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

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ABSTRACT

The purpose of the study was to evaluate the influence of risk avoidance strategies and competitiveness of small and medium enterprises in Kenya. Specifically, the study sought; to determine the influence of delayed entry into geographical markets; working with suppliers and work with legally acceptable contractors. Risk avoidance is when a company takes steps to remove a hazard, engage in different activities to ensure end to a certain exposure to risk. 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 avoidance 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 was 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, Avoidance 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.

Specifically, the study sought to establish avoidance strategy and competitiveness of small and medium enterprises. Wanyonyi ,(2015) in his study sought to find out how the technique of risk avoidance by use of work plans and how it influences project performance and after analyzing data gathered from the respondents, the results of statistical significance by using Pearson Chi-Square ($\chi 2$) were summarized .In the study he notes that risk avoidance involves changing the project plan to eliminate the risk or the condition that causes the risk in order to protect the project objectives from its impact. This notion seems to be corroborated by the findings in this study since there was a statistically significant influence of risk avoidance techniques on project performance which is the objective of every project manager. From the study findings it was apparent that there existed statistically significant relationship between risk avoidance and performance of projects, this was clearly indicated by utilization of various techniques in the effort to avoid risks including use of contingency plans, implementation of safety systems, use of work plans in execution of projects and utilization of regular inspections to ensure no eventuality occurs that may affect the performance of project.

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 avoidance to enable them to survive in the competitive environment. It is due to these that the study evaluated influence of risk avoidance 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).

Statement of the Problem

Engaging in risk management strategies approach to SMEs competitiveness requires a certain budget and human resource. Management ability to identify risks their SMEs could face and take actions to counter the risks will certainly lead to successful and profitable ventures. By incorporating risk management into SMEs operations, SMEs are better equipped to exploit their resources, thereby enabling their organizations to transform an expenditure activity into an activity that can yield a positive return. Due to minimal available resources, SMEs 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 their study, Manuj and Menterz(2008) stated that, various types of risk can be done through delayed entry into the market,deploying of specialized assets or focusing on certain low risk geographies. This kind of procedure is intended for driving by and large probabilities related with hazard occasions of a choice to zero by guaranteeing that the hazard does not exist (Manuj & Mentzer, 2008). 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 avoidance strategy influences firm's economic success, this study sought to investigate risk avoidance 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 avoidance strategies and competitiveness of small and medium enterprises in Kenya

Specific Objectives:

i. To determine the influence of entry into new geographical regions on competitiveness of Small and Medium Enterprises (SMEs) in Kenya
ii. To determine the influence of working with selected suppliers on competitiveness of Small and Medium Enterprises (SMEs) in Kenya
iii. To determine the influence of working with legally acceptable contracts on competitiveness of Small and Medium Enterprises (SMEs) in Kenya

Rationale of the Study

This study will be of importance to the SMEs as it brings out the role of geographical regions, working with suppliers and working with legally acceptable 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 Avoidance Strategy

Risk avoidance strategy is focused on eliminating the probability of a risk materializing completely. Tunel and Alpan (2010) stated that risk avoidance provides an effective way of managing risk in organizations. This is because by avoiding an activity, the chances of loss about that activity are eliminated or reduced. Hence, the executive's system of an organization decides not take part in a movement consequently, any possibility of misfortune is eliminated (Broder & Tucker, 2012). Not participating in an action viewed as unsafe is obviously better than bearing the exorbitant and troublesome results of managing such exercises. It may not be conceivable to wipe out hazard totally but rather, a hazard shirking technique is intended to redirect whatever number dangers as could be allowed to evade the expensive and troublesome outcomes of a harming event (Windschitla, Smith, Scherer, & Suls, 2017).

The philosophy for hazard shirking is that it endeavors to limit vulnerabilities which can represent a risk. This can be accomplished through different ways including nitty gritty work plan/clear strategy and technique, staying away from section to geological regions viewed as exceptionally hazardous and innovation implementation systems set up among other things (Macrina, 2014). There are two types of risk avoidance strategies. These are Type 1 and Type 2 (Manuj & Mentzer, 2008).Type 1 shirking methodology; type 1 technique is utilized when the dangers related with working in a given item or geological market, or working with explicit providers or clients, is viewed as inadmissible. Nyangau, (2016) in his paper, proposed that shirking appears as leaving through divestment of specific resources, deferral of passage into a market or market fragment, or taking part just in low vulnerability markets.

Therefore, a firm could apply type 1 avoidance strategy if the risk associated with conducting business in a geographical market with a supplier or with a given customer is unacceptable to the firm. Exiting such type of risk can be done through delayed entry into the market, deploying of specialized assets or focusing on certain low risk geographies. This kind of procedure is intended for driving by and large probabilities related with hazard occasions of a choice to zero by

guaranteeing that the hazard does not exist (Manuj & Mentzer, 2008). As chief search for approaches to maintain a strategic distance from dangers they are quick to perceive that the supply-request or potentially working exchange offs related with the alternatives and keep away from or drop some these dangers (Simba, Niemann, Kotzé, & Agigi, 2017). Type 2 avoidance strategies focus on preempting adverse events and then reducing their frequency and probability of occurrence. Manuj and Mentzer (2008) set that in evasion methodology Type 2, diminishing the recurrence and likelihood of a hazard occasion is of concern. This normally emerges when directors have no choice yet to wander into high vulnerability request or supply markets. For instance, shirking methodology for quality issues comprises of site review and endorsement, and item review and endorsement.

As indicated by Christopher and Holweg, (2011) states that organizations working in a wide range of situations endeavor to dodge chances inside the limitations of worthy returns, for example, income and benefit targets. On the off chance that an inventory network has an alternative to not enter condition but rather still meet targets, at that point it is bound to receive a Type 1 evasion methodology. Be that as it may, if a production network must choose the option to enter a domain to accomplish its objectives, at that point it is bound to embrace a Type 2 evasion technique. Sometimes organizations feel that they are pressured by time in making decisions. At the point when this occurs, organizational calamity recuperation plan turns out to be simply one more specialized recuperation record and business needs are not effectively organized.

It is important to incorporate the accompanying danger the executive's methods inside the organization to have the capacity to build up the procedures to stay away from and those to grasp for the achievement of the association. We can infer that; hazard evasion is a system that does not play out any action that may uncover or convey hazard to an association. For instance, assume a financial specialist needs to purchase stock in a sugar organization, yet sugar costs have been falling essentially during recent months. There is political hazard related with the generation of sugar and acknowledge chance related for the sugar organization. He evaluates the dangers related with the sugar business and chooses to abstain from taking a stake in the organization. Armstrong and Paolucci, (2010) recommend applying known systems rather than new ones, regardless of whether the new ones are more cost proficient. The dangers can be kept away from, and work can continue easily because methodology is less unpleasant to the clients. The discussion of risk avoidance strategy or use of any strategy for competitiveness often requires a strategic discussion with organizational leaders to ensure the overall assumptions and costs are well understood and agreed upon (Snedaker & Rima, 2014).

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.

Summary Risk Avoidance

Risk assessment was evaluated by use of the questionnaire. The questionnaire was informed of a five Likert scale, where 5 =very large extent; 4=large extent; 3=some extent; 2=little extent; and 1=very little extent.

Risk Avoidance Strategy

The first objective of the study was to examine the influence of risk avoidance strategy and competitiveness of SMEs in Kenya.

Forfeiture of investment due to risks in the last 3 years

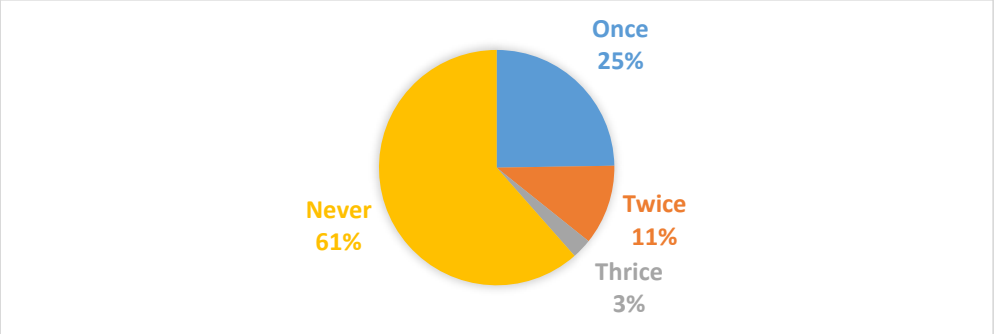

Figure 4.1: Forfeiture of investment due to risks in the last 3 years
Source: Survey Data (2021)

The study sought to establish if the SMEs forfeited investment due to risk in the last 3 years. The findings show that majority (61%) never forfeited an investment due to risk in the last 3 years, 25% forfeited investment once due to risk in the last 3 years. This are as indicated in figure 4.6

Number of Times Invest Risk is Conducted in the Past 3 years

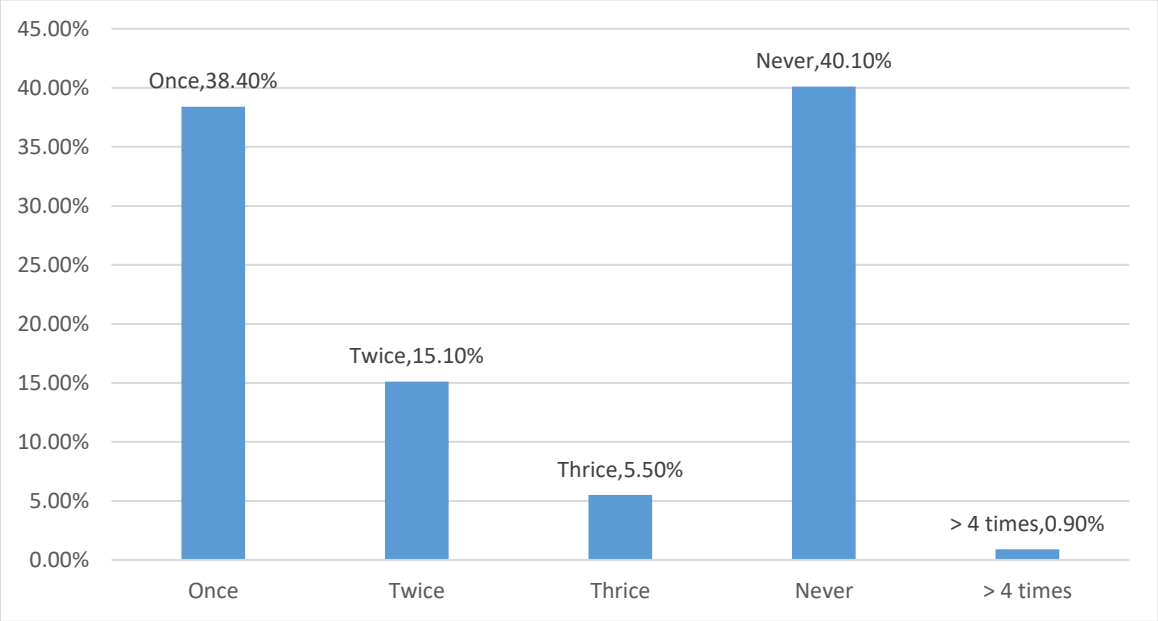

Figure 4.2: Risk Assessment in the last 3 years
Source: Survey Data (2021)

The study sought to establish the number of times risk assessment has been caried out in the businesses in the last 3 years. The findings show that majority (38.40%) of businesses have done

so once, 40.10% of the businesses have never done risk assessment 15.1% have done so twice,5.5% have done so thrice and 0.9% have done risk assessment 4 times.

Number of Times Employees have been trained on Risk Management

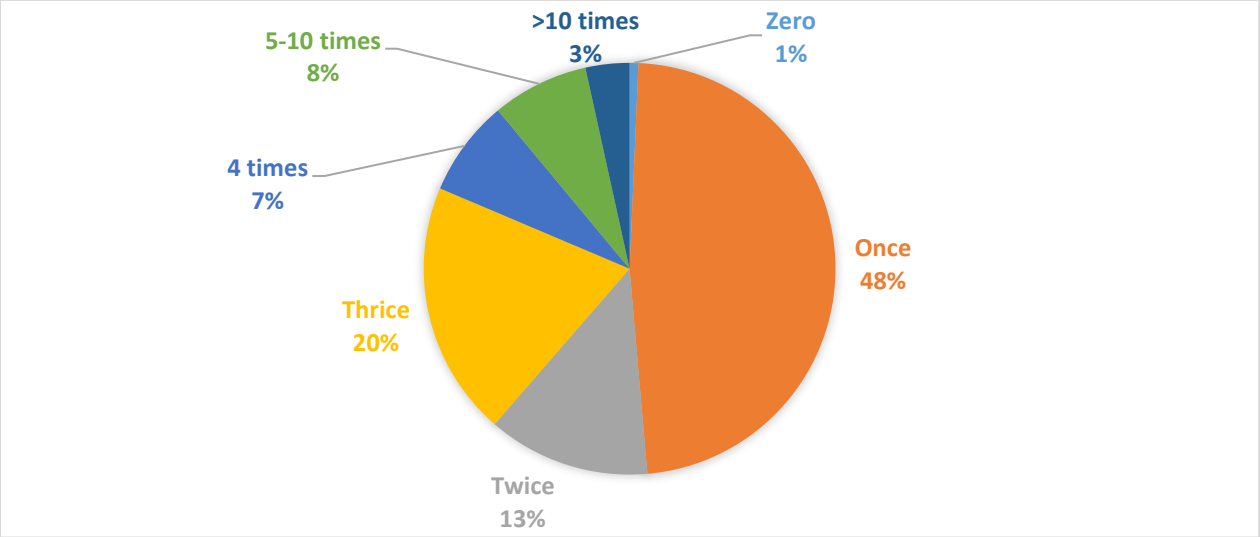

Figure 4.3: Employee Training
Source: Survey Data (2021)

The study sought to establish if the number of times employees in the SMEs have been trained on risk management in the last 3 years. The findings show that majority (48%) have been trained once,20% have been trained thrice, 13% have been trained twice, 8% have been trained 5-10 times, 7% have been trained 4 times and 3% have been trained 10 times and 1% have not been trained on risk management. This are as indicated in figure 4.8

Table Summary Risk Avoidance

Item	Response No.	SD	D	N	A	SA	Mean	SD
Market Avoidance								
Often delay entering new markets	293	63.1%	25.3%	8.2%	2.0%	1.4%	1.53	.838
Mostly focuses on less risky geographies	293	37.1%	19.7%	22.4%	16.0%	4.7%	2.49	2.812
Sub Total		*50.10%*	*22.50%*	*15.30%*	*9.00%*	*3.05%*	*2.01*	*1.82*
Internal Controls								
Often has strict documentation policies for creditors	293	1.4%	3.1%	32.8%	40.3%	22.5%	3.80	.871
Often avoids working with	111	4.5%	49.5%	26.1%	19.8%	19.8%	3.61	.855

some suppliers							
Sub Total		*2.95%*	*26.30%*	*29.45%*	*30.05%*	*21.15%*	*3.705*	*0.86*
Resource Development								
Employees fully trained on risk avoidance	293	11.9%	8.5%	20.8%	37.5%	21.2%	3.47	1.251
Often uses available company resources to meet customer demands	293	0.0%	3.1%	18.1%	28.3%	50.5%	4.26	.862
Often depends on its resources for organizations temporary needs	290	6.9%	0.3%	19.7%	43.8%	29.3%	3.88	1.056
Sub Total		*6.27%*	*3.97%*	*19.53%*	*36.53%*	*33.67%*	*3.87*	*1.06*
Grand Aggregate	**293**	**17.8%**	**15.6%**	**21.2%**	**21.8%**	**20.3%**	**3.29**	**1.22**

From the table above, the respondents strongly Agreed with a mean of 4.26 and standard deviation of 0.862 that SMEs uses available company resources to meet customer demands, they strongly agreed with a mean of 3.88 and standard deviation of 1.056 that SMEs depend on its resources for organizational needs Also, they strongly agreed that they often have strict documentation policies for creditors shown by means of 3.80 and standard deviation of 0.871. In addition, they agreed that employees fully trained on risk avoidance shown by a mean of 3.41 and standard deviation of 1.251, they strongly disagreed that they mostly focus on less risky geographical areas shown by a mean of 2.49 and a standard deviation of 2.812 and on the fact that they mostly focused on less risky geographical areas they strongly disagreed with a mean of 2.49 and standard deviation of 0.838.

Testing Hypothesis

The regression results indicated that considered individually, risk avoidance strategy has very minimal effect on sustainable competitiveness. Risk avoidance strategy explain only 5.6% variance in sustainable competitive advantage (adjusted R^2 = 0.056, F (1, 291) = 18.23, p<.001).

Model for Hypothesis

Model Summary				Number of obs	=	292
Source	SS	df	MS	F(1,291)	=	18.231
Model	8.708	1	8.708	Prb > F	=	0.000
Residual	138.994	291	.478	R-Squared	=	0.059

Total	147.701	292		Adjusted R-Squared	=	0.056
				Std Err. Estimate	=	0.691

SCA	Coefficient	Std. Err.	t	P>|t|	[95% Conf.	Interval]
_cons	2.368	.218	10.858	.000	1.939	2.798
Avoidance	.281	.066	4.270	.000	.152	.411

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

Y= 2.368 + 0.281 x Risk Avoidance Strategy + ε
Multivariate Regression

CONCLUSION

Risk avoidance strategy addresses the first research question. The objective was to establish the relationship between avoid/entry into some geographical markets and competitiveness. The study showed a small [adjusted R square is 0.056] and significant [p=0.006] relationship between risk avoidance and competitiveness. The study showed that 5.6% variance in SMEs competitiveness can be predicted by risk avoidance strategy. The study showed that there is a favorable environment for avoidance strategy if measured individually as a driver to competitiveness; Majority (61%) of firms forfeited investment due to risk in the last 3 years never forfeited, Majority 38.4% of businesses have done once risk assessment of their businesses in the last 3 years,48% of employees acknowledge to have been trained once on risk management. In the combined model the results show that risk avoidance strategy reports an insignificant effect on competitive of SMEs.

RECOMMENDATION

The study recommends that future studies should be conducted to determine factors influencing the choice of retention strategies. Based on the study findings, the study concludes that measured individually, risk avoidance can be improved by avoidance/entry into geographical markets, avoid working with some suppliers and work with legally acceptable contracts. Firms need to adopt investment in risk assessment and provide the favourable environment by encouraging research and development; providing financial sources to support new innovations; putting efficient programs and policies; promoting positive innovative culture systems; promote employee training and use of company's resources to meet organizational needs.

Finally, the study recommends that methods used by firm in relation to risk avoidance actions should include Underwriting standards, Hedges or asset-liability matches, Diversification, Reinsurance or syndication and Due diligence.

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