STRATEGIC RISK FACTORS INFLUENCING SME GROWTH:
A CASE STUDY OF MARKMANN AND COMPANY LIMITED

BY
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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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A CASE STUDY OF MARKMANN AND COMPANY LIMITED

BY
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A Research Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Master of Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SUMMER 2016
STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University-Africa for academic credit.

Signed: _______________________________ Date: ____________________________

Asha Ndope (Student ID: 608923)

This project report has been presented for examination with my approval as the appointed supervisor.

Signed: _______________________________ Date: ____________________________

Dr. Joseph N. Kamau

Signed: _______________________________ Date: ____________________________

Dean, Chandaria School of Business
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ABSTRACT

The general objective of the study was to establish the strategic risk factors affecting the growth of SMEs in Kenya. The specific objectives were; to establish the effect of political risk on SME growth, to determine the effect of social risks on SME growth and to determine the effect of technological risks on SME growth.

The researcher adopted descriptive research design to undertake the study. The population comprised of all the 30 management and support staff of Markmann and Company Limited. The sample size was 30 respondents, representing 100% of the population size. A questionnaire survey instrument was used to collect data. Inferences were drawn using correlation analysis, ANOVA and regression modeling techniques. The data was analyzed using SPSS and presented in figures and tables.

Political risk was found to be negatively and significantly related to growth \( r = -0.608, p\text{-value} = 0.002<0.05 \) level of significance. Social risk was found to be negatively and significantly related to growth \( r = -0.766, p\text{-value} = 0.000<0.05 \) level of significance. Technological risk was found to be negatively and significantly related to growth \( r = -0.506, p\text{-value} = 0.014<0.05 \) level of significance. Regression results showed that political, social and technological risk factors explained 71% of the variation in SME growth performance \( p\text{-value}=0.000<0.05 \). Social risk factors had the highest explanatory power on SME growth (Beta = -0.897).

The study concluded that political risks adversely affected SME growth as manifested through terrorism, unfavourable government regulations on import trade, government bureaucracy, import duty and taxes and corruption. Social risks had strong negative influence on SME growth. Adverse publicity especially associated with unfavorable social media publicity and the loss of key personnel affected business growth. The pace of technological change and globalization was a major issue affecting SME businesses. Rapid shifts in technology, digital convergence, disruptive new innovations and the related rate of equipment obsolescence adversely affected growth.
It was recommended that SMEs should adopt strategic risk management practices to mitigate political, social and technological risks. Diversification strategies can be used to neutralize the adverse impact of technological shifts by divesting into industries where the rate of technological obsolescence is relatively low. Insurance could be used to transfer political risks such as the threat of terrorism to business while unfavorable government regulations can be minimized through collective bargaining via industry associations. With respect to social risks, vigilance is needed to monitor trends and develop timely response strategies. In terms of further research, a similar study that adopts a survey approach could be undertaken to corroborate or refute the findings of this study. Other researchers should study other strategic risk factors such as economic risks and ecological risk factors and their impact on the growth of SMEs.
ACKNOWLEDGEMENTS

I wish to acknowledge a number of people and institutions that enabled the successful undertaking of this study. I acknowledge the intellectual guidance I received from my project supervisor, Dr. Joseph Kamau.

I am grateful to Markmann and Company Limited for allowing me to use the enterprise as a case study. I am specifically thankful to the entire staff of the company for the cooperation I received and for filling the questionnaires.

Last but not least, I appreciate the contribution of every other person who was resourceful at every stage of my research project journey.
DEDICATION

To my husband and children, you are an endless inspiration to me. Thank you for every support I have received from each one of you.
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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GSM</td>
<td>Global System for Mobile communication</td>
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<td>MFI</td>
<td>Micro-Finance Institution</td>
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<td>SMEs</td>
<td>Small and Medium Enterprises</td>
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<tr>
<td>SPSS</td>
<td>Statistical Package for the Social Sciences</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<td>UK</td>
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1.0 INTRODUCTION

1.1 Background to the Study

Risk denotes the potentiality that future events may have an adverse effect on the survival and growth of business (Ng’ang’a, Muthusi & Nassiuma, 2015); whereby growth is operationally defined as positive shifts in business assets, turnover and number of employees (Kaufmann & Shams, 2016). Strategic risk is a category of risk associated with unanticipated changes in mission critical elements of strategy formulation or execution (Segal, 2011). Gates (2006) identifies seven major classes of strategic risks based on interviews with Chief Executive Officers (CEOs) of major corporations in the United States (US). These are: industry margin squeeze, technology shift, brand erosion, one-of-a-kind competitor, customer priority shifts, new project failure, and market stagnation. Smit and Watkins (2012) opine that market related factors that exert the most negative influence on enterprise success and growth are increased competition, limited market size, low demand, inefficient marketing, poor competitor understanding, poor location and market understanding and the inability to identify the target market.

