

# Exploring the Predominant Business Risks Faced by Manufacturing Smes in Bulawayo

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DOI: <https://doi.org/10.51244/IJRSI.2024.11110048>

Received: 25 October 2024; Accepted: 04 November 2024; Published: 13 December 2024

## ABSTRACT

This study explores the key business risks encountered by manufacturing small and medium enterprises (SMEs) in Bulawayo, Zimbabwe. Utilizing a mixed methods research design, data was collected through questionnaire and interviews. A total of 226 SMEs were selected using a stratified random sampling method. The results indicate that operational risks are the most significant, closely followed by financial risks. These challenges pose serious threats to the sustainability and growth of SMEs in Bulawayo. The research highlights that operational risks, including issues with production processes, supply chain interruptions, and machinery failures, are the foremost concerns for manufacturing SMEs in Bulawayo. Financial risks, such as limited credit access, cash flow difficulties, and volatile exchange rates, also greatly affect these businesses. To address operational risks, SMEs should enhance production efficiency and minimize waste, implement a strict maintenance schedule for machinery to avoid unexpected breakdowns, and cultivate relationships with multiple suppliers to prevent reliance on a single source, particularly local suppliers to lessen the impact of international supply chain disruptions. Addressing financial risks requires collaboration with financial institutions and mobile service providers to develop customized financing solutions for SMEs, such as low-interest loans, microfinance options, and credit guarantee schemes. Implementing strong cash flow management strategies, such as accurate forecasting and budgeting, can also improve liquidity. Additionally, SMEs should consider financial tools like forward contracts or options to protect against currency fluctuations and explore pricing their products in stable currencies to reduce exchange rate risks. To enhance SMEs' understanding and utilization of futures contracts, the government could initiate targeted awareness campaigns and organize training sessions that explain the benefits and functions in straightforward terms. Furthermore, establishing robust systems and controls is essential for ensuring long-term sustainability and growth. Policymakers should adopt stringent monetary and fiscal policies, promote foreign investment, and diversify the economy to stabilize Zimbabwe's currency and mitigate risks for manufacturing SMEs, while enhancing transparency, improving regulatory frameworks, and seeking international support to provide a resilient economic environment.

**Keywords:** Predominant business risks, Operational risks, financial risks

## INTRODUCTION

Small and Medium Enterprises (SMEs) are essential to economic progress both domestically and internationally. According to Sotamaa, Reiman, and Kauppila (2024), SMEs make notable contributions to economic development, innovation, and job creation. Despite this, they encounter numerous obstacles and are particularly vulnerable to various risks, which can significantly affect their operations and sustainability (Matsongoni and Mutambara 2021). In Bulawayo, the manufacturing sector is a key component of the local economy. This research aims to identify and examine the main business risks faced by manufacturing SMEs in Bulawayo. By focusing on these risks, insight is gained into the specific challenges SMEs face. Additionally, Authors from various risk management studies emphasize the specific challenges SMEs face and the methods to identify these risks. This involves a thorough analysis of interest rate risk, raw material risks, technological risks, knowledge management, employee risks, market risks, and strategic risks, among others (Kim and

Vornotas, 2014; Vickery, 2008; Moore et al., 2000; Sukumar et al., 2011; Wilson Antwar, 2013; Ellergard, 2008; Gilmore et al., 2004; Brustbauer, 2014; Gao et al., 2013; Bruns and Fletcher, 2008; Altman et al., 2010; Mutezo, 2013). These studies identify different types of risks but do not establish which ones are most dominant. However, this study not only ranks but also establishes the most dominant risks impacting small manufacturing firms.

## **BRIEF LITERATURE REVIEW**

### **Dominant types of business risks faced by SMEs**

Business risks include a variety of internal and external factors and events that can affect a company's survival. These risks vary among organizations depending on their structures and types of enterprises. Despite these differences, risks typically arise from numerous aspects, prompting authors to classify them into two broad categories based on their origins. Internal risks originate within the organization, while external risks arise from the business environment (Liu et al., 2024; Mlambo, 2017; Kim and Vornotas, 2014; Islam and Tedford, 2012).

### **Financial Risk**

Bosma et al. (2018) emphasize that financial risks in businesses frequently originate from financing challenges and insufficient capital. This view is corroborated by Islam and Tedford (2012), who clarify that these risks arise from the firm's funding activities, impacting cash flows, overheads, and leverage. They point out that firms with outstanding debts are at risk of debtors defaulting, potentially losing both principal and interest. One of the primary financial risks faced by manufacturing SMEs is credit risk. This risk arises when customers or clients fail to meet their payment obligations, leading to cash flow problems and potential financial distress for the SMEs (Smith, 2022).

Sum and Mahussin (2017) describe this risk as one that disrupts cash flows, with entrepreneurs noting that unexpected increases in production material costs cause instability. This leads to reduced production as firms struggle to afford expensive materials, passing high costs onto customers who then reduce their purchases, creating a vicious cycle affecting cash inflows and outflows. Yang (2017) adds that borrowing more to maintain production levels exacerbates the situation, especially if prices continue to rise. This analysis highlights the compounding nature of financial risks, where initial financial strain can lead to further borrowing and increased vulnerability. Small companies, operating with limited budgets, find it especially difficult to manage these risks, as rising employment, fuel, and marketing costs place significant pressure on their finances (Naude & Chiweshe, 2016). These businesses often lack strong cash flow strategies and depend on current projects to fund ongoing operations, making unexpected events potentially catastrophic. This highlights the necessity for more advanced financial planning and risk management strategies among small enterprises to bolster their resilience.

