour of sampling is feasibility (De Vos *et al.*, 2011). Cheaper and faster data can be produced, making them preferable to census data in practice (Maree, 2016). Prior to a discussion on sampling, the target population must be known (Thompson, 2012).

4.6.2 Target population

The universe within the research context is that complete conglomeration of all people, phenomena and cases that exist that are relevant to the study (De Vos *et al.*, 2011; Flick, 2011; Quinlan *et al.*, 2015). A target population is a group within a larger population that carries the traits and/or characteristics of the object of research within the study (Som, 1996). The target population for this study is SMMEs within the Gauteng province. Gauteng has South Africa's largest population of SMMEs in the country (SEDA, 2016) and is the largest contributor to South Africa's gross domestic product (GDP) (GautengOnline, 2017).

4.6.3 Sample size

Sample size is the next factor that must be addressed in order to ensure that results drawn from this sample are plausibly applicable to the population (Levy & Lemeshow, 2008). Qualitative and quantitative methods differ on what an appropriate sample size is (Som 1998). This disparity is magnified by the method in which data are collected, which also has varying arguments of what a suitable sample size is within each method (Thompson, 2012).

Within quantitative studies, the sample size must be large enough to make extrapolations that hold true for the population in practicum (Sandelowski, 2000). Larger samples mean lower sampling error; however, the reduction of error is ever decreasing as the sample size increases (Blackstone 2017). The gathering of excessive data, therefore, can detract from a study by taking up unnecessary time (Meyer, 2016). An ideal sample size thus is dependant on the characteristics of the matter of query (Barreiro & Albandoz, 2001).

In contrast to the data intensive requirements of quantitative approaches a qualitative sample is considered adequate once it answers the research question (Marshall, 1996). This means it could be a single participant or a larger group; however, this usually is left open to reach data saturation (Mack *et al.* 2005). Bernard and Ryan (2010) suggest that 10-60 knowledgeable participants are required to determine the essence of those characteristics that must be discovered to answer qualitative research questions. In the quest for data saturation, the qualitative researcher will analyse and interpret all the data points gathered from each participant as the data are collected (Luborsky & Ruibenstein, 1995; Creswell, 2003).

4.6.4 Sampling frame

A sampling frame is any material, device, list or database that gives access to the population from which a representative sample will be drawn (Bunte & Abt, 2001; Särndal *et al.*, 2003). For example, the sampling frame for the study at hand constitutes a convenience sample of SMMEs within the Vaal region in the Gauteng province. This area was chosen as it is the industrial powerhouse of the province (Worku, 2016).

4.6.5 Sampling techniques

Probability and non-probability sampling methods are used to select samples (Barbour, 1998; Bunte & Abt, 2001; Särndal *et al.*, 2003; Mack *et al.*, 2005; Quinlan *et al.*, 2015). Sampling can be done in a variety of ways with some methods being respectively more suitable for quantitative or qualitative studies (Blackstone, 2017). The method that is selected will depend strongly on the needs of the research being done and will lean towards greater applicability in either qualitative or quantitative research although there is no explicit limitation to either (Bernard & Ryan, 2010).

Quantitative sampling aims to produce a representative sample that allows for the generalisation of a theory on the population from which it is drawn (Bunte & Abt, 2001; Särndal *et al.*, 2003). Probability sampling is the sampling method of choice for quantitative studies (Mack *et al.*, 2005).

Qualitative studies seek to provide insight into human belief or perception and thus sample while keeping meaning in mind (Mack *et al.*, 2005). Qualitative data also tends

to be hidden in the framework of human interaction and other social, cultural and historic nuances that cannot be easily characterised and normally are not distributed within a population (Quinlan *et al.*, 2015).

Mixed methods studies incorporate a mixture of these sampling methods in order to address their research questions (Sandelowski, 2000). Mixed methods use a combination of quantitative and qualitative data and probability and non-probability sampling techniques to gather the data that is needed for the studies to which they are applied (Sandelowski, 2000). Quantitative and qualitative methods can be used together, in varying combinations, based on the aim of the study (Barbour, 1998). In mixed methods studies probability and non-probability sampling methods can be combined to achieve the goals of the study (Sandelowski, 2000). The method in which sampling takes place has a large effect on the validity of the research done (Thompson, 2012).

4.6.5.1 Probability sampling methods

Probability sampling is done by selecting an appropriate number of participants, or cases at random from a population that shares the characteristics under inquiry (Barreiro & Albandoz, 2001). Probability sampling requires a sampling method, a random number generator to select participants randomly and a sampling frame from which to select participants (Samuels, 2017). Probability sampling usually is applied to quantitative studies, but limited to this (Levy & Lemeshow, 2008). Probability samples tend to be inappropriate for qualitative studies because they incorporate small samples, however, there are cases where it is tolerable (Barreiro & Albandoz, 2001). Probability samples also do not address the issues of participant capacity to answer questions, individual experience, contextual meaning, of individual experience adding to the general use within quantitative studies (Mack *et al.*, 2005).

4.6.5.1.1 Random sampling

Random sampling is the selection of samples from a population in a random manner and is a form of probability sampling (Chandra & Sharma, 2013). In order to use random sampling within the context of practice, an up to date sampling frame is required (Maree, 2016). Within random sampling, there is a random and equal chance of any member of a selected population to be selected (Quinlan *et al.*, 2015). Random

selection usually is accomplished by means of random number generators or by means of random number tables (Maree, 2016). Random sampling is highly representative of the population if the sampling frame is complete (Black, 1999)

4.6.5.1.2 Systematic sampling

Systematic sampling is a procedure by which participants are selected based on fixed periodic intervals, called the sampling interval, that begin at a random starting point (Chandra & Sharma, 2013; Samuels, 2017). This process continues throughout the population until the required sample is filled (Mack *et al.*, 2005). The benefit of this approach is that the entire sample is exposed to selection and that it is easily applied (Luborsky & Rubinstein, 1995). The disadvantage of this approach is that variances increase as the sample increases (Barreiro & Albandoz, 2001).

4.6.5.1.3 Stratified sampling

Stratified sampling follows the same route as random sampling with the exception that the population is first divided into similar, but separate subsections of the population (Barreiro & Albandoz, 2001; Maree, 2016). Subsections then are sampled randomly so that the population is represented (Barreiro & Albandoz, 2001; Thompson, 2012). Representation can be equally proportional or be proportional to the variability of the considerations of each subsection (Thompson, 2012; Maree 2016). The benefit of this approach is that the information and estimation is more precise than simple random samples leading to greater representation (Som, 1996; Thompson, 2012). Additionally, usable information on subgroups is also usually gathered (Blackstone, 2017). Stratification, however, can be a challenging process (Samuels, 2017).

4.6.5.1.4 Cluster sampling

The population is divided into clusters based on a criteria, such as geographical origin, in order to differentiate the cluster from the population (Quinlan *et al.*, 2015). If the cluster is differentiated from the population and similar throughout the cluster the researcher can select clusters at random to compose the sample without jeopardising sample validity (Barreiro & Albandoz, 2001). This manner of sampling is less expensive than stratified sampling procedures (Blackstone, 2017). The disadvantage

is that if clusters are not homogeneous the sample might be unrepresentative of the population (Sandelowski, 2000).

4.6.5.2 Non-probability sampling methods

Non-probability sampling can be defined as a sampling technique within which the probability for selection of a participant within the population is unknown (Blackstone, 2017). Non-probability samples are ideal during research design and for exploratory studies on the matters of inquiry of research (Samuels, 2017).

4.6.5.2.1 Purposive or judgement sampling

Purposive sampling is the most widely used sampling procedure for qualitative approaches (Thompson, 2012). In this approach, the best participants to answer the research question are selected according to a metric developed by the researcher (Maree, 2016; Blackstone, 2017). Specific inclusion criteria can be set for participants or participants can be selected to be representative of a broad range of perspectives (Barreiro & Albandoz, 2001; Maree, 2016). Purposive sampling sample sizes need not be set prior to data collection (Luborsky & Rubinstein, 1995). Purposive sampling is effective in the study of rare populations (Bernard & Ryan, 2010; Marshal, 1996). The sample size is determined by the point at which data saturation is achieved and thus functions best when review, analysis and collection are done simultaneously (Sandelowski, 2000).

4.6.5.2.2 Convenience sampling

Convenience sampling is the selection of the most accessible participants and the collection of relevant data from them, without the use of sampling criteria (Bernard & Ryan, 2010; Quinlan *et al.*, 2015). The advantage of this approach is that it is not expensive and can offer exploratory insights (Maree, 2017; Samuels, 2017). Convenience sampling is disadvantaged in terms of reliability and representativeness (Bernard & Ryan, 2010; Barbour, 1998).

4.6.5.2.3 Theoretical sampling

Samples within the qualitative approach are usually driven by theory (Mack *et al.*, 2005). Theoretical sampling requires the interpretation of theoretical concepts as data

emerges and then select new samples, which expand on those theories (Luborsky & Rubinstein, 1995). Theoretical sampling has wide use in ethnography studies and grounded studies because theory evolves as new knowledge is discovered (Bernard & Ryan, 2010).

4.6.5.2.4 Quota sampling

Quota sampling determines the sample size and the inclusion criteria at its sampling grid design (Marshall, 1996; Barnard & Ryan, 2010). Criteria and categories are explicitly stated (Som, 1996). Subgroups are created and the researcher decides the sample to include from each (Thompson, 2012). Once the categories of individuals that need to be included are identified, participants are sought out that match these criteria until the desired sample is achieved (Sandelowski, 2000; Maree, 2016).

Sampling through quota sampling is less costly and more easily applied and often approximate the results of probability samples, however, they are not unbiased (Barnard & Ryan, 2010). Quota sampling is not appropriate for proportions that are balanced on a one to one ratio, but are well suited for understanding non-proportional variance in experience (Bernard & Ryan, 2010; Maree, 2016).

4.6.5.2.5 Snowball sampling

Snowball sampling, also known as chain referral sampling is a sampling method in which participants already acquainted with the researcher direct the researcher towards more participants (Barreiro & Albandoz, 2001). The process begins by finding single willing participants and then expanding your sample by exploring their networks (Maree, 2016). This process continues until data saturation and is effective with rare, limited, or populations that are difficult to engage (Bernard & Ryan, 2010; Thompson, 2012). The snowball sampling technique is useful for studying stigmatised groups as it allows for the successful identification of these individuals (Levy & Lemeshow, 2008). In order to successfully apply this approach intimate knowledge of the participant is required making this suitable for studies where one already has a working relationship with the participant (Marshall, 1996).

4.7 DATA COLLECTION

Research is based on data gathered through empirical investigation (De Vos *et al.*, 2011). Data can be quantitative or qualitative in nature. Each of these data types requires specific methods to gather relevant data (Aurini *et al.*, 2016). Quantitative data are used for prediction and seeks to study phenomena subject to frequency and distribution (Flick, 2011). Quantitative data employs numbers scales and indexes to establish a framework with which data can be collected (Black, 1999; Flick, 2011). Quantitative data tends to be collected through large numbers of cases, events and data points (De Vos *et al.*, 2011). Qualitative data seeks to discover more precise individual meaning and an in-depth understanding of processes and views of participants (Black, 1999; Maree, 2016). Qualitative methods use a small number of cases (Zikmund *et al.*, 2013).

Data that are gathered are only meaningful if they can be used to make predictions or if they allow for deeper understanding of the research focus (Black, 1999). For data to be usable they must be measurable, valid and reliable (De Vos *et al.*, 2011).

4.7.1 Data validity, measurement theory and reliability

Measurement is an act of taking abstract concepts and creating indicators that describe them, the rules and the scenarios within which they exist (De Vos *et al.*, 2011; Welman *et al.*, 2005). Measurement allows for events or observations to be broken down into component parts and thereby be made observable (Aurini *et al.*, 2016). Validity is a measure of how true a recorded observation remains and how well it demonstrates the phenomenon in reality (De Vos *et al.*, 2011). Instrument validity, content validity, face validity, criterion validity and construct validity must be present and robust for research to satisfy validity concerns (Welman *et al.*, 2005). Reliability is the consequence of predictability in that reliability occurs when replicated measurement provides corroborating or predicted results within the margin of error of the observation by other researchers under similar conditions (De Vos *et al.*, 2011; Aurini *et al.*, 2016).

Data are measured in predefined units within quantitative methods (Welman *et al.*, 2005). The selected indicator becomes representative of the object or feature that it represents and allocated numbers show differences in relations amongst the items

represented (Flick, 2011). Indicative numbers, however, bear no proportional value to each other thus a two does not necessarily imply twice as much as one (Welman *et al.*, 2005; Zikmund *et al.*, 2013). The allocation of numbers leads to the construction of scales (Aurini *et al.*, 2016). Data can be counted if the features of the subject matter in question are homogenous enough to be considered similar for the sake of the research in question (Maree, 2016). Categories can be used to establish countable data by describing features in an exhaustive way (Black, 1999). Indexes then can be used to group single features together in meaningful segments (Black, 1999). Counting is applied then to the indexes to construct meaningful data (Maree, 2016). Quantitative data rely on the use of a large number of cases to validate research done with it (Flick, 2011).

Within qualitative methods, pre-defined units rarely exist, which means it becomes the researcher's responsibility to define an appropriate measurement (Maree, 2016). Instead of using terms such as reliability and validity, terms such as rigor or trustworthiness are used with qualitative data and pertain to utility, impact, relevance and overall significance (Morse *et al.*, 2002). Adherents of quantitative research methods demand that reliability and validity measures be maintained as they know it (Sealie, 1999). Value within qualitative methods takes a different form to the value propositions in quantitative research (Mays & Pope, 1995; Denzin & Lincoln, 1994).

In order to facilitate meaningful use of qualitative research the perspective of readers must first shift towards paradigms that relate to qualitative research ideas (Sealle, 1999). Concepts such as truth value must be replaced with credibility, which speaks to how the process of research was conducted (De Vos *et al.*, 2011). Applicability and external validity should be replaced with transferability, which relates to the degree of applicability of the study on others (Morse *et al.*, 2002). Consistency is to be replaced with dependability, which relates to the discussion of logical flow of the research, the degree of discussion and whether or not the document was audited (Lincoln & Gubba, 1985, De Vos *et al.*, 2011). Finally, objectivity should be replaced with conformability, which relates to the capacity of others to confirm a study (Morse *et al.*, 2002; De Vos *et al.*, 2011).

Qualitative research records comprehensive, detailed and exact protocols of methods applied within them (Flick, 2011). The context in which they occur also is documented

for the sake of reconstructing research (Black, 1999). Reconstruction by means of analysis and interpretation is an essential characteristic of qualitative research as it is through this process that data reliability, validity and comparability is confirmed (Aurini et al., 2016). Morse *et al.* (2002) suggests that additional verification should be applied during a study to establish rigour, thus shifting back from post-hoc analysis to constructive procedures and that these procedures be paradigm specific (Bashir, 2008). Trust-worthiness, rigor and quality are indicated to be the conceptualised equivalent of reliability and validity (Golafshani, 2003). Communicative validation, triangulation, validation of the interview-situation and authenticity are the independent criteria of qualitative research (Kvale 1995; Terhart, 1995, Flick *et al.*, 2004).

Creswell (2014) suggests triangulation of one of six potential strategies, which can be used to ensure internal validity. Other methods are member checking, long term repeated research site observations, peer review, participatory interaction with subjects and a clarification of research bias (Creswell, 2014) Triangulation will be employed in this study to ensure validity due to its orientation towards qualitative data. Triangulation is a procedure of establishing credibility, through intentional pursuit of convergence amongst multiple divergent and convergent information sources with the intention of creating categorical themes within a research project (Creswell & Miller, 2000). Triangulation can serve as a bridge for a quantitative dominant researcher to qualitative paradigms by addressing reliability and validity concerns by means of multiple methods, perspectives, or approaches (Golafshani, 2003). Triangulation requires that the topic being addressed be critiqued from a plurality of referential perspective and can be done through data triangulation, investigator triangulation, theory triangulation or methodological triangulation (Flick, 2004).

4.7.2 Data gathering in qualitative and quantitative studies

4.7.2.1 Experimentation

Experimentation relies on the deliberate intervention in an active group that is compared then to a control group (Flick, 2011). How the groups are sampled determines the nature of the experiment (Maree, 2016). Randomly sampled groups are true experimental studies (Zikmund *et al.*, 2013). Observing pre-existing groups is quasi-experimental (Flick, 2011; Maree, 2016). In this approach, an observation first

is done on a population that is not participating and this is used to set up a protocol that will then be used to define important behaviours in advance (Welman *et al.*, 2005). Field observations – observations in which the environment is not controlled – can be easily influenced thus lab observations are an alternative when possible (Zikmund *et al.*, 2013).

4.7.2.2 Participant observation or ethnography

Ethnography is a form of participant observation that has tended to, terminologically, replace participant observation (Zikmund *et al.*, 2013). Ethnography is orientated towards the in-depth exploration of a field or phenomenon, a single case is sufficient for this reason (Sekarin & Bougie, 2013). Within this method, the participant places themselves within the field being observed (Flick, 2011). Researcher engagement becomes an essential tool for data gathering (De Vos *et al.*, 2011). In this approach, data collection is adapted to the research question and field conditions most successfully (Barbour, 2008).

To apply this approach the researcher finds access to the field of study (Black, 1999). Subsequently, the study becomes more focused on the essential components of the research at hand (Zikmund *et al.*, 2013). The process has distinct phases starting with descriptive observation for general expansion of understanding, moving to focused observation, which then winnows the discussion to more pertinent elements of the study (Flick, 2011). The observation is less standardised and sampling of phenomena is done by the researcher's access thereto (De Vos *et al.*, 2011). This process concludes with a comprehensive and holistic understanding of the group being studied and, therefore, can require a long period of time to study (Flick, 2011). Participant observation can be naturalistic or strictly participatory, which also can be classified as observatory or complex observation (Black, 1999). These cases exist on a spectrum and the degree to which one involves oneself observation becoming more complex as one participates more (De Vos *et al.*, 2011).

Ethnographic interviews are used to gather cultural information and seek to identify the underlying patterns of behaviour and meaning attached to cultural actions (Black, 1999). Research can happen from within the group or from outside of it (Aurini *et al.*, 2016). Interviews of this kind usually ask descriptive, structural or contrast questions

(Barbour, 2008). Data collected through this method usually is uncategorised and ethnography is used to gain thick description (Flick, 2011).

4.7.2.3 Interview overview

In interviewing, information is gathered by means of direct interaction with the participant (Wisker, 2008). The quality of the research is dependent on the manner in which interviews are held and how relationships are maintained with participants (Blaxter *et al.*, 2010). For research to be complete, it must be inclusive and expansive in the sampling. Interviewing requires not only the process of interview, but also an in depth reflection of what has been said or expressed (Wisker, 2008). Interviews are guided by interview schedules. Interview schedules are short as opposed to other forms of data gathering methods (Blaxter *et al.*, 2010).

Interviews are on a continuum ranging from highly structured to conversational (Wisker, 2008). The more open the interview is to modification the less structured and more open it becomes (Welman *et al.*, 2005). The decision of the degree of structure vs. lack thereof needs to be used is dependent on the objectives of the study (Wisker, 2008; De Vos *et al.*, 2011). If the goal is to gain data points separately without participant details then highly structured interviews are preferable (Barbour, 2008). Alternatively, if the researcher seeks to elucidate more personal details from the participant/s then a conversational semi-structured or unstructured interview is preferable (Barbour, 2008). Structured interviews create precise and comparative information whereas unstructured interviews allow for in depth exploration of the feelings, thoughts and reasons to action of individuals from their perspectives (Welman *et al.*, 2005).

