# The Effect of Risk Control Techniques on Organisational Performance of Selected SMES in Lagos State

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**Abstract:** The aim of the study is to evaluate the effect of risk control techniques on organisational performance of selected SMEs in Lagos State. The specific objectives are to considers the effect of physical risk and financial control techniques on organisational performance of selected SMEs in Lagos State, Nigeria. The study is limited to the effect of risk control techniques on the performance of SMEs in Lagos State, Nigeria. The precise variables of interest are the physical risk control techniques which are risk elimination and risk reduction as well as the financial risk control techniques which focus on risk retention and risk transfer. The study covers 10 major clustered markets in Lagos State where there are selected SMEs ranging from Oil and gas, manufacturing companies, service companies and general merchandise in Lagos State. The study employed a survey research design and adopted a convenience sampling method of selection and multi clustered method was used in selection. A survey monkey was used to administer the questionnaire to the sample respondents. The hypothesis was tested using regression analysis through the use of SPSS and the results showed that there is a positive and significant correlation. relation and effect of physical and financial risk control on organisational performance of selected SMEs. It was concluded that SMEs should embrace all efficient and economic means to address the potential risk that can threaten their existence.it was recommended that SMEs should increase its risk appetite to enhance efficient management of their business.

**Keywords:** financial risk; organizational; SMEs; business systematically

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## 1. Introduction

Risk is defined as the possibility of economic or financial losses or gains as a result of the uncertainty that comes with taking a specific course of action. (Chapman & Cooper, 2016). Every human action (to varying degrees), every type of business, and every aspect of company management involves risk. As a result, understanding the dynamics of risk control using various risk control techniques is critical for businesses, particularly SMEs, in order to minimize the impact on business performance. A set of techniques used by businesses to assess potential losses and take steps to mitigate or eliminate them is known as risk control (Adeoye, 2010). Businesses face new challenges every day as a result of a variety of factors including obstacles, competition, and other potential threats. Risk management is a systematic approach used by businesses to identify, assess, and prepare for threats that can be physical or financial in nature and have the potential to affect the firm's operations and objectives. As a result, the company will be able to effectively manage its operations so that shareholder returns can be maximized Park and Yao (2015).

In order to control potential risks, innovative Small and Medium Scale Enterprises (SMEs) must identify and assess risks early. A risk management strategy could improve the ability to successfully manage all stages of the business management process (Grey, 2017).

Chodokufa (2009) stated that the contributory percentage of SMEs in Africa with respect to their business activities and employment generation had been around 90% and 50% respectively. Frumina and Mentel, (2017) adjudged to the fact that not less than 95 percent of enterprises were SMEs which accounted for 60 percent private sector job opportunities in Nigeria. They reiterated the contributory quota of SMEs in terms of businesses and job opportunities within African to stand approximately around 90 percent and 50 percent respectively. Even at this, a whole lot of SMEs operators in many countries especially developing countries like Nigeria and any others are faced with political, economic and financial risks which invariably created numerous devastating situations meddling around their operational activities. According to Ajemunigbohun and Adeoye (2018), SMEs were suggested to be faced with inoperative risk management template, poor risk management education and poor risk communication plans. Stulz (2008) as cited in Fadun (2013) noted that failure in SMEs risk management frameworks crop up as a consequent upon mismeasurement of identified risks, failure in risk communication, failure in risk monitoring, failure in risk assessment and failure in proper use of risk metrics. To corroborate this, Mambula (2002) earlier averred that the incapacity of SMEs' operators to carefully identify and assess various risks they encountered will disrupt their strength to survive.

### 1.1. Statement of the Problem

Small and medium-sized businesses (SMEs) face more challenges than medium- and large-sized businesses when it comes to traditional risk management Most SMEs lack a proper risk control strategy or technique to mitigate the daily challenges they face because they tend to emulate large enterprise practices rather than developing approaches that match their risk appetite and risk handling capabilities.. As a result, most SMEs lack proper risk control strategy or technique to mitigate the daily challenges they face. According to a report by the Central Bank of Nigeria, Lagos State has one of the highest numbers of SMEs in Nigeria (Nigeria Bureau of Statistics, 2020), and the majority of them die within a year of their inception (CBN, 2014). Most SMEs, it appears, lack the risk control strategy required for both the physical and financial risks they face on a daily basis, which could be one of the major reasons for SMEs in Lagos State and Nigeria as a whole collapsing after a few years of operation. In the absence of an effective risk control strategy, it is necessary to identify risk control techniques and practices gaps by SMEs using the selected SMEs in Lagos State, Nigeria. Such findings must also be articulated in order to propose feasible solutions that will aid in the development of well-adapted long-term risk control strategies to mitigate their business risks.

### 1.2. Objectives of the Study

The main aim of the study is to evaluate the effect of risk control techniques on organisational performance of selected SMEs in Lagos State. The specific objectives are to:

1. Examine the significant effect of physical risk control techniques on organisational performance of selected SMEs in Lagos State, Nigeria.