Brancia (n.d.) indicates that increasing fuel and toll fees elevate corporate transportation expenses, thereby diminishing cash flows. Liquidity and foreign exchange risks are crucial as they impact the real value for investors. Investing in small enterprises is seen as more hazardous, making it challenging for these firms to attract external funding. Over ninety percent of small firms rely on their own resources to start their businesses (Kim & Vornotas, 2014), yet they face difficulties in raising additional capital due to potential investors' reluctance.

Loans, a prevalent source of financing, carry interest rate risks due to potential fluctuations (Falkner & Hiebl, 2015). Small and medium-sized enterprises (SMEs) with substantial collateral can endure higher risk levels, while those with minimal collateral exhibit lower risk tolerance. Nevertheless, strong collateral does not shield SMEs from the repercussions of excessive risk-taking. Mutezo (2013) observed that falling interest rates diminish profits for SMEs with fixed-rate loans. To manage this, SMEs frequently transfer these costs to consumers by increasing prices, which in turn lowers demand (Bruns & Fletcher, 2008). Alleviating information asymmetry with banks can help mitigate interest rate risk. SMEs also face challenges in securing funds for daily operations, posing a significant risk (Kim & Vornotas, 2014). Wang (2016) identified access to

finance as the primary obstacle to SME growth. This comprehensive perspective on financial risks highlights the multifaceted challenges SMEs encounter and the necessity for customized financial solutions to support their sustainability and growth.

### **Operational risks**

Quabtan et al. (2021) emphasize that the root of operational risks lies within the organization itself, disrupting daily business operations. These risks are attributed to the firm's structure, practices, techniques, and personnel (Quabtan, 2021; Hudáková et al., 2023). They identify machine failures, unqualified staff, absenteeism, and material handling disruptions as significant causes of losses. In manufacturing, shortages of tools, materials, and spare parts are notable operational issues (Dumitrescu & Delsenicu, 2018).

Bai, Gao, and Sarkis (2021) highlight that external factors beyond the firm's control can also trigger operational risks. For example, suppliers may fail to deliver goods on time, or natural disasters like earthquakes or cyclones may damage transportation infrastructure, halting business operations (Allen, 2016). Additionally, power outages or website hosting issues can disrupt primary tasks (Argawal & Ansel, 2016).

Beliskanja and Veliekiene (2015) identify major operational risks, including the need for proficient personnel, gaps between knowledge and qualifications, funding issues, and financing difficulties with corporate partners. Persistent customer indebtedness leading to payment defaults is also noted. The literature reveals significant shortages of experts and high employee turnover, resulting in continuous training costs, reduced productivity, and loss of goodwill. This issue is exacerbated in small firms struggling to attract experienced professionals, often leading to the hiring of incompetent individuals. Such firms face severe risks when their structures and procedures fail (Caseiro & Coelho, 2018; Kim & Vornotas, 2014). The problem is further compounded by the lack of human resources development or training programs in most SMEs (Gao et al., 2013). Brustbauer (2014) and Marcelino-Sadaba et al. (2014) assert that significant knowledge is lost when long-serving employees leave, posing a substantial risk.

Dvorsky et al. (2021) illustrate operational risk with an example of an employee mistakenly disbursing a significantly larger amount than intended, highlighting both human and procedural failures. This error could have been prevented by implementing a more secure payment process, such as requiring additional approvals for large transactions or using automated systems to flag significant amounts. Operational issues like these are costly to fix and can lead to delayed deliveries, customer dissatisfaction, and loss of sales and goodwill. Such issues may arise from incorrect risk evaluation or poor oversight of key managers (Alem, Oliveira & Penaido, 2020).

### **Strategic risks**

Strategic risks in manufacturing SMEs are varied and can greatly affect their long-term success and competitiveness. One major risk is the creation and execution of long-term plans. This involves setting a clear value proposition and ensuring it matches market needs and the company's abilities. If this alignment is off, it can lead to a disconnect with market trends and customer expectations, harming the firm's market position and profitability (Jiménez et al., 2024). Mironescu, Turcu, and Ceocea (2015) also noted that without a risk strategy, firms are exposed to unexpected risks. Poor business planning can damage a company's reputation and image (Sum and Mahussin, 2017).

Managing human resources is another critical risk. SMEs often find it challenging to attract and keep skilled workers, which is crucial for innovation and adapting to market changes (Sotamaa et al., 2024; Naude and Chiweshe, 2016). Additionally, adopting digital technologies and AI in risk management offers benefits like better decision-making and efficiency but also brings new risks such as cybersecurity threats and technological obsolescence (Sotamaa et al., 2024).

### **Market Risks**

Market risks in manufacturing SMEs are complex and can significantly impact their operational success and market presence. The reviewed works by Jaroslav, Jiri, Premysl, and Roman (2014) highlight that exposure to uncertain market conditions can negatively affect the value of a portfolio. Economic stagnation, leading to

insufficient market demand, poses a substantial threat to businesses (Telukdarie et al., 2024). Assessing the market potential for new or developing products, which could create new markets, is particularly challenging.

Market risk fundamentally involves changes in the competitive environment, including identifying competitors, their products, potential future competitors, and their competitive strategies and tactics (Zimon, 2022). Customer opinions on product efficiency, fluctuating customer requirements, accurate forecasting of market trends, competition, and price elasticity are primary sources of market risk. Market risk is especially high when consumers have limited experience with a new product, leading to uncertainty about whether the product will meet their expectations. Additionally, customer tastes and preferences are constantly evolving, making it difficult to predict sales volumes for new products. Kim and Vornotas (2014) found that young firms in their formative years viewed market risk as a major threat to growth. Telukdarie et al. (2024) also note that SMEs often struggle to keep pace with technological advancements, which hampers their ability to meet market demands.