4.7.2.4 Semi-structured and unstructured interviews

Semi-structured interviews differ from structured interviews in that interviewers can go on the sequence of questions and bend question construction (Flick, 2011). This approach does not seek to evaluate so much as it explores the individual meaning of scenarios to the participant (Blaxter *et al.*, 2010). Semi-structured interviews have the capacity to elicit data on perspectives of participants, as they would state it (Wisker, 2008). Within these interviews, the orientation is for depth of understanding and might mean successive interviews (Barbour, 2008). In this approach, participants share what

they want to share with little guidance from the researcher (Barbour, 2008). Dialogue is thus encouraged and possible answers are not suggested or even alluded to (Flick, 2011). The goal is to cover a broad range of meaning of the issue whilst maintaining non-directionality in the interviewer/interviewee relationship (Blaxter *et al.*, 2010). In this approach, depth is sought and probing can be used to gain insight where it might be lacking (Aurini *et al.*, 2016).

Semi-structured interviews usually are used as a corroboration method in which specific points are sought after a preliminary set of data was processed where certain questions were still outstanding (Black, 1999). Certain questions remain open ended while other questions are predefined and rigid (Maree, 2016). Semi-structured interviews are used to get the feedback of the individual on the topic at hand, not only according to a comparative standard but one that incorporates individual perceptions as well (Flick, 2011).

Semi-structured interviews are a tool that addresses comparable responses while being open enough to allow for the expression of feeling and individual thought (Barbour, 2008). An interview guide is followed within the approach from which the interview is directed towards the topic of the research (Flick, 2011). The researcher does not dictate the encounter direction. Semi-structured interview guides could consist of a few words to note that the research topic has been addressed (Blaxter *et al.*, 2010). However, the focus is on depth and personal context shown by the interviewee, specificity of views and definition of the situation from participant perspectives (Flick, 2011). Depth is achieved more easily due to the open-endedness of discussion and allows the participants to express themselves more fully (Barbour, 2008).

4.7.2.5 Narrative interviews

Within narrative interviews, participants are asked to tell their story and seek to tell the story of the people to whom they apply (Aurini *et al.*, 2016). Narrative interviews are either exhaustive or selective in the matters addressed either seeking a whole picture or only a portion thereof (Welman *et al.*, 2005). The scope relates to a discussion of the culture and practices of the cultural groups under observation (Aurini *et al.*, 2016). Narrative interviews have subsequent stages beginning with the general narrative

interview, commencing to probing of incomplete or lacking aspects and concluding with focused questioning of participants (Maree, 2016). Narrative interviews are to be non-directive as such characteristics reduce validity (Flick, 2011).

4.7.2.6 Episodic interviews

Episodic interviews are a combination of narrative interview and structured, specific questions (De Vos *et al.*, 2011). The rationale for this approach is that experience is part related to an episodic event that can be narrated partly to a semantic interpretation or connotation attached to the event (Welman *et al.*, 2005). The aim of this interview type is the connection of narrative and direct question data through which the gap between semantic and episodic phenomena can be breached (Flick, 2011). This approach requires intensive preparation that begins by designing a research schedule that includes narrative stimuli and questions for the aspects of the study deemed relevant (Zikmund *et al.*, 2013). The questioning process can then commence (Barbour, 2008). Opening questions are exploratory and invite the presentation of semantic meanings of participants as it relates to the topic at hand (Wisker, 2008). The significance of the phenomena in the lives of the participants is then explored (Barbour, 2008). Finally, more general aspects will be discussed with emphasis placed on personal experience (Welman *et al.*, 2005).

4.7.2.7 Focus group interviews

A focus group is a carefully planned discussion designed to elucidate perceptions on the research focusing on a permissive, non-threatening environment (Zikmund *et al.*, 2013). Research groups are versatile and can be used as a self-contained method, a supplementary source, or as part of a multi-method study (Welman *et al.*, 2005). Focus group interviews are different from face-to-face interviews in that several participants are present at a time (De Vos *et al.*, 2011). A question is asked and each subsequent member of the group answers the question (Maree, 2016).

The rationale for this approach is that discussion can make apparent how attitudes or evaluations develop and change (Blaxter *et al.*, 2010). Focus groups allow for comparison and extremely rich data (Wisker, 2008). Group interaction is contributive towards drawing out more pertinent and useful data, adding to each participant's

experience, consequently creating a more holistic understanding of the matter at hand (Sekarin & Bougie, 2013).

Groups can be natural, real, or artificial with each level focusing the analysis more on what is perceived to be the correct sample (Aurini *et al.*, 2016). Heterogeneity and homogeneity of participants can influence openness and the genuineness of responses (Flick, 2011). Moderation can be substantial or negligible depending on the aims of the research (Barbour, 2008). Organising the coming together of participants can be a challenge to the researcher due to participant unavailability (Flick, 2011). Focus groups are analysis-intensive and sampling is a challenging process, as one must account for a large number of human factors to ensure participant openness, interaction whilst avoiding the violation of views, beliefs, opinions and thereby unduly insulting participants (De Vos *et al.*, 2011). The interactions between participants can be opposing or unduly reinforcing and thus can be argued to be biased and detractive to the research itself if careful moderation is not applied (Sekarin & Bougie, 2013).

4.7.2.8 Secondary analysis

Secondary analysis is the reworking of already analysed, independently gathered data (Welman *et al.*, 2005). Secondary analysis expands perspectives that formerly were gained and produces new perspectives assuming the data are of high quality and applicable to the research done (Welman *et al.*, 2005; Flick, 2011). Although no additional process is used to gather this data, care must be taken to ensure that the data selected from the database is suitable for the matter at hand (Aurini *et al.*, 2016). The data must fit the research question; the form of the data must also be as such that exploration thereof results in meaningful interpretation (Black, 1999). Data tends to exist in an already processed form and the raw data can be difficult if not impossible to recover at times (Wisker, 2008).

4.7.2.9 Document analysis

Document analysis is applied to understand the content or find deeper meaning from their coverage or style (Sekarin & bougie, 2013). Sources that are analysed in this way usually are not written for research and the content often originates without any intent to be examined and can be personal in nature (Aurini *et al.*, 2016). Sources are usually

personal documents, official documents, mass media or archival materials (Wisker, 2008).

4.8 DATA ANALYSIS IN QUANTITATIVE AND QUALITATIVE STUDIES

4.8.1 Tool used

Data will be analysed and coded using Atlas.ti Version 7 for Windows, as the computer-aided qualitative data analysis software (CAQDAS) (Friese, 2016). The argument for the use of CAQDAS is that the software frees the researcher from the tasks that a computer can do more effectively, thus reducing time delays and improving the reliability of the research (Contreras, 2016a). Once the participant has verified the transcripts, coding will commence, coding will be done directly after each interview and data collection will continue until data saturation is reached (Saldaña, 2009). Atlas.ti version 7 updates will be run at every start-up of the program (DeCuir-Gunby *et al.*, 2011). The version will be checked to be similar for all members of the coding and analysis team to ensure congruency (Saldaña, 2009).

4.8.2 Preparing data for analysis in Atlas.ti

Before gathered data can be analysed in Atlas.ti the data files must first be transcribed (Contreras, 2016b). The data must be thoroughly checked for appropriate language use and correct spelling (Contreras, 2016a). Any identifying information must be eliminated prior to data analysis (Friese, 2012). Failure to eliminate identifying information leads to vulnerable data being available that might overstep ethical considerations (Contreras, 2016a). Documents must then be formatted to ensure that the margins, font size and type, as well as spacing are brought in line with accepted standards (DeCuir-Gunby *et al.*, 2011). To avoid associating specific participants with specific identifiable information, documents should be named to indicate either the place, type, or time of the interview (Saldaña, 2009).

All these final documents are then to be copied into a single folder, which will serve as the data library from which analysis will commence (Contreras, 2016c). Although documents can be added at this point, present documents should not be removed or accessed after assigning them to their own hermeneutic unit (HU) (DeCuir-Gunby *et*

al., 2011). The HU is the collection of all sources for analysis, the main workspace and editing tool (Friese, 2012).

Primary data documents (P-Docs) must be compatible with Atlas.ti before they can be used (Contreras, 2016b). Friese (2016) indicates the format and size of files in order for them to be used within Atlas.ti.

4.8.3 Data analysis from interviews

Analysing data from interviews is a cyclical process of gathering data, coding data, analysing data, interpreting data and expanding exploration (DeCuir-Gunby *et al.*, 2011). Analysis begins with surface observations, then moves towards more detailed observations that can then be categorised and then motions towards an in-depth analysis of the topic (Contreras, 2016a).

Once all the sources have been gathered, coding can commence. Coding is fundamental to analysis and consists of assigning categories, themes, concepts or segment codes to information that is of interest (Friese, 2016). Coding is the selection and extraction of the most important parts from the HU sources by means of assigning labels to chunks of data within context (DeCuir-Gunby *et al.*, 2011). Coding can be done with a pre-defined list of codes or manually, consequently, producing new codes (Contreras, 2016c). Codes can be data-driven or theory-driven (Friese, 2012). Codes are collected in a code-book, which is a code index that is amended as new codes are constructed (Contreras, 2016c). Coding results in the elucidation of thematic processes being elucidated that allow for the categorisation of relevant data by their corresponding themes (Contreras, 2016b).

Arguments have been made that, only coding, although reductionist and easy to apply, is not holistic (Friese, 2012). By applying segmentation, writing and diagramming in conjunction with coding the researcher can expand on the research being done while simultaneously winnowing and whittling the content into a more integrated, concentrated form (Saldaña, 2009).

CHAPTER 5: ANALYSIS AND DISCUSSION OF INTERVIEWS

5.1 INTRODUCTION

This chapter provides a discussion of the results of the analysis of interview data. The interview schedules is provided in Appendix A. The participants had to answer the following questions: what they perceived to be risks within their business, and what they did to manage those risks. Additional probing questions were asked so as to provide greater insight into the overall study questions.

The chapter consists of an indication of participant demographics, a discussion of the central and subthemes that were found through the interview process and a summary of the findings that serves to provide insight and direction in regards to SMME RM processes.

5.2 PARTICIPANT DEMOGRAPHICS

5.1 Participant demographics

The participants are discussed in terms of the actual participant, as well as the SMME that the participant represents. Participants were selected based off of the following selection criteria:

- The SMME must be a registered business;
- The SMME may not have more than 50 employees; and
- The SMME must reside within the Vaal Triangle.

The participants in the study were predominantly involved in tertiary activities as outlined in Appendix D. The businesses of the participants were varied and included: logistical transport, photography, health and beauty, panel beating, information and technology, entertainment, clothing, legal services, automobile mechanics and air-conditioning. The lush diversity of their occupations can be seen in their responses:

“Ya, ya. [I identify my business as more within the service sector with a specialisation in health and beauty]” (Participant 1)

“I do embroidery as well as I sell corporate clothing to businesses.” (Participant 5)

“We dedicated transporters of cement products.” (Participant 7)

“We are, or I have a panel beating shop, we do all spray painting and panel beating from minor repairs to major structural repairs, replacement of parts, etcetera, you know. From hail damage right through to plastic welding to interior, all kinds of uh, motor, motor repair, except engineering wise.” (Participant 10)

Of the ten participants three were female and the remaining seven were male. The businesses had existed within the range of less than a year to thirty four years. The least amount of employees was one, being the SMME owner, and the most was 11 including the SMME owner. The majority of businesses did not hire more than three employees during 2016.

5.3 THEMES ARISING FROM QUALITATIVE ANALYSIS

The themes identified throughout the study were: SMME risks; SMME risk management strategies; Government involvement; Participant position; Economic Sector; and Employees. Of these themes SMME risks and SMME risk management strategies were identified as the two central themes with all other themes being mutually exclusive and supplementary to these themes. The remainder of the themes provide further insight into particularities of the main themes and serve as auxiliary themes that create a wider context and a more thorough understanding of the research focus of this study. Figure 5.1 illustrates the themes.

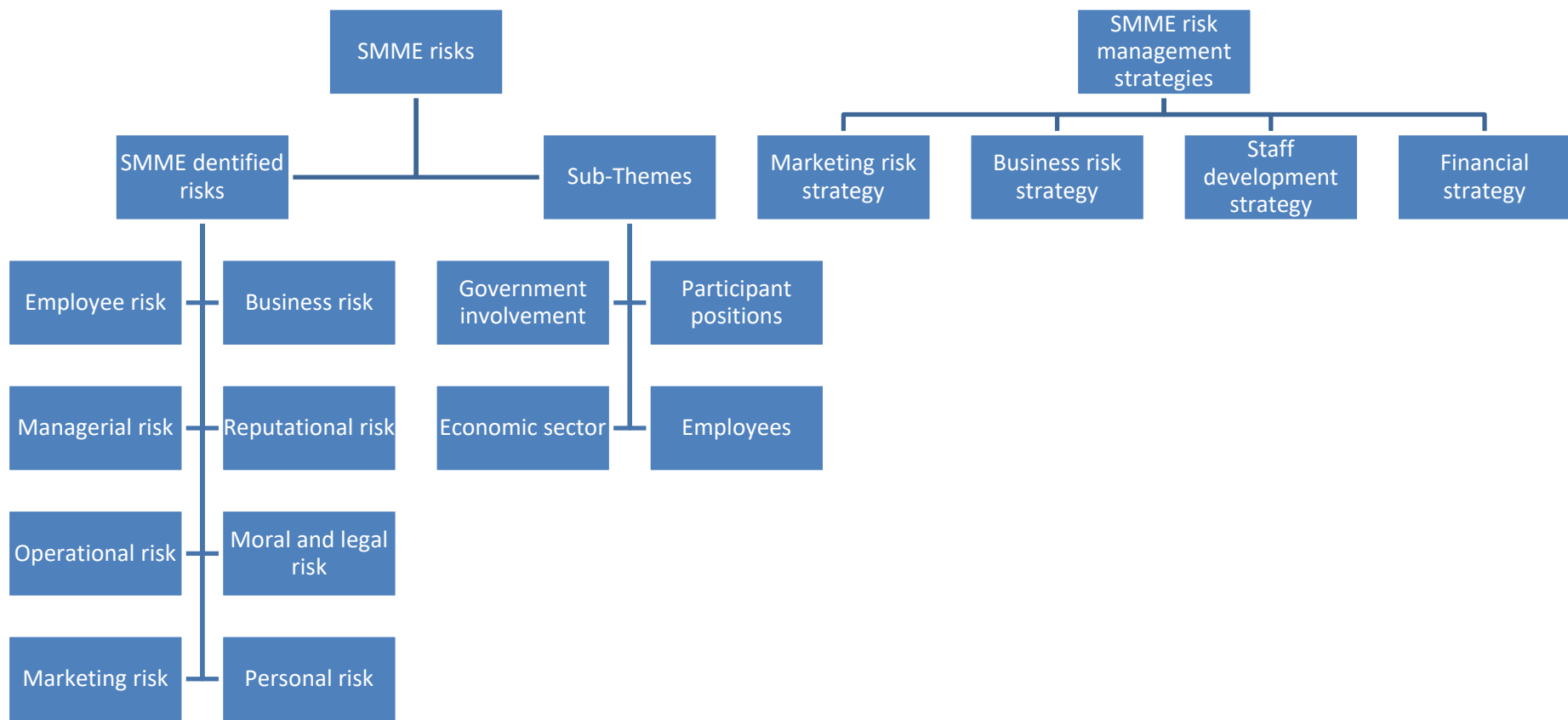


Figure 5. 1 Outline of themes

Source: Own construction (2017)

5.3.1 SMME risk

The theme of SMME risk identified the risks that SMMEs were aware of in their business, from their perspective of what a risk was. This central theme can be broken down into the sub-themes of employee risk, business risk, managerial risk, reputational risk, operational risk, moral and legal risk, and personal risk. Although formal risk management would identify employee, managerial and operational risk under the definition of operational risk (Valsamakis *et al.*, 2014) the differentiation has been made so as to meaningfully illustrate the risks that the SMMEs pick up on from their perspective.

5.3.1.1 Employee risk

Employee risk manifests in a plurality of forms, the first that was identified was the risk relating to the retention of staff and how staff was often lost as they attempted to take over the activities of the business and establish themselves as SMME owners. This results in a risk that hiring a new employee will eventually result in a loss of clientele, as indicated by Participant 1.

“People come, they, everyone, have the ambition of opening their own business. They come they take your clients they, they open their own business.” (Participant 1)

Employee risk also manifested as a concern about the capacity of an SMME to fulfil their appointed function within the business. This manifested in regards not only to their function but also their ability to maintain their function. As indicated by Participants 3, 7 and 8, a concern was also expressed that the employees would not conform to the corporate culture of the SMME and thus cause instability in the culture of the organisation. This was indicated as a reservation in pursuing growth as can be seen in the participant responses:

“Me as the owner and manager, it’s my business obviously I want the best for my business, but having an employee, it’s just a job. Uhm so it’s hard to have people be enthusiastic about your ideology and that’s my fear for going corporate.” (Participant 3)

*“Sometimes just not pitching for work and sometimes having their own personal problems keeping them away, that does not make the work easier, the personal problems with the personnel is harder to solve because, uhm, *clears throat* when you have something to transport but you don’t have the driver to transport, well to to do the operation, then you better get somebody else and that is not so easy to do. You can get a driver at any time but*

*you never know what you are getting. So you might solve one problem and make yourself a much bigger problem in the process. There, there are uhm concerns or problems that might arise that we haven't spoken about. I mean my, my one driver fell out of the truck *giggles* while it was standing dead still. The vehicle, the engine wasn't even running. And that is so unpredictable, it's laughable actually, but it is a serious problem the man has been off work for a month already and uhm, how do you handle that? How do you make provision for that? It is ridiculous but it also happens, so things happen that you can't handle, uh, that you can't predict is what I mean to say.* (Participant 7)

*"Employees not knowing what they are doing, even when they are fresh out of law school and uhm, that type of thing. Uhm, *sigh* you can't always be there to check in on them, and that is a problem because the moment you turn your back there are things happening that you can't correct later."* (Participant 8)

5.3.1.2 Business risk

Business risk relates to the already established definition of business risk, Business risk being risks that business structures need to be modified in order to remain capacitated to compete within the market place (Chernobai et al., 2007). Business risks encompasses risks relating to business strategy, matters of competition, the socio-economic-political environment, technological capacity, product vulnerability, capital limitations, compliance, credit, foreign exchange, liquidity, commodity price risk, reputation risks and transaction risks (Duckert, 2011; Chapman, 2013).