Unlike other types of risks, strategic risks tend to be more complex since they involve a careful negotiation between risk and reward (Lay, 2014). This scenario is further complicated by the fact that exposures that characterize the firm’s strategic risk factors are more difficult to quantify because the implied changes often are irregular, abrupt and unique and unfold in ways that are hard to foresee (Roggi & Altman, 2013). Thus, even if smart policies are implemented, competitors might steal customers, unexpected disasters might cripple operations and economic fluctuations might erode the buying capabilities of target markets (Dzama, 2015). Generally, risks that threaten an organization’s strategic plan and execution such as competitor moves, emerging disruptive innovations, changes in customer demographics, and new regulations, can significantly affect an organization’s growth if not its very existence (Hancock & Beasley, 2015).

According to Dzama (2015), strategic risks cannot be avoided and this calls for the implementation of effective strategic risk management. In conceptualizing different risk
management approaches and their associated limitations, Islam and Tedford (2012) identified some important factors that need to be given special emphasis while developing a strategic risk management framework. These include: participation and contribution of everyone in the approach to risk management needs to be confirmed; the continual assessment of performance of management, employees and the system itself needs to be integrated with business strategies; formal causal feedback loops between the interested parties need to be established; risk assessment tools and techniques need to be purposeful and specific; both internal and external changes in the work environment continually need to be monitored and adjusted within the risk management strategy; and, formal training and development programs for managers and key employees need to be incorporated. Further, as people conduct their daily activities and pursue their business objectives, managers need to set a tone about risk-consciousness.

Ngwangwava, Manuere, Kudakwashe, Tough and Rangarirai (2014) propagate the view that a strategic risk management approach enables an enterprise to pursue its strategies assertively and economically as management can predict the risk exposure of each activity engaged in, thus ultimately achieving more satisfactory results at a reduced cost. Supporting this view, Smit and Watkins (2012) assert that strategic risk management facilitates an effective risk approach by prioritizing risks, thereby reducing surprises, and directing the focus on important risks. They argue that this has the effect of reducing the possible over-management of insignificant risks. Ng’ang’a et al. (2015) are in concert and point out that proper risk management creates a competitive advantage, especially in times of crisis because it provides better identification of business opportunities and threats, and better corporate governance. In their view, effective risk identification, assessment and mitigation can lead to the unlocking of the valuable upside of risk thereby creating competitive advantage, certainty, security, efficiency, resilience and confidence.

Given the potential benefits that accrue from a strategic approach to risk management, the importance of assessing the risk factors affecting the growth of small and medium enterprises (SMEs) cannot be overemphasized. The SME sector forms the backbone of both the developed and developing economies throughout the world (Beccalli & Poli, 2015). According to Karadag (2015), the SME sector accounts for more than 99 percent of enterprises in all the 28 member countries of the European Union (EU), the US and
Japan. In Kenya, the SME sector comprised of 75% of all businesses, employed more than 4.6 million people and accounted for 18.4% of the country’s Gross Domestic Product (GDP) in the year 2014 (Ng’ang’a et al., 2015). The sector continues to generate more than 85 percent of employment in the country (Njanja, Ogutu & Pellisier, 2012).

Ngwangwawa et al. (2014) observes that strategic risk is an unavoidable challenge that faces many SMEs and if it is not properly managed, it might cause the very collapse of small enterprises if not their stagnation. Smit and Watkins (2012) highlight that SMEs encounter increasing competitive pressure fuelled by globalization, legislation and the relaxing of trade barriers, as well as an increase in market expansion due to emerging technologies and innovation. However, unlike large corporations, the vulnerability of SMEs is increased by the unique limitations which may prevent them from adopting a strategic approach to risk management. According to Bris, Soares and Martorell (2009), such limitations include inadequate infrastructure, limited managerial and technical expertise, lack of financial and intellectual resources, weak information networks, as well as low investment in research and development. Nonetheless, Smit and Watkins (2012) maintain that strategic risk management ensures that the SME activities are aligned to its mission and objectives and not diverted by external influences and organizational activities comply with industry best practices which may yield competitive advantage.

