RISK RETENTION STRATEGY AND COMPETITIVENESS OF SMALL AND MEDIUM ENTERPRISES IN KENYA

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International Academic Journal of Human Resource and Business Administration

(IAJHRBA) | ISSN 2518-2374

Received: 20th October 2022

Published: 5th November 2022

Full Length Research

Available Online at: https://iajournals.org/articles/iajhrba_v4_i1_466_481.pdf

Citation: Mumassabba, J., Mukulu, E., Atikiya, R. (2022). Risk retention strategy and competitiveness of small and medium enterprises in Kenya. *International Academic Journal of Human Resource and Business Administration*, *4*(1), 466-481.

ABSTRACT

The purpose of the study was to evaluate the influence of risk retention strategies and competitiveness of small and medium enterprises in Kenya. Specifically, the study sought; to determine the influence of insurance adoption, outsourced services, and portfolio risk assessment. Risk retention is when a company decides to take responsibility for a risk it faces, as opposed to transferring the risk over to a third party. The existing literature showed that research has been done on risk management. However, very few studies were done on risk management and competitiveness of SMEs in Kenya having in mind the scope of Kisumu County and specifically the risk retention strategy. Therefore, the study sought to address this gap. The success of an organization depends upon the risk management strategies put in place. The strategies adopted can reduce earnings volatility, maximizes value for shareholders and promotes job security and financial security in the SMEs. This study adopted a descriptive research design. The target population were SMEs registered by the County Government City of Kisumu, with the category permit fee of between Ksh 5000 and Ksh 200,000 as of December 2018 and employing between 10-49 and 50- to 99 employees. Stratified random sampling was used then simple random sampling was used to pick a total sample of 375 respondents from each stratum. The study used linear regression model to establish the relationship between risk transfer strategy and competitiveness of SMEs in Kenya. The strata representation was selected using the proportional allocation method for each one in the target population to have an equal chance of participation. Tool for data collection was a standardized questionnaire. The study established that risk retention has a significant influence on SMEs competitiveness.

Keywords: Risk, retention strategies, Competitiveness.

INTRODUCTION

Risk management is evolving and taking a center stage in how organizations run their businesses (KPMG Limited, 2017). Risk is generally considered the possibility of outcomes deviating from what was expected, primarily firms are concerned with negative outcomes since their negatively affect the business operation and thus require proper management (Crouhy, Galai, & Mark, 2013). Therefore, it is important for a business to manage its risk exposure. Particularly, SMEs competitiveness is handicapped by inadequacies in risk management with lack of appropriate response to risk facts affecting small firms more compared to large firms (Şenera, Savrulb, &

Aydına, 2014). Firms develop strategies to enable them to seize strategic initiatives and maintain a competitive edge in the market (Porter, 2008). The Scope of the study was Kisumu County.

This was guided by the fact that; Kisumu County is one of the Kenya's 47 counties. Specifically, Kisumu County is mainly volatile to political challenges. According to Juma, 2019 Small Medium Enterprises (SME) in Kisumu have been hard hit with political stalemate in the region with most of them getting to the brink of dying. Juma in his report further noted that some of the SMEs had closed for 4 months as political temperature continued to mount in 2017. The study hypothesized that different business environments expose firms to risks and the firms therefore need different strategies which have different requirements for success's use several strategies including risk retention strategy to enable them to survive in the competitive environment. It is due to these that the study evaluated influence of risk retention strategy on SMEs competitiveness in Kenya. The findings will help SMEs in Kenya to assess their current and future strategic positions, identify critical factors and find methods of assuring success (Kithinji, 2012).