### **Compliance Risks**

Scholars in scientific literature emphasize the constant evolution of laws, which exposes firms to compliance risks as they may need to adhere to new regulations that were previously non-existent, potentially incurring significant costs (Toma & Alexa, 2012). Consequently, non-compliance with laws, regulations, prescribed practices, internal policies, and ethical standards can erode a firm's profits (Dvorsky et al., 2021). Failure to meet regulatory requirements can lead to penalties, financial losses, and reputational damage (Telukdarie et al., 2024). This issue is particularly challenging for SMEs, which often lack the necessary resources and expertise to navigate the complex and region-specific regulatory landscape (Al-Dosari & Fetais, 2023).

A big risk for small and medium-sized businesses (SMEs) is cybersecurity. As they use more digital tools, they must follow data protection laws. Failure to do so can result in data breaches and losing customer trust (Jahankhani, Meda & Samadi, 2022). Additionally, because technology changes so fast, SMEs need to keep updating their security measures to handle new threats and changes in laws (Al-Dosari & Fetais, 2023). This constant need for updates can be challenging and costly, making it hard for SMEs to stay compliant.

### **Environmental or Natural Risks**

Threats emerge from organizational activities that deplete resources and release harmful substances into the environment (Sum and Mahussin, 2017; Islam and Tedford, 2012). Additionally, natural disasters such as hurricanes, heavy rainfall, earthquakes, and droughts impact businesses (Fatica et al., 2024). These events often lead to fatalities, property damage, and loss of merchandise. However, companies have limited control over natural disasters (Beliskanja and Velickiene, 2015). Moreover, transitioning to sustainable practices requires substantial initial investment, posing a challenge for small enterprises (Durrani et al., 2024).

### **Hazard Risks**

Badea et al. (2024) emphasize the significant use of chemicals in SME production processes, which can pose serious health hazards if not properly managed. However, they point out that SMEs often face challenges in maintaining high safety standards due to financial constraints. Schulte et al. (2020) suggest that this financial limitation leads to an increase in workplace injuries and accidents, which can be costly for small firms due to legal fees and other financial losses. Additionally, the physical design and infrastructure of SME facilities may not always prioritize safety (Chapelle, 2023). Earlier research by Duong (2009) supports this view, indicating that these risks originate from the work environment, property, materials, and natural disasters. The classification of these hazards includes machine-related risks, psychosomatic risks, and organic risks in the workplace (Nusaibah Binti and Mansor, 2017). However, there is a discrepancy among authors regarding the terminology for these risks, with some considering them environmental or natural risks. This inconsistency can be seen as a labelling issue. It is evident that, according to different schools of thought, the former risks arise within the workplace, while the latter result from external environmental disturbances. There is a need for standardization to prevent authors from conflating the two in literature.



## RESEARCH METHODOLOGY

A mixed methods design was used. Data was collected through questionnaires and interviews. The study focus centred on successful SMEs meeting specific criteria: a minimum of five years of operation in the same business field, a certain capital threshold, and a particular size and number of employees. The Zimbabwe Revenue Authority (ZIMRA) definition of SMEs was used. ZIMRA characterizes an SME as an entity employing 5-40 people, with annual turnover and assets ranging from as low as USD\$50,000 to USD\$2 million. The sample represented a subset of successful SMEs that met these specific criteria. Out of a total of 325 manufacturing SMEs 236 SMEs were sampled for the study using the Yamane Formulae. The response rate was 75.4% with 178 questionnaires collected from respondents. The response rate was high since the base rate is set at 50% (Yun and Trumbo, 2006; Draugalis et al., 2008).

Stratified random sampling was used to select the 236 SMEs for the study. The population was divided into strata according to type of manufacturing SME, that is, food processing, clothing, leather manufacturers, metalworking and wood working. A random sample was then selected from each stratum centered upon the percentage that each group represents in the population. As shown in Table 1, Woodwork SMEs make up 24 % of the total population. Thus, they should represent 24% of our sample population. Since the sample size for this study was 236 SMEs, a random sample of 57 Woodwork SMEs were selected. This was done for all the groups until the sample size of 236 SMEs was completed.

Table 1: Sample size for different strata

Type of SME (Strata)	Total Population	% representation in Total population	Sample Population
Woodwork	78	24%	57
Clothing	65	20%	47
Leather	110	34%	80
Metal	50	15.33%	36
Food processing	22	6.67%	16
<b>TOTAL</b>	<b>325</b>	<b>100%</b>	<b>236</b>

In the qualitative stage of the study thirty interviews were targeted which is the upper limit recommended by researchers for interviews (Creswell, 2003 and Boddy, 2005). Using this target, the researcher once again divided the manufacturing SMEs into different strata according to the type. The number of interviews needed for each group was then calculated based on their percentage representation of the total population. In essence stratified purposeful sampling was used (statistically non-representative stratified sampling since it was based on targeted interviews) This was done to garner views from the different types of SMEs. The researcher selected SMEs that were likely to give the most valuable information based on ownership characteristics such as gender, marital status, and experience in business. At the core they were selected with the specific purpose of eliciting more information on how they handle business risks. The respondent’s enthusiasm, readiness and response rate in terms of participation from the quantitative strand of the study was also a key factor that the researcher used in selecting SMEs for interviews.