SMMEs primarily identified business risks as their main risk along with operational risk. Availability of work is a major risk within their business, as was indicated clearly by Participants 1, 6, and 7. It was indicated that the macro-economic environment contributed to business risk and also indicated that competition amongst larger firms and less expensive SMMEs was a concern Participants 3, 6, 8 and 10 agree on this point:

"It (availability of work) depends on whether people have money, have excess money to spend, we cut, we the place they cut first." (Participant 1)

"It is quite difficult to produce work if there are none. Uhm, ya so that is the main concern, having work to do when you want to do the work." (Participant 7)

"...if you slip, the next guy is standing in line to take your, you know, place and your customer." (Participant 10)

"Uhm, larger companies for one. As well as having to compete with prices of other service providers." (Participant 3)

"They (competition) do the jobs cheaper than you, so you go in higher than them, you sit with you don't get the work uhm, from the clients so you sit with uhm, people who are not actually qualified doing the jobs." (Participant 6)

"uhm, ya it's just that we struggle to get work, especially in the vaal triangle. People, let you quote, they give you actually, you you find you go out to a site there and you, everything is just for a free quotation and you don't get or find a job at the end of the day. Uhm, and mostly in the Vaal-Triangle it's an issue for us, because everyone wants to fight prices." (Participant 6)

"I think the economy is playing a big role, you don't get jobs, and people want you to do things better, they wait for you to quote cheaper in selling those product. But you can't, you actually don't put mark-up on your products that you resell, you get quite a discount on your items you sell, but you can't really even put mark-up on it because of that challenge that we face so ya." (Participant 6)

"Uhm but the profit margins are a lot smaller and your turn around are, your turnaround times on jobs have to be a lot quicker." (Participant 10)

*"*concentrated exhalation* what makes it difficult in getting clients that is a problem. Uhm, clients don't know about attorneys, especially the smaller ones, they tend to go to bigger firms, like uhm in Pretoria and Johannesburg, uhm, the known ones." (Participant 8)*

Beyond the main business risks identified above there were also some more industry specific risks such as not being paid, having to deal with large upfront costs of doing business and long repayment periods, and dealing with the blunders of other, cheaper, competitors, and the lack of municipal infrastructure which can be seen in the responses of the participants below:

"Ok, there is not only one (risk). I would say one of them is doing work for a customer and then they don't pay you. So I've I've had that before...Sometimes, uhm, I need to wait very long for my money uhm. So that's a risk as well because they can just turn around and say " I don't have the money to pay you...I had once I had a customer that said that the person who gave me the work didn't have the authority "the job wasn't approved", so then it took long, very long to get my money out of the business." (Participant 5)

"I cannot just give a quote I have to sit down and actually digitize the logo. Sometimes it takes 15 minutes, sometimes up to two hours and then the risk uhm there is that they can say, "no it is too expensive, we will rather use somebody else". So time cause, Time wise that is a big risk for me it takes up a lot of risk. " (Participant 5)

"My, my, my biggest challenge is uhm, we sit with people who are not qualified to do the jobs. "(Participant 6)

"...you need to have the capital to pay for medical reports up front and on one file it can amount to, between forty and sixty thousand rand that I have to pay from my pocket." (Participant 8)

"Power failure, it plays a huge roll in the running operation of my business because if I do not have electricity I cannot perform my work. I do my work after hours because I have a fulltime job so it is a part-time business and usually we do not have power, or we have power failures at night and that is a big handicap for me. "(Participant 5)

So now a customer walks onto your floor sees a BMW F-30320i, for argument's sake, uhm he doesn't see anything wrong on the car, it hasn't been in any accidents, etcetera etcetera, nothing has happened to that car, he's buying that car. Where ten years ago, before this, people didn't have knowledge of that so, I definitely think we have gotten cleverer, or more clever and have more knowledge now towards the car industry because it is so, because it was so lucrative and so easy to hide things if I can say it like that, ya. "(Participant 10)

5.3.1.3 Managerial risk

Traditional managerial risk awareness was lacking amongst SMME as indicated by their lack of discussion on the matter as seen in the response given by Participant 1 below. This is to be expected according to the literature and is thought to be a major contributing factor to SMME failure (Honjo, 2000; Zimmerer & Scarborough, 2002; Ritchie & Richardson, 2004; Coelho & McClure, 2005; Gitman, 2009).

"Uhm another thing is it does it costs cost so lot. You have to keep up with the times, you need to keep up, so you need to keep busy with advertising, and that kind of thing." (Participant 1)

5.3.1.4 Reputational risk

When queried on what risks they identified within their businesses, reputational risk was indicated to be a major risk. The orientation of their perception of reputational risk was

that it was a pure risk that they were to avoid and not as an opportunity risk for them to capitalise on. Participants 9, 4, and 1 reaffirm this strongly in their own words below:

“(Reputation is) like the biggest part of my business because it is mainly word of mouth that I get my business from so I need to keep all my clients happy and give them my best, and they refer me to new clients. So if I get a bad reputation I won’t get any more clients. .”
(Participant 9)

“Uhm, definitely popularity (is the greatest risk) in the sense of not wanting it to be an a uhm, something that explodes and has a plateau for the rest of its existence. “ (Participant 4)

“Another one is clients. Uhm, one unhappy client can always, you know, one tells four, four tells five, it gets bigger so you can build a bad reputation very quickly. Also sometimes there it leans back on staff. If your staff isn’t performing the way you would. That may start a bad reputation.” (Participant 1)

5.3.1.5 Operational risk

Operational risks were the second largest identified risk. Operational risk came into perception through a plurality of means. Breakages were identified as having the possibility of grinding production to an absolute stand still while plans had to be made to correct them. Large repair costs went hand in hand with greater levels of sophistication. The following excerpts illustrate this:

“Some breakages and damages on the vehicles but that’s not serious most of the time. Well it is quite a challenge, breakages are not that serious, in my case I am mechanically minded and I am also uhm quite capable of fixing most of the problems myself. “ (Participant 7)

“Uhm well my camera can break in the middle of a shoot. My stuff can break, my car can break on my way to a shoot, I can get ill and not do the shoot. So basically that is about that.” (Participant 9)

“The other thing is, I’ve had it before, is that spares on my machines fail to work, and then I’ve had to get a technician out, after hours, to come fix the machine, which costs a lot of money, “(Participant 5)

The loss of product or incomplete delivery of a service, theft, lack of immediate availability of needed supplies, lack of backup business infrastructure and inexperienced or unskilled clientele were also identified as operational risks. Quotes from Participants 1, 5 and 9 bring this to light in their own words:

"But mostly for me it's losing, if I do a family shoot and I lose the photos I can redo, but you can't redo a wedding, you can't redo a fiftieth uhm party, you can't redo a function, that's why it is so important to back that up." (Participant 9)

"Faulty workmanship,(is) definitely one (of those risks). Look in the risk, ya it's mainly faulty workmanship, that can cause a lot of you know aggravation." (Participant 2)

"Ok, uhm theft is a huge thing for me, at this stage I do not have insurance on my uhm ah equipment which I know is a risk. But, because it is a small business, financially I cannot really afford to have insurance. " (Participant 5)

*"*tch* I don't know if it is really a risk, but sometimes you get clients that uhm you know ,they want a a logo embroidered in a specific color cotton. And then because I have to order it it could take up to a week to get the specific cotton here, so that is a risk. I have a daughter at school that I have to get through school." (Participant 5)*

"I don't have a backup computer, I do all my digitizing on the one. So if that packs up ort gets stolen then that is a risk for me, because the the digitizing program works on a dongol and you look at twelve to fifteen thousand rand for the digitizing program. And if they steal that dongle with the machine you have to buy a new one, you cannot run your digitizing uhm without that, so that to me is a huge risk. Uhm, I always try to keep the computer and the digitizing dongol separate so that if they take the one at least I still have the other one. And then I try to do regular backups of all the logos that I do. " (Participant 5)

"Well there is you can hurt a client as well, we work with a lot of equipment, you can shock a client, you can pull skin off when you wax so there is a lot of risks that a clients do, they trust you coming. Uhm it's also very personal, we do a lot of things like bikini waxes and stuff like that. It is very personal and you've gotta make the client feel comfortable and that you are not going to go and chat about her .parts, to other people. So it is risky." (Participant 1)

5.3.1.6 Marketing risk

Marketing risk was one of the few risks that was not seen in a pure risk capacity. However, marketing risk was not addressed by the majority of the participants. Only Participants 8 and 9 were concerned with this risk type:

"Uhm, the small businesses don't always get a lot of clients because we are not known that much and we have to, constantly advertise, but we are also restricted in advertising, so that's also an problem uhm, ya that's basically what I can think of." (Participant 8)

“Uhm, but my aim is to eventually stop working full time and then start advertising, you know going more to business and advertise myself and offer offer my services. So So my business is growing, I can see that, and ya as I said my aim is to within the next 5 years to stop working and do this full-time.” (Participant 5)

5.3.1.7 Moral and legal risk

Moral and legal risk have been combined for discussion as these complex risks were not a matter of deep consideration for SMMEs. Moral risk and legal risk came as a motivator to produce a good job as a result of the negative consequences. Moral risk also came about from a place of genuine concern and responsibility that the SMME owner felt towards those who would use the products he had worked on. SMME owners have a much more personal bond with not only their employees but also their clientele which likely originates from the deep sense of responsibility that they carry throughout the business.

“Ah, it [poor work] can go right up to the courts hey.” (Participant 2)

“You know there’s there’s there’s always risks out there I mean I mean ,like I said to you, the biggest risk for me is having a customer, whether it be a private customer or you know dealer or whatever, home here and tell me he has a bent chassis or you know of some sort or he has airbag lights that are burning and he wants me to you know, fidget with it, and you know that is people’s lives that I am tampering with. You know we can fix it, but it’s not uh, it’s not ethical. You know if the insurance has written a vehicle off, it’s been written off for a reason and I always have, I’ve had that a lot of times and it’s a good customer and this customer comes to me with this request and I refuse it, and you loose that customer like that, uhm because you don’t want to take those risks, knowing that you’ve jipoed him, but that’s exactly what it is. People can get into accidents, people can loose their lives and you know, at the end of the day it’s on your shoulders, and uh uh on your uhm on your conscious, and there are definitely risks.” (Participant 10)

5.3.1.8 Personal risk

Personal risk factors were identified amongst the SMMEs that cannot be classified within the already established risk definitions as they relate to the personal, and human, considerations on the individual SMME owners. As indicated by Participant 4:

“I have a daughter at school that I have to get through school [before I can go into business for myself fully].” (Participant 4)

This is of particular interest because it shows the lack of conventional understanding in risk management and introduces an aspect of SMME risk decision taking and perception that is rooted in the psychology of the SMME owner. The personal risk gave an insight into why technologically savvy SMME owners would refrain from taking a risk of expansion despite having a high probability of success. It is the speculation of the researcher that there are additional personal risk factors that if identified and dealt with might serve as an enabling factor for SMME growth.

5.3.1.9 SMME risk perception summary

As discussed in chapter two, risk comes about in a plurality of well-defined forms. As per the definition of a risk a risk can be seen as a deviation from an expected result. (Warwick, 2003; Borghesi & Gaudenzi, 2013). The SMME focuses on a risks that are pure risks, which is a risk with no capacity for a gain with the exception of marketing risk and only minimally (Kahane & Kroll, 1985).

What is important to note is that the SMME owners primarily identified their risk from a practical business or operations perspective. They do not have a structured way to identify, classify, or manage against their risks and tend to deal with their risks as they come or once they have experienced it previously. With older and more established SMMEs the applicability of opportunity risk, risk taken with an expectation of increased gains (Ewald, 1991), became more prevalent. However, ambiguity was present in the answers of the SMMEs when questioned on additional financing. As Participant 10 indicates:

"I think if you go back to when I started versus where I am now, uhm and you go look at other businesses that are in my line of work, that don't do insurance work, that work for car dealers like, for arguments sake [named a car dealership], their margins for profits are very small and when I started , I said I was going to revolutionise this, and everyone said it wouldn't work. And today I am one of the strongest uh, panel beating shops in the this, in the town and my profit margins are a lot higher, compared to other peoples and that was solely to the fact that I stuck to doing quality work. Uhm, and and and putting the stamp, that you know I do quality work, I mean we reinstate warranties on vehicles that have thirty thousand kilometres. BMW, Mercedes, uhm you name it we have done it." (Participant 10)

By means of the mannerisms of the individuals it could be seen that any questions relating to finances evoked a sense of unease within SMME participants. Additionally, the

mention, or query, of or into the willingness to take on additional partners or share-holders was met with a strong sense of ownership for the SMME owner. The business was an extension of themselves and carried immensely personal sentimental connotations.

“So, I don’t think government, government has the BEE and all that there with their vehicles you have got to be registered with them and have a black partner non-of- which is, you know if you want to do it you do it, I don’t want to do it. You know I don’t want partners at all, I don’t care if you are black or white I don’t want a partner so that is it.” (Participant 2)

With reference to the discussion above, the primary risk focus of SMMEs rests on their business risks and operational risks. Many of the risk quotes above can be categorised as being a part of operational risk, however, although that would be technically correct it would forgo an understanding of SMME risk management perspective as it would distance our structured approach to risk and its management to the more informal processes followed by SMMEs. SMMEs pick up on risks from their interaction with their environments, this process is organic and less meticulous than that which is applied in formal business strategies and risk frameworks. However, this leaves SMMEs with exposures to risks that they aren’t even aware exists. Their lack of awareness of these risks increases the chance of potential failure and contributes to their willingness to take risks. As discussed earlier many of the risks that the SMME defined can be classified within business and operational risk.

Legal and moral risk was only addressed in an operational capacity adding further credence to operational risk management being a good starting point for a risk management system. In relation to the other main identified risk, business risk, awareness of this risk was spurred on by the potential losses that could be experienced due to the lack of a sufficient business offering in relation to the competitive forces at play in the market place. Their awareness of business risk is unsophisticated in the sense that it only accounts for a very limited portion of what comprises business risk and is reactionary when present.

5.3.2 SMME risk management strategies

The theme of SMME risk management systems addresses those actions taken by SMMEs in an attempt to improve their business viability and reduce the risks that they faced on a day to day basis. All of the strategies can be classified under one of five sub-classifications. These classifications are: marketing, business strategies, staff

development, financial strategies, and SMME strategies and are discussed below this section concludes with a summary of the information provided

5.3.2.1 Marketing strategies

As a means to address the risk of remaining unknown the participants would have themselves advertised in some manner.

“at the moment I have started by branding my car. I travel a lot on the highway every day, I am also on google and that is giving me a quite a response from people looking for embroiders from Meyerton, I do come up.” (Participant 4)

5.3.2.2 Business risk strategies

Business strategies include: the collection of documentation; attempts to compete in relation to product/service quality as seen in the quotes by participant. The activities by which business risk is handled is unique to the activities of every business type involved. Business risks were, however, dealt with in a reactionary manner and not within a preventative capacity and can be seen in the quotes below.

Business risk management strategies bore testament to the hands on nature of the SMMEs and how they managed their business. Strategic and administrative decisions were made relating to decisions as to what business should be undergone, where and how to achieve market penetration, how to compete with other businesses. This can be seen in the interactions with most participants but is expressed clearly in participant 3's quotes below.

“well basically (to compete) you need to decide what is it that you want to focus on. There's no way that you can beat them in all aspects so, you will have to decide of which aspect you want to focus. So is it going to be regarding the prices that you offer or is it going to be the quality of your service? Because it is impossible to beat them in all aspects.” (Participant 3)

“Yes I do (keep paperwork), it is, it feels very unnecessary but in the long run it's always good to have something to reference back to. Uhm so I have tried to keep the paperwork in order.” (Participant 3)

The avoidance of more operational risks such as full production failure, loss of product, inventory management, or cash flow management was also addressed by the SMMEs in their own capacity. This is illustrated by the following excerpts:

"I have a backup to use another machine. Also I've got a smaller embroidery machine, it is not an industrial machine, that uhm I really just keep as a backup. So if anything goes wrong with any of the two bigger machines at least I can carry on, but it is not as efficient as the two bigger, other machines." (Participant 5)

"I just, buy everything on demand. Uhm, once the client pays us fifty percent of the , so he give us instruction by giving us fifty percent paying, then we order we just buy on demand because to keep that uhm product in uhm in uhm stock it costs us a hell of a lot of money, and we can't it's a it's a problem, we struggle to get rid of it because not everybody looked for the same product and there is so many products that we actually sell that it's a battle to keep stock with it ." (Participant 6)

"Ok well firstly, the one of losing the photos. When like if I do a really important shoot, I take my memory card out of my camera when I am done with the shoot and I put it on my body and go home like that. So if I get into an accident, or somebody hi-jacks me or my camera gets stolen I have the client's photos with me. As soon as I get home, I back it up on two hard drives and on my laptop and I put the memory card in a safe place at home. Only when I deliver the final product to the client that is when I format my memory card So that is how I deal with that part, uhm, that's backup backup backup, and I have insurance on my camera and I always have a backup camera with me so that is for, if my camera breaks." (Participant 9)

I guess if my car breaks I can call a taxi, that's not that big of a risk. But mostly for me it's losing, if I do a family shoot and I loose the photos I can redo, but you can't redo a wedding, you can't redo a fiftieth uhm party, you can't redo a function, that's why it is so important to back that up." (Participant 9)

" Uhm yes, I do [manage the risk of not getting paid], its just that's usually why I demand a 50 percent booking fee before I go out to a shoot. and then the other 50 percent I want before I deliver the final product. So that way the risk of not being paid is minimal." (Participant 9)

SMMEs were not capable of differentiating formal risk management from their own interventions. When asked how they managed their risks or whether they had a formal system for managing their risk they would state that they had a formal risk management

process but would then describe their activities which can only be described as an operational quality check or micro-managing other's work. This can be seen clearly in the quotes below:

*"Well obviously I would have a look at the risks that I have and choose the best out.., or the best, I don't know how to uh, the best *tch*, uhm... reaction to it, the best, whatever is best for my business I would obviously go that route. Assessing the risk and then going the path of least, the least risk anyway. Or having to compromise somewhere to lessen the risk in another aspect." (Participant 3)*

"I really manage [risks] them as they come, except if you mean keeping the vehicles in a good condition. That takes maintenance continually, but that is not a serious problem, it is something that anyone who knows anything about vehicles can solve." (Participant 7)

"...if their job isn't right by the time it gets to me to refinish it, or to finish the end product, they know they're going to have problems with me, so there is you know a check-up on them I do a whole walk through, or the shop manager will do it, walk through and check. ...there's not a lot of babysitting if I can call it that." (Participant 10)

"It is a formal way, uhm, unfortunately with the type of uhm, with the type of uh you know process it goes through, like repairing a bumper for instance, we might look at the bumper and say " you know it doesn't look that bad" and it might have been repaired before, and before that person it was also repaired, by the time we get to it it has been repaired two or three times so that by the time we get to it it could actually be worse. So yes we have a formal way of doing it, but sometimes there's one or two surprises if I could put it that way. So but, uh quality wise this guy has a job description so by the time the end product comes each person knows what to do and what should have been done and if there was a problem it should have been solved at that time so." (Participant 10)

"You go and you do spot checks. So if he is doing, for arguments sake, an alternator of a car just go check two or three bolts, you don't have to check them all. Just check two or three, if they are fastened the rest are fastened, highly unlikely the he will fasten, uhm, one and leave four. So you can see straight away." (Participant 2)

"Uhm you must just keep up on your job and make sure that things are straightened and in line and things like that. So it's basically straight forward, it's not, uhm... But ya, I think a lot of big companies you know they got a problem that the managers should be having a look at this and the managers aren't doing this. You know the managers must look after the foreman and the foreman must look after the workers, it's a line and ya. But just to say, up

till now we haven't had any major problems, but ya it could arise, one can make mistakes we are all human.' (Participant 10)

"Definitely, I I I definitely say yes, one-hundred percent. I do believe quality is a good thing... if I can use that word, uhm that's why I have customers that are willing to pay the price, reasonable prices, you know I always tell people" I'm busy because I don't kill people, and I'm doing well because my quality of work is good". (Participant 10)

5.3.2.3 Staff development strategies

Staff development and retention was indicated as instrumental to SMMEs continued successes in cases such as Participant 9 this related to the maintenance of the capacity to get to work. This can be seen in the following quote:

"the risk of me getting ill and not pitching to do a job, that is why I have people working for me sometimes so if I get sick and I can't do it I can send a friend so I have a lot of photography friends that are friends and workers for me so I can send them, so I cover my ass." (Participant 9)

The close interactions between staff and SMME owner creates a more personalised relationship thus failures in this regard carried strong emotional and personal connotations as can be seen in the quotes from Participant 2, 7 and 8. Staff development includes the provision of incentives in order to retain employees as well as to reprimand them. These actions are performed by the SMME owner and are dependent on their own judgement on the matter as opposed to clearly defined human resource policy within the organisation and noted below:

"They are very well paid if you compare them to other other people in the industry. And they've been with me for a long time. " (Participant 10)

"staff training, keeping your staff happy, giving them good incentives, uhm paying them reasonable, is also another way of showing them, you know it isn't always better to have, the grass isn't always greener to have your own business." (Participant 2)

"because I've had the same people working for me for a long time, I do not have to concern myself with that [theft of spillage] because I know they are not inclined to give me that kind of problem. " (Participant 7)

"Well uhm, I give notices to my employees. I give them written notices and uhm I reprimand them, daily. So uhm, I have my, my , employees cc me in every email sent out to catch the

problems even when it is too late. But then we can still try to make it right. So that's basically on the employee's side what we can try to do. " (Participant 8)

5.3.2.4 Financial strategy

Financial strategies such as credit agreements and backup provisions, as illustrated in the quotes by Participant 8, were rare and if present a direct outflow of the nature of the business. SMME owners tended to only seek funding to maintain their operations.

"Uhm, on the financial side I have to put money away of make alternative, what do you call it, uhm, you have to arrange with the, uhm doctors, uhm to uhm maybe pay them later." (Participant 8)

"Yes, (I have credit arrangements) that says that in four months or six months I will pay you. Sometimes they do do that, but, uhm, most of the time." (Participant 8)

5.3.2.5 SMME risk management summary

With reference to the previous sections, the strategies followed cannot be classified as a system since there is no feedback loop. However, this theme gives insight into what is perceived as risk management by SMMEs. Beyond the strategies outlined above, the SMME owners identified certain actions as their risk management strategy, however, this came up to personal judgement calls and a personalised relations with their clientele.

The closest to a risk management system that the SMME owners came up with was a quality check on work done once the work was completed, which can be classified as an operational risk management endeavour. For a risk management process to be formally holistic in the minimal sense it must abide by the eight steps of a risk management process discussed in Section 2.2.3 and illustrated in Figure 5.2. Comparatively, if a synthesis of all participant risk management strategies were to be combined into a singular risk management strategy it could be illustrated in Figure 5.1.

The risk management in the case of SMMEs is thoroughly lacking in the sense that it does not incorporate the aspects of a business's strategic orientation, account for vital success or failure conditions, it does not rate risks on a scale of effectuality nor does it differentiate between the importance of risks that are present in the business. Controls are resourced and reactions are planned at the moment that a risk occurs. In the absence of a large cash flow reserve this could result in bankruptcy.

Risk reporting is rarely in a written form, often not being recorded and the details surrounding it soon forgotten. As a result there is no wealth of information on which to fall back on should a similar risk make itself known. Risk management in an SMME thus becomes fully dependant on the experience of the SMME owner which is and of itself a risk. Within the Risk management model of an SMME it would be thought that the SMME owner would insure the central processes or inventory needed to continue business in the event of a loss. However, many SMMEs are not always able to afford insurance due to their size not being adequate to produce a source of income for the SMME owner that justifies the opportunity cost to the SMME owner.

In a follow up encounter with the participants of the study, in which 70% of all participants responded, they were asked if they would be interested in an SMME risk management system. 71 percent of the respondents were interested in a risk management system with the remaining 29 percent being dissuaded because they were afraid of the costs of implementing the system. Whether they would be willing to accept assistance in implementing a risk management system rendered a strong response with all of the participants saying that they would take this assistance.

The main implication of this question is that the SMMEs are indeed willing to implement risk management at a SMME scale and that they would like to be partner in the development of such systems within their own businesses if they were assisted. This bears testament to the strong individualistic nature of SMME owners and a co-operative approach is theorised to be the most suitable tactic in creating meaningful interaction during a development stage (Hopkins, 2104).

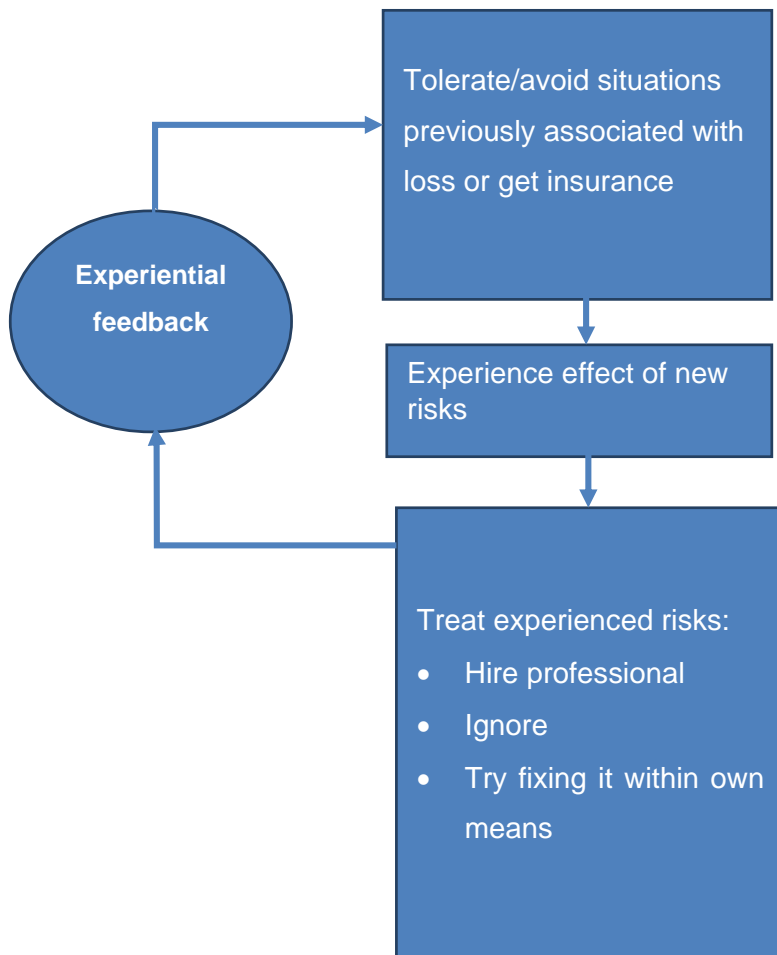


Figure 5.2: SMME RM model

Source: Own construction (2017)

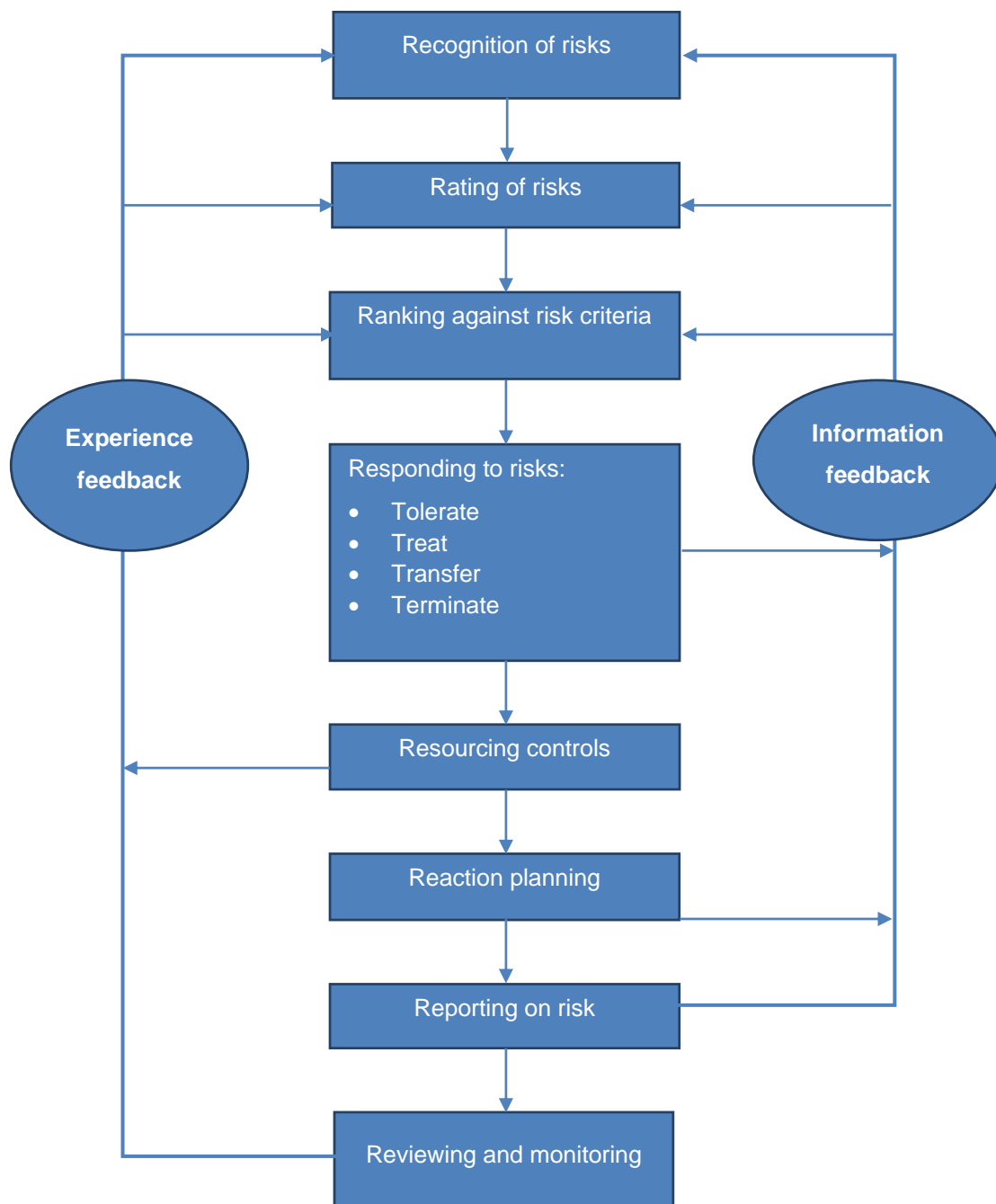


Figure 5.3: A standard RM framework

Source: Hopkins (2013)

5.4 SUB-THEMES

5.4.1 Government involvement

In relation to policy and government activity the broad consensus amongst SMME owners is that the government is an impediment, or believe themselves to be too small to benefit from government policies. This is made more apparent in SMMEs dislike of government in relation to their lack of responsibility in relation to economic affairs. Union interference,

aversion to BBBEE policy and a pronounced lack of interaction between SMMEs and government were found to be consistent amongst the participants. There is a great distrust of the national government and thus SMMEs refrain from involvement or association with governmental bodies.

"I think the biggest interference that we get to our business is the motor unions. You know they are very demanding, but when we need them they aren't there. So, I don't think government, government has the BEE and all that there with their vehicles you have got to be registered with them and have a black partner non-of- which is, you know if you want to do it you do it, I don't want to do it."(Participant 2)

"I think they [government], through the lack of taking ownership of the economy itself, that they are affecting us as one main or singular businesses in a big sense. Because of the fact, when there is a strike on or when there is petrol hikes all of those things in the sense of sustaining the country instead of putting uh feasible business plans or feasible business plans for entrepreneurs in place to be able to sustain the country's economy more, I think they failed us terribly. So uh ya on the side line what I do. I solely rely on my own, and on my employees, efforts. Not on the government. Uhm, they are, their actions and what they do on a day to day basis negatively affects us as small business holders, I think, personally." (Participant 4)

"[When asked if government was involved] No. It's too small at this, it's just me, so the business is really, really small." (Participant 9)

"Uhm, I wouldn't say, that it ya, I don't really get get work from or have gotten work from government I haven't had that that interaction yet so I, it's a bit of a difficult question to answer. Uhm, because of the CC I am the owner and there is no, if I can call it, black empowerment, it makes it difficult to trade, uhm so yes I am a bit of a hardhead when it comes to that you know. I I I take it as I built it up from the ground I started in the garage and seven years later [motions to the premises] you can obviously see what I have. So for me to to give away a bit of my business is a ia bit of a sore point for me, if I can call it that" (Participant 10)

South Africa has many initiatives set up to aid small businesses discussed in chapter three of this paper, however, SMMEs owners are often not aware of these initiatives (Botha *et al.*, 2015). In addition to a lack of awareness of government initiatives and support, there is distrust in the national government from the participants. Having discussed the current state of policy affairs as it relates to SMMEs in Chapter 3 the

responses from participants expresses a frustration with SMME policy at the moment. However, this frustration originates from an operational perspective with the focus being on how government makes it harder for them to do their job. This perspective is iterated by Participant 4:

“I think they, through the lack of taking ownership of the economy itself, that they are affecting us as one main or singular businesses in a big sense. Because of the fact, when there is a strike on or when there is petrol hikes all of those things in the sense of sustaining the country instead of putting uh feasible business plans or feasible business plans for entrepreneurs in place to be able to sustain the country’s economy more, I think they failed us terribly. So uh ya on the side line what I do. I solely rely on my own, and on my employees, efforts. Not on the government. Uhm, they are, their actions and what they do on a day to day basis negatively affects us as small business holders, I think, personally.”
(Participant 4)

If the government were to address macro-economic factors this would already greatly improve SMME-Government relations. Improved communication with SMMEs might also bring greater awareness to SMMEs on what help can be afforded them by national initiative.

5.4.2 Participant position

All SMMEs that were interviewed identified themselves within a position that translated to an owner/manager position in practice. Although the SMME owners identified themselves as “Owner manager”, “Sole enterpriser”, “Leader”, “Proprietor”, “Self-employed”, “Part-time owner”, “Director”, “ Working director”, they all had a direct role in the business and operated as the director of the business. The distinctions that they title themselves with is fundamentally cosmetic as they are still the employer and carry the full weight of that function. The variations in the descriptions are illustrated as follows:

“Mine is more family run, family run but yes I’ve been owner run for many years 38 years you know that I have been doing my own business. Uhm, so it is owner run, but yeah. My wife has always worked for me and now my son has joined with us. So it is more family business, business now and we keep it in the family. The equity remains in the family”
(Participant 2)

“Yes that is correct [I would you describe your position as owner manager].“ (Participant 3)

“Uh, basically it is the proprietor of the business in the sense of coming up with the concept. It’s not a a copy and paste concept in the sense of uhm steers or franchise business. It was something that I wanted to do for a couple of years some elements in uhm, the field of the arts and crafts and, uhm uhm social environment that I thought would work well together that I then put together as concept and worked three or four or five businesses under one umbrella to make it viable as a small business owner. Uhm, until recently I still looked at myself as self-employed because I haven’t employed a lot of staff to actually do work. I was selling my own time and effort as a commodity. Taking the step from being self-employed to being a business owner is the part that I am struggling with still at the moment in the sense of you need to justify your expense on staff with margins, on overheads and income. Uhm, and in taking a step from selling your own time and resources to selling other people’s time and resources within your business, say element, is a bit of a problem. Or rather was a bit of a problem for me to step away and make other people’s time and effort, generally fuel the thing that is the business itself.” (Participant 4)

“I think owner manager will explain my situation well.” (Participant 7)

“Owner/ photographer/ editor/ delivery boys /marketer/ alles, one man band.” (Participant 9)

“Uhm, I am the owner uhm, how can I put this? I physically work with my people so I don’t see myself as a boss, I see myself more as a leader in that sense and uh, because I work with my people there’s a bot of a different uh different uh, how can I put it, different relationship with my workers than would other people have with their workers, if I could say that. “ (Participant 10)

5.4.3 Economic sector

All SMMEs can be classified as falling within the service or physical goods sectors, however, the majority of SMME’s utility offering exists as a combination of both service and physical product. This is illustrated by the following responses:

“Ya,ya [I specialize more in service with a specialisation in health and beauty]” (Participant 1)

“I think I fill the niche of not being a big business, and to get my work that I get in out very quickly. That is my aim it is the faster I can have a turnaround in my work the better for me. I am a small business owner. I specialize more in giving personal attention to my customers, and do exactly what the ask me. I don’t want to rush what I do I want to give them quality.

So that they can come back. I do embroidery as well as I sell corporate clothing to businesses.” (Participant 5)

“Well we do transport for a third company, uhm but mostly only one. We dedicated transporters of cement products.” (Participant 7)

“Ok, mostly, my business is a photography business.” (Participant 9)

“: We are, or I have a panel beating shop, we do all spray painting and panel beating from minor repairs to major structural repairs, replacement of parts, etcetera, you know. From hail damage right through to plastic welding to interior, all kinds of uh, motor, motor repair, except engineering wise.” (Participant 10)

“Uhm, definitely service delivery in the sense of we host people in a social environment and offer up services as far as food and beverages are concerned, we do tattoos and piercings, well tattoos, not piercings as much. Uh, we host artists and their gallery, so definitely the retail side of things.”(Participant 4)

5.4.4 Employees

The number of employees that were employed varied in relation to economic activity. SMME owners such as Participant 1 indicated that they were willing to employ more people if they had the economic capacity to do so. Few SMMEs employ permanent staff until they have been in operation for a substantial period. The more technically developed/advanced businesses stress skill retention as a vital function such as Participants 3, 5, 7, 9, and 10 .

Businesses that perform more unsophisticated actions see a higher turnover rate in the number of people employed as these individuals start up their own iteration of the core business functions. Enterprises that do not employ more individuals have been seen to do so as a result of personal necessity or as a direct result of a macro-economic turmoil

“On and off maximum two.”(Participant 3)

“No, I don’t employ other people I do it myself.”(Participant 5)

“On regular basis it’s [the number we employ is] probably only the drivers, which are two at the moment.” (Participant 7)

“Ninety percent of the time it is just me, but when I get really big jobs I employ people. Last year I had six people working for me, this year I only had three so it is dependant on how much work I get.” (Participant 9)

“I have, including myself, about eleven people. So ten workers and then obviously myself.”(Participant 10)

“Uhm, staff, as I as I mentioned earlier, staff is is having quality staff is is a number one for me. Uhm, I think the fact also that I am so involved is another plus point, and you know, I always know what’s going on. Whether it be buying or whatever the case may be if there’s a customer that might have an issue or a problem it gets sorted and you know customer service is very important to me from my side. I I I don’t like going to bed at night knowing that there is a customer that is unhappy so that is a big no no in my line of work, or to me, it’s keeping people happy and having good staff, obviously using quality products but not products that are, because you can buy really expensive products and then you know you can get an average product that is just as good its just who applies it and how it is applied.” (Participant 10)

5.5 SUMMARY

As per the objective of qualitative research the research has expanded the knowledge relating to variability in SMME risk perception and risk management (Olds *et al.*, 2005; Borrego *et al.*, 2009). As per the methodology, sampling was applied within the target area (Welman *et al.*, 2007).