According to Segal (2011), strategic risk factors are highly variable by company and thus, strategic risk management approaches must be customized to individual cases. This study was based on the case of Markmann and Company Limited. The company is located on Enterprise Road in Industrial Area, Nairobi. The history of this company dates back more than 60 years ago as implied by its inception in the year 1951. The company deals with a variety of products that include fleet management systems, Global System for Mobile communication (GSM) Car alarms and Speed governors. It also deals in attendance management, access control, automobile accessories and industrial gauges. The company’s vision is to be the most respected company in fleet management and control equipment and all else that it does. It endeavors to offer quality, affordable and efficient service to its customers, maintain cordial contact with them and undertake regular market research to identify and address their changing needs (Markmann & Company Limited, 2016).
1.2 Problem Statement

The desire of all SMEs is to outgrow their smallness and become big corporations that return value to their stakeholders. However, going by the statistics across the world, few SMEs manage to outgrow their smallness and expand into big corporations. Instead, research conducted on SMEs in Africa for instance indicates that on average, there are more SME closures than expansions, with an estimated 1% of the enterprises growing from less than five employees to more than ten (Smit & Watkins, 2012). In Kenya, two-thirds of SMEs fail within the first few months of operation (Ng’ang’a et al., 2015).

Compared to their large counterparts, SME businesses in Kenya are more vulnerable to environmental uncertainties due to their smallness (Ng’ang’a et al. 2015) and strategic risks is one of the most frequent risks they face (Njuguna, Gakure, Waititu, & Katuse, 2013). In addition, citing a survey done by Price Water House Coopers in Kenya in the year 2011, Yegon, Mouni and Wanjau (2014) noted that risk management in Kenya is weak. This perspective is informed by the survey finding which indicated that 81 percent of CEOs interviewed from various firms felt that risks to their organizations were increasing and traditional risks were evolving. This is all the more reason why a strategic approach to risk management is indispensable for the sustainability and growth of SMEs which form the bulk of the business sector in Kenya.

Despite the highlighted implication of strategic risks to the growth of a business, limited research attention has been directed at the effects of such risks to the growth of Kenyan SMEs. Njuguna (2013) undertook a study on the effect of strategic risk management strategies on the growth of the microfinance sector in Kenya and found that strategic risk management strategies were a significant determinant of growth in Micro-Finance Institutions (MFIs). However, some of the MFIs represented in Njuguna’s sample were large corporations and thus the findings could not be generalized to the SME sector.

Wanyingi (2013) also examined strategic risk management practices affecting the growth of import-oriented SMEs in the Kenyan textile industry and found that competitive risks and regulatory risks were ranked high among the strategic risk factors they faced. However, it is noteworthy to point out that “strategic risk exposures are conditioned by specific corporate structures and market positions, and, therefore, also require responses that are unique to the firm” (Roggi & Altman, 2013, p. 217). Roggi and Altman
further argues that this constrains the use of standardized instruments, risk-transfer techniques and formalized risk management practices in dealing with strategic risks. In this case, a study of strategic risk exposures that apply to the specific firm was needed in order to come up with a strategic risk management framework peculiar to the firm. There was limited knowledge of strategic risk exposures that characterize individual firms and the underlying internal dynamics that underpin such risk exposures. This current study attempted to close the knowledge gap applicable to Markmann and Company Limited.

1.3 General Objective of the Study

The general objective of the study was to establish the strategic risk factors affecting the growth of Markmann and Company Limited.

1.4 Specific Objectives

1.4.1 To establish the effect of political risks on SME growth.
1.4.2 To determine the effect of technological risks on SME growth.
1.4.3 To determine the effect of social risks on SME growth.

1.5 Significance of the Study

This research was of significance to the following stakeholders:

1.5.1 Markmann and Company Limited

The findings, conclusions and recommendations from this research would be invaluable to Markmann and Company Limited as it provides the corporate intelligence that the company needs to manage its strategic risks.

1.5.2 Management of Markmann and Company

The management and staff of the company would draw from the insights gleaned herein to come up with an effective strategy to manage strategic threats and seize untapped opportunities. By extension, this process would help accelerate their learning curve and consolidate the company’s human capital that can be positioned strategically for growth.
1.5.3 The Academia

Research underpinning the concept of strategic risk management in Kenya is still nascent in Kenya. Therefore, future researchers who wish to extend studies in this area might draw from the research findings to advance knowledge for the benefit of the SME sector.

1.6 Scope of the Study

This study focused on Markmann and Company Limited. Strategