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Analysing the Risk Management Perception of Small, Micro and Medium Enterprises

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Abstract: South African small, micro and medium enterprises (SMMEs) display a rather poor performance despite their importance in developing economies. The global Coronavirus (Covid-19) pandemic and recession in South Africa have proved the need for comprehensive risk management perception and sound risk management practices in SMMEs. This paper aims to analyse the risk management perception of SMMEs in the Sedibeng District area to identify the possible reasons for their failure. Additionally, the study aims to provide SMMEs in the Sedibeng District with a more pronounced perception of risk management through a thorough explanation of risk management theories and the importance of risk management as a whole. The results indicated that in the Sedibeng District, SMMEs do not employ adequate risk management practices and do not follow the risk management process correctly. It was also found that SMME owners and risk managers do not proactively identify risks early enough, which might pose significant pressure on risk management processes later on. The theoretical relationship that should exist between risk identification and risk management was very weak and can lead to SMMEs that are vulnerable and more susceptible to failure. The lack of this relationship proves that SMME managers d/o not have a sound risk management perception that will lead to poor risk identification and management thereof. This is detrimental not only to the survival and growth of SMMEs, but also to the South African economy as a whole.

Keywords: Covid-19; risk identification; risk management; South African economy

JEL Classification: G32

1. Introduction

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With the ever-rising complexity and uncertainty faced by organisations, risk management must be meticulously attended to more than ever (Carvalho & Rabechini, 2015). Risk is an inevitable feature in an organisation and can be defined as an undetermined result of activity akin to something of human value (IRGC, 2005). An SMME can be defined as an organisation that has been in existence for not more than 42 months. After it has successfully been in existence for a period exceeding 42 months, it is considered an established firm (Government Gazette of the Republic of South Africa, 2003). The Government Gazette (2003) further states an SMME to be "A separate and distinct business entity including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy stated in Column I of the Schedule14'' (Government Gazette of the Republic of South Africa, 2003).

SMMEs are considered to be a crucial tool in addressing the difficulties of job creation, sustainable economic growth, equitable income distribution and a general stimulant for economic development. SMMEs are drivers of comprehensive economic growth and development through diversification, which occurs by the development of new and unsaturated sectors in the economy. They contribute approximately 60 per cent of employment in South Africa and 40 per cent of gross domestic product (GDP) (Meyer, 2004). South Africa's official unemployment rate in 2019 Q4 was measured to be 29 per cent (Statistics South Africa, 2019). This rate was the highest that Statistic South Africa has measured since 2008. In conjunction with unemployment, is high-income inequality levels and poverty levels, and more recently retrenchment. In the third quarter of 2019, 28 000 jobs were lost in South Africa (Statistics South Africa, 2019) and the global Covid-19 pandemic poses an even greater threat to the growth of the economy. The official rate of unemployment increased to 30.8 per cent in the third quarter of 2020 (EWN, 2020).

According to the Global Entrepreneurship Monitor (GEM) 2018 report, South Africa has one of the lowest creation rates of SMMEs in the world, its entrepreneurial activity was at its peak in five years of 11 per cent in 2018 which was higher by 4.1 percentage points compared to 2016 (GEM, 2018). There is speculation about whether the creation of new SMMEs is significant when considering their survival period. According to Van der Walt and Van der Walt (2008), the failure rate of SMMEs in South Africa is estimated to be between 70 per cent and 80 per cent in the first five years of their existence. If SMMEs play such a crucial role in the economy of developing countries as productive drivers of inclusive economic growth and development, more effort needs to be put in to correct this estimation period.

Studies by Leboea (2017) and Ropega (2011) have been administered to understand the reason for SMME failure. Studying the perception of risk assesses how people

characterize and evaluate dangerous activities and technologies. From these numerous studies, it was discovered that SMMEs perceive their failure to be caused by a lack of capital or access to capital. However, the Institute of Risk Management South Africa (2006) disagrees with the lack of capital being the overarching reason for SMME failure, where their findings showed that 80 per cent of SMME failure is brought about by poor management. It is essential to improve corporate governance and the connection to risk management (Institute of Risk Management, 2006). Despite the vast research on failures of SMMEs, no study has been conducted under the dire 2020 conditions of a recession and a pandemic, which highlights the importance of this study.

The Covid-19 pandemic has threatened the performance of SMMEs, which is detrimental to South Africa's already vulnerable economy (Haren, 2020). Moreover, the downgrade to junk status by Moody's Investors Service has weakened business confidence for foreign investors and the combination of a pandemic and junk status will deepen the recession (Isa, 2020). It is pertinent that SMMEs in South Africa thrive during and after a pandemic, as more than half of employment is dependent on them. They must receive the necessary financial backing not only to support their employees but as a solution to the growing unemployment South Africa is currently facing and more unemployment that will occur as a result of the Covid-19 (Abodunrin, Oyinlola & Adesola, 2020). The government has put highly commendable measures in place to help support the survival of SMMEs during the Covid-19 pandemic (Bruwer, Hattingh & Perold, 2020). However, in addition to this, it is more important that SMMEs employ sound risk management practices to curb the overdependence on the already highly pressured government. To achieve this they need to perceive risk management as a vital and necessary tool to have in place. After the global pandemic, the start-up and survival of SMMEs will become extremely important to improve the economy. Proper perception and practice of risk management will help SMMEs succeed.

2. Literature Review

Puhakka (2007) proposes that there has been a shift from research on the management of established organisations to the creation of new firms. Policymakers have responded to this research because of high poverty levels, unemployment rates and high inequality rates. Schumpeter (2001) was the first of many economists to support new firm creation because they are important for the progress of capitalism. The creation of SMME according to Schumpeter's theory, would feed a "creative destruction process'' by giving rise to uniform disturbances to an equilibrium in the economy and produce economic rent opportunities. Fatoki (2014), points out that successful SMMEs are more likely to add important benefits to the economy in a form of new products, employment opportunities and taxation income. Furthermore,

with the Covid-19 pandemic and junk status, more innovation and employment activities are going to be needed to speed up economic recovery. New SMMEs will be needed to adapt to the new normal by taking advantage of new opportunities in unsaturated industries brought about by the pandemic itself while old SMMEs and other corporations recover. The pandemic has exposed serious flaws in many industries and by responding to this demand, SMMEs can continue being a source of economic growth and employment for South Africa (Lucchese & Pianta, 2020).

2.1. Reasons for SMME failure

A new SMME is created through a two-stage process (Government Gazette of the Republic of South Africa, 2003):

1. The start-up phase: three months in which individuals are identifying the goods or services that the organisation will sell, acquire its necessary resources and organize the required infrastructure.

2. The second phase is from the third to the 42nd month, at this point, the organisation participates in trade and begins to compete in its respective industry (Government Gazette of the Republic of South Africa, 2003).

Singh (2019) distinguishes reasons for the failure of SMMEs to be rudimentary characteristics that differentiate SMMEs from large organisations as firstly, their smallness and secondly, their turnover and failure rates. Furthermore, Singh (2019) states that the opportunity of a new SMME to become an established member of the industry is unfortunately minor. That the SMME owners will last until their funds are depleted and exit the industry only to be replaced by another owner that will probably undergo the same circumstances. Unawareness of the odds against them and ignorance of the weapons of trade feeds the cycle.

SMME failure is a complex and difficult concept to define, and there are several meanings assigned to it. Others may define failure as insolvency- being unable to pay creditors or the disability to yield profits for three years but the easiest definition is that of legal failure. Legal failures take place when an organisation is formally liquidated (Mujinga, 2013).

Yrle, Hartman and Yrle (2000) propose a different meaning that links the failure of SMMEs to the exit rate of SMMEs in the small organisation sector, although the data for this could be challenging to acquire. According to Mahadea, O'Neill, and Burger (2004), only knowing the technicalities of starting an organisation is not enough. SMME managers need to shift their attention from capital to strengthening their results using risk management. This could be realized by familiarising themselves with risk management principles and strategies that are personalised for SMMEs and

committing themselves to implement them correctly and timeously (Mahadea et al., 2004).

Stinchcombe (1965) suggests that the liability of newness is a valid factor in SMME failure. Liability of newness points to the inability of new businesses to gain access to external sources of knowledge and invest in research and development which contributes to its high risk of failure (Schoonhoven, 2015). This point of view suggests that the failure experienced by new organisations arise from both internal reasons and external factors. Internal reasons being those that can be controlled by the organisation such as lack of management experience, employee incompetence, fraud, failure to comply etc. External factors are those that the organisation cannot control such as the level of competition present in that particular industry or the prices that suppliers set or a global pandemic such as the Covid-19 (Arasti, 2011). The failure of SMMEs to practice proper risk and financial management is detrimental to their survival because it narrows their options to effectively deal with these internal and external events. Fatoki (2014) states that the liabilities of newness are a problem for new SMMEs because it is more expensive to win over an already existing and dominated market than it is to begin a new one. Leboea (2017) suggests other factors to be:

- Technological capabilities of SMMEs;
- Qualified workforce;
- Macro-environmental factors;
- Political-institutional factors;
- Socio-cultural factors;
- Acquiring external financing;
- State laws, regulations and policy; and
- Insufficient infrastructure.

Organisations that approach organisational risk in a logical and structural method are more likely to experience growth and survival. Additionally, they can also enjoy low costs and low insurance premiums (Aziz & Manab, 2020). High achievement without taking risks is almost impossible, it is basic of organisation management, and it is persistent and can rarely be avoided in the pursuit of profit and prosperity. Additionally, businesses will have to be innovative and creative, however risky it may be, to attain success in the new global economy that is currently forming in this global pandemic (Harari, 2020). Taking this risk emphasises the need for sound risk management practices.

Risk management can assist SMME managers to recognize important risks that can endanger the growth or survival of the organisation in time to efficiently deal with these risks (Brustbauer, 2014). The failure or misjudgement of risks can have grim consequences, ranging from bankruptcy to losing customers (Hollman & Mohammad-Zadeh, 1984). However, a lot of SMMEs do not apply risk management practices sufficiently or at all, mostly because of their financial constraints or a lack of financial and risk management knowledge. They do not have the funds to dedicate to adequate risk management practices (Marcelino-Sádaba, Pérez-Ezcurdia, Lazcano & Villanueva, 2014).

2.2. Risk behaviour of SMME Managers

There is substantial proof that the attributes of SMME owners and the structure of ownership have a notable effect on the direction that the organisation takes and the risk management practices adopted. These attributes include race (Hussain & Matlay, 2007), gender (Brusch, 1992), tertiary education (Cassar, 2004) etc. Research by Acar and Göc (2011) based in Turkey, exposed that in health and finance the perception of risk had a negative correlation with the risk appetite, while the risk correlates positively with the size of the organization. SMMEs managers from this particular research appear to have a higher risk perception. Moreover, Acar and Göc (2011) reveal that an organisation's risk management budget increases as the size of the organization increases, and those small organizations tend to have lower risk tolerance.

The research by Carson, Gilmore and Rocks (2004), revealed that financial constraints cause SMMEs to focus on organisational strategies that are low in risk over those that promote growth. However, Acar and Göc (2011) also pointed out that risk perception is highly dependent on the characteristics of the industry as rapid changes in demand and technology can influence the organisations' risk perception. Moreover, businesses might have to choose growth strategies that come with more risk than they are comfortable with accepting as it will be more vital for their survival. Another key point in the research was the comparison of managers in developing countries to those in developed countries. This revealed that developed country managers take on more risk than managers in developing countries and that individual culture is an important characteristic of individual risk appetite (Acar & Göc, 2011). The implications for South Africa, a developing country that is currently undergoing junk status and a pandemic, is negative. South African SMMEs need to take more risk to be competitive and to improve the economy.

Additionally, Watson and Newby (2005) in their study of 673 SMMEs in West Australia reported that the risk appetite of male SMME managers appears greater than that of females, it goes further to even consider the age and concludes that younger SMME manager's risk appetite is higher than that of older managers.

Dickason and Ferreira (2018) in their study of 600 South African investors also found male investors to have a greater risk appetite than females. However, Dickason and Ferreira (2018) found that young investors take lower average risk than older investors and that they have a lower risk tolerance than what is suggested by the investor lifecycle theory. The investor lifecycle states that young investors at the pinnacle of their earning capacity should be more inclined to take greater risk than those nearing retirement (Chhabra, 2005). A feasible argument for the age-risk appetite relationship was explained by Gilmore et al. (2004), who suggests that SMME managers with more knowledge, which could be due to their greater age, are more critical when it comes to risky situations and therefore make more informed decisions in accordance to their risk-averse point of view.

Adding to age and gender, the manager's level of education plays a critical role in risk tolerance. As Kim and Vonortas (2014) revealed, a higher level of education positively relates to assuming risk mitigation strategies. Sung and Hanna (1996) also found the risk tolerance level to increase with the level of education, therefore proving a positive relationship between the two variables.

2.3. The Need for SMMEs

In South Africa, SMMEs have been endorsed since 1995, the goal is to achieve the economic growth objectives of the government (Roux, 1997). The Small Organisation Act was legislated in 1996 by establishing organisations like the National Small Organisation Council and the Ntsika Organisation Promotion Agency. Conversely, regardless of persistent government tactics such as the official establishment of the Small Organisation Development Agency by the Department of Trade and Industry (DTI) in 2004, the condition of most SMMEs still proves to be highly challenging (AFREC, 2005).

SMMEs should be important to the South African economy, they have the highest chance of tackling inequality, unemployment and the rising problem of retrenchments, but unfortunately, this is not the case (Lloyd, 2002). SMMEs are even more important now amid a global pandemic and junk status, to restore employment opportunities and for economic recovery. Their low estimated survival period affects the economy as a whole negatively; government receives less revenue from tax returns, households and organisations are exposed to less employment and opportunities, and the economy loses out on boosting its GDP (Abodunrin et al., 2020).

If this problem continues, entrepreneurs will be discouraged. Without SMMEs, South Africa will experience even higher unemployment and inequality, and this could lead to loss of investments, a depression in terms of the business cycle and a prolonged period of a downgrade from the rating companies in junk status.

Moreover, suffering junk status for a long period will be the beginning of a vicious cycle where everyone will be left worse off. A loss of jobs will lead to less spending and therefore causing economic consumption and output to contract which will lead to further job loss. Stock markets will be negatively affected and foreign investment will decrease, subsequently causing the economy to contract even further (Hurd & Rohwedder, 2010).

From 2017 to 2019, South Africa has witnessed a decline in the absorption capacity of the formal sector despite economic growth, proving the need for self-employment (StatsSA, 2019). The need to create employment opportunities will be heightened after the Covid-19 pandemic as the formal sector is undergoing massive retrenchments and other companies are seizing operations completely (Horsley, 2020). As per historic events, it has been observed that unexpected shocks similar to the Covid-19 such as the 2009 swine flu pandemic (H1N1), have resulted in high unemployment (Leduc & Liu, 2020). SMMEs will become the most feasible way to create employment and well-being in South Africa and practical economic revitalising strategies will be of utmost importance.

It is very important to note that despite the previous efforts made by other researchers to highlight the importance of SMMEs in South Africa, no research has been done during or after the effect of a global pandemic. This research aims to apply the knowledge provided by previous researchers and additionally provide nuances in light of the Covid-19 pandemic. This will be done with the hopes that SMMEs will start perceiving risk management as a pivotal tool for their survival, for either a normally operating economy or an economy experiencing great difficulties.

3. Methodology

Discovery has been the intention of science since the beginning of the Renaissance (Schickore, 2004). But the methods of those discoveries have differed with the essence of the materials being observed and the times we live in. Methodology refers to a way of thinking and reviewing a social reality while methods are actions and techniques for collecting and examining data (Strauss & Corbin, 1998).

Leedy and Ormrod (2001) defined the research methodology as a well-rounded procedure a researcher follows when working on research. Therefore, quantitative research is concerned with quantifying and examining data to get results. It comprises of the use and inspection of numerical information making use of precise statistical techniques to find answers to questions such as who, how much, what, where, when, how many, and how. Expanding on the above description, Aliaga and Gunderson (2002) define quantitative research methods as the explanation of an occurrence through collecting numerical data and examining it with the help of mathematical technique; particularly statistics. This research applied a quantitative

methodology using secondary data from a similar study that developed a risk management tool for SMMEs in the Sedibeng district (Kruger, 2020). Simply put, secondary data is every dataset not collected by the researcher, or the examination of data collected by someone else (Martins, da Cunha & Serra, 2018). Secondary data may include data that has been formally collected and is being considered to be used for new or additional questions, for which the data collected originally was not meant (Martins, da Cunha & Serra, 2018). Data from two self-constructed scales from Kruger (2020) were used. Firstly, Section A from the primary questionnaire was aimed at risk identification where this section intended to identify how risk is perceived and experienced by small business owners in this area. The 4 point Likert scale (14 items) included questions to determine whether small business owners regard risk as a pure loss or as an opportunity. Furthermore, it aimed to illuminate whether business owners can easily identify liquidity risk, operational risk or credit risk within their business. Secondly, a 6-point Likert scale (17 items) on risk management was used which aimed to conclude what aspects of risk management small business owners implement daily.

3.1. Research Population and Sample Size

The target sample for this study was SMMEs from the Sedibeng District municipal area, South Africa. This area includes the Emfuleni, Lesedi and Midvaal local municipalities (Municipal Demarcation Board of South Africa, 2017). SMMEs are defined as organisations that have existed for no longer than 42 months and employ a maximum of 50, 100 and 200 employees for small, micro and medium organisation respectively. Also, SMMEs must meet the qualitative and quantitative definition set by the National Small Organisation Act (Government Gazette of the Republic of South Africa, 2003).

3.2. Hypothesis

Based on the context and previous studies on this topic and other similar topics, other researchers have found SMME managers to have a low-risk management perception. The below hypotheses were formulated to investigate the primary objective of this study:

H_0: There is a relationship between risk identification and risk management in SMMEs

H_a: There is no relationship between risk identification and risk management in SMMEs

The aforementioned hypotheses test the relationship between risk identification which identifies how SMME managers perceive and experienced risk and risk

management which aims to determine what risk management practices SMME managers implement.

3.3. Statistical analysis

The study assumed risk management to be the dependent variable and risk identification to be the independent or explanatory variable. Equation 1 presents the relationship between risk identification and risk management:

$$Y= \alpha + \beta_1 X_1 + \mu \quad (1)$$

Where:

- Y= Risk management as the dependent variable;
- α= Constant variable;
- β_1= Coefficient for independent variable X_1;
- X_1= Risk identification as the independent variable;
- μ= Error term.

Descriptive statistics are utilised on a sample to evaluate features of a population (Kaliyadan & Kulkarni, 2019). They are concerned with the measurement of various characteristics of a population and the distribution of population values, the population can be considered finite if it consists of a data set or otherwise infinite. Examples of descriptive statistics are typically the mean and median as central location measures, standard deviation as a measure of scale and other measures such as skewness, range and kurtosis (Oja, 1983). This study used descriptive statistics by executing a comparison of mean values and standard deviation of the variables, these descriptive statistics were used to compare discrepancies between SMMEs and the theoretical ideal SMME.

The paired sample t-test is a technique used to compare the means of two related observations on one continuous dependent variable (Pham & Jimenez, 2012). This study used the paired sample t-test and pair sample correlations to analyse the relationship between the risk identification and risk management variables.

A correlation analysis is a statistical summary that explains the level at which two variables are linearly correlated to one another and the direction of this correlation (Eberly, 2007). The correlation coefficient (r) can display a positive, a negative or no relationship between factors and the strength can take any value between -1 and 1 (Hemphill, 2003). A positive correlation proves a directional relationship while a negative correlation proves an inverse relationship, a correlation of zero indicates that there is no relationship present between the variables (Mukaka, 2012). The

correlation analysis was executed using Pearson's product-moment correlation to examine the presence of a linear relationship and Spearman's rho to examine the presence of a nonparametric relationship (Bonnet & Write, 2000). Correlations were used to test the presence, strength and direction of a relationship between risk identification and risk management.

4. Empirical Results

In the tables to follow, the empirical analysis is performed to identify and analyse the risk management perception of SMMEs. The analysis is done on two different types of SMME's namely; lifestyle SMMEs which operate for personal income purposes with no goal to grow the business into a large corporation, and growth-oriented SMME's which have the goal to make maximum profit and grow their business into a large corporation. Each table is divided into 3 sections which are the overall results of both SMME types, then the results of lifestyle SMMEs and lastly growth-oriented SMMEs.

Table 1. Descriptive Statistics of Risk Identification and Risk Management

		Mean	Std. Deviation	N
	Risk identification	26.00	4.24	2
	Risk management	84.50	19.09	2
Lifestyle SMMEs	Risk identification	27.21	4.59	121
	Risk management	69.45	17.55	119
Growth-oriented SMMEs	Risk identification	27.65	4.57	196
	Risk management	70.79	15.06	195

Table 1 was constructed to determine how SMMEs perceive and address their risks through the risk management processes. The ideal would be for a growth-oriented business to have a higher risk perception and therefore more risk management practices in place compared to lifestyle SMMEs. However, it is still important for both types of SMMEs to perceive risk adequately and to apply sound risk management practices for sustainability.

From the results obtained in Table 1 it can be said that, on average, growth-oriented SMMEs perceive and manage risk better than lifestyle SMMEs. This is because both the risk identification and risk management mean values of lifestyle SMMEs which are 27.21 and 69.45 respectively, are slightly lower than the mean values of growth-

oriented SMMEs which are 27.65 and 70.79 respectively. Moreover, the standard deviation of 4.57 and 15.06 shows that there is less variability in the risk identification and risk management of growth-oriented SMMEs than there is in lifestyle SMMEs. This means that more growth-oriented SMMEs put the effort into identifying and managing risk on average when compared to lifestyle SMMEs.

Using the mean values for both risk identification and risk management an Index value was created for both types of SMMEs for comparison purposes as seen in Figure 1 below. When comparing the mean values and index values of risk identification and risk management in both SMME types, we observe the risk identification values to be lower than risk management values. This is unexpected because risk identification is usually the first step applied in the risk management process and is contrary to theory, indicating that few SMMEs are applying the risk management process correctly (Stosic, Mihic, Milutinovic & Isljamovic, 2017). This also indicates that SMME owners and risk managers do not proactively identify risks early enough, which might pose significant pressure on risk management processes later on.

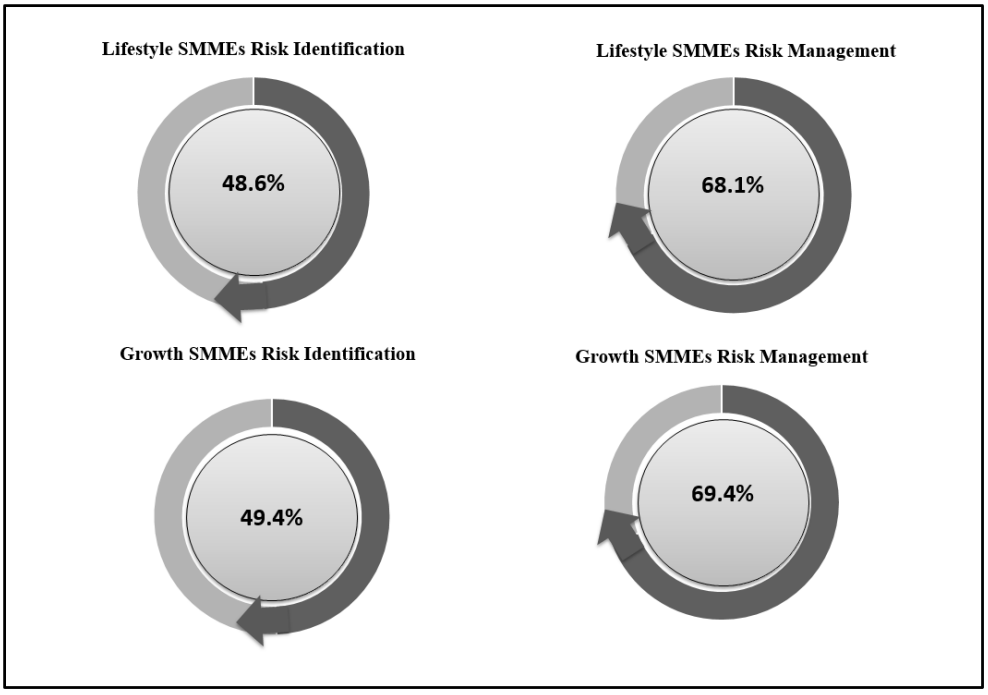

Figure 1. Index Comparison for Lifestyle ad Growth SMMESs

Table 2. Correlation between Risk Identification and Risk Management

			Risk identification	Risk management
Lifestyle SMMEs	Risk identification	Pearson Correlation	1	0.270**
		Sig. (2-tailed)		0.003
		N	121	119
	Risk management	Pearson Correlation	0.270**	1
		Sig. (2-tailed)	0.003	
		N	119	119
Growth-oriented SMMEs	Risk identification	Pearson Correlation	1	0.112
		Sig. (2tailed)		0.119
		N	196	195
	Risk management	Pearson Correlation	0.112	1
		Sig. (2-tailed)	0.119	
		N	195	195
** Correlation is significant at the 0.01 level (2-tailed).				

Theoretically, there should be a strong, positive and linear relationship between risk identification and risk management due to risk identification being the first step in the risk management process. However, there is a very low correlation of 0.112 between risk identification and risk management for growth-oriented and a correlation of 0.270 for lifestyle SMMEs. This correlation, despite being positive, indicates the lack of a strong relationship that should theoretically exist between them and further emphasizes that SMMEs do not apply the risk management process correctly. Moreover, the correlation coefficient of 0.270 in lifestyle SMMEs is higher than the 0.112 correlation coefficient of growth-oriented SMMEs. This is rather unusual considering that Table 1 shows growth-oriented SMMEs to identify and manage risk better than lifestyle SMMEs, this could mean that despite them applying risk management in their businesses, they are probably doing it incorrectly. The incorrect application of risk management might be a result of SMME managers lacking a thorough comprehension of the importance of risk management.

The p-value is observed to determine the statistical significance of the results concerning the null hypothesis (Sullivan & Feinn, 2012). For lifestyle businesses, the p-value (0,003) is significant at the 99 per cent confidence level and therefore the null hypothesis that there is a relationship between risk identification and risk

management in lifestyle SMMEs is rejected and the alternate hypothesis that there is no relationship between risk identification and risk management in lifestyle SMMEs is accepted. This is not theoretically ideal but could be due to not having the aim to grow into a large corporation.

For growth-oriented businesses, the p-value (0,119) is not significant and therefore the null hypothesis that there is a relationship between risk identification and risk management in growth-oriented SMMEs is accepted and the alternate hypothesis that there is no relationship between risk identification and risk management in growth SMMEs is rejected. Despite the relationship being relatively low, it still makes more sense for a business that wishes to grow to implement sound risk management practices more than those businesses that do not wish to. However, growth-oriented SMMEs need to apply the risk management process more rigorously to survive in the face of adversity.

During the process of risk identification and risk management, potential losses and costs are estimated to allow the business to better allocate its resources in a way that these risks may be mitigated (Hopkin, 2018). The fact that the relationship between these factors is so weak indicates a deficiency in SMMEs which puts them in a vulnerable position in risky events such as Covid-19.

Table 3. T-Test Pairs between Risk Identification and Risk Management

		Mean	N	Std. Deviation	Std. Error Mean
Lifestyle SMMEs	Risk identification	27.23	119	4.60	0.42
	Risk management	69.45	119	17.55	1.61
Growth-oriented SMMEs	Risk identification	27.67	195	4.57	0.33
	Risk management	70.79	195	15.06	1.08

The standard error indicates how reliable the mean is (Andrade, 2020). A small standard error is preferred as it indicates that the sample mean reflects the actual meaning more accurately. Growth-oriented SMMEs display greater reliability in both risk identification and risk management when compared to lifestyle SMMEs. This is seen in Table 3 through having a standard error of 0.33 and 1.08 for risk identification and risk management respectively while lifestyle SMMEs have a standard error of 0.42 and 1.61. This means that outside the sample used in this paper, more growth-oriented SMMEs identify and manage risk better than lifestyle businesses on average. This again can be associated with growth-oriented SMMEs who aim to grow and survive when faced with risks while lifestyle SMMEs only aim to survive (Ranke, Aichele, Görzig, Luckert, Siegert & Bauernhansl, 2020).

Table 4. Paired Samples Tests between Risk Identification and Risk Management

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Lifestyle SMMEs	Risk identification – Risk Management	-42.23	16.90	1.55	-45.29	-39.16	-27.26	118	0.000
Growth-oriented SMMEs	Risk Identification – Risk Management	-43.12	15.24	1.09	-45.28	-40.97	-39.52	194	0.000

The mean of the paired risk identification and risk management of growth-oriented SMMEs is 43.12 and is larger than that of lifestyle SMMEs which is 42.23. This indicates that growth-oriented SMMEs pair risk identification and risk management slightly better than lifestyle SMMEs. Moreover, the p-values for lifestyle and growth-oriented SMMEs are both 0.000 and are significant, meaning it can be concluded that there is a statistically significant difference between both these means. The t-statistic shows that the difference between the pairs is more pronounced in growth-oriented SMMEs than in lifestyle SMMEs and is unlikely to have occurred by chance. This could be due to growth-oriented SMMEs having the intention and goal to grow and therefore implementing better risk management practices than lifestyle SMMEs (Ranke et al., 2020).

5. Conclusion

This study empirically analysed the risk management perception of SMMEs by examining the risk identification and risk management behaviour of SMMEs, mainly lifestyle SMMEs and growth-oriented SMMEs. From the results presented, a conclusion that SMMEs, both lifestyle and growth-oriented, do not practice adequate risk identification and risk management practices can be drawn. The results indicated that SMME owners and risk managers do not proactively identify risks early enough, which might pose significant pressure on risk management processes later on.

Moreover, the results indicated that most theoretical and ideal relationships that are expected in risk identification and risk management, are not present in SMMEs in the Sedibeng District. These SMMEs do not implement the risk management procedure properly, proving that SMMEs do not adequately perceive risk management through early risk identification. These results are of value to SMMEs in the Sedibeng District, who aim to survive when faced with harsh economic

conditions such as recessions and pandemics. These results are also valuable to SMMEs who aim to grow because they emphasize the importance of sound risk management practices.

However, it is important to note that these findings are from a sample located in the Sedibeng District only. It would be commendable for similar studies to be expanded to areas outside of the Sedibeng district and incorporate the shift in risk management perception after a pandemic. Sound risk management perpetually identifies and manages risks that affect the business to achieve growth and sustainability. However, SMMEs do not reach this standard and therefore more effort should be put into educating SMME owners and managers on how to achieve this. This will not only benefit their businesses but South Africa as a whole.

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