The participant interviews produced the key insight that SMMEs do not have a formal risk management system and are wholly dependent on their personal experience and judgement in both identifying and responding to risk. In addition to the confirmation of the lack of a formal risk management system it was shown that the informal risk management system can at best be qualified as a non-iterative risk reaction process.

The interviews indicate that if a meaningful SMME risk management system were to be developed that operational and business risk management would have to be the beginning point of this risk management process. Fundamental and systemic risk awareness was not present beyond the idea that market events and the state of the economy as a whole could affect the interests of the SMME. The risks that were identified were identified as particular, operational and unsystematic risk in the strictest sense but relating only to those events and experiences previously encountered within the business.

This left certain key aspects of particular, operational and unsystematic risks completely untouched.

CHAPTER 6: SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

6.1 INTRODUCTION

The purpose of this study was to identify the informal risk management practices within SMMEs in the Vaal region by means of exploring risk perception amongst SMME owners. The study aimed to identify whether there are inherent/innate decisions taken by SMMEs that constitute an informal risk management process. The reason for this was to determine whether or not SMMEs employed an informal risk management system that might facilitate risk management functions.

6.2 OVERVIEW OF THE STUDY

Chapter 1 address the introduction (Section 1.1) of the topic, fleshes out the problem statement (Section 1.2) and indicates the demarcation of the study (Section 1.3). Chapter one indicates the primary objective, empirical objectives and theoretic objectives of the study (Section 1.4). The proposed research design and methodology (Section 1.5) of the study are stated, ethical considerations are included (Section 1.6) and a chapter outline is produced (Section 1.7).

Chapter 2 and Chapter 3 together comprise a literature review regarding the theoretical objectives formed in Chapter 1. This section begins by discussing the nature and definition of risk (Section 2.1) and moves onto the classification of risk (Section 2.2). The discussion then moves onto risk management (Section 2.3) Within this section the definition of risk management (Section 2.3.1); when risk management is applicable (Section 2.3.2); The steps of risk management (Section 2.3.3), the principles of risk management (Section 2.3.4), the benefits of risk management (Section 2.3.5), the risk management framework (Section 2.3.6), and risk management standards (2.3.7) are discussed.

Chapter three discussed the particularities relating to SMMEs in South Africa. Chapter three defined and classified SMMEs (Section 3.1). Chapter three, furthermore, discussed the characteristics of SMMEs (Section 3.2), SMME failure (Section 3.3), The factors that contribute to SMME success (Section 3.4), the SMME business environment (Section 3.5), SMME policy in South Africa (Section 3.6) and SMME policy support (Section 3.7).

Chapter 4 addressed methodological considerations. Chapter 4 addressed the research design (Section 4.1), and discussed Quantitative (Section 4.2), Qualitative (Section 4.3), and mixed methods (Section 4.4) in determining which would be the most appropriate to use in the study. Additionally philosophical assumptions were addressed (Section 4.5) and the constructivist paradigm selected. The target population for this study is small, medium, and micro enterprises (SMME) within the Gauteng province (Section 4.6). Within the sampling strategy (Section 4.6) SMMEs within the Vaal were identified as the preferred sample and data collection methods were explored (Section 4.7). Face to face interviews were selected as the data collection method (Section 4.7). Data has been gathered using a non-probability sampling technique. Once SMMEs were identified, they were recruited for participation in the study. The recruited participants were only interviewed once the purpose of the study and the interview process was clear to them. Informed consent was gathered and case study was presented to them for review and preparation prior to commencement of interviews. the interviews were arranged at a time and place that was convenient for the participant. The interview was transcribed after every interview. Into Atlas.ti version 7.5.10 (Section 4.8.1) The transcript was sent to the participant in order to verify that the transcripts were accurate representations of the participant's responses. Field notes and question responses were then coded immediately after every interview. Data was subsequently co-coded to insure consistency and validity (Section 4.8.2). Thematic analysis was applied in the dissemination of the information. Data has been analysed and coded using Atlas.ti Version 7.5.10 for Windows (Section 4.8.3). Once the transcripts were verified by the participant, coding commenced, Coding was done directly after each interview and data collection continued until data saturation was reached.

Chapter 5 facilitates the empirical portion of the study in concordance with the outlined empirical objectives formulated for the study

6.3 MAIN FINDINGS

This section provides an overview the main results obtained from the study. The main findings are correlated with the empirical objectives as set out in Chapter 1. The main themes that were identified are discussed first, followed by a discussion of the sub-themes.

6.3.1 SMME risks

The theme of SMME risk identified the risks that SMMEs were aware of in their business, from their perspective of what a risk was. This central theme can be broken down into the sub-themes of employee risk, business risk, managerial risk, reputational risk, operational risk, moral and legal risk, and personal risk. Legal and regulatory risk was only addressed in an operational capacity adding further credence to operational risk management being a good starting point for a risk management system. In relation to the other main identified risk, business risk, awareness of this risk was spurred on by the potential losses that could be experienced due to the lack of a sufficient business offering in relation to the competitive forces at play in the market place. The awareness of business risk is unsophisticated in the sense that it only accounts for a very limited portion of what comprises business risk and is reactionary when present.

SMME owners identified their risk from a practical business or operations perspective. They do not have a structured way to identify, classify, or manage against their risks and tend to deal with their risks as they come or once they have experienced it previously. The SMME focuses on a risks that are pure risks that is a risk with no capacity for a gain Even when questioned on applications for loans from formal financial institutions with the intention of expanding business SMMEs remained risk averse and preferred to raise the capital themselves in a debt free manner. With older and more established SMMEs the applicability of opportunity risk, risk taken with an expectation of increased gains became more prevalent, however, ambiguity was present in the answers of the SMMEs when questioned on additional financing. By means of the mannerisms of the individuals it could be seen that any questions relating to finances evoked a sense of unease within SMME participants. Additionally the mention, or query, of or into the willingness to take on additional partners or share-holders was met with a strong sense of ownership for the SMME owner. The business was an extension of themselves and carried immensely personal sentimental connotations.

The primary risk focus of SMMEs rests on their business risks and operational risks. Many of the risk quotes above can be categorised as being a part of operational risk, however, although that would be technically correct it would forgo an understanding of SMME risk management perspective as it would distance our structured approach to risk and it's management to the more informal processes followed by SMMEs. SMMEs pick up on risks from their interaction with their environments, this process is organic and less

meticulous than that which is applied in formal business strategies and risk frameworks. However, this leaves SMMEs with exposures to risks that they aren't even aware exists. SMME owner ignorance of these risks creates a lack of awareness to their potential failure and contribute to their willingness to take risks.

As discussed in the beginning of this section many of the risks that the SMME defined can be classified within business and operational risk. The only exception to the singular focus on business and operational risk is the personal risk that was identified. The personal risk gave an insight into why technically clued up SMME owners would refrain from taking a risk of expansion despite having a high probability of success. It is the speculation of the researcher that there are additional personal risk factors that if identified and dealt with might serve as an enabling factor for SMME growth. Thus, the first empirical objective of the study, identifying risks faced by SMMEs, was achieved.

6.3.2 SMME risk management

The theme of SMME risk management systems addresses those actions taken by SMMEs in an attempt to improve their business viability and reduce the risks that they faced on a day to day basis. All of the strategies can be classified under one of six sub-classifications. These classifications are: marketing, loss prevention, business strategies, staff development, financial strategies, SMME strategies. Loss prevention is a broad classification that is related to preventative risk management and includes concepts such as maintenance or micromanagement. Marketing includes those activities of branding and advertising. Business strategies include the collection of documentation, attempts to compete in relation to product/service quality.

The strategies followed cannot be classified as a risk management system since there is no feedback loop. However, this theme gives insight into what is perceived as risk management by SMMEs. Beyond the strategies outlined, the SMME owners identified certain actions as their risk management strategy, however, this came up to personal judgement calls and a personalised relations with their clientele. The closest to a risk management system that the SMME owners came up with was a quality check on work done once the work was completed, which can be classified as an operational risk management endeavour. This satisfies the second empirical objective of the study.

The interviews would indicate that if a meaningful SMME risk management system were to be developed that operational and business risk management would have to be the beginning point of this risk management process. Systematic, fundamental and systemic risk awareness was not present beyond the idea that market events and the state of the economy as a whole could affect the interests of the SMME. The risks that were identified were identified as particular, operational and unsystematic risk in the strictest sense but relating only to those events and experiences previously encountered within the business. This left certain key aspects of particular, operational and unsystematic risks completely untouched.

The approach of the SMME owner was consistently shown to be reactionary, and not precautionary. The actions taken to minimise risks always occurred after a risk was already experienced. The risk management in the case of SMMEs is thoroughly lacking in the sense that it does not incorporate the aspects of a business's strategic orientation, account for vital success or failure conditions, it does not rate risks on a scale of effectuality nor differentiate between the importances of risks that are present in the business. Controls are resourced and reactions are planned at the moment that a risk occur. In the absence of a large cash flow reserve this could result in bankruptcy.

Risk reporting is rarely in a written form, often not being recorded and the details surrounding it soon forgotten. As a result there is no wealth of information on which to fall back on should a similar risk make itself known. Risk management in an SMME thus becomes fully dependant on the experience of the SMME owner which is and of itself a risk. Within the Risk management (RM) model of an SMME it would be thought that the SMME owner would insure the central processes or inventory needed to continue business in the event of a loss, however, many SMMEs are not always able to afford insurance due to their size not being adequate to produce a source of income for the SMME owner that justifies the opportunity cost.

The majority of participants (71 percent) indicated interest in a SMME risk management system. The remainder of the participants were hesitant but not opposed to a SMME risk management system because of expected costs of implementing the system. Whether they would be willing to accept assistance in implementing a risk management system rendered a strong response with all of the participants saying that they would take this assistance.

6.4 RECOMMENDATIONS

The succeeding recommendations are based on the insights gained from the previous chapters, which comprise a literature review as well as the empirical findings obtained from the Vaal SMME sample regarding the risks faced by SMMEs and the informal risk management strategies employed by SMMEs.

- **Develop a risk management framework that is tailor-made for SMMEs**

In order to advance SMME risk management it is recommended that a systematic, modular, SMME risk management framework be developed that addresses the increasing levels of SMME sophistication. It is recommended that risks to be managed be included as they become relevant to the SMME owner. A similar process study should be run over an extended duration with multiple national and international participants to reduce the subjectivity of SMME risk management results; Modular courses should be developed that provision not only the needed information to manage the risks in certain business aspects, but do so at times when such information becomes applicable to the SMME owner.

- **Expand the methodological analysis of the study**

It is recommended that this process be pursued by means of a mixed methods approach. The quantitative section of the mixed methods approach would be orientated towards the identification of SMME risk specifics that would allow for classification of the sophistication level of SMMEs in risk management applicable terms. The qualitative section of the study would be used to identify the risks that SMME owners are aware of at every subsequent stage of business sophistication. By means of combining these two concepts and applying the already present risk management theory available, a holistically inclusive, applicable, and SMME friendly risk management system could be constructed.

6.5 CONTRIBUTION OF THE STUDY

The participant interviews have produced the key insight that SMMEs do not have a formal risk management system and are wholly dependent on their personal experience and judgement in both identifying and responding to risk. In addition to the confirmation of the lack of a formal risk management system it was shown that the informal risk

management system can, at best, be qualified as a non-iterative risk reaction process. In a follow up encounter with the participants of the study participants were asked if they would be interested in an SMME risk management system. The majority of participants (71 percent) indicated interest in a SMME risk management system. The remainder of the participants were hesitant but not opposed to a SMME risk management system because of expected costs of implementing the system. Whether they would be willing to accept assistance in implementing a risk management system rendered a strong response with all of the participants saying that they would take this assistance.

The main finding from this question is that the SMMEs are indeed willing to implement risk management at a SMME scale and that they would like to be partner in the development of such systems within their own businesses if they were assisted.

6.6 LIMITATIONS AND FUTURE RESEARCH OPPORTUNITIES

6.6.1 Limitations

The greatest limiting factor of this study was the short duration in which it had to be completed. As the study did fulfil the minimum number of participants required for a qualitative study, more time would have allowed for greater data acquisition. This consideration, although not negligible, is still minimal as the starting point for any meaningful discussion of SMME risk management would have to include the full spectrum of SMME owners of which the participants interviewed are part of.

A second limitation is that the information produced is strictly explorative and thus, only serves to prove that SMMEs do not have academically definable risk management systems. The use of this information for prescriptive discussion is limited to the participants involved. This limitation could be overcome by means of expanding the scope of the study to include a greater sample. Consideration should be applied in regards to the variable nature of the enterprises involved and sophistication levels and the applicable risks addressed per enterprise.

6.6.2 Avenues for future research

The starting point for a SMME risk management model has been identified. This starting point is the operational and business risk aspects of the business. Operational risk does

require an intimate understanding of the business actions themselves whereas business risk can be addressed through already present educational courses.

The integration of classical business management techniques in combination with a progressive risk management system could provide the conceptual outline of a SMME specific risk management framework that is relevant, incorporates available government support, and advances the risk fortitude of SMMEs from start up until they are legally forced to abide to national risk management criteria.

An exploration of government policy in relation to SMME development with a focus on using risk optimisation to streamline government and SMME interaction based off of the level of development of the SMME.

6.7 CONCLUDING REMARKS

There is no easy way to ensure SMMEs that start become fully autonomous and self-sustaining enterprises. To address this dynamic and complex discussion will require a deep revision of individual SMMEs and government support. Plainly speaking, change must be a co-operative effort that is not politicised at the detriment of the South African populous. To enact meaningful change requires that unanimity is gained in regards to what defines an SMME and, more pertinently, what needs there are to be addressed at every developmental stage of SMMEs as the progress towards the state of being a big business. This definition must be inclusive of the characteristics of the individual SMME. Policy must also grow out of an understanding fostered by an understanding of SMME characteristics and the needs of SMME owners in relation to their business. Policy must encourage and create resources that can be aimed at training SMME owners in regards to management, legal identity, strategic training and financial management training.

In addition to this, policy must become flexible enough to address, critically and effectively, the needs of specific SMMEs as it relates to their specific economic and technical needs. Policy can do this by creating a more lenient import and export policy for specific industries, or co-opting with training institutions that have a developed capacity to impart skills to willing learners. Government institutions do not have the capacity to give sufficient skills training in the vital factors of management, record keeping, cash-flow management adaptability and marketing and planning. However, there already exist many tertiary courses on these topics, which is why public-private partnerships are

essential in the form of interaction between private SMME owners, the state and public and private tertiary institutions. Special preference for SMME owners in the allocation of student bursaries could help streamline the resources to where they are most needed.

It is vital that SMMEs are introduced to a logical, methodical and iterative process for them to manage the risks that they face at all levels of complexity and across their business as it allows the SMME owner the greatest opportunity to survive. Risk management has the capacity to create the managerial structures that allow for a perpetual improvement in the robustness of an SMME. Policy is required to address the external environment, as this factor that lies completely outside of the scope of individual SMMEs.

Policy must also extend beyond SMMEs alone; thus, the impetus is placed on modifying the economic environment in such a way that it makes entering and doing business easily, efficiently and pleasantly. Secondary and tertiary educational institutions have the capacity to impart skills training to willing learners; thus, by government programs connecting SMME owners with skill shortages with these institutions and providing them the resources to study (via state bursaries) the skills deficit can be amended. It is only by means of combining these factors that SMME failure can be addressed in a pervasive and lasting way.

SMMEs have the capacity to facilitate the transition of a citizen into a position of economic empowerment. Through the growth of SMMEs and SMME support initiatives the ability for anyone to become economically empowered is brought into the realm of what is achievable. Through SMME development reductions in poverty, as well as serving the role of facilitating a transformation of the mind-set of the nation from state dependency to self-empowering can occur. The support of SMMEs and SMME initiatives, as well as the development of policy derived infrastructure is thus an integral function that must be performed to allow SMMEs to flourish.

The study sought to contribute to this by determining the risks faced by SMMEs, their risk management practices, and risk perspectives. Within the study performed, the importance of the development of an SMME specific risk management framework has come to light as the study showed an abject lack of risk awareness in the participants interviewed.

Risk management and the policy surrounding SMMEs was reviewed theoretically and it was found that there exists the capacity for massive improvements by means of a synergistic address of both of these concepts through the vehicle of progressively evolving holistic risk management. This study has identified potential starting points while indicating what is currently happening. It is the hope of the author that investigations be launched into the facilitation of a truly holistic SMME development plan. As a practical tool risk management has the capacity to address all the specific functions required to build up a holistic management framework as is required by the level of sophistication of respective SMMEs.

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ANNEXURES

1.1 APPENDIX A: INTERVIEW SCHEDULE

The questions of the interview are intended to explore how SMMEs interact with risk.

Prior to the study

Prior to the study the participant will be heartily yet professionally greeted, I will ask whether or not they would like a refreshment (water, coffee, or tea). Once greeted I will direct the participant to a seat and sit with no obstruction between the two of us. A reasonable distance of 120 centimetres will be maintained to ensure personal space and comfort. I will then proceed to explain how their identity and the identity of all who are involved will be protected, that the interview will be recorded in duplicate, and that full confidentiality will be maintained. It will be explained that the audio records will be destroyed after transcription is completed. It will be explained that the transcription will not be able to identify the participant within a personal capacity. Once this explanation is given the participant will fill out a consent form in duplicate and sign both. Therewith the interview will begin.

During the interview

During the interview I will, purposely, adapt a non-threatening yet professional stance. My feet will be firmly planted on the ground yet my movements will be highly predictable and non-erratic. My hands will be used for the functional activity of note taking within the area immediately over my lap and in the immediate area of my exam pad should it come to rest on a table or similar writing area. I will aim to keep my pelvis firmly affixed to the rear of my chair allowing for expressions of emphasis or curiosity to occur to within only a few degrees of my full upright position.

Questions that will be asked

Q1. What kind of risks do you encounter in your business/ industry?

An answer/question will be given/asked in relation to this question. I might/will then probe/explain as is needed.

Q2. So how do you deal with those risks?

An answer/question will be given/asked in relation to this question. I might/will then probe/explain as is needed.

Q3. Do you deal with all risks by going through that same process?

An answer/question will be given/asked in relation to this question. I might/will then probe/explain as is needed.

Q3.1 (If no from question 3) Can you perhaps give me an example of how you would deal with a different risk?

Q4.If an SMME risk management process was developed and presented to you would you want it?

Q5. If assistance was provided in implementing a SMME risk management system in your business would you be interested in it?

An answer/question will be given/asked in relation to this question. I might/will then probe/explain as is needed.

After the interview

The participant will be graciously thanked for their participation and then be asked whether or not they would be willing to answer follow up questions should they arise. Participants will then be marked as available or unavailable. The recording will then be stopped at this point. If new/additional contact information is needed this will be the point at which I request such information (off of the audio recording). It will then be explained that a transcription of the interview will be sent to them within a three day period for revision. If there is any error in the transcription I will correct it.

1.2 APPENDIX B: INTERVIEW PROTOCOL

Interview setting

Interviews will be held at North West University- Vaal, in building four, within one of the offices that are made available or within the boardroom. If these facilities are not available the University library will be employed by means of booking a quiet, comfortable, or private room

Comfort must be at both physical and psychological. Lack of comfort introduces stiling and negatively influences the validity of the research (Lamb *et al.*, 2007; Rubin & Rubin, 1995). Thus the following points will be maintained to maximise the validity of the research

I will avoid facing the individual directly over a table in a formal interview style;

I will be close enough to read non-verbal communication but not so much that you are intruding on their personal space;

I will interview the participant in a private environment by means of;

Switching off phones,

Placing a note on the interview venue door/s,

Making sure room booking are for periods longer than the interview.

I will ensure confidentiality and minimise the participants potential to be discovered by people that they know in cases where anonymity is desired by the participant; and

In such cases prepare a room to be used at your institution at the participant's convenience.

I will use a location that is quiet;

I will invite interviewees to North West University however, when they cannot attend I will allow the participant to select where the interview will be held;

Recording

I will record the entirety of all interviews;

I will supplement record with field notes; and

I will be cautious and conscientious about the context of the record;

Building rapport

I will avoid becoming so close that you start leading the questions; and

I will ensure that any questions that the participant needs clarification on is addressed prior to starting the interview; I will be sure to address:

Recording devices,

Confidentiality and anonymity of the interviews;

Matters of concern to particular participants.

I will send the questions out in advance with sufficient context so that the participant understands the questions;

I will adjust self-presentation to suit the preferences and norms of my participants in regards to dress-code, non-verbal communication, and the vocabulary used.

How I will ask questions

I will phrase questions carefully;

I will avoid leading questions, over-complex questions, multiple questions, judgemental responses and failure to listen to the participant

Probing

When I need further information on a question probing might be required (Lamb *et al.*, 2007; Rubin & Rubin, 1995). Probing allows for depth in interview data. (Lamb *et al.*, 2007; Rubin & Rubin, 1995). I must be sensitive to the participant's willingness, expressed or implicit, to be probed on questions. (Lamb *et al.*, 2007; Rubin & Rubin, 1995). Common probing techniques that I will use include clarification, completion, and elaboration.

Opportunities to probe will be made available to me by the participant, explicitly and implicitly, thus it is important to be aware and well rested for each interview (Lamb *et al.*, 2007; Rubin & Rubin, 1995). It is good practice to avoid multiple successive interviews. (Lamb *et al.*, 2007; Rubin & Rubin, 1995)

Starting and finishing interviews

In building rapport the initial impression of an individual contributes strongly to how the researcher is perceived (Lamb *et al.*, 2007; Rubin & Rubin, 1995). It is thus important to insure that when beginning the interview certain practices are followed (Lamb *et al.*, 2007; Rubin & Rubin, 1995). Begin the interview by asking unthreatening and simple questions (e.g. descriptive information about the participant in relation to the topic under consideration (Lamb *et al.*, 2007; Rubin & Rubin, 1995). Start with the easy questions and then move to more complex and/or sensitive questions. Conclude a session by easing out of it and asking questions that place an ever increasing amount of control in the hands of the individual (Lamb *et al.*, 2007; Rubin & Rubin, 1995).

Managing difficult interviews

With face to face interviews some difficulties cannot be overcome by means of preparation. Four common points that contribute to this difficulty are: Significant status issues, interviewer role conflicts, and emotionally sensitive topics (Lamb *et al.*, 2007; Rubin & Rubin, 1995).

Status issues

One's personal status may cause a lack of rapport between the interviewer and participant and contribute to a poor disclosure bias for fear of sounding uneducated and ignorant (Lamb *et al.*, 2007; Rubin & Rubin, 1995). The inverse can be true for those who perceive themselves to be of higher status than the interviewer, which might try to challenge the interviewer's authority (Lamb *et al.*, 2007; Rubin & Rubin, 1995). Presentation must be adjusted so as to minimize this gap between researcher and participant (Lamb *et al.*, 2007; Rubin & Rubin, 1995). Additionally, thorough research into the topic of discussion must be undergone before the interviews to ensure that the researcher can keep up with more skilled or experienced participants.

Emotionally sensitive topics

Emotionally sensitive topics are to be avoided as best is possible (Lamb *et al.*, 2007; Rubin & Rubin, 1995). Questions will be reviewed to attempt to eliminate controversial phrasing or volatile content.

1.3 APPENDIX C: INTERVIEW TRANSCRIPTS

1.3.1 Participant 1

Interviewer: “Ok, I am here with participant one I have explained and all information is in line with the documentation that has been set up and now we are going to start with the interview. Welcome to this interview. Uhm, the first question that I have for you is, within your business type, how would you, what kind of risks are probable for you?”

Participant 1: There’s a few, There is... For the business itself? Or for business in general?

Interviewer: Risks as in things that are significant for you as the business owner to consider.

Participant 1: Alright, risks are the economy. In my business type we are a luxury so it doesn’t always, it depends on whether people have money, have excess money to spend, we cut, we the place they cut first.

Another thing is staff, staff is another risk. It’s, people come they, everyone, have the ambition of opening their own business. They come they take your clients they , they open their own business.

Another one is clients. Uhm, one unhappy client can always, you know, one tells four, four tells five, it gets bigger so you can build a bad reputation very quickly. Also sometimes there it leans back on staff. If your staff isn’t performing the way you would. That may start a bad reputation.

Uhm another thing is it does it costs cost so lot. You have to keep up with the times, you need to keep up, so you need to keep busy with advertising, and that kind of thing.

Interviewer: That branches into the next question. That is, how would you manage the risks that you have? You mentioned advertising as one of your practices.

Participant 1: Well, advertising, staff training, keeping your staff happy, giving them good incentives, uhm paying them reasonable, is also another way of showing them, you know it isn’t always better to have, the grass isn’t always greener to have your own business. So uhm, ya clients aswell you just give them the best service that you can give. Some clients just come to chat, it is psychologically you are alone in a room. You need to identify clients, you need to know how to work with people and that is how you would deal with clients and have them happy when they leave.

Interviewer: And from the client’s side, are there any risks you face on a day to day basis?

Participant 1: Well there is you can hurt a client aswell we work with a lot of equipment, you can shock a client, you can pull skin off when you wax so there is a lot of risks that a clients do, they

trust you coming. Uhm its also very personal, we do a lot of things like bikini waxes and stuff like that. It is very personal and you've gotta make the client feel comfortable and that you are not going to go and chat about her ..parts, to other people. So it is risky.

Interviewer: Definitely, definitely, so how would you, what economic sector would you, or what kind of business would you classify yours into specifically? Like what is it...

Participant 1: More service.

Interviewer: More service with a specialisation in health and beauty?

Participant 1: Ya, ya.

Interviewer: Uhm that is all.

Participant 1: Is that it?

Interviewer: You've told me what is the danger, how you would solve it, uhm I'm going to end the recording.

Interviewer: I am here with participant one once again. The first question I have is, if an SMME risk management process was presented to you would you want to use it?

Participant 1: Not really because the business is quite small. So I wouldn't want to take on that extra expense of having something like that.

Interviewer: And if assistance was provided in Implementing a small- Smme risk management system would you take that?

Participant 1: Yes, I would, if it was small, to the scale of my business, then then probably yes.

Interviewer: For question one it is also for small business.

Participant 1: Ya I would go for it before I opened already to do a bit of surveys and stuff like that, maybe not so much in my line of work. Because it depends you know you may go to someone and not like them and a next place and really like them. So it's kinda like personal preference, So you can't really do a survey and see where the risk would lie. You know, maybe to see feet or that kind of thing.

Interviewer: So for the first question that's still a no, but for the second question where you work with it's a yes?

Participant 1: ya

1.3.2 Participant 2

Interviewer: I'm here with participant 2. We have gone over the documentation and he understands the details surrounding it. We will now begin with the interview.

Good day participant 2. Uhm, Participant 2, What risks are probable in your business, what is significant for you that you face on a day to day or yearly basis?

Participant 2: Faulty workmanship, definitely one. Look in the risk, ya it's mainly faulty workmanship, that can cause a lot of you know aggravation, you know if a guy doesn't fasten up a wheel or something like that, it falls off. Uhm, that is an accident that you can have. So ya it's good to have qualified people that that look after this.

Interviewer: Tell me how does that extend into your customer interaction with the business?

Participant 2: When you say extend into the customer interaction, ok what is he liable to do or..?

Interviewer: Ya, what have you or what is possible to experience from customers if faulty workmanship has taken place?

Participant 2: Ah, it can go right up to the courts hey.

Interviewer: I'm not going to ask if that's happened before.

Participant 2: No, no it hasn't. But ya it can go right up to the courts so ya. You've got to be hands on even if you've got workers. You've got to be hands on at all times. Inspect the jobs make sure the wheels are fastened. Uhm, this must be done.

Interviewer: And when we discuss things such as financing or government intervention or government interference, does that play a role in your risk perception?

Participant 2: I think the biggest interference that we get to our business is the motor unions. You know they are very demanding, but when we need them they aren't there. So, I don't think government, government has the BEE and all that there with their vehicles you have got to be registered with them and have a black partner non-of- which is, you know if you want to do it you do it, I don't want to do it. You know I don't want partners at all, I don't care if you are black or white I don't want a partner so that is it.

Interviewer: When it comes to the business description would you say that it is owner managed or would you say that it is family run? How would you classify your business?

Participant 2: Mine is more family run, family run but yes I've been owner run for many years 38 years you know that I have been doing my own business. Uhm, so it is owner run, but yeah. My wife has always worked for me and now my son has joined with us. So it is more family business, business now and we keep it in the family.

Interviewer: So the equity stays within the family, that's the important part for you?

Participant 2: That is correct.

Interviewer: Ok, then my next question comes back to the risks, how do you manage the risks that you face when they come?

Participant 2: Look well we haven't had that, a risk like that, that we have done faulty workmanship.

Interviewer: So the quality management has already been successful?

Participant 2: All the years I have never ever had something come back. Maybe I've had a screw missing, and a customer will complain "Ah that scroofie isn't there" "that's you know... I've been very fortunate in that. But ya if it had to arise I have insurance on something like that.

Interviewer: Tell me about your process, when it comes to making sure that the quality is in place. Do you have a rigid way of checking everything out, a template so to speak that you follow, or is it something you pull from your own experience?

Participant 2: You go and you do spot checks. So if he is doing, for arguments sake, an alternator of a car just go check two or three bolts, you don't have to check them all. Just check two or three, if they are fastened the rest are fastened, highly unlikely the he will fasten, uhm, one and leave four. So you can see straight away.

Uhm you must just keep up on your job and make sure that things are straightened and in line and things like that. So it's basically straight forward, it's not, uhm... But ya, I think a lot of big companies you know they got a problem that the managers should be having a look at this and the managers aren't doing this. You know the managers must look after the foreman and the foreman must look after the workers, it's a line and ya. But just to say, up till now we haven't had any major problems, but ya it could arise, one can make mistakes we are all human.

Interviewer: Agreed, agreed definitely. And that process of quality checking that you have described, is that something that you as the owner manager prominently does or does it extend to the other equity owners in your business, like your son for instance?

Participant 2: He will do it, I will do it, even if there is a co-worker let him just go check up on another one. It's not a train smash we aren't here to put workers down or anything but people can make mistakes

Interviewer: Absolutely, absolutely, and participant two that would be everything from my side that I would like to ask. Thank you very much for your time

Participant 2: No problem

End of recording

1.3.3 Participant 3

Interviewer: I am here with participant 3 and we will be commencing the interview. The ethical clearance papers have been dealt with and all other needed documentation has been dealt with as well. Alright, Participant 3 what would, what are the probable or significant risks that you face within your business?

Participant 3: Uhm, in what regard?

Interviewer: What threatens your business in any way, manner, or form, and what makes doing business as an SMME difficult for you?

Participant 3: Uhm, larger companies for one. As well as having to compete with prices of other service providers.

Interviewer: How many people do you employ?

Participant 3: On and off maximum two.

Interviewer: And would you describe your position as owner manager?

Participant 3: Yes that is correct.

Interviewer: So tell me sir, what do you do to manage the risks that you have?

Participant 3: Well obviously I would have a look at the risks that I have and choose the best out.., or the best, I don't know how to uh, the best *tch*, uhm... reaction to it, the best, whatever is best for my business I would obviously go that route. Assessing the risk and then going the path of least, the least risk anyway. Or having to compromise somewhere to lessen the risk in another aspect.

Interviewer: Ok, that makes sense, and tell me, how would you predominantly do this? In relation to your business you mentioned that competition is very stiff, how do you minimise that risk for yourself?

Participant 3: well basically you need to decide what is it that you want to focus on. There's no way that you can beat them in all aspects so, you will have to decide of which aspect you want to focus. So is it going to be regarding the prices that you offer or is it going to be the quality of your service? Because it is impossible to beat them in all aspects.

Interviewer: Then in what regard do you say that you are the strongest in, in regard to your competition with these firms.

Participant 3: I, I try to keep both price and service at a high point, but uhm, I would have to say it would be service. I try to stay loyal to loyal customers, always going the extra mile for them.

Interviewer: Do you encounter any other risks in your business? Any other things that you tend to worry about when you are working day to day, when you employ people that you are afraid might hamper the successfulness of your business?

Participant 3: Uh yes, obviously there is always, So far, luckily I have not encountered it yet, but there is always the fear of running into a problem you do not know how to fix. Seeing that I am in the business of servicing and repairing computers. Uhm having to sometimes, I mean it is a tricky business to go into because there is a problem and you don't always know what the problem is. So you need to go trial and error, especially when the people that you are providing the service to are watching you behind your back, like a hawk. You feel very on point and them having to judge every move that you make, trying to figure out what the problem is, the fear of not being able to finish it in the end is probably the biggest ones I experience.

Interviewer: When it comes to your management systems, how do you manage things like your finances or your call outs, or your stock or inventories? Do you have a formal method for that?

Participant 3: Yes I do, it is, it feels very unnecessary but in the long run it's always good to have something to reference back to. Uhm so I have tried to keep the paperwork in order. Uhm, whereas when it comes to callouts and that sort of thing, obviously you need to get paid for the time that you are driving there, and you need to get your fuel paid for. There is no use in driving there and having this wonderful charge, but at the end you are running at a loss. So sometimes especially, in the old age homes, where you have to charge old people quite a significant amount for a small problem it's the time that you spent driving as well as your fuel, it's just, literally you aren't making anything off it. You are just getting paid for what you have done. And often times it becomes quite steep and you feel really bad for charging that amount but you can't make it any less. Then you would be running at a loss there's no profit in running the business at all then.

Interviewer: And what about your strategic view? Do you plan to expand? Do you plan to keep the business at the level it is now? Or what would be your hopes for this business?

Participant 3: Uhm, well obviously nobody wants to work their entire lives but uh, knowing that I am doing it myself and having maybe one other person join me, you have a very close and personal business, if I can say it in that regard you are in control of what kind of services your client receives. So you are always able to ensure that it was the best you could give them.

Whereas the moment you go corporate you start to lose control over the kind of service your client will receive so the dream is probably to go big uhm. But, but I can see it being a challenge having to control the kind of service you're giving to the clients.

Interviewer: Do you mean that in regard to how your employees are going to treat the customers or the quality of service that is going to be perpetuated throughout, throughout the entire process.

Participant 3: Exactly, yes. Me as the owner and manager, its my business obviously I want the best for my business, but having an employee, it's just a job. Uhm so it's hard to have people be enthusiastic about your ideology and that's my fear for going corporate.

Interviewer: That's understandable and that is about all the questions I have. Do you have anything you feel that you would like to add?

Participant 3: Uhm, nothing specifically no.

Interviewer: thank you for your time then sir.

Interviewer: Good day participant three. Do you have time to answer two yes of no answer questions from my study?

Participant 3: Ya

Interviewer: Q1. If an SMME risk management process was developed and created and presented to you would you want it?

Q2. If assistance was provided in implementing a SMME risk management system in your business would you be interested in it?

Participant 3: yeas and yeas

1.3.4 Participant 4

Interviewer: We are now engaging in our interview with participant four. I have explained all the legality and ethical forms the participant understands what we are doing. We will now commence with the interview. Thank you very much for being here, I really enjoy having you here. I want to ask a few questions. First and foremost let's get some of the basic demographics out of the way.

Your business itself, what service, or what sector would you describe, what economics sector would you describe your business functioning within?

Participant 4: Uhm, definitely service delivery in the sense of we host people in a social environment and offer up services as far as food and beverages are concerned, we do tattoos and piercings, well tattoos, not piercings as much. Uh, we host artists and their gallery, so definitely the retail side of things.

Interviewer: Ok so uhm [Participant 4] how would you identify your own position within this business as?

Participant 4: Uh, basically it is the proprietor of the business in the sense of coming up with the concept. It's not a a copy and paste concept in the sense of uhm steers or franchise business. It was something that I wanted to do for a couple of years some elements in uhm, the field of the arts and crafts and, uhm uhm social environment that I thought would work well together that I then put together as concept and worked three or four or five businesses under one umbrella to make it viable as a small business owner.

Interviewer: So would you still classify yourself as an owner manager within that business?

Participant 4: Uhm, until recently I still looked at myself as self employed because I haven't employed a lot of staff to actually do work. I was selling my own time and effort as a commodity . Taking the step from being self employed to being a business owner is the part that I am struggling with still at the moment in the sense of you need to justify your expense on staff with margins, on overheads and income. Uhm, and in taking a step from selling your own time and resources to selling other people's time and resources within your business, say element, is a but of a problem. Or rather was a bit of a problem for me to step away and make other peoples time and effort , gener.. fuel the thing that is the business itself.

Interviewer: Speaking of things that make it a bit more difficult to do business, on that larger scale, what risks do you face or what risks are common with the kind of business that you do?

Participant 4: Uhm, definitely popularity in the sense of not wanting it to be an a uhm, something that explodes and has a plateau for the rest of it's existence. I want a slow sustainable growth

through the business so that it is like a fifteen year plan for me. Uhm in the sense of growing it as a one man, or one owner operation and one uhm, uh source of finances supporting it all, backing it on itself. Uhm, I need to find the balance of sustainability within slow growth and yet sustain, you know, in a down economy a business in a sense of month on month accountability to accounts, to land lords, to whatever overhead you have.

Interviewer: So in relation to that point that you have just mentioned, the government aspect, or the legality aspect of it, how, do they affect your capacity to do business quite strictly or do you feel like they are just one of those necessary evils that are sitting on the side?

Participant 4: I think they, through the lack of taking ownership of the economy itself, that they are affecting us as one main or singular businesses in a big sense. Because of the fact, when there is a strike on or when there is petrol hikes all of those things in the sense of sustaining the country instead of putting uh feasible business plans or feasible business plans for entrepreneurs in place to be able to sustain the country's economy more, I think they failed us terribly. So uh ya on the side line what I do. I solely rely on my own, and on my employees, efforts. Not on the government. Uhm, they are, their actions and what they do on a day to day basis negatively affects us as small business holders, I think, personally.

Interviewer: So what do you do to manage your risks that you face within your business from day to day? How do you indemnify yourself in another way?

Participant 4: Uhm in my, in my own person, I have a 420 every day, but in the in the bigger picture you can't really id.. uh you can't really *cough* put a lot of measures in place, because you need to roll with the economy. You are not flexible enough within your, in your operation ,within your business to bend to where the demand is and uh to to create a demand within the market then you your fucked.

Interviewer: Would you say you have any formal systems with which to balance the risks that you get from the external environment with your internal environment. Or do you solely rely on your own wit and your own judgement in making decisions on the actions that the business should take?

Participant 4: uh the latter in the sense of being an older, older ,person and having years of what's happened in our country's history and in my back pocket to pull of as reference. I don't take much reference other than myself to make a decision for the business, for the bettering of the business, for the fact that I predict or I forseer or I, uhm not forseer but uhm, pre-empt where the market goes and then indicate towards that end of the market.

Interviewer: I think that is all the questions I have for now. Thank you for your time. Uhm if we do have follow up questions will it be alright to contact you?

Participant 4: Yes absolutely

Interviewer: Thank you for your time

Participant 4: You are welcome.

1.3.5 Participant 5

Interviewer: I have informed participant five of the legality that surrounds the statement of confidentiality and other documentation that is required. She has given her consent, and we are now going to commence with the interview. Thank you for having me, Thank you for being here at this interview, it is much appreciated. Uhm, how would you describe your business? What economic sector or business itself do you do, what niche do you fill?

Participant 5: I think I fill the niche of not being a big business, and to get my work that I get in out very quickly. That is my aim it is the faster I can have a turnaround in my work the better for me.

Interviewer: And what sector would you describe yourself as being in?

Participant 5: I am a small business owner.

Interviewer: And you specialize in?

Participant 5: ya, I specialize more in giving personal attention to my customers, and do exactly what the ask me. I don't want to rush what I do I want to give them quality. So that they can come back.

Interviewer: and for the record what do you do?

Participant 5: I do embroidery as well as I sell corporate clothing to businesses.

Interviewer: Ok, would you describe the business as being self run and self managed or do you employ other people.

Participant 5: No, I don't employ other people I do it myself.

Interviewer: Ok, would you then say that you are the manager owner or the sole proprietor of this entire operation?

Participant 5: That is correct.

Interviewer: So within your business what are the biggest risks that you face? What are the things that threaten your ability to survive and keep going?

Participant 5: Ok, there is not only one. I would say one of them is doing work for a customer and then they don't pay you. So I've I've had that before. Sometimes, uhm, I need to wait very long for my money uhm. So that's a risk as well because they can just turn around and say " I don't have the money to pay you". I had once I had a customer that said that the person who gave me the work didn't have the authority "the job wasn't approved", so then it took long, very long to get my money out of the business. And then uhm another thing is uhm, with this business I have to digitize company logos etc. I am also doing work for a a local printing company. So they refer the work to me that they get in. And then they ask for quotes, I cannot just give a quote I have to sit down and actually digitize the logo. Sometimes it takes 15 minutes sometimes up to two hours and then the risk uhm there is that they can say, " no it is too expensive , we will rather use somebody else". So time cause, Time wise that is a big risk for me it takes up a lot of risk.

Interviewer: I see that a lot of your operation is also mechanized how does technological risks, or the failure of functioning machines play into your business?

Participant 5: Ok, uhm theft is a huge thing for me, at this stage I do not have insurance on my uhm a equipment which I know is a risk. But, because it is a small business, financially I cannot really afford to have insurance. The other thing is, I've had it before, is that spares on my machines fail to work, and then I've had to get a technician out , after hours, to come fix the machine, which costs a lot of money , then of course power failure, it plays a huge roll in the running operation of my business because if I do not have electricity I cannot perform my work. I so my work after hours because I have a fulltime job so it is a part-time business and usually we do not have power, or we have power failures at night and that is a big handicap for me.

Interviewer: Would you think of going bigger with your business if you have the opportunity to do so?

Participant 5: Definitely, I would definitely. Ya it is my dream to go bigger, at the moment I do not want to take that risk because I have a daughter at school that I have to get through school. Uhm, but my aim is to eventually stop working full time and then start advertising, you know going more to business and advertise myself and offer offer my services. So at the moment I have started by branding my car. I travel a lot on the highway every day, I am also on google and that is giving me a a quite a response from people looking for embroiders from Meyerton, I do come up. So my business is growing, I can

see that, and ya as I said my aim is to within the next 5 years to stop working and do this full-time.

Interviewer: I see that you've already started mitigating the risk of not having enough advertising or not being well known enough to have a clientele flow into you. But speaking about those other risks, do you tend to just wait until something goes wrong and then call in a specialist or do you have a preventative measures that allow you to keep operating even if those things do happen.

Participant 5: Yes, I've got, uhm, with the embroidery business you get different machines. You get a single head uhm or you get two heads or four heads or six heads, depends on what you use. I prefer the single heads so I've got two machines separate from each other so that if the one machine does give a problem I have a backup to use another machine. Also I've got a smaller embroidery machine, it is not an industrial machine, that uhm I really justkeep as a backup. So if anything goes wrong with any of the two bigger machines at least I can carry on, but it is not as efficient as the two bigger, other machines.

Interviewer: Thank you very much. That is, any other feedback that you can give on risks that you think I haven't addressed at this point?

Participant 5:Uhm, *tch* I don't know if it is really a risk, but sometimes you get clients that uhm you know ,they want a a logo embroidered in a specific color cotton. And then because I have to order it it could take up to a week to get the specific cotton here, so that is a risk. Uhm, therefore I've tried to sidestep that by getting most of the colors that I can. But it does happen sometimes that you run out of the color because you have a small client uhm, so you just keep maybe two reels of cotton in that specific color and then one day he gives you this huge order and then you realize, wait this color is not going to be enough. So, uhm, that's that's actually the only other thing. And then the other risk is uhm, I don't have a backup computer I do all my digitizing on the one. So if that packs up ort gets stolen then that is a risk for me, because the the digitizing program works on a dongol and you look at twelve to fifteen thousand rand for the digitizing program. And if they steal that dongle with the machine you have to buy a new one, you cannot run your digitizing uhm without that, so that to me is a huge risk. Uhm, I always try to keep the computer and the digitizing dongol separate so that if they take the one at

least I still have the other one. And then I try to do regular backups of all the logos that I do.

Interviewer: From my side I do not think I have any additional questions from at this point in time. If we do decide that we have found some new things that have come to light that we would like to ask you would you be open for a follow up interview

Participant 5: Anytime.

Interviewer: And so we conclude this interview.

Interviewer: Good day [Participant 5]. I hope your day is going well. I wanted to ask whether I could ask you two quick yes/no questions. Do you have a minute or so to do so?

Participant: *Thumbs up emoji*

Interviewer: Q1. If an SMME risk management process was developed and created and presented to you would you want it? Q2. If assistance was provided in implementing a SMME risk management in your business would you be interested in it?

Participant: Yes to both. Depends on the cost involved

1.3.6 Participant 6

Interviewer: I am here with participant number six and he has given his consent to this interview. Thank you very much for being with us today. Uhm let's get straight to it. The first question that I have for you is: what number of employees do you have within your business?

Participant 6: I've got three employees. Uhm one technical technician and two helpers.

Interviewer: How would you describe your position in the business?

Participant 6: Uhm, I am a director, working director, so everything is going through me, quotations, work, quality checks, everything is going, going through me.

Interviewer: And would you qualify yourself as the owner of the business?

Participant 6: Yes.

Interviewer: Ok, with that out of the way, what economic sector do you classify yourself in?

Participant 6[Afrikaans]: Ok, die product wat ek lewer is uhm, ek doen air conditioning en refrigeration. Ons doen, ek doen sales, reapers, ek doen al die dienste van aircons. Uhm so ook yskaste, maak reg, verskaf, en uhm *nods head*.

Participant 6[English translation]: Ok the products that I provide are, uhm, I do air conditioning and refrigeration. We do, I do, sales, repairs, I do all the services on aircons. Uhm, as well as refrigerators, fix them, provide them and uhm *nods head*.

Interviewer: Ok, my next question is, what risks do you identify or do you come across when you do business? What are the things that scare you or require your attention?

Participant 6: My, my, my biggest challenge is uhm, we sit with people who are not qualified to do the jobs. They go do the jobs cheaper than we can do. Especially in the Vaal-Triangle area uhm you call it, fly by knights. They do the jobs cheaper than you, so you go in higher than them, you sit with you don't get the work uhm, from the clients so you sit with uhm, people who are not actually qualified doing the jobs, they damage the product, they void the owners warranties and uhm all that uhm things you get on the machines uhm when you buy it., uhm expired once you install it. So you get plenty plenty of that comebacks. Actually that a client have to pay twice to to get his work done, because he done, he firstly he done the wrong choice to give people who are not qualified to do the job, and then he must get a qualified person in to try and fix the problem and sometimes new products are so damaged that you you can't, you struggle, or you cant fix it or you can't find parts because they take parts out, new installations. It's a hassle to have to work

with unqualified people but uhm you know on the other hand that is where we get our jobs from. That's where we get our clients from , from people that's uhm don't know how to do their job and somebody he must go look for the client or for somebody that must go and help him, come and help him . The client he is actually the guy that uhm, loses money on it but we find that we survive out of that.

Interviewer: So that is what you would classify as the biggest risk?

Participant 6: Yes, the biggest risk.

Interviewer: Are there any smaller risks that you face on a day to day basis?

Participant 6: uhm, ya it's just that we struggle to get work, especially in the vaal triangle. People, let you quote, they give you actually, you you find you go out to a site there and you, everything is just for a free quotation and you don't get or find a job at the end of the day. Uhm, and mostly in the Vaal-Triangle its an issue for us, because everyone wants to fight prices. I think the economy os playing a big role, you don't get jobs, people want you to do things better, they wait for you to quote cheaper in selling those product. But you can't, you actually don't put markup on your products that you resell, you get quite a discount on your items you sell, but you can't really even put markup on it because of that challenge that we face so ya.

Interviewer: So how do you deal with that risk? What measures do you have in place to address it?

Participant 6: Uhm you talk to a client, you tell him when you go give a quote to him. You you you you go and tell a client "ok you must be careful of this" that's uhm the most you can do. Be wake up, when you get somebody to do the to do do the work and you know help you with something, uhm services that you need on that specific items, make sure he's qualified, make sure uhm, ya. Because at the end of the day you tell a client that all the cost involved by getting somebody else and you again to fix a problem is on him. So if he makes the wrong choice he is sitting with that uhm burden on him, uhm financially, and it actually makes our products bad, gives our products a bad name. All that problems we face. So we talk about it, but at the end of the day you say it is their choice.

Interviewer: Ok?

Participant 6: You make them aware of it, you know uhm, ther is nothing else we can do, there's nothing.

Interviewer: Speaking about the product itself now, do you keep more stock on hand? And if you do not, if you do keep stock on hand how is turning that into sales an actually time consuming process, or do you just buy on demand?

Participant 6: Probably I just, buy everything on demand. Uhm, once the client pays us fifty percent of the , so he give us instruction by giving us fifty percent paying, then we order we just buy on demand because to keep that uhm product in uhm in uhm stock it costs us a hell of a lot of money, and we can't it's a it's a problem, we struggle to get rid of it because not everybody looked for the same product and there is so many products that we actually sell that it's a battle to keep stock with it .

Interviewer: And in relation to price fluctuations in your goods that you buy, is that something that is a big consideration or concern? Or is it something that is negligible?

Participant 6: No, that is something that is negligible. Its its its nothing the price increases come every year. So once they set a price on a product they keep inflation and everything in mind and try to cope with everything that comes with that and keep the price constant for us for a twelve months period.

Interviewer: Ok, is there anything you would like to add on about the risk perspective or the risk dynamic of your work?

Participant 6: No, I think I mentioned everything.

Interviewer: Thank you very much for your time sir.

Interviewer: If an SMME risk process was presented to you would you want it?

Participant 6: uh not now.

Interviewer: Alright. The second question is, if assistance was provided in implementing a risk management system was provided would you take it?

Participant 6: Yes.

1.3.7 Participant 7

Interviewer: We are now starting interview with participant 7, uhm thank you for taking part in this interview, ok, so let's get straight to it. How would you describe your position within the business? Would you describe, are you for instance the owner, or owner manager or what is your specific designation.

Participant 7: I think owner manager will explain my situation well.

Interviewer: What sector would you say that you are in? Economic or nosiness sector, what do you do in your business?

Participant 7: well we do transport for a third company, uhm but mostly only one. We dedicated transporters of cement products.

Interviewer: Ok, about how many employees do you employ on a regular basis?

Participant 7: On regular basis it's probably only the drivers, which are two at the moment.

Interviewer: That is all the basic questions let's move onto the more pertinent focus questions. Within your business there are risks that you face, every business has them, what risks are probable within your business?

Participant 7: the main concern regarding uhm, challenges is uh having work at all. Uhm, its easy to handle problems as you go but it is quite difficult to produce work if there are none. Uhm, ya so that is the main concern, having work to do when you want to do the work, that's well out of your hands.

Interviewer: Any other risks that you face from time to time within the business itself?

Participant 7: ya, challenges with personnel. *clears throat* Sometimes just not pitching for work and sometimes having their own personal problems keeping them away, that does not make the work easier, but mostly that. Some breakages and damages on the vehicles but that's not serious most of the time.

Interviewer: Do you, how do you manage the breakages and the inability for individuals to come to work.

Participant 7: Well it is quite a challenge, breakages are not that serious, in my case I am mechanically minded and I am also uhm quite capable of fixing most of the problems myself. Uhm, the personal problems with the personnel is harder to solve because ,uhm,*clears throat* when you have something to transport but you don't have the driver to transport wel to to do the

operation, then you better get somebody else and that is not so easy to do. You can get a driver at any time but you never know what you are getting. So you might solve one problem and make yourself a much bigger problem in the process.

Interviewer: Do you ever have to deal with risks of theft or spillage or anything of the like within your business.

Participant 7: I cannot say that it is negligible, but it really is not a serious problem, uhm, maybe because I've had the same people working for me for a long time, I do not have to concern myself with that because I know they are not inclined to give me that kind of problem.

Interviewer: Ok, and then last question I can think of, do you have any system to manage the risks that you get in your business, any formal way of dealing with things or do you just kind of deal with things as they come?

Participant 7: I really manage them as they come, except if you mean keeping the vehicles in a good condition. That takes maintenance continually, but that is not a serious problem, it is something that anyone who knows anything about vehicles can solve.

Interviewer: thank you for your time and for your answers are there any other questions you have that , or any other point that you would like to make a comment on that you think I could have missed?

Participant 7: Uhm, no not really, I think we've, we've covered most of it. There, there are uhm concerns or problems that might arise that we haven't spoken about. I mean my, my one driver fell out of the truck *giggles* while it was standing dead still. The vehicle, the engine wasn't even running. And that is so unpredictable, it's laughable actually, but it is a serious problem the man has been off work for a month already and uhm, how do you handle that? How do you make provision for that? It is ridiculous but it also happens, so things happen that you can't handle, uh, that you can't predict is what I mean to say.

Interviewer: Well sir, one last question from my side, if we find any new questions that come to light, can we contact you again?

Participant 7: Yes you can.

Interviewer: And thus we end the recording for participant 7

Interviewer: Good day [Participant 7]. I hope all is well today. I wanted to hear if you are willing to answer two quick yes/no questions as it relates to my studies.

Participant 7: Yes

Interviewer: Q1. If an SMME risk management process was developed and created and presented to you would you want it?

Q2. If assistance was provided in implementing a SMME risk management system in your business would you be interested in it?

Participant 7: Q1 yes. Q2 I think so yes

1.3.8 Participant 8

Interviewer: I have informed the participant of the legal ramification, or the legal documentation in place, we will now commence with the interview. First and foremost thank you for being here with us. My first question that I have for you is, how many employees are in your business

Participant 8: Well at the moment I only have one secretary, uhm and then a cleaner but, uhm I'm looking at employing, uhm, a clerk at the beginning of next year.

Interviewer: Ok, What economic or business sector would you describe your business to be in? What is your main function?

Participant 8: I'm an attorney so we are in the legal sector.

Interviewer: And your position within the business?

Participant 8: I'm the director, I am the owner of this business.

Interviewer: Ok, ok with the demographics out of the way let's get straight into the deeper questions. The first question that I have for you is what kind of risks do you face, on a day to day basis within your business?

Participant 8: Well there are many, uhm, financial, the uhm employees not knowing what they are doing, even when they are fresh out of law school and uhm, that type of thing. Uhm, *sigh* you can't always be there to check in on them, and that is a problem because the moment you turn your back there are things happening that you can't correct later. So yes I've had that problem this week. Uhm, but uhm mostly its employees and then uhm, finance, because uhm I do third party claims and uhm you need to have the capital to pay for medical reports up front and on one file it can amount to, between forty and 60 thousand rand that I have to pay from my pocket. I get that back later on but that is the biggest problem I am having at the moment

Interviewer: That's pretty intense, uhm one of the things that I've picked up with employees in the skills service, or skills sector is that they tend to move away from the core business and create their own practice. Is that something you've had an issue with as well?

Participant 8: No, I haven't had that problem before, yet.

Interviewer: Ok, uhm then my next question is, how do you deal with your risks?

Participant 8: Well uhm, I give notices to my employees. I give them written notices and uhm I reprimand them, daily. Uhm, not that it helps always but ya it gets better. So uhm, I have my, my, employees cc me in every email sent out to catch the problems even when it is too late. But

then we can still try to make it right. So that's basically on the employee's side what we can try to do. Uhm, on the financial side I have to put money away or make alternative, what do you call it, uhm, you have to arrange with the, uhm doctors, uhm to uhm maybe pay them later.

Interviewer: Build a credit option into the process?

Participant 8: Yes, that says that in four months or six months I will pay you. Sometimes they do do that, but, uhm, most of the time. I have no doctor that I use, an orthopaedic surgeon, that, that uhm and they are very scarce that don't wait for payment and they don't wait for payment, that is the first report we must get on file. The other two doctors I have made an arrangement with so ya its its better on that side but I must first get the orthopaedic's uhm, report. So that makes it difficult.

Interviewer: Would you say that you have formalised management protocols that you follow within your business or do you do things as they come?

Participant 8: Uhm, uh I think at this stage, I haven't been open very long so we take it as it come, but I try to formalise it, uhm I've moved offices so uhm maybe, this year it will become more formalised.

Interviewer: Uhm ok, is there any risks or any aspects of the business that I have not asked you questions about or that can contribute to its risk profile, that you can think of that I have missed?

Participant 8: *concentrated exhalation* what makes it difficult in getting clients that is a problem. Uhm, clients don't know about attorneys, especially the smaller ones, they tend to go to bigger firms, like uhm in Pretoria and Johannesburg, uhm, the known ones. Uhm, the small businesses don't always get a lot of clients because we are not known that much and we have to, constantly advertise, but we are also restricted in advertising, so that's also an problem uhm, ya that's basically what I can think of.

Interviewer: When you say you are restricted in terms of advertising, what do you mean?

Participant 8: There are laws that you must comply with. You are not allowed to tout. Uhm, you can advertise but within certain rules. You have to follow certain rules. Uhm, sometimes you have to get uhm, approved by the law society, to uhm, say do a T.V. advertisement. Normally they do allow it but sometimes you have to get their approval. Uhm, and when you advertise, there are certain rules you have to adhere to. Uhm, I can't think of them all now but uhm, you can't say for instance, tell a client to come to you because you're better than another attorney, you can't, that's not allowed. You can only say " I do this kind of work, I'm free if you want advice". Uhm, but you

are not allowed to say, maybe you settle the claim for six million you can't say that, although some attorneys do. I've seen it so uhm, it's very restricted.

Interviewer: I can imagine that if you, hypothetically, don't get a case settled in the way that the client wants to they also have a very strong negative impact on your reputation in the business itself.

Participant 8: I try to explain to the clients that the law changed in two thousand and eight, specifically with regards to the road accident fund. So usually they understand. And if they don't believe me I tell them "I can't get you any more than I already have, and if you don't believe me you are welcome to get a second opinion". Sometimes they do go for a second opinion and they see that I am not wrong. So I try to explain to the client that I am not the one that they should hate, uhm I do everything within the law, and uhm, sometimes there are clients that are not happy. I have one case now, where I have spent sixty thousand on and she just terminated my mandate and she won't pay my account so I am going to have to sue her for those expenses and I can do absolutely nothing about it, and I was on the verge of settling the claim and then she decided to go directly to the road accident fund. So uhm, it makes it difficult, sometimes clients are very impatient and even though I tell them it takes about three to four years to finalise a claim it doesn't, they want money, that's what everyone is about, they want money so if it's not settled within the timeframe that they want it to be, they get upset. But I haven't had any any really upset clients.

Interviewer: So you haven't had anything majorly disruptive to your business?

Participant 8: No, not really.

Interviewer: Ok that is all the questions I have for at this point in time thank you for your time.

Participant 8: It's a pleasure.

Interviewer: Alright, my first question is, if an SMME risk management process was presented to you would you want it.

Participant 8: Uh, well yes.

Interviewer: Ok, and if assistance was provided in implementing a risk management system would you take it?

Participant 8: Yes

Interviewer: Thank you for your time, I appreciate it.

1.3.9 Participant 9

Interviewer: I'm here with participant number 9 . Thank you for being here with us today. Uhm, I have a few questions that are demographic based, before we get into the larger questions, so without further adue I'm going to jump straight into those.

Participant 9: Can I introduce myself, or not?

Interviewer: You don't need to, you don't have to, it's ok.

Participant 9: Uhm, first question that I have for you is: how would you identify yourself in your business? What is your position? Owner/ photographer/ editor/ delivery boys /marketer/ alles, one man band.

Interviewer: Uhm, is it a business in which you employ other people or are you the sole worker in it right now?

Participant 9: Ninety percent of the time it is just me, but when I get really big jobs I employ people.

Interviewer: About how many people do you employ when you do?

Participant 9: Last year I had six people working for me, this year I only had three so it is dependant on how much work I get.

Interviewer: That's all my introductory questions at this point so let's get straight to the meat of the discussion. When it comes to the risks that you face in your business what are the risks that you face? Like what are the things that threaten you as a business owner?

Participant 9: Ok, mostly, my business is a photography business. So the biggest risk that I have is loosing my photos and then I can't deliver it to my clients, that's my biggest risk

Interviewer: Do you have, do you have any smaller risks that go around that, besides that?

Participant 9: Uhm well my camera can break in the middle of a shoot. My stuff can break, my car can break on my way to a shoot, I can get ill and not do the shoot. So basically that is about that.

Interviewer: How do you manage those risks?

Participant 9: Ok well firstly, the one of losing the photo's. When like if I do a really important shoot, I take my memory card out of my camera when I am done with the shoot and I put it on my body and go home like that. So if I get into an accident, or somebody hi-jacks me or my camera gets stolen I have the client's photos with me. As soon as I get home, I back it up on two hard drives and on my laptop and I put the meory card in a safe place at home. Only when I deliver the

final product to the client that is when I format my memory card So that is how I deal with that part, uhm, that's backup backup backup, and I have insurance on my camera and I always have a backup camera with me so that is for, if my camera breaks. I guess if my car breaks I can call a taxi, That's not that big of a risk. But mostly for me it's losing, if I do a family shoot and I loose the photos I can redo, but you can't redo a wedding, you can't redo a fiftieth uhm party, you can't redo a function, that's why it is so important to back that up.

Interviewer: And when it comes to the management function of the business, do you have any risks that come into play there or do you..

Participant 9: Meaning?

Interviewer: Good question.

Participant 9:*Slight giggle*

Interviewer: Meaning that a lot of people that I have interviewed up to this point have discussed some aspect of financial issues or some product or uhm, customer issues in having the availability of work. Do you experience things like that as well from a management perspective in your business as well.

Participant 9: Uhm yes, I do, its just that's usually why I demand a 50 percent booking fee before I go out to a shoot. That's a booking fee it is non-refundable, so if you want to at last minute cancel me, you loose the booking fee. So that's how I make sure you do not cancel the day before an event and that you do use me, and then the other 50 percent I want before I deliver the final product. So that way the risk of not being paid is minimal.

Interviewer: Tell me do you at any point involve third parties like government for aid or anything of the like in building up your business?

Participant 9:No. It's too small at this, it's just me, so the business is really, really small.

Interviewer: Ok, uhm would you say, you have described what is a formal risk management system as to how you keep your product safe, but do you have any other formal way of protecting yourself in your business or do you do everything and deal with things just as they come?

Participant 9: Ya uhm, I'm not that long in business although it feels very long so there is still a lot of stuff that is going to happen that I have to learn from that haven't happened before so new things happening.

Interviewer: So you're saying that experience is one of the main drivers that helps you know what to do next?

Participant 9: Uhm luckily because I did the entrepreneur course that does help a bit, hmm I have friends that have their businesses, so some of them help me, even though sometimes they give shitty advice that has nothing to do with my business and I can't do what they tell me to do, but ya it's like learning all the time.

Interviewer: And you incorporate that information back into your business as well so you are continuously climbing.

Participant 9: And because I don't have a lot of customers I always remember them by name and what happened to them and all that stuff so, I don't forget difficult things that happen.

Interviewer: Tell me how does people's opinions and your reputation interact or affect your business?

Participant 9: It's like the biggest part of my business because it is mainly word of mouth that I get my business from so I need to keep all my clients happy and give them my best, and they refer me to new clients. So if I get a bad reputation I won't get any more clients.

Interviewer: So that's all the questions I can think of. Is there any other aspects of...

Participant 9: Oh I just wanted to say the risk of me getting ill and not pitching to do a job, that is why I have people working for me sometimes so if I get sick and I can't do it I can send a friend so I have a lot of photography friends that are friends and workers for me so I can send them, so I cover my ass.

Interviewer: So then that's your entire system in that regard, is there anything else that I missed that you might want to comment on in regards to your risk profile?

Participant 9: Uh, no I can't think.

Interviewer: Well thank you very much for your time [Participant 1].

Interviewer: Hi [Participant 9], this is [interviewer] I hope this day finds you well. I wanted to know if I could perhaps ask you two follow up yes and no questions?

Participant 9: with love

Interviewer: Thank you? Is doing it over whatsapp ok for you

Participant 9: Yes

Interviewer: Q1. If an SMME risk management process was developed and created and presented to you would you want it? Q2. If assistance was provided in implementing a SMME risk management in your business would you be interested in it?

Participant 9: Yes, and yes

1.3.10 Participant 10

Interviewer: I am here with participant ten. We have gone through all necessary procedures and we are now beginning with the interview. Thank you for being here participant ten.

Participant 10: My pleasure .

Interviewer: Let's start off with some basic demographics of just your business. First and foremost I need to ask you how would you classify your position within the business?

Participant 10: Uhm, I am the owner uhm, how can I put this? I physically work with my people so I don't see myself as a boss, I see myself more as a leader in that sense and uh, because I work with my people there's a lot of a different uh different uh, how can I put it, different relationship with my workers than would other people have with their workers, if I could say that.

Interviewer: A different dynamic?

Participant 10: Definitely, definitely, definitely.

Interviewer: What kind of sector are you in or what kind of business do you do?

Participant 10: We are, or I have a panel beating shop, we do all spray painting and panel beating from minor repairs to major structural repairs, replacement of parts, etcetera, you know. From hail damage right through to plastic welding to interior, all kinds of uh, motor , motor repair, except engineering wise.

Interviewer: Ok, and about how many people do you employ in your business ?

Participant 10: I have, including myself, about eleven people. So ten workers and then obviously myself.

Interviewer: Ok, then let's get into the more meaty questions that we have. First one I have is, what kind of risk do you have in your business?

Participant 10: Uhm, because it is, because I don't work with insurances, and I work more with car dealers there is a lot of business in my direction . Uhm but the profit margins are a lot smaller and your turn arounds are, your turnaround times on jobs have to be a lot quicker, so you have to be thorough with your work. Uhm and and and obviously spend wisely, if I can say that. So, if I'm just going to overspend left and right and not look, you know consider, my my buying part I am going to run at a loss very quickly. So you have got to be on top of your buying all the time and uh, and and and your turn around time also. So those are the risks and also employing the right people. Uhm, you know the people that are working with me have been working with me for

the last two, three, you know one person has been with me since the start, 7 years. They are very well paid if you compare them to other other people in the industry. And they've been with me for a long time. The reason for that is they are good, I pay them well, and you know you can't just put any person in that position , because your going to run at a a your going to run damages and if you have redoes on your jobs it's going to cost you money and if you have to redo one job you've already lost money. So production wise it has to be perfect, all the time.

Interviewer: Uhm would you say you have a formal way of managing the quality aspects, and the risks that you just mentioned in your business, or is it something you tend to take on as it comes?

Participant 10: It is a formal way, uhm, unfortunately with the type of uhm, with the type of uh you know process it goes through, like repairing a bumper for instance, we might look at the bumper and say " you know it doesn't look that bad" and it might have been repaired before, and before that person it was also repaired, by the time we get to it it has been repaired two or three times so that by the time we get to it it could actually be worse. So yes we have a formal way of doing it , but sometimes there's one or two surprises if I could put it that way. So but, uh quality wise this guy has a job description so by the time the end product comes each person knows what to do and what should have been done and if there was a problem it should have been solved at that time so.

Interviewer:A -nd checking up on the people doing the jobs? Is there a post post work checkup on them, is there some kind of quality check you guys go through to manage the risk of , you know messing it up?

Participant 10: Yes, there is but uh like I said I also physically work in the shop, I am the spray-painter. So, let me put it to you this way, if if their job isn't right by the time it gets to me to refinish it, or to finish the end product, they know they're going to have problems with me, so there is you know a checkup on them I do a whole walk through, or the shop manager will do it, walk through and check. But everyone has a job description and and they know that by the time it gets to me it must be must be perfect so there's not a lot of babysitting if I can call it that.

Interviewer: Ok, so you mentioned earlier that your company is a closed corporation so how how does that play into your experience of government interaction with you? Do you have any assistance from government or any uhm, aspects of government interaction that either aids or detracts from your ability to do work?

Participant 10:Uhm, I wouldn't say, that it ya, I don't really get get work from or have gotten work from government I haven't had that that interaction yet so I, it's a bit of a difficult question to answer. Uhm, because of the CC I am the owner and there is no, if I can call it, black empowerment, it makes it difficult to trade, uhm so yes I am a bit of a hardhead when it comes to

that you know. I I I take it as I built it up from the ground I started in the garage and seven years later [motions to the premises] you can obviously see what I have. So for me to to give away a bit of my business is a ia bit of a sore point for me, if I can call it that So, the CC works well for me, one of the few guys that still have a CC. Uhm, I have a lot more advantages to me, than a lot of people have, uhn, not in doing people in but getting finance or buying stuff etcetera. So the CC is working well.

Interviewer: Touching on that point, or finance, a lot of the guys that we have talked to have this issue where they don't have sufficient finance or acces to credit fiancé is that an issue in this kind of business as a whole or is that neglible?

Participant 10: I think if you go back to when I started versus where I am now , uhm and you go look at other businesses that are in my line of work, that don't do insurance work, that work for car dealers like, for arguments sake [named a car dealership], their margins for profits are very small and when I started , I said I was going to revolutionise this, and everyone said it wouldn't work. And today I am one of the strongest uh, panel beating shops in the this, in the town and my profit margins are a lot higher, compared to other peoples and that was solely to the fact that I stuck to doing quality work. Uhm, and and and putting the stamp, that you know I do quality work, I mean we reinstate warranties on vehicles that have thirty thousand kilometres . BMW, Mercedes, uhm you name it we have done it.

Interviewer: Would you say that reputational risk is a big issue?

Participant 10: Definitely, definitely, definitely because if you slip, the next guy is standing in line to take your, you know, place and your customer. So, the other guys, the other panel beating shops, uhm there is a lot of them, Uhm, I don't think would have taken the risks I have taken. Uhm to go to the bank, and to to show the bank the type of profit margins that you're working on. I mean they see it as a risk its its either a yay or nay either a positive or finished, that's how it works. So, uhm that's where I learnt in the first three and a half to four years of running at a loss. But you know my father in law always told me that it takes five years to build a business and it's, I'm proof of that, after my fifth year things just started blooming and you know, no looking back right now. But it is bumping your head a lot and uh like I said, taking risks.and I think I have taken those calculated risks, sometimes not too calculated, bumped my head a few times and now I've got a strong name at the bank. You know I'm applying now to finance my own building, not to pay rent anymore, etcetera. Uh ya I I I think I've done things differently compared to them, because cashflow is a problem in this business for sure., definitely.

Interviewer: And how do you manage those financial risks yourself? Do you build provisions or is it more about reducing costs for you?

Participant 10: Uhm, staff, as I as I mentioned earlier, staff is is having quality staff is is a number one for me. Uhm, I think the fact also that I am so involved is another plus point, and you know, I always know what's going on. Whether it be buying or whatever the case may be if there's a customer that might have an issue or a problem it gets sorted and you know customer service is very important to me from my side. I I I don't like going to bed at night knowing that there is a customer that is unhappy so that is a big no no in my line of work, or to me, it's keeping people happy and having good staff, obviously using quality products but not products that are, because you can buy really expensive products and then you know you can get an average product that is just as good its just who applies it and how it is applied.

Interviewer: So you are saying that the financial risks can be mitigated by ensuring you having a good enough reputation, that facilitates the higher profit margins or the higher margins that you ask on your services themselves.

Participant 10: Definitely, I I I definitely say yes, one-hundred percent. I do believe quality is a good thing today. Especially in this line of business I mean people are getting clever, you know a lot of people are getting clever when it comes to buying cars, where before people ,ust bought cars and didn't know what they were buying. I mean you can speak to a lot of people and that have pulled out of this industry ten years ago. You know I mean they would have told you ten years ago they were making money left right and center whereas now it has become a lot tougher because the guy who walks onto the floor to buy a car has knowledge, you understand? And if he does'nt have knowledge he is going to take someone with him who has knowledge and they are going to look at a car and it is going to be inspected so on and so forth. So like I said I revolutionised that if I can use that word, uhm that's why I have customers that are willing to pay the price, reasonable prices, you know I always tell people" I'm busy because I don't kill people, and I'm doing well because my quality of work is good". So now a customer walks onto your floor sees a BMW F-30320i, for argument's sake, uhm he doesn't see anything wrong on the car, it hasn't been in any accidents, etcetera etcetera, nothing has happened to that car, he's buying that car. Where ten years ago, before this, people didn't have knowledge of that so, I definitely think we have gotten cleverer, or more clever and have more knowledge now towards the car industry because it is so, because it was so lucrative and so easy to hide things if I can say it like that, ya.

Interviewer: That's the questions I have, is there any other risk considerations that you can think of ,that I haven't asked you about, that you think are note-worthy to mention?

Participant 10: You know there's there's there's always risks out there I mean I mean ,like I said to you, the biggest risk for me is having a customer, whether it be a private customer or you know dealer or whatever, home here and tell me he has a bent chassis or you know of some sort or he

has airbag lights that are burning and he want's me to you know, fidget with it, and you know that is people's lives that I am tampering with. You know we can fix it, but it's not uh, its not ethical. You know if the insurance has written a vehicle off, it's been written off for a reason and I always have, I've had that a lot of times and it's a good customer and this customer comes to me with this request and I refuse it, and you loose that customer like that, uhm because you don't want to take those risks, knowing that you've jipoed him, but that's exactly what it is. People can get into accidents, people can loose their lives and you know, at the end of the day it's on your shoulders, and uh uh on your uhm on your conscious, and there are definitely risks.

Interviewer: Uhm, thank you very much for your time, this is where we are going to end, have a great one.

APPENDIX D. ECONOMIC CLASSIFICATION

1.1 ECONOMIC CLASSIFICATION

The economic activities referred to in this study are defined below. The main categories of the Standard Industrial Classification of all Economic Activities (SIC) are utilised for this purpose (Statistics South Africa, 2012).

1.1.1 Agriculture, forestry and fishing

This sector includes the proactive use of vegetative or animal resources, natural or produced through human endeavour. This sector includes animal rearing, animal breeding and the harvesting of any animal or plant based resource from a habitat considered natural for such a form of life. In addition to the aforementioned this also includes: trapping or hunting and similar activities; mixed farming; agriculture, animal and animal product production, hunting and related services; the growing of non-perennial crops; growth of cereals, oil seeds, and leguminous crops; market gardening, horticulture; the growth of vegetables, roots, tubers and melons; the growth of sugar cane, tobacco, fibre crop; grapes for use in wine; farming of animals; fruits; nuts and berries and the production of organic fertiliser.

1.1.2 Mining and quarrying

This sector includes the following: Stone quarrying, clay and sand-pits; Mining of metal ores, except gold and uranium; Extraction of crude petroleum and natural gas, service activities incidental to oil and gas extraction, excluding surveying Mining of coal and lignite;; Other mining and quarrying; and Service activities incidental to mining of minerals.

1.1.3 Manufacturing

This sector includes the manufacturing of the following: Food products; tobacco products; textiles; wearing apparel; leather and related products; wood and of products of wood and cork, except furniture; articles of straw and plaiting materials; paper products; printing and reproduction of recorded media; coke and refined petroleum products; chemicals and chemical products; basic pharmaceutical products and pharmaceutical preparations; rubber and plastics products; non-metallic mineral products; basic metals; fabricated metal products, except machinery and equipment; computer, electronic and optical products; electrical equipment; machinery and equipment n.e.c.; motor vehicles, trailers

and semi-trailers; transport; furniture; other manufacturing; and the repair and installation of machinery and equipment

1.1.4 Electricity, gas and water

This sector includes the following: Electricity, gas, steam, air conditioning supply; collection, purification and distribution of water; Sewerage; Waste collection, treatment and disposal activities; sewage materials recovery; remediation activities and other waste management services

1.1.5 Construction

This sector includes the following: Site preparation; Building complete constructions or parts thereof, civil engineering; and Building installation.

1.1.6 Trade

This sector includes the following: Wholesale and commission trade, except motor vehicles and motorcycles; Retail trade, except motor vehicles and motorcycles, repair of personal household goods; and Sales, maintenance and repair of motor vehicles motor cycles, retail trade in automotive fuel.

1.1.7 Transport and storage

This sector includes the following: Land and via pipeline transport; Water; Air; Supporting and auxiliary activities, travel agencies; and Post and telecommunications.

1.1.8 Financing and real estate activities;

This sector includes the following: Financial intermediation, except insurance and pension funding; Insurance and pension funding, except compulsory social security; Activities auxiliary to financial intermediation and all real estate activities

1.1.9 Professional, scientific and technical activities

This sector includes: legal and accounting activities; activities of head offices; management consultancy activities; architectural and engineering activities; technical testing and analysis; scientific research and development; advertising and market research; other professional, scientific and technical activities; and veterinary activities.

1.1.10 Public administration and defence; compulsory social security

This sector includes: Public administration and defence; compulsory social security.

1.1.11 Education

This sector includes education in all its forms.

1.1.12 Human health and social work activities

This sector includes: Human health activities; Residential care activities; and social work activities without accommodation.

1.1.13 Arts, entertainment and recreation

This sector includes: creative, arts and entertainment activities; libraries, archives, museums and other cultural activities; gambling and betting activities; and sports activities and amusement and recreation activities

1.1.14 Other service activities

This sector includes: Activities of membership organisations; repair of computers and personal and household goods; and other personal service activities. Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use.