2. ascertain the extent of relationship between financial risk control techniques and organisational performance in selected SMEs in Lagos State, Nigeria.

## 2. Literature Review

The possibility of something happening that will have an impact on the objectives is defined as a risk (Aernorld, 2013). Risk is a part of life that cannot be avoided. There are many different types of risks to consider in business. Some things you can control, while others you can't. There are some things that are predictable and others that are not. Some have a minor impact on the business, while others threaten the company's existence. Small and medium-sized enterprises (SMEs) are private-sector businesses that operate in a variety of industries. As a result, risk takes on different forms depending on the industry. As a result, the business owner is responsible for

identifying the risks in his operation and taking steps to implement effective risk management strategies. It is all about providing cover for the company from potential disasters and recognizing and seizing opportunities as they present themselves (Aruwa, 2014). Risk management is the process of reducing risk's negative consequences while also maximizing potential benefits (Vaughan, 2013).

Because this is one sector where entry and exit are uncontrollable, the list of risks that SMEs face is endless. Some of the risks that SMEs face include changes in tastes and preferences, economic trends, competitor actions, overhead costs, equipment costs, expected sales volume, salary costs, taxes, obsolescence, flood, fire outbreak, tsunami, earthquake, machine breakdown, cash flow problem, intentionally inflicted damages, potential permanent loss of customers to competitors, management risk, marketing risk, and reputation risk. This is just a sampling of the dangers that SMEs may face. Others are unpredictably unpredictable and uncontrollable, while others are predictably predictable and controllable to a degree. It is appropriate to manage the predictable while planning for the unpredictable. The first step toward effective risk management is to identify risks (Azende, 2011).

Risk can be avoided by simply refraining from engaging in the activity that is most likely to cause it. When there are no other options or none that are strong enough to bring it down to an acceptable level, this should be done. Uncontrollable or inappropriate risk avoidance, according to Inangand and Ukpong (2012), can lead to organizational avoidance, resulting in missed opportunities and a rise in the importance of other risks. Taking out insurance, on the other hand, necessitates a visit to an insurance company and the transfer of all insurable risks. An insurance agent can help you assess the impact of a foreseeable loss on your type of business, even if some are difficult to insure. This analysis will be aided by the agent's expertise and experience, making it impossible to overlook any exposures. Small businesses can self-insure by putting money aside to cover potential losses in the future. This is insufficient on its own because investors are unaware that such a company exists (Azende, 2015).

Basic insurance is an excellent way to manage risk and reduce uncertainty when running a business (Douglas, 2016). The term insurance is defined as "the act of providing protection against loss or damage to one's property insurance is the equitable transfer of a loss risk from one entity to another in exchange for a periodic payment. It is a risk management strategy that protects the insured from risk in exchange for a fee. It is a type of risk management that entails the sharing of risks. There are many different insurance policies to choose from, just as there are many different risk exposures. The properties of a small business must be protected because efforts to replace are more demanding on the business. Commercial property insurance is therefore required. Sickness is an unpredictable occurrence, and when a key employee is affected, the company suffers. When the need arises, health

insurance can help pay for an employee's care. Small businesses should be aware that insurance policies can be customized to meet their unique needs. If a policy does not cover a specific risk in a particular business, the owner can ask for a clause to be added to meet his needs. The most important thing to remember is that any type of insurance policy should be adequate. This means that over-insuring and under-insuring are both bad for business. Before making a decision, seek advice from experts.

A medium-sized company employs 101 to 300 people and has a total cost of more than N50 million but less than N200 million, which includes working capital but excludes land. Due to the lack of regulation in this sector and its dispersion across a large area, the Nigerian National Bureau of Statistics put the number at over 17 million in 2013. Except for those who produce consumable beverages such as water and food, where having a NAFDAC number is important to meet regulatory requirements and to form a perception in the minds of consumers about the product's safety, the number is important to meet regulatory requirements and to form a perception in the minds of consumers about the product's safety. Other industries, on the other hand, are poorly regulated. According to Fashola (2013), SMEs in Nigeria are businesses that operate outside of the normal economic structure, disregard existing laws and regulations, and are unconcerned about changing trends both at home and abroad. This, combined with a lack of effective policies, an appropriate legal framework, financial constraints, credit access, poor infrastructure, unstable power supply, a skilled labor shortage, and unethical behaviour, can be seen as a major issue. (Dickinson, 2001).

According to the country or organization, small and medium businesses are defined differently. In the European Union and international organizations such as the UN, the World Trade Organizations, and the World Bank, small and medium enterprises are referred to as SMEs, whereas in the United States, small and medium businesses are referred to as SMBs. SMEs or SMBs are defined using the variables of employees, total revenue, and total assets. Businesses with fewer than or equal to 299 employees, minimum assets or annual sales of N19,700,000, and maximum total assets or annual sales of N2,955, 000,000 are considered SMEs.

Risk assessment refers to an organization's management's ability to assess an event's vulnerability and the impact it would have on the organization's goals. Management considers events from two angles: likelihood of occurrence and impact. It usually uses a combination of qualitative and quantitative methods for evaluation. Built-in and residual risks are both assessed. Potential events should be examined for their positive and negative effects on individuals and groups, as well as across the organization. (John, 2014). Risk evasion, risk minimization, risk sharing, and risk acceptance are all options when it comes to dealing with danger. Before finalizing a response, management assesses its consequences in terms of probability and impact,

cost-benefit analysis, and the possibility of crafting residual risk. Management also tries to spot any potential opportunities and formulates a risk opinion for the entire organization to determine whether overall residual risk is within the organization's risk appetite. Control activities are as follows: This represents the steps taken by management to ensure that adequate and effective risk responses are implemented. Control activities occur at all levels and in all functions of the organization. Approvals, sanctions, authentications, settlements, appraisals of operating performance, asset security, and classification and assignment of duties and responsibilities are just a few examples. Information and communication: This ensures that timely and relevant information is sourced and made available within an organization, allowing people, units, and departments to carry out their responsibilities. An information system gathers data from both internal and external sources and makes it available for risk management and informed decision-making. Effective communication occurs only when information flows freely from top to bottom, bottom to top, and across all departments. All employees must be aware of their own risk management responsibilities as well as how their work affects others.

Effective communication with external institutions or persons such as customers, creditors, shareholders, and other stakeholders is critical for effective relationship and risk management. Continuous monitoring and evaluations of risks and opportunities can aid in risk control improvements. Continuous monitoring is required in the day-to-day operations of an organization. Continuous monitoring processes and techniques ensure timely risk assessment and effectiveness. Any deviation from the procedures should be reported as soon as possible to top management and the board of directors, as it may pose a serious risk to the management.

In order to create value and profit, the majority of SMEs are responsible for creating new opportunities, new products, and new manufacturing processes (Kothari & Gerg, 2016). They are inventors, and their work has enriched our lives with items such as fast food, canned foods, beverages, packaged water, mattresses, plastic chairs, laptops, cars, electric fans, perfumes, airplanes, and construction paints, to name a few. Taking risks is a requirement of entrepreneurship and innovation. Henry Ford (automobiles), Andrew Carnegie (steel rods), Bill Gates (computers), Roy Kroc (McDonalds Fast Foods), Dangote, Adenuga, and others took calculated risks in order to achieve success. It necessitates clarity of purpose, which must be accompanied by a clear plan for achieving it; and, as Andrew Carnegie once put it, the attitude must be comparable to the vast difference between a wish and a burning desire. (Arifin & Soleha, 2019).

Despite the fact that all business decisions involve some level of risk, SME entrepreneurs face a higher level of risk than larger corporations. Lenders are hesitant to provide the necessary funds for fear of default because they have yet to establish

a reputation. External equity financing is also difficult to come by, such as stock purchases that allow people to become part-owners of your company. This is due to the fact that potential equity providers may be considering other options and are unsure if this is the best one. All parties want a higher return than they could get elsewhere to compensate for the additional risks they are taking. When it comes to risk, this means that the expected returns may be lower, zero, or even negative. Because most people are risk averse, riskier investments must provide a higher average return to entice investors to buy them (Lusardi, 2019). As a result, the entrepreneur must be willing to take risks, but only in a calculated and controlled manner. The "Asian Tigers'" expansion and growth - Singapore, Hong Kong, Taiwan, South Korea, and later, Indonesia, Thailand, and Malaysia - could serve as a shining example of entrepreneurial risk-taking aided by market-friendly policies and open domestic markets.

Risks must first and foremost be assessed in order to be effectively managed. The level of risk exposure that a potential SME owner's business faces must be determined. Risk assessment is defined by Atkins and Israel (2013) as the overall process of risk analysis and risk evaluation. Individual small business owners must be aware of their risk tolerance and build their businesses accordingly (Bamford & Bruton, 2016). This implies that SMEs' owners must be aware of their risk tolerance. Risk assessment enables effective risk management techniques to be implemented (Verbano & Venturini, 2013). By lowering costs, the process improves the creation of business value and profit maximization. (Creswell & Creswell, 2018). The responsible manager should monitor risks and risk response activities to ensure that significant risks stay within acceptable risk levels, emerging risks and gaps are identified, and risk response and control activities are adequate and appropriate (Lusardi, 2019)