Table 2 Interviews targeted in different strata

Type of manufacturing SME	% Representation of total population	Number of SMEs selected for interviews
Woodwork	24%	7

Clothing	20%	6
Leather	34%	10
Metal working	15.33%	5
Food processing	6.67%	2
Total	100%	30

### Research Instrument design and validation

The study's research instruments, including both questionnaires and interviews, were designed and validated through a comprehensive process. Initially, existing literature, relevant theories, and previous questionnaires were reviewed to develop clear and concise questions aligned with the study's objectives (Casualty Actuarial Society 2003; Quabtan, 2021; Tan et al., 2022; Sum & Mahussin, 2017; Jaroslav et al., 2014; Duong, 2009; Islam & Tedford, 2012; Beliskanja & Veliekiene, 2015; Casualty Actuarial Society, 2003; Ekanayeke & Subramaniam, 2012). Content validity was ensured by consulting with subject matter experts. Both the questionnaire and interview guide were pilot tested with a small sample from the target population, leading to adjustments based on feedback. Reliability was assessed using Cronbach's Alpha for the questionnaire, with all constructs scoring above 0.6, indicating consistency. For the interviews, consistency in questioning and recording responses ensured reliability. Construct validity was achieved by accurately representing theoretical constructs, criterion validity by comparing results with established benchmarks, and face validity by expert review. This thorough process ensured that both the questionnaire and interview were reliable and valid for exploring dominant risks in the manufacturing sector. In designing the questionnaire, the dominant risks were categorized as operational, financial, strategic, market, hazard, environmental, and compliance risks, measured using a five-point Likert scale. Brief introductions and instructions were provided to respondents, with blank spaces for further explanations. This rigorous approach ensured the research instruments were effective in collecting relevant data for the study.

### Data Analysis

In this study, we utilized various statistical measures to analyze the collected data, including the median, means, and composite means. These measures provided a comprehensive understanding of the central tendencies and overall patterns within the dataset. The median was employed to rank variables due to its resilience against outliers and skewed distributions. Composite means were used to combine multiple related variables into a single measure, offering a more holistic view of the data. This approach involved calculating the mean of each individual variable and then averaging these means to obtain the composite mean.

To calculate the composite mean for operational risk (including breakdowns of machines, shortage of parts, default by regular customers, false marketing of products, overtrade, focus on profits instead of development, accounting or audit systems posing a challenge, and prevalent human resource challenges), a standardized scoring system was employed. Each variable was assigned a numerical value based on its severity or frequency of occurrence. These standardized values were then averaged to obtain a single composite mean score for operational risks, allowing for a quantitative assessment of their overall impact.

For financial risks, a composite risk score was calculated. Each risk factor (liquidity risk, interest rate risk, and credit risk) was assigned a numerical value based on its severity and potential impact on the business. These numerical values were then averaged to obtain a single composite mean score. This method is particularly useful when dealing with multidimensional data, as it allows for the integration of various aspects into a single representative value.

Lastly, qualitative data from interviews was analyzed through content analysis. We sorted out the important aspects to decipher meaning then these facets were broken down into themes to come up with the descriptive narratives.

## Reliability and validity

The quantitative strand of the study was validated using four standards: internal validity, external validity, reliability, and objectivity. Reliability refers to the consistency of a measure, while validity ensures the instrument measures what it claims. Cronbach’s Alpha was used to determine internal consistency, with all constructs above the benchmark scale of 0.6, indicating reliable data (Pschaska, 2017). Validity was ensured through pilot testing and operationalizing concepts based on literature. Objectivity was achieved by using accurate instruments and conducting research without preconceived notions, allowing data to determine results. The researchers remained detached and avoided influencing respondents' answers.

The qualitative phase of the study was validated using the interpretivist paradigm, focusing on credibility, confirmability, dependability, and transferability (Guba, 1981). Credibility ensures data and analysis are convincing and genuine, achieved through purposive sampling and pre-interviews. Dependability refers to observing consistent results in similar situations, with data written verbatim and analysed thoroughly. In terms of transferability, this study provides sufficient background information for readers to apply findings to their circumstances. In terms of confirmability, we ensured findings are unbiased and confirmed by empirical literature.

## FINDINGS

### Predominant Business Risks among Manufacturing SMEs in Bulawayo

The different types of domains of risks in a firm were assessed. In order to determine which domain of the risks were dominant, the median rule was employed. The ordinal position somewhat common was taken as the median and this created two categories. The sum of responses on the left and those on the right were compared and ranked. Table 3 shows that the dominant risks are operational followed by financial risks. The least risks are environmental in nature

Table 3: Dominant Business Risks

	<i>Extremely common</i>		<i>Common</i>		<i>Somewhat common</i>		<i>Less Common</i>		<i>Uncommon</i>		<i>Ranking</i>
	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	
Operational Risks are	38	21.3	130	73	6	3.4	2	1.1	2	1.1	1
Financial Risks are	140	78.7	21.3	0	0	0	0	0	0	0	2
Strategic Risks are	0	0	6	0	134	75.3	30	16.9	8	4.5	6
Market Risks are	2	1.1	6	3.4	18	10.1	96	53.9	56	31.5	4
Hazard Risks are	0	0	20	11.2	10	5.6	44	24.7	104	58.4	3
Environmental Risks are	0	0	2	1.1	0	0	110	61.8	66	37.1	7
Compliance Risks are	0	0	11	6.2	8	4.5	66	37.1	93	52.2	5

Below are the detailed elements within the two domains. The first presentation covers operational risks and the second covers financial risks.

## Operational Risks

With reference to operational risks, out of ten risk elements, more than 50% of the respondents have indicated that 8 risk elements could be considered to affect SME business growth in Bulawayo and these are: Breakdowns of machines, shortage of parts, default by regular customers, false marketing of products, overtrade, focus on profits instead of development, accounting or audit systems posing a challenge and human resource challenges being prevalent (See Table 4 below).

	<i>Strongly Agree</i>		<i>Agree</i>		<i>Somewhat agree</i>		<i>Disagree</i>		<i>Strongly Disagree</i>	
	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>
1) Breakdowns of machines are common in my business*	136	76.4	40	22.5	0	0	2	1.1	0	0
2) Shortage of parts are common in my business*	60	33.7	110	61.8	4	2.2	4	2.2	0	0
3) Default by regular customers are common in my business*	98	55.1	54	30.3	20	11.2	6	3.4	0	0
4) False marketing of products is common in my business*	92	51.7	66	37.1	4	2.2	10	5.6	6	3.4
5) Overtrade are common in my business*	108	60.7	32	18.0	8	4.5	14	7.9	16	9.0
6) Focus on Profits instead of development are common in my business*	120	67.4	52	29.2	2	1.1	4	2.2		
7) Accounting or audit systems pose a challenge are common in my business*	130	73.0	36	20.2	10	5.6	2	11	0	0
8) Lack of knowledge a hindrance to operations are common in my business	26	14.6	84	47.2	34	19.1	32	18.0	2	1.1
9) Human Resource Risk is prevalent are common in my business*	106	59.6	56	31.5	12	6.7	4	2.2	0	0
10) Fraud risk is prevalent are common in my business	12	6.7	54	30.3	58	32.6	42	23.6	12	6.7

Generally, when the composite scores were computed to determine an overall position of operational risks, affecting business growth, the sample statistic mean score was lower 17.8 and this was lower than the expected true population mean score  $\geq 30$  (See Table 5 below).

Table 5: Composite Operational Risks Descriptive Statistics

Mean	Median	Mode	Std. Deviation	Minimum	Maximum
17.8	16	15	4.2	11	32



### Financial Risks

With reference to financial risks, out of risk 8 elements, more than 50% of the respondents found 3 risk elements which could be considered to affect SME business growth in Bulawayo and these are: liquidity risk is significant, interest rate risk poses a challenge and credit risk is significant in the business (see Table 6).

	<i>Strongly Agree</i>		<i>Agree</i>		<i>Somewhat agree</i>		<i>Disagree</i>		<i>Strongly Disagree</i>	
	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>
1) Invoicing or revenue risk is high in my business	20	11.2	52	29.2	70	39.3	32	18	0	0
2) Liquidity risk is significant in my business*	150	84.3	20	11.2	8	4.5				
3) Equity or price risk is significant in my business	17	9.6	29	16.3	52	29.2	42	23.6	38	21.3
4) Interest rate risk poses a challenge in my business*	83	46.6	13	7.3	19	10.7	38	21.3	25	14.0
5) Exchange rate risk is damaging to business in my business	16	9.0	140	78.7	20	11.2	2	1.1	0	0
6) Credit risk is significant in my business*	58	32.6	40	22.5	11	6.2	24	13.5	45	25.3
7) Invoicing or revenue risk is high in my business	20	11.2	52	29.2	70	39.3	32	18.0	4	4.2
8) Equity or price risk is significant in my business	12	6.7	28	15.7	54	30.3	46	25.8	38	21.3

Generally, when the composite scores were computed to determine an overall position of financial risks, affecting business growth, the sample statistic mean score (14.5) was lower than the true expected population mean score of 24 (See table 7 below).

Table 7: Composite Financial Risks Descriptive Statistics

Mean	Mode	Median	Standard Deviation	Minimum	Maximum
14.5	15	15	2.8	9	24

The composite means for both financial and operational risks imply that respondents strongly agree or agree and as such the risk factors are below the expected threshold (the true mean) of what is expected and there ought to be concern as this could affect business growth. SMEs should be worried about these risks. This domain among the risks is worth considering mitigation.

### DISCUSSION OF FINDINGS

Operational and Financial risks were the most dominant business risks impacting growth of the SMEs. As for the other risks, they were negligible as they contributed little to growth of the SMEs. This is similar to previous research which shows that operational risks and financial risks affect small firms substantially (Hudáková et al., 2023; Quabtan, 2021; Bosman et al, 2018).

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Operational risks were prevalent due to frequent machine breakdowns, primarily caused by outdated

technology and insufficient funding for new equipment. This issue was worsened by irregular maintenance and a persistent shortage of parts. Given the age of the machines, parts were typically sourced from scrap shops or, if lucky, from similar or older machines. Demitrescu and Dlesenicu (2018) also identified a shortage of tools and spare parts as significant operational challenges. These findings are consistent with Mironescu et al. (2015), who highlighted machine failure as a major challenge for SMEs.

Respondents had this to say;

*“We are using outdated or obsolete machinery as we cannot afford to buy new machines frequently. Machines are always breaking down. We do not even have the resources to do proper maintenance on these machines... sometimes they go for long periods without service. In some cases, maintenance is delayed because we cannot get spare parts. We resort to going to second-hand shops to find parts, which are not up to standard in most cases.*

*Tools and spare parts are a constant headache in this business because money is always an issue. I often have to borrow or hire tools from others when there's pressure to meet deadlines. The problem is, nobody lends their tools for free...they always come at a cost!!*

These operational inefficiencies significantly impact business growth. Frequent machinery breakdowns and maintenance delays result in missed deadlines, lower product quality, and dissatisfied customers. Over time, these issues weaken SMEs' competitive advantage, hindering their ability to thrive in the market. To address these risks, SMEs should invest in preventive maintenance, seek financing for machinery upgrades, and establish reliable spare parts supply chains.

In this study, supply issues emerged as a significant operational risk for SMEs. Trusted suppliers occasionally failed to deliver goods on time, disrupting production and risking reputational damage. This was mainly due to dependence on a single supplier. In Zimbabwe, supply chains often rely on just one or a few suppliers because of structural rigidities. Additionally, events like the COVID-19 pandemic and natural disasters have further disrupted supply chains. Wilson and Altanlar (2013) and Toma and Alexa (2012) similarly found that relying on a single supplier poses substantial challenges.

Respondents had this to say;

*“A fire broke out in our warehouse, destroying the special clothing material we always ordered from a particular supplier. We needed to reorder to meet production deadlines, but the supplier did not have the material in stock. We did not know any other suppliers who could provide this material on credit and quickly. This caused significant losses as it took time to find other suppliers. This hard lesson taught us the importance of dealing with a variety of suppliers to mitigate risks.”*

*I had a supplier who provided me with kaylite food packages at a very cheap price. Suddenly, a law was introduced banning kaylites in Zimbabwe. These structural issues are challenging because they are beyond our control. We could not immediately find a supplier offering the same favorable conditions for the approved packaging material!!*

These stories validate that supply issues are a challenge for SMEs especially when there is overreliance on one supplier.

Earlier studies by Kim and Vornotas (2014), Gao et al. (2013), and Marcelino and Sadaba et al. (2014) indicated that operational risk stemmed from gaps in knowledge and skills. This was attributed to small firms' inability to attract qualified staff and the high turnover of such staff. In Bulawayo, this issue was prevalent among manufacturing SMEs. The inability of small firms to offer competitive perks and salaries led qualified staff to seek better opportunities, causing operational disruptions. Mwanza and Tshuma (2023) also found that employees tended to leave SMEs for greener pastures leaving a skills gap.

This is validated by respondent's comments from the interviews,

*"It is difficult to hire qualified staff immediately, as our salary offers are mediocre. We end up with less qualified individuals who learn on the job. The challenge is that once they acquire the skills, they decide to leave and start their own ventures... We are constantly training, but these people continuously leave... It's just a pattern that goes on and on."*

Additionally, SMEs in this study struggled with high utility bills, which had to be paid regardless of profitability. This often resulted in firms relocating frequently, disrupting operations and causing business losses due to non-strategic locations. Quabtan (2021) also identified high utility bills as a significant source of operational challenges for SMEs. The context in Zimbabwe differs slightly from other developing countries, as utility bills are extremely high due to hyperinflation. SMEs struggle to stay afloat as these bills rise unpredictably, consuming most of their funds.

*"Power and water challenges are a problem that we struggle with in Zimbabwe which negatively impacts operations. On top of this utility charges for water and electricity are quite high and we have to pay regardless of these power outages.....During the first days we did not have backup so we always faced stoppages in production which caused significant delays."*

Another SME had this to say,

*"We share electricity, If ZESA finishes you need to fork out more money. It's unfair because I spend more time preparing my materials so I use less power at the end and I can do without water. Some people in this building use ZESA and water throughout the day but they want us to share the bills equally. I have a good corner here so I end up keeping quiet and paying. The only thing that could help is for us to get individual metres especially for ZESA in the long run but it's not in our hands oooops. Furthermore, rentals are exorbitant"*

The findings show operational disruptions due to power and water outages, financial strain from high utility costs and exorbitant rentals, and the need for infrastructure improvements like backup systems and individual meters. Addressing these issues is crucial for improving operational efficiency and ensuring the long-term sustainability of SMEs in Zimbabwe.

The challenging business environment has also led to fraudulent behaviour among employees seeking personal gain at the company's expense. Thun et al. (2011) showed that fraud increases operational risk exposure. Bulawayo SMEs mainly depend on their regular customers, often over trusting them to strengthen business connections. This leads to excessive leniency with credit, resulting in non-payment and increased operational risk. Kim and Vornotas (2014) also found bad debts to be a major cause of operational risk in SMEs. SMEs had this to say;

*"The salespeople in my company would inflate prices and keep the extra money for themselves. Sometimes, they would lie that merchandise was not moving, falsely reduce prices, or create fake discounts and keep the extra money for themselves... Until I started selling for myself and implemented systems that separated roles... The person who sells is now different from the person who invoices, and the final collection of goods is done by a different person."*

*"I had a situation where a buyer had clandestine relationships with suppliers... He would collaborate with them and ask them to inflate the prices of raw materials so that he could get a personal cut at the expense of the business. It was not until he went on leave that I discovered this anomaly because the person I talked to on the phone accidentally slipped after mistaking me for the Buyer."*

It is clear that Fraud has caused financial losses, operational inefficiencies, and eroded trust within the company. Legal and compliance risks have increased. Strengthening internal controls, such as segregation of duties, regular audits, and whistle-blower policies, is essential to detect and prevent fraud. These measures would foster transparency and integrity, ensuring sustainable growth.

The second major risk for most SMEs was financial. In Zimbabwe, small businesses often rely on personal

finances, loans from friends, and relatives to manage growth, which many SME owners felt hindered their progress.

The following sentiments were raised by most respondents,

*“I started my business with personal savings. As the business grew, I relied on friends and relatives. However, they couldn't provide enough money to expand my business to the desired level. I approached a bank, but the interest rates were too high and the repayment period too short. The loan wouldn't have covered the initial investment, yet the bank would still demand its money.... Microfinance institutions are even worse, with even higher rates and shorter repayment periods. These high interest rates are discouraging!!”*

This aligns with Bosma et al. (2018), who found that small businesses face financial difficulties as most are financed using owners' resources. High bank interest rates discourage attempts to secure essential funding. These findings are consistent with Quabtan et al. (2021), who discovered that SMEs in Muscat face significant financial risks due to high-interest bank loans, sometimes leading to closures. Zimbabwean SMEs avoid using banks because of the interest rate risk, resulting in ongoing financial distress. Similar conclusions were drawn by Yang (2017) and Wang (2016), who found that SMEs in the developing world consider finance the most significant growth challenge.

In this study Financial risk stemmed from liquidity issues, exchange rate risk as well as invoicing revenue risk. Manufacturing SMEs are particularly vulnerable to financial risk due to volatile exchange rates, fluctuating prices, leading to cash flow problems. Smith (2022) pointed out that cash flow problems are central to financial risk. SMEs often face liquidity issues because of poor accounting systems that prevent them from tracking their finances accurately. These findings align with Mahussin (2017), who identified liquidity problems and inadequate accounting systems as factors affecting cash streams and exposing companies to financial risk

A clothing manufacturer had this to say,

*“I received a new order for baby clothing from a new client.....I went on to deliver the goods and issued an invoice. However, after three months, no payment was received from the client. I tried calling the client, who gave excuses and assured they would pay, but there were delays.... This affected my cash flow, making it tough for me to pay suppliers and employees.”*

Whilst others lamented,

*“Exchange rates are unstable. Forever changing... It's hard to keep up.... Today you sell in the local currency at a lower rate, but you can't reorder or get the same amount of forex tomorrow to reorder goods. We receive payments in United States Dollars (USD), Rands, Pula, Euro, local currency cash, swipe, and mobile money such as ECOCASH, making it difficult to maintain accurate records because of erratic exchange rates. We are not adept at keeping the books, which makes accounting for cash in and out difficult....”*

*“We accept payments in the local currency, swipe, or mobile money like Ecocash, but suppliers require forex for reordering. To get the forex, we use the black market where rates are exorbitantly high, leading to losses and often leaving us indebted to creditors for goods bought on credit. As a result, we often buy less material, affecting production. If we demand customers to strictly pay in forex, we lose a significant portion of the market that is unable to transact in forex, impacting our revenue streams.”*

*“Overtrusting regular customers can be damaging to business. One of my major clients delayed payment for goods for a month. I found myself unable to purchase raw materials for production. I had no cash reserves and no access to substantial credit. I had no choice but to stop production temporarily. I lost revenue and my reputation was tarnished with customers. I realized the importance of cash flow management and the need to have liquid assets to handle such situations.”*

The absence of thorough credit checks on the new client exposed the firm to invoicing risk, resulting in a



liquidity problem. Overtrusting regular customers exposed the firm to liquidity risk and reputational risk. The local currency is losing value rapidly making it difficult to manage as a unit of trade. It is essential for manufacturing SMEs to require partial payments upfront to mitigate invoicing risks. These findings align with Brancia (n.d.), who identified liquidity challenges and foreign exchange issues as detrimental to SMEs' cash flows. Bosma et al. (2018) and Tan et al. (2022) also found liquidity to be a significant challenge for small businesses. These findings are also similar to those of Zivanai et al. (2014) who found that small businesses lack formal records to capture business activities. Additionally, studies by Sum and Mahussin (2017) and Naude and Chiweshe (2017) also showed that financial challenges affect cash flows, with small budgets impacting ongoing projects and causing some companies to fold. The association of financial risk with cash flow problems highlights the root issue of insufficient funds, as validated by Naude and Chiweshe (2017), who found that SMEs operate on limited budgets with few cash flow strategies.

Fluctuating exchange rates make it difficult to predict costs and revenues, leading to financial instability. Managing multiple currencies and payment methods complicates accounting and financial management, increasing the risk of errors. Difficulty in securing forex for reordering goods can lead to supply chain disruptions, affecting production and sales. Reliance on the black market for forex at high rates leads to increased costs and potential losses. Insisting on forex payments can reduce the customer base, impacting revenue streams and market reach. There is need for effective cash flow management, accurate record-keeping, affordable sources of finance, and strategies to mitigate the risks associated with exchange rate volatility.

## CONCLUSIONS AND RECOMMENDATIONS

In conclusion, this study has highlighted the significant impact of financial and operational risks on the growth of SMEs. Financial risks, including inadequate working capital, high debt levels, exchange rate fluctuations and cash flow fluctuations, have emerged as major obstacles to business growth. Additionally, operational risks such as disruptions in production processes, machinery breakdowns, failure to attract qualified staff and challenges with suppliers have further hindered SME growth. Addressing these risks is essential for promoting a stronger and viable SME sector, ensuring long-term viability and success. By applying effective risk management strategies, SMEs can deal with these challenges and grow to their full potential.

To address operational risks, SMEs should enhance production efficiency and minimize waste, implement a strict maintenance schedule for machinery to avoid unexpected breakdowns, and cultivate relationships with multiple suppliers to prevent reliance on a single source, particularly local suppliers to lessen the impact of international supply chain disruptions. Addressing financial risks requires collaboration with financial institutions and mobile service providers to develop customized financing solutions for SMEs, such as low-interest loans, microfinance options, and credit guarantee schemes. Implementing strong cash flow management strategies, such as accurate forecasting and budgeting, can also improve liquidity. Additionally, SMEs should consider financial tools like forward contracts or options to protect against currency fluctuations and explore pricing their products in stable currencies to reduce exchange rate risks.

To mitigate operational and financial risks for manufacturing SMEs in Zimbabwe, policymakers should adopt stringent monetary and fiscal policies, promote foreign investment, and diversify the economy. Enhancing transparency, improving regulatory frameworks, and seeking international support will stabilize currency. Promoting foreign investment will improve access to capital and integrate SMEs into global supply chains, enhancing their operational efficiency and financial stability. Tax incentives would also be beneficial. Banks can assist by creating unique financial products for SMEs, giving advice on risk management, and providing training programs. Additionally, making loan repayments more flexible and simplifying the application process will make it easier for SMEs to access funding. These steps will help manage financial and operational risks, promoting growth for small manufacturing businesses.

### Limitations of the study

This study aimed to explore and establish the primary risks faced by small manufacturing firms. However, several limitations should be noted. Firstly, the research mainly relied on descriptive statistics to identify and



rank the key risks. Secondly, the study was cross-sectional, capturing data at a single point in time. This approach may limit the ability to observe changes and trends over time, potentially affecting the generalizability of the findings.

Future research could build upon these results by incorporating a more comprehensive risk assessment framework and using inferential statistics to test relationships between various risk factors. Longitudinal studies could also provide valuable insights into how risks evolve over time, further enriching the understanding of risk management in small manufacturing firms.

Despite these limitations, this study successfully identified and described the primary risks, laying the groundwork for future investigations that can deepen and broaden the analysis of risk factors in this sector.

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## APPENDIX I- QUESTIONNAIRE TO SMES

Good day! We are conducting a research entitled, *“Exploring the predominant business risks faced by manufacturing SMEs in Bulawayo”*.

We kindly ask you to complete the questionnaire and return it to us. Your help will be greatly appreciated.

This study is being done purely for academic purposes. Any information given will be treated with utmost confidentiality and professionalism. The researchers will not unduly misuse any information you provide.

Thank you

**DEMOGRAPHIC PROFILE OF SMES** (*tick the appropriate box*)

**Gender** Male  Female

**Marital status** Married  Divorced  Single

**Age** 20-30  31-40  41-50  51-60  60+

**Educational background**

never been to school  Primary education  Secondary education

Diploma (technical)  Bachelor's degree  Masters and above

**Experience in years**

0-5 years  6-10 years  11-15 years

16-20 years  20 years+

**Have you ever worked before you started your company?**

Never worked

Worked in a same industry that I am in

Worked in a completely different industry

**Type of SMEs**

Woodwork  Clothing  Leather  Metal working

Food Processing  Other -----

**Demographic Profile of Smes** (*tick the appropriate box*)

**Gender** Male  Female

**Marital status** Married  Divorced  Single

**Age** 20-30  31-40  41-50  51-60  60+

**Educational background**

never been to school  Primary education  Secondary education

Diploma (technical)  Bachelor's degree  Masters and above

**Experience in years**

0-5 years  6-10 years  11-15 years

16-20 years  20 years+

**Have you ever worked before you started your company?** Never worked

Worked in a same industry that I am in

Worked in a completely different industry

**Type of SMEs**

Woodwork  Clothing  Leather  Metal working

Food Processing  Other -----

**Dominant business risks among manufacturing SMEs**

On a scale of 1-5 rank the dominant forms of business risk that your company is usually exposed to. (1- Extremely common,2-Common,3- Somewhat common ,4- Less Common 5- Uncommon) Tick the relevant box

Business Risk	1	2	3	4	5
<b>Operational Risks</b> Loss or harm originating from people, processes, policies and systems in the company					
<b>Financial Risks</b> Likelihood of happenings which distress the money streams of the business.					
<b>Strategic risks</b> Possible loss from failure in business planning					
<b>Market Risks</b> Threat of loss from uncertain marketplace circumstances					
<b>Hazard Risks</b> Whatever situation or condition which has potential to cause destruction to persons or equipment					
<b>Environmental risks</b> Resources exhausted and damaging substances released in the environment					
<b>Compliance Risks</b> Risk that laws change which affects business					



Comments (Please explain further on the above risk rankings)

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Using a Likert scale of 1-5 with 1-Strongly Agree 2-Agree 3-Somewhat agree 4-Disagree 5-Strongly disagree tick the appropriate box concerning your day to day experiences with the above risks

	1	2	3	4	5
<b>Operational Risks</b>					
Our machines sometimes breakdown or malfunction					
Shortage of parts ,materials and tools is a problem					
Default of payments by regular customers					
To attract customers we sometimes falsely market our products					
At times we overtrade					
We are likely to focus on profits not development opportunities					
Accounting or audit systems in the firm pose a challenge					
Lack of knowledge is a hindrance to operations					
Human Resource risk is most prevalent					
Fraud risk is the most prevalent					
Supply risks are a serious challenge					
<b>Strategic Risks</b>					
Long term business planning is lacking					
Financial management is relatively poor					
There is no succession plan as yet so the firm is wholly dependent on the owner					
There is no long term plan for risky events like fire,theft,collision ,natural disasters that can stop business operations					
<b>Technical risk</b>					
Policies within the firm subject us to risk					
Reputation risk is high					

<b>Market Risks</b>					
Customer preferences are changing all the time					
Our customers are very sensitive to prices					
Competition is stiff in our sector					
It's tough to forecast market changes or improvements (especially for new products or those still in development stage)					
There has been insufficient market demand due to economic decline					
<b>Financial Risks</b>					
Invoicing or revenue risk is high					
Liquidity risk is significant					
Equity or price risk is significant					
Interest rate risk poses great challenge					
Exchange rate risk is damaging to business					
Credit risk is significant					
<b>Compliance Risks</b>					
Rules and laws are forever changing making it tough to comply					
Some regulations are difficult to follow					
Internal procedures and practices are sometimes not followed to book					
Unethical business conduct is a cause for concern					
<b>Hazard Risks</b>					
Harmful substances discharged into environment affect business negatively					
Fire is common					
Theft and other property damages are common					
Workers get injured at work					
Workers get sickness and diseases related to work					
<b>Environmental Risks</b>					
Natural disasters like cyclones, earthquakes affect business					
Harmful substances emitted into the environment affect business					
Droughts affect our business					

COVID has affected business					
Depletion of resources is a major problem affecting business					

**Comments (explain further on above rankings)**

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**INTERVIEW GUIDE**

**Operational Risks**

- 1) What are the biggest problems you've faced in your company's day-to-day operations?
- 2) Can you tell me about a time when you had to deal with one of these problems?
- 3) How did it affect your work and the company's performance?
- 4) How do you usually handle and solve these problems in your job?

**Financial Risks**

- 1) What are the main financial problems your company faces?
- 2) Can you describe a time when a financial problem had a big impact on your company?
- 3) How did it affect your decisions?
- 4) How do you handle and reduce financial problems in your job?