Problem Statement

Engaging in risk management strategies approach to SMEs competitiveness requires a certain budget and human resource. This hampers SMEs ability to set up and invest in a comprehensive risk management program. This is so as SMEs are characterized with scarcity of resources-both financial and human resources. SMEs therefore have little option left and as a result, they must absorb most uncertainties and risks confronting them. However, they are unable to absorb most of these uncertainties and risks. According to the Kenya agribusiness and agroindustry alliance report for 2016, in 2014, 80 percent of jobs created were dominated by these enterprises. Despite their significance, SMEs in Kenya are faced with the threat of failure with past statistics indicating that three out of five fails within the first few months and two thirds of SMEs fail within the first few years of operation (Ng'ang'a, Muthus, & Nassiuma, 2015). It is notable that SMEs continue to grow and have attracted both local and international investors.

In the Kenyan economy, various studies have been done on risk management strategies across various contexts and sectors with limited focus on risk retention strategy and SMEs based in Kisumu. In his study, Elahi (2013) focused on risk faced and mitigation strategies employed by SMEs in Nairobi, Kenya. Muchiti, (2021) in her study, focused only on risk management strategies adopted in lending to SMEs in Kenya.In his study, Spikin (2013) states that the increasing volatilty and competition which organizations have faced in this era, have forced them to implement at least some level of risk management.He continues to state in the same study that risk management is not only an instrument to prevent organization damaging events but a force to see opportunities.Since risk mitigation strategy influences firm's economic success, this study sought to investigate risk mitigation strategy and SMEs competitiveness in Kisumu County, Kenya.

RESEARCH OBJECTIVES

General Objective:

The general objective of this study was to evaluate the influence of risk retention strategies and competitiveness of small and medium enterprises in Kenya

Specific Objectives:

Specifically, the study sought; to determine the influence of insurance adoption, outsourced services and portfolio risk assessment and acquisition on competitiveness of Small and Medium Enterprises (SMEs) in Kenya.

Research Hypothesis

H_{04}: Risk mitigation strategy has no significant influence on competitiveness of SMEs in Kenya.

Rationale of the Study

This study will be of importance to the SMEs as it brings out the role of technological adoption, management involvement in decision making and adoption of mergers and acquisition on competitiveness of SMEs. The results of this study will also be valuable to policy makers as it provides empirical evidence to direct policy formulation and implementation. The results of the study will also be useful to researchers and academicians as it acts as source of reference for future studies.

LITERATURE REVIEW

Risk Retention Strategy

Risk retention is when a company decides to take responsibility for a risk it faces, as opposed to transferring the risk over to a third party. Companies may do so because they believe that the cost of doing so is less than the cost of fully or partially insuring against it (Loewenstein, et al., 2013). The criteria for determining retention capacity needs to be clearly understood by directors and applied in a consistent manner. Regular assessments will enable directors to better understand their own risk register, enabling management to drive down the cost of risk and aiding insurance brokers to design the most comprehensive and cost-effective insurance packages. Business owners can use various strategic theories to stimulate growth by taking the risk retention strategy. One of it can be profit maximization and competition-based theory.

According to Lin and Chang, (2015), business owners can achieve differentiation in diverse ways, including through customer service, technology features, brand image, dealer network, and design. These are areas that need to keenly be looked at as businesses seek to absorb risk retention strategy.

Diversification strategies are used to expand the firm's operations by adding markets, products, services or stages or production to the existing business (Eukeria & Favourate, 2014). Kotler and Keller, (2006) identifies three types of diversification strategies namely, concentric, horizontal and conglomerate. Horizontal Diversification strategy occurs where a company seeks new products that could appeal to its current customers even though the new products are technologically unrelated. Conglomerate Diversification Strategy takes place where a company seeks new businesses that have no relationship with their present business or market operations. Collins and Montgomery, (2008) divided diversification into two types related and unrelated diversification. The two are analyzed in-depth, considering their merits and demerits whereas Emms and Kale (2006) describes the various ways and strategies adopted by diversifying companies as modes of diversification (Eukeria & Favourate, 2014). Various strategies are used when considering using retention as a risk strategy.

For a business enterprise to decide to retain risk, a lot must be looked at. Much should be geared to competitiveness of the organization. Aggressiveness, substantial elements of the entrepreneurial orientation of SMEs, have a significant impact on the management of SMEs. According to luwafemi, Adebisi, Simeon and Olawale, (2013), the good shareholders return indicates the firm's performance as the one of corporate management objectives. These objectives come at the cost of the risk increase. Corporate institutions face different risk such as: interest rate risk; market risk; credit risk; off balance risk; technology and operational risk; foreign exchange risk; and insolvency risk (Hennie & Sonja, 2009).

Compliance to structures within the business industry may be in the best interest of the organization. This does not necessarily mean that it will lead to optimal results from the perspective of complying individuals, projects, or departments. This is not merely a philosophical stance, given the scandals society has seen at organizations such as Enron, WorldCom, Parmalat MacLean and Behnam (2010). This makes compliance a strategic issue in the current era, especially considering the high financial and non-financial costs organizations must pay for their non-compliance (Ogban, Mercy, Borishade, & Taiye, 2015). Consequently, there is the need for a structured overview of generic ways for encouraging compliance which may need organizations to continuously engage in research and development (Cleven, Winter, Wortmann, & Mettler, 2014).Organizations experience difficulties, however, in implementing various approaches (Cole & Salimath, 2012), possibly due to lack of awareness of the full spectrum of actions that can be taken. Scandals and unethical firm behavior can also severely damage an organization's reputation due to dissatisfied customers, shareholders, employees and other stakeholders (Ralph, 2012).

It is also necessary to realize that while dealing with the financial outsourcing risk, some risk cannot be eliminated or reduced by transferring, and there even has some risks cannot be expected during the implementation of financial outsourcing process. So, under such situations, enterprises need to adopt risk retention strategy to deal with and undertake the potential risks. Make the most suitable decision according to the general analysis of type of risk, probability of occurrence and potential loss. Choose the lowest cost method when ensuring the risk level is acceptable for the company. In retention strategy there is need to evaluate the employees an organization must realize their potential and how to retain employees for organizational performance. Much attention by Human Resource professionals has been focused on issues relating to retention management. One reason may be the increased competition for skilled workers caused by the advent of globalization.

Another reason may simply be due to the shortage of certain types of skilled workers in many industries. The important message that managers must hear is that they play a key role in employee retention. Managers make the biggest difference when it comes to employee retention (Maylett & nielsen, 2012).The purpose of retention management is to keep valued employees by making them smarter, more confident, and more satisfied in performing their jobs. Organizations will experience a lower turnover and more profits because of improved competitiveness of their workers.

RESEARCH METHODOLOGY

The study adopted a descriptive research design. The target population was the 16,164 SMEs registered at the Kisumu County paying trading license of between Ksh 5,000 and 200,000 and employing employees between 10-49 and 50 -99 which is acceptable as an SME in Kenya KRA (2007). This study collected quantitative data from sample 293 SMEs using a self-administered questionnaire with a five-point Likert scaled questions. A pilot study was conducted on 40 SMEs in Kisumu County in Kenya. The purpose of the pilot testing was to establish the validity and reliability of the research instruments (Mugenda & Mugenda 2008). According to Cooper and Schindler (2011), as a rule of thumb, 1% of the sample should constitute the pilot test. Thus, the pilot test was within the recommendations. A construct composite reliability co-efficient (Cronbach alpha) was used to determine reliability. Makgosa (2006) notes that Cronbach"s Alpha of less than 0.5 indicates unreliability of the variables hence cannot be used to deduce findings. Cronbach alpha of 0.6 or above, for all the constructs, was considered adequate for this study. Overall Cronbach's alpha test for dependent and independent variable was (0.929). While alpha values for the individual variables were between (0.732) and (0.855) which registered acceptability. Validity was tested using factor loadings with Varimax rotations to identify the test items which belonged together and seem to say the same thing. The advantage of which is to ensure that the finding conclusions are focused. The criterion for element inclusion was that only those which had factor loadings of 0.50 and above were considered (Makgosa, 2006). Since all the factors scored above 0.5 under risk mitigation strategy, the items were considered valid for evaluation based on the different components. Data collected was analyzed by descriptive analysis. In addition, the researcher conducted a multiple regression analysis.

RESULTS AND DISCUSSIONS

The study achieved a 78% response rate with most of the respondents being male [58%]. Majority of the respondents [37%] had university education level as their highest education. The respondents were either SMEs owners or senior managers in the organization's that responded.

Risk Retention Strategy

The second objective of the research study was to analyze the influence of risk transfer strategy and competitiveness of SMEs in Kenya.

Types of Insurance Policies

The respondents were asked to indicate whether their companies took up insurance policies as part of competitive in the dynamic business environment. The results were as shown in Table 4.4

Table 4.1: Insurance Policies

Insurance Policy	Percentage (%)
Goods	25%
Fire	9%
Terror	2%
Automobile	0%
Data Breach	3%
Officers Insurance	19%
General Liability	25%
Business Interruption	1%
Cyber Risk	1%
Professional Liability	1%
Product Liability	6%
Work man injury	9%
None	39%

Outsourced Services

The respondents were asked to indicate whether their companies outsource services as part of competitiveness. The results were as shown in Table 4.5

Table 4.2: Outsourced Services

Insurance Policy	Percentage (%)
Supplies	37%
Administration	8%
Customer Service	20%
Accounting/Finance	28%
Marketing	29%
Operations	4%
Human Resources	0%
None	14%

Portfolio Risk Assessment

The respondents were asked to indicate whether their companies took part in portfolio risk assessment. The results were as shown in Figure 4.9

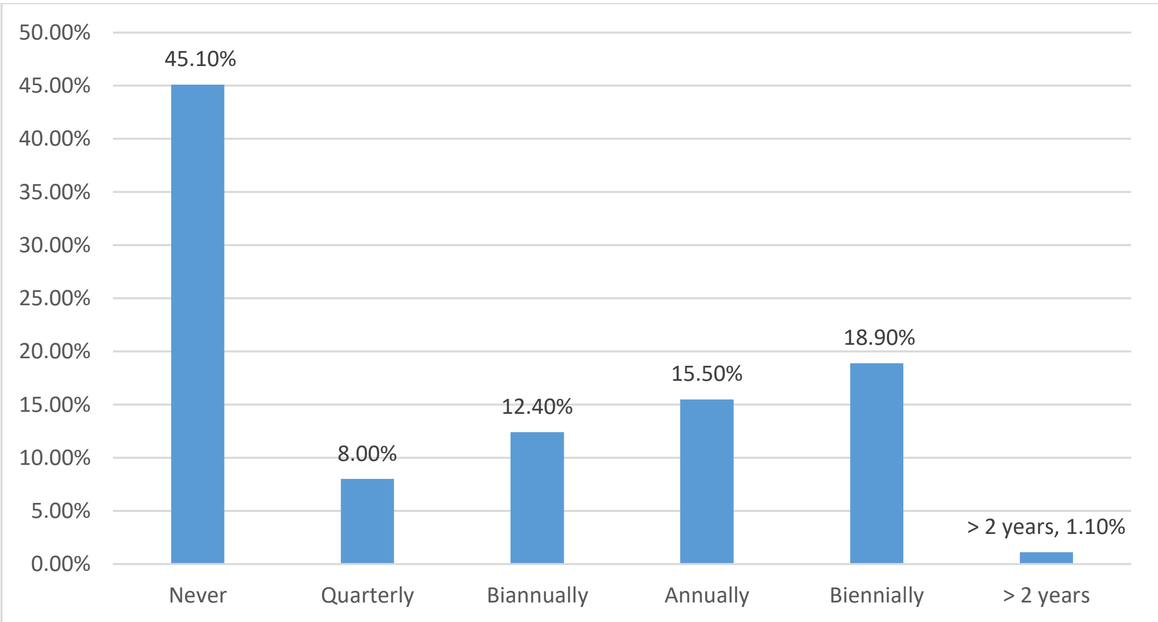

Figure 4.1: Frequency of portfolio risk Assessment

Summary Risk Transfer

Table 4.3: Summary Risk Transfer

Item	Response No.	SD	D	N	A	SA	Mean	SD
Insurance								
Reliable risk profiling method in place	288	11.8%	11.1%	21.9%	39.2%	16.0%	3.36	1.219
Investment in insurance to mitigate losses	293	10.9%	7.8%	20.5%	38.6%	22.2%	3.83	3.307
Sub Total		*11.35%*	*9.45%*	*21.20%*	*38.90%*	*19.10%*	*3.595*	*2.26*
Outsourcing								
Outsourcing of most business functions	293	11.6%	7.8%	33.8%	31.7%	15.0%	3.31	1.171
Member of various business associations	293	11.3%	10.2%	23.9%	33.4%	21.2%	3.43	1.247
Sub Total		*11.45%*	*9.00%*	*28.85%*	*32.55%*	*18.10%*	*3.37*	*1.21*
Contracting								
Contracting of Operations	292	11.6%	9.2%	35.6%	35.6%	7.8%	3.32	2.572
Sub Total		*11.6%*	*9.2%*	*35.6%*	*35.6%*	*7.8%*	*3.32*	*2.572*
Grand Aggregate	293	**11.52%**	**8.9%**	**26.2%**	**35.6%**	**17.6%**	**3.46**	**1.79**

Source: Survey Data (2021)

From the table above, the respondents Agreed with a mean of 3.36 and standard deviation of 1.219 that SMEs have reliable risk profiling method, they strongly agreed with a mean of 3.83 and standard deviation of 3.307 that SMEs invest in insurance to mitigate losses. Also, they are neutral on whether firms outsource most of their business functions shown by means of 3.31 and standard deviation of 1.171. In addition, they percentage of those neutral and agreed that most operations are contracted was the same and shown by a mean of 3.32 and standard deviation of 2.572, they agreed that they are members of various business associations shown by a mean of 3.43 and a standard deviation of 1.247 and they agree that management is involved in decision making pertaining the company shown by a mean of 3.51 and standard deviation of 1.262

Risk Retention Strategy

The third objective of the research study was to analyze the influence of risk retention strategy and competitiveness of SMEs in Kenya.

Market Research Activities in the past 3 years

The respondents were asked to indicate whether their firms had conducted market research activities in the past 3 years. The results were as shown in Figure 4.10

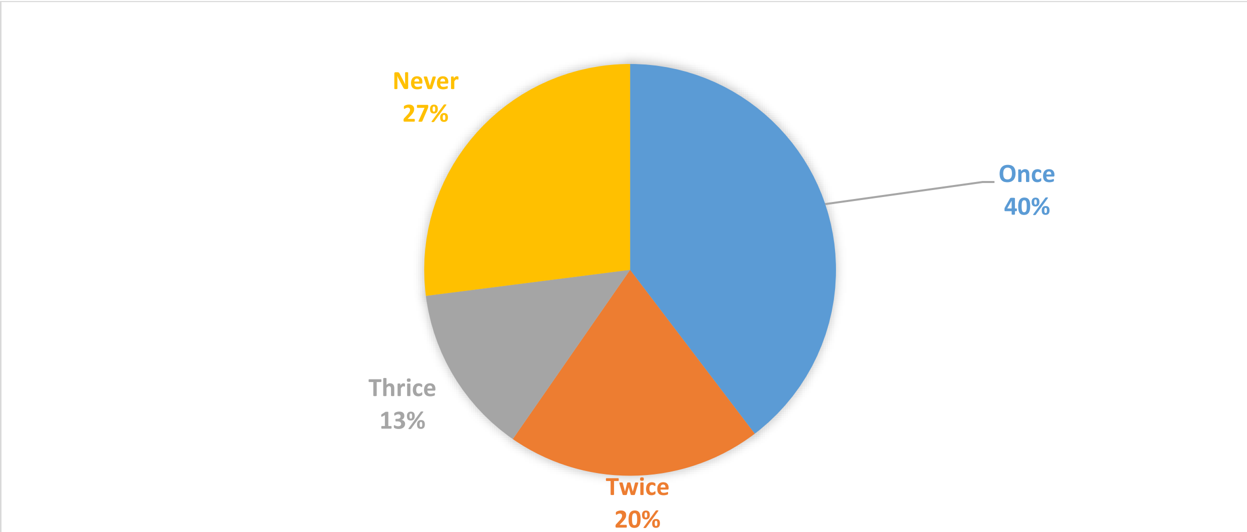

Figure 4.2: Frequency of Market Research in the past 3 years

4.3.4.2 Annual Investment on Market Research

The respondents were asked to indicate whether their firms invest in market research. The results were as shown in Figure 4.11

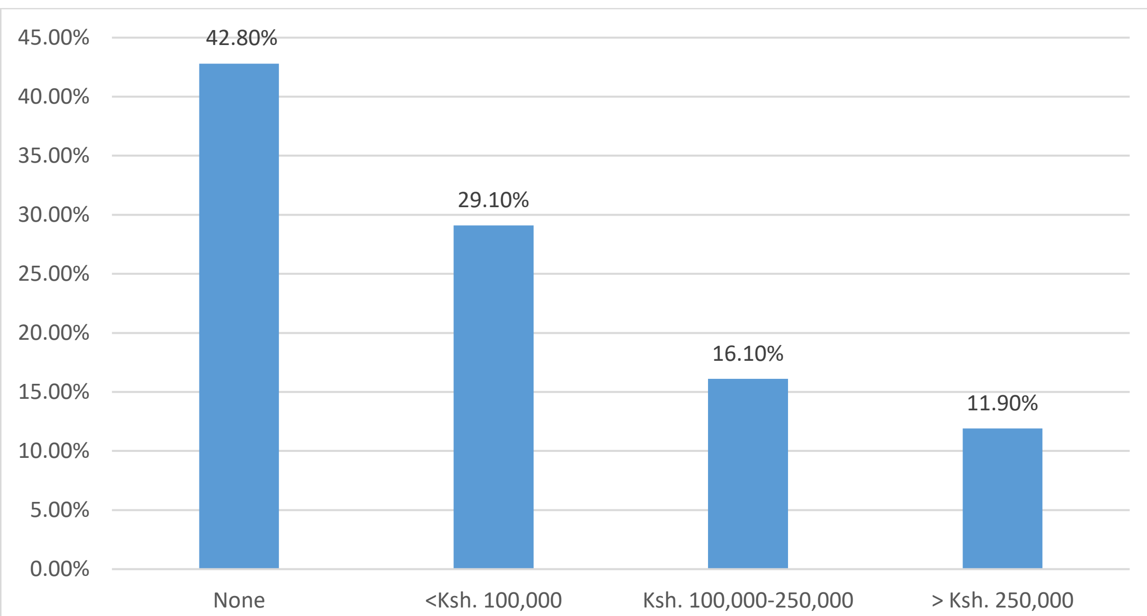

Figure 4.3: Annual Investment in Market Research

Summary Risk Retention

Table 4.4: Summary Risk Retention

Item	Response No.	SD	D	N	A	SA	Mean	SD
Financing								
Often has collateral to get credit from financial institutions	293	5.4%	12.3%	18.1%	46.8%	17.4%	3.77	2.658
Always operate with a realistic budget	293	1.7%	5.5%	23.2%	48.8%	20.8%	3.82	.884
Sub Total		*3.55%*	*8.90%*	*20.65%*	*47.80%*	*19.10%*	*3.795*	*1.77*
Capacity Development								
Employee continuous training & development	293	4.1%	5.1%	24.9%	48.5%	17.4%	3.70	.954
Frequently conducts situational analysis to understand market trends	293	2.4%	2.0%	22.5%	60.1%	13.0%	3.79	.781
Sub Total		*3.25%*	*3.55%*	*23.70%*	*54.30%*	*15.20%*	*3.745*	*0.87*
Research & Development								
Capacity to innovate new products process service	293	4.8%	9.2%	25.9%	43.0%	17.1%	3.58	1.029
Reserve funds to deal with unexpected happenings	105	0.0%	0.0%	3.8%	12.4%	83.8%	4.80	.488
Sub Total		*2.40%*	*4.60%*	*14.85%*	*27.70%*	*50.45%*	*4.19*	*0.76*
Grand Aggregate	**293**	**3.0%**	**5.7%**	**19.7%**	**43.2%**	**28.3%**	**3.91**	**1.13**

Source: Survey Data (2021)

From the table above, the respondents Agreed with a mean of 3.77 and standard deviation of 2.658 that SMEs have collateral to get credit from financial institutions, they strongly agreed with a mean of 3.70 and standard deviation of 0.954 that firms invest in continuous training and development. Also, they are agreed that they often carry out situation analysis to understand the market shown by means of 3.79 and standard deviation of 0.781. In addition, they agreed that they operate within a realistic budget shown by a mean of 3.82 and standard deviation of 0.884, they agreed that they have capacity to innovate new products shown by a mean of 3.58 and a standard deviation of 1.029 and they strongly agree that they have funds to deal with unexpected happenings shown by a mean of 4.80 and standard deviation of 0.488.

Testing Hypothesis Three

The regression results indicated that considered individually, risk retention strategy explained 26.1% variance in sustainable competitive advantage (adjusted R^2 = 0.261, F (1, 291) = 103.95, p<.001).

Table 4.5: Model for Hypothesis Three

Model Summary				Number of obs	=	292	
Source	SS	df	MS	F(1,291)	=	103.954	
Model	38.876	1	38.876	Prb > F	=	0.0000	
Residual	108.826	291	.374	R-Squared	=	0.263	
Total	147.701	292		Adjusted R-Squared	=	0.261	
				Std Err. Estimate	=	0.612	
SCA	Coefficient	Std. Err.	t	P>|t|	[95% Conf. Interval]		
_cons	1.494	.179	8.339	.000		1.141	1.846
Retention	.475	.047	10.196	.000		.384	.567

From the regression analysis results, the predicted model is as follows;

Y= 1.494 + 0.475 x Risk Retention Strategy + ε

CONCLUSION

The third study objective addresses the third research hypothesis, Risk retention. The objective was to establish the relationship between risk retention and SMEs competitiveness. The study showed a significant [p=0.001] positive relationship between risk retention and competitiveness [adjusted R square is 0.261]. The study showed that 26.1% positive significance in SMEs competitive. The study demonstrated that to achieve competitive advantage, SMEs pursues an situational analysis to understand the market through training, budgeting and operating within a realistic budget that responds quickly to the market changes.

The regression coefficients of the study show that it has a significant influence on SMEs competitiveness. This implies that increasing levels of continuous research and development, access to financing and continuous training and development increase level of SMEs competitiveness. This shows that risk retention strategy has a positive influence on SMEs competitiveness.

RECOMMENDATION

The study recommends that future studies should be conducted to determine factors influencing the choice of retention strategies. The study estimates that risk retention strategy has a significant influence on competitiveness yet very few firms indicated that they retain risk by investing in market research.

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