The majority of risk mitigation strategies are based on one or more of the following major risk options: 1. Design a new business process from the ground up, including risk management and containment measures. 2. Re-evaluate and adjust mitigation measures for risks that are accepted as a normal part of business operations on a regular basis. 3. Outsource risk management to a third-party firm (e.g. an insurance company) 4. Don't take any unnecessary risks (e.g. by closing down a particular high-risk business area) Treatments for potential hazards All risk management techniques fall into one of four categories once risks have been identified and assessed: Avoidance (eliminate, withdraw from, or refrain from participating): Retention (optimize and mitigate), Sharing (transfer and outsource or insure), and Reduction (optimize and mitigate) (accept and budget). It is possible that you won't be able to make the best use of these strategies. Some of them may require trade-offs that the organization or person in charge of risk management does not agree with (Senyefia, Adams & Prah, 2019). The act of avoiding a potentially dangerous activity is known as risk avoidance. A good example would be not purchasing a property or

business in order to avoid the legal liability that comes with it. Another option is to avoid flying altogether in order to prevent the plane from being hijacked. While it may appear that avoiding risks is the best option, it also means foregoing the potential benefit that accepting (retaining) the risk would have brought. By avoiding the risk of loss by not starting a business, the possibility of profit is also eliminated. To better understand and share information about potential kidnappers and other criminals, groups form intelligence networks (Lusardi, 2019).

Hazard prevention refers to the prevention of risks in an emergency. The first and most effective stage of hazard prevention is hazard elimination. When the first stage takes too long, costs too much, or is otherwise impractical, the second stage is called mitigation. Lowering the danger Risk reduction, also known as "optimization," is the process of reducing the severity of a loss or the likelihood of one occurring. Sprinklers, for example, are intended to extinguish a fire and reduce the risk of fire-related property damage. (Farah & Dewi, 2018). This method may result in a higher loss due to water damage, making it ineffective. Some suppression systems may lower the risk, but the cost of doing so may be prohibitive. Outsourcing could be an example of risk reduction if the outsourcer can demonstrate a higher capability for managing or reducing risks (Farah & Dewi, 2019). A company may, for example, outsource only its software development, hard goods manufacturing, or customer service needs to another company while maintaining control over its own business management. As a result, instead of worrying about manufacturing, managing the development team, or finding a physical location for a call center, the company can concentrate on business development. Risk sharing is defined as sharing the burden of loss or gain, as well as risk-reduction measures, with another party. The term risk transfer is frequently used instead of "risk sharing" in the mistaken belief that you can transfer a risk to a third party through insurance or outsourcing. (Badru,Yusuf & Ishola, 2013). By default, all risks that are not avoided or transferred are retained. This includes risks that are either too large or too catastrophic to be insured against, or whose premiums are too high to be affordable. Because most property and risks are not insured against war, the insured is responsible for the loss caused by the conflict. Any potential loss (risk) that exceeds the amount insured is considered retained risk. This may also be acceptable if the risk of a large loss is low or if the cost of insuring for higher coverage amounts would jeopardize the organization's goals (Gray, 2017).

Risk management is a rapidly evolving discipline that attracts researchers from a variety of fields, resulting in a wide range of vocabularies in disciplines that use the term (Asampana, Nantomah, & Tungosiamu, 2017). Risk management is a core function of all types of businesses in order to secure opportunities based on taking risks (Acharyya & Mutenga, 2013). Raghavan (2015) defines risk mitigation as "a proactive measure put in place by risk managers to ensure the organization's future". ERM improves a company's image by boosting its reputation for strategic savvy and

the ability to seize new opportunities (Milliman Risk Institute Survey (MRIS), 2014). Improvement in decision making is probably the most fundamental way ERM creates value. Strategic risk has no clear definition in the context of risk management, according to Mango (2007), cited in Niralia (2017), due to the inability to define and understand it. Risk management, on the other hand, is defined by Head (2009) as the process of planning, directing, and controlling resources in order to achieve an organization's goals. Risk management, according to Urciuoli and Crenca (2014), entails taking steps to protect an organization's assets from destruction using various instruments. Risk management, according to Raghavan (2015), is defined as activities aimed at reducing losses in order to improve a company's profitability.

This could include a strategy to outsource risky activities to professional risk carriers, such as insurance companies, to mitigate the negative impact by accepting part or all of a specific risk's cost from a third party. The primary function of insurance is to serve as a mechanism by which the general public accepts uncertainty about future financial risks or activities in exchange for certainty (premium payment) (Boland, Collins, Dickson & Ransom, 2004). According to Atkins and Bates (2007), risk mitigation is the process of reducing the severity of loss after a risk event (ATE), whereas risk management is the process of preventing risk before it occurs (BTE). In this study, the two terms are used interchangeably to avoid misunderstanding. New risks emerge as businesses evolve, and if business activities are not reviewed on a regular and consistent basis, they can cause organizational activities to become distorted (Peck, Hill, Eaglestone & McAulife, 2015). It is not necessary for the insured to be a person; it can also be a corporation. Risk reduction is important to insurance companies not only to make money, but also to avoid economic losses (Boland et al, 2004). As a result, terms like loss, chance of loss, peril hazard, and risk are commonly used in everyday conversation for risk mitigation/risk management, but they take on a different meaning when used to describe insurance. Unexpected economic value declines are a source of insurable risk (Dorfman, 2008). The primary goal of risk management activities is to reduce the likelihood of problems depleting an organization's financial resources (Dorfman, 2008).

## 3. Theoretical Framework

### 3.1. Exposure to and Control Theory

Individuals may underestimate the risk if they believe they have control over the situation, while they may exaggerate the risk if they believe they have little or no control (Atkin & Bates, 2007). The amount of risk a person is exposed to and how much control he or she has over a work-related event can have a significant impact on how they perceive risk (Krallis & Csonto, n.d.). When a person is exposed to a large loss on a relatively infrequent basis, for example, he or she may react in a way

that makes them appear unsafe, as opposed to when they are exposed to a large number of small losses on a regular basis (Slovic, 2000). Individual differences affect decision making, according to Hillson (2004), and risk perception can be linked to behaviour. This theory is relevant to this study in the sense that most SMEs only tackle losses when they occur because most of the SMEs have perception that the potential risk that may likely happen cannot liquidate the business however, they are wrong in Most cases as cited in the work of Lusardi, (2019).

### 3.2. Familiarity Theory

People's perceptions of risk can be influenced by their awareness of a potentially dangerous situation (risky), which can be based on personal experience or familiarity with the event through media exposure. It is possible that the effect will work in both directions. Risk familiarity and exposure can lead to a better understanding of the risk and an underestimation of the risk's impact. Individuals who have become aware of a particular risk as a result of media intervention, on the other hand, are more likely to exaggerate the true risk level.

### 3.3. Empirical Framework

Risk control strategies are a continuous process that can aid in the improvement of operations and priorities. In contrast to larger companies, risk control is a challenge for SMEs, according to Henschel (2015). According to Matthew and Scott (2015), SMEs do not have a clear picture of their business risk, and their management is often not well structured, systematic, or standardized. Turpin (2012) holds a similar viewpoint, and SMEs in Nigeria are no different. While practice has been defined as what we do on a regular basis or the methods, processes, widely accepted techniques, and standards used by businesses in the pursuit of goals to complete a set of tasks, it has also been defined as what we do on a regular basis or the methods, processes, widely accepted techniques, and standards used by businesses in the pursuit of goals to complete a set of tasks (Cooper & Schindler, 2014).Risk control, according to Aruwa (2004), is an essential component of good corporate governance. It's simply about safeguarding the company from potential disasters, as well as recognizing and seizing opportunities as they arise.

Risk management, according to Badru, Yusf, and Isola (2013), is the process of managing adverse risks and realizing potential opportunities. Wang, Ishak, and Kazis (2013) define risk management as the "identification, measurement, and economic control of risk that threatens a business or enterprise's assets and earnings". Risk management, according to Yeo et al. (2015), is "the process by which any unexpected loss contingency is managed". According to Yazid (2015), risk management is a process that involves a series of logical steps. The procedure

necessitates planning, identification of operational risk threats, analyses of those threats, and formulation of appropriate policies for efficient risk management. As a result, the risk management process entails: Risk Management: Rather than identifying risk as the first step, an effective project management strategy should begin with accurate effort measurement and advance planning of assessment and control activities and schedules. It also applies to general risk management, such as determining whether the benefits of implementing such a scheme will outweigh the effort and budget required to mitigate the risk. Risk management is regarded as a critical process, particularly in small and medium-sized businesses.

Gray (2017) went on to say that risk management practices should be simplified and embedded into normal business operations, planning, budgeting processes, and organizational culture in order to improve an organization's performance. A small or medium-sized business owner's performance can be defined as the achievement of a previously stated goal; for a small or medium-sized business owner, this means providing a service or manufacturing a product that is acceptable to the customer and for which a price is paid, resulting in the business owner's survival, development, growth, and profit. Performance measurement is a strategy that applies to all aspects of an organization's operations, and it is implemented differently depending on the company, industry, and context. The purpose of a performance evaluation is to find out how well something is working, according to Cokins (2014), is to assist the manager in detecting uncertain situations earlier and reacting to them more quickly. While Aguinis' (2007) viewpoint is significant because he believes there is a link between performance measurement and improved business performance, As a tool for SME business owners to evaluate and track their own performance as entrepreneurs, as well as define their employee expectations. According to Aslam and Sarwar (2010), performance measurement practices provide evidence of whether expected results were achieved. Several authors have developed methods for evaluating organizational performance in terms of time, quality, and flexibility, as well as customer, internal process, and learning and growth perspectives. The importance of measuring organizational performance as a key variable in business research has been emphasized by Kaplan and Norton (1998), Carton and Hofer (2006), and Lebas and Euske (2002).

Risk Identification:

The process by which a business systematically and continuously identifies risks and uncertainties in its operations is known as risk identification. The organization's risk identification efforts are aimed at gathering relevant information on risk sources, hazard risk factors, perils, and loss exposure. The chartered Insurance Institute (1985) states succinctly that risk identification is the foundation upon which risk management is built.

Risk Evaluation/Analysis:

The activities that enable the risk manager to evaluate and measure risk and uncertainty, as well as their potential impact on the organization, are referred to as risk assessment. The most basic activity that a risk manager performs is risk assessment. Risk assessment entails actions such as risk identification, hazard analysis, and outcome, as well as responsibilities and objectives. L. Candice (2010) Risk management, in broad terms, can be defined as a mechanism that encompasses the planning, organizing, evaluating, and controlling of resources and operational activities of a business in order to effectively reduce or eliminate risk. In his study of the impact of risk management on business performance, (Gordon, 2009) found that companies with higher performance take risk management "more seriously" and that companies that want to improve their risk management efficiency must consider not only the variables individually, but also their combination in the "best practice" model. A recent study by Gates et al. found that there is a significant and positive relationship between business performance and enterprise risk management, proving the researchers' hypothesis about risk management's effects on business (Gates, 2012).

Baxter, (2012) conduct a more thorough examination of risk management's impact on firm earnings by examining the approach's impact during the pre-crisis and post-crisis periods (Baxter, 2012). According to the authors, ERM had significant value for business performance during the crisis period because the systemic risk was high. The authors emphasize the importance of insurance as a primary risk management tool for SMEs. In his book on small and medium tour operators, Weidner demonstrates how SMEs that use risk management techniques that go beyond simple SWOT analysis protect their investments and increase the value of their businesses (Weidner, 2010). The author contends that in order for small and medium-sized businesses to prosper, grow, and become large corporations, they must first and foremost focus on risk management. According to Akabueze (2002), the importance of risk management in the growth of small and medium-sized businesses is well-established and widely accepted. For example, the launch and efficient operation of any business, large or small, will necessitate the provision of insurance coverage. The research of Akintoye and MacLeod (1977), conducted in a small construction firm, discovered that risk management had a positive impact on the firm's growth and performance.

### 3.4. Gaps in Literature

Most of the research work focuses on general risk management and most of them did not focus on the component of risk control strategy which are physical risk control and financial risk control; therefore this research focuses on the gap which is analysing the components of risk control strategy or techniques which are physical

risk control (elimination and reduction) and financial risk control (retention and transfer).

## 4. Research Methodology

### 4.1. Research Design

This study employed a survey research design. The choice of survey research design is due to the fact surveys are useful in describing the characteristics of a large population (Osula, 2014). Surveys offer a high level of general capability in representing a large population, as well as low costs and easy data collection, statistical significance, little or no observer subjectivity, and precise results. The study adopts survey research design because the complexity of identifying the risk control strategy of most SMEs is better examined through the use of proper and well planned research instrument capable of eliciting necessary information that is needed in the research.

### 4.2. Population of the Study

The population of the study comprises all registered SMEs in Lagos State which are 11,663

SMEs (SMEDAN, 2014) validated by the study of (Ajemunigbohun, 2020). Lagos state was a choice of the selected SMEs because it is one of the highest States that housed SMEs in Nigeria and is the commercial nerve of Nigeria. It is assumed that responses obtained from the sample respondents would be representative of the opinion of all the insurance company.

### 4.3. Sampling, Procedure and Sampling Size

The study adopted a convenience sampling method of selection and to be able to draw the right sample for the purpose of this study. The choice of convenience sampling is because it helps to meet with registered SMEs in the selected areas which show the readiness and availability to respond to the questionnaire in the clustered markets. Multi clustered sampling was used to select the SMEs for the study. The choice of multi clustered method was because it helps to identify the different places where the SMEs are clustered in Lagos State Nigeria. Taro Yamani formula was used to determine the sample size. The formula is given below as:

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

Where n = sample size, N = population size e = error limit

N = 11,663 e = 0.05

Therefore n = 387 approximately.

A survey monkey was used to administer the questionnaire to the sample respondents.

This study employed a structured questionnaire as its instrument for data collection. This instrument is relevant in collecting feedbacks from respondents based on their perceptions and opinions. Furthermore, it is suitable for collecting data from respondents within a relatively short period.

**Method of Data Analysis**

Data collected will be analysed using Statistical package for social science students (SPSS) which expresses the data in tables, frequencies and percentages while regression analysis will be used to test the hypotheses formulated in order to determine the effect of Risk control strategy on organizational performance of selected SMEs in Lagos State, Nigeria.

**Data Presentation and Analysis**

The Analysis of the bio- data of the respondents, the analysis was done with respect to gender, age, Work experience, Age, income bracket, year of experience in Business, size of business and others. The results are presented in tables 4.1, 4.2, 4.3 and 4.4.

**Table 4.1. Demographic Data of the Respondents**

| **VARABLES** | | **FREQUENCY** | **PERCENTAGE(%)** |
|---|---|---|---|
| **SEX** | Male | 207 | 53.9 |
| | Female | 177 | 46.1 |
| | **Total** | **384** | **100** |
| **AGE (YEARS)** | 18 but less than 30 | 65 | 16.9 |
| | 30 but less than 40 | 85 | 22.1 |
| | 40 but less than 50 | 72 | 17.4 |
| | 50 but less than 60 | 71 | 18.8 |
| | 60 and above | 91 | 23.7 |
| | **Total** | **384** | **100** |
| **INCOME BRACKET (NAIRA)** | Less than 50,000 | 1 | 0.3 |
| | 50,000 but less than 100,000 | 2 | 0.5 |
| | 100, 000 but less than 300,000 | 83 | 21.6 |
| | 300,000, but less than 500,000 | 98 | 25.5 |
| | 500,000 but less than 1,000,000 | 97 | 25.3 |
| | 1000,000 and above | 103 | 26.8 |
| | | **384** | **100** |

| | **Total** | | |
|---|---|---|---|
| **YEAR OF EXPERIENCE IN BUSINESS** | Less than five years | 60 | 15.6 |
| | Five but less than ten years | 79 | 20.6 |
| | Ten years but less than fifteen years | 98 | 25.5 |
| | Fifteen years and above | 147 | 38.3 |
| | **Total** | **384** | **100** |
| **CLASSIFICATION OF BUSINESS SIZE** | Small | 102 | 26.6 |
| | Medium | 185 | 48.2 |
| | Large | 97 | 25.2 |
| | **Total** | **384** | **100** |
| **BUSINESS REGISTRATION WITH CAC** | Yes | 225 | 58.6 |
| | No | 159 | 41.4 |
| | **Total** | **384** | **100** |
| **DO YOU HAVERISK MANAGEMENT GUIDELINES FOR MANAGING RISKS** | Yes | 102 | 26.6 |
| | No | 282 | 73.4 |
| | Total | **384** | **100** |
| **INSURANCE POLICY** | Yes | 97 | 25.3 |
| | No | 287 | 74.7 |
| | **Total** | **384** | **100** |

*Source: Field survey 2021*

## Test of Hypothesis

### Hypothesis I

$H_o$: Physical risk control techniques have no significant effect on organisational performance of selected SMEs in Lagos State, Nigeria.

**Regression**

**Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .873a | .762 | .749 | 874.779 | 2.328 |

The R value represents the correlation between the dependent variable (organizational performance) and the independent variable (physical risk control techniques. Since the R = 0.873 it shows a strong positive relationship between physical risk control and organizational performance. The R squared (0.762) indicates that linear regression explained 76.2 percent of the data variance. We can assume that there is no first order linear auto-correlation in the data because the Durbin-Watson d = 2.328 is between the two critical values of 1.5 < d < 2.5.

**ANOVA[b]**

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| 1 Regression | 97.860 | 1 | 97.860 | 125.300 | .000[a] |
| Residual | 299.380 | 383 | .781 | | |
| Total | 397.240 | 384 | | | |

a. Predictors: (Constant), physical risk control techniques

b. Dependent Variable: organizational performance

The P-value or significant value in the ANOVA table is 0.000 which is less than 0.05 level of significant showed that the result is statistically significant. The F-ratio also showed that it is an efficient model since it is greater than 1

**Coefficients[a]**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| 1 (Constant) | 3.177 | .481 | | 6.599 | .000 |
| Physical risk control | .001 | .141 | .001 | .007 | .000 |

a. Dependent Variable: organisational performance

The significant value is less than 0.05, therefore the null hypothesis is rejected which implies that physical risk control techniques have significant effect on organisational performance of selected SMEs in Lagos State, Nigeria.

**Hypothesis II**

$H_0$: Financial risk control techniques have no significant effect on organisational performance of selected SMEs in Lagos State, Nigeria.

**Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .811a | .658 | .647 | 711.439 | 2.244 |

The R value shows how the dependent variable (organizational performance) and the independent variable (physical risk control techniques) are related. Financial risk control and organizational performance have a strong positive relationship, as shown by the R = 0.811. The R squared (0.658) indicates that linear regression explained 65.8% of the data variance. We can assume there is no first order linear auto-correlation in the data because the Durbin-Watson d = 2.244 falls between the two critical values of 1.5 < d < 2.5.

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 99.556 | 1 | 99.556 | 181.340 | .001[a] |
| | Residual | 210.120 | 383 | .549 | | |
| | Total | 99.380 | 384 | | | |

a. Predictors: (Constant), Financial risk control techniques

b. Dependent Variable: organizational performance

The P-value or significant value in the ANOVA table is 0.001 which is less than 0.05 level of significant showed that the result is statistically significant. The F-ratio also showed that it is an efficient model since it is greater than 1.

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 3.177 | .481 | | 6.599 | .000 |
| | culture | .001 | .141 | .001 | .007 | .000 |

a. Dependent Variable: Financial risk control technique

The significant value is less than 0.05, therefore the null hypothesis is rejected which implies that financial risk control techniques have significant effect on organisational performance of selected SMEs in Lagos State, Nigeria.

## 5. Discussion of Findings of Findings

From the empirical analysis conducted and the test of hypotheses carried out, this study has been able to achieve the research objectives and thus answer the research questions raised.

The result shows that there is significant effect of physical risk control techniques on organisational performance of selected SMEs in Lagos State, in which the alternate hypothesis is accepted. The result suggest that most SMEs needs to adopt physical risk control techniques for them to be able to improve in the overall performance and also improve or enhance productivity since risk is one of the major event that can terminate the activities of an organisation unexpectedly. This result is consistent with the findings of Harrington (2016) and Nwankwo (2011) which showed SMEs management principles appreciate the existing of risk and the need to manage it effectively with physical measures as much as possible. Although Ogunlana (2015) disagreed with the fact that physical risk control measures are needed to reduce the risk that SMEs are exposed to

The result also showed that there is significant relationship between financial risk control techniques and organisational performance and this is confirmed by the acceptance of the alternative hypothesis. This result suggest that it is not only physical risk control should be set up for SMEs to run smoothly but also the financial risk control should be put in place to reduce the unlikely risk that can affect the business.This result is consistent with the previous findings of

### 5.1. Summary, Conclusions and Recommendations

The findings of the study hypotheses test revealed that: Hypothesis one, which examined the significant effect of physical risk control techniques on organizational performance, revealed that physical risk control techniques have a significant effect on the organizational performance of selected SMEs. The null hypothesis was found to be false ($p<0.05$). Furthermore, the ANOVA table revealed that the result is statistically significant at 0.000 significant values. The R squared (0.762) indicates that linear regression accounted for 76.2 percent of the variance in the data, while the Durbin-Watson is 2.328. As a result, it is clear that physical risk control techniques have a significant and positive impact on the survival of small and medium businesses in Lagos, Nigeria.

The regression results for evaluating the effect of financial risk control techniques on organizational performance of selected SMEs in Lagos State, Nigeria, revealed that there is a significant and positive effect. At a 5% level of significance, the null hypothesis is rejected, and the correlation co-efficient of 0.811 indicates a strong positive relationship between financial risk control and organizational performance. The R squared (0.658) also revealed that the dependent variable explains 65.8 percent of the dependent variable. The Durbin-Watson coefficient is 2.244, indicating that rejecting the null hypothesis was valid in this study, and that there is a significant relationship between financial risk control techniques and organizational performance of selected SMEs in Lagos State, Nigeria.

## 6. Conclusions and Recommendations

The study has provided enough evidence to show that a risk management strategy improves SME performance. SME managers can use an effective risk control strategy to manage the risk their businesses face and, as a result, take appropriate risk mitigation measures. Risk management strategies help businesses reduce the impact of disasters, improve their credit standing, and thus contribute to their survival and growth. It is self-evident that for Nigeria to achieve industrialization and long-term economic development, a vibrant SME sector is required. With the growing rate of the SME sector and its impact on the Nigerian economy, a risk control strategy framework that is appropriate for businesses to adopt and implement is considered a good model.

The risk mitigation strategies used by SMEs' owners assess the level of reduction in exposure to risks that reduce financial resources in Nigeria. The purpose of this study was to see if most SMEs have a risk control strategy or framework in place to help them deal with business challenges, and the findings revealed that operators' knowledge of SMEs and risk mitigation is severely lacking. The operators do not see the need to back up their operations because of their lack of understanding. There is a link between SMEs' business understanding and the amount of sales written off as bad debt, according to the findings. However, one of the findings shows that as SMEs gain a better understanding of their businesses, they are more likely to implement sound risk control strategies to keep the problem from spreading. Despite this, the majority of SMEs in the study areas lack a thorough understanding of the businesses they operate, leaving them vulnerable to a variety of risks. It is recommended that SMEs' owners have a good understanding of their businesses and that they hire experts to train and retrain their employees in order to help them function more effectively and contribute to economic development. In order to have a robust risk mitigation plan, SMEs should be encouraged to ensure attention to recording backups of critical information about their businesses.

Following the research, the following recommendations were made:

1. SMEs owners should adopt risk control strategies and purchase an insurance policy for their business as a matter of necessity, as this will help to protect them against risk.

2. Insurance companies, for their part, should raise awareness about the importance of insurance policies in risk management and instill confidence in business owners in their operations, as the insurance industry can only thrive on trust.

3. The government should implement capacity-building and sensitization programs for all business owners to educate them on the importance of risk management.

4. The concept of micro-insurance should be seriously considered and made appealing to small and medium-sized businesses (SMEs) in order to make insurance policies more accessible and affordable to them.

5. SMEs should acquire and apply the knowledge of risk oversight by leveraging professionals' expertise in risk management as well as identifying opportunities for their companies' benefit.

6. Managers must make sure that everyone in the organization is trained and aware of the specific risks associated with their various job responsibilities. This is to ensure that every employee in the company is responsible for managing some aspect of risk by learning essential risk management skills and understanding management's risk tolerance.

7. SMEs must also clearly define their risk appetite and develop a risk culture that is effective and efficient. This will make it easier to assess and evaluate the organization's performance and financial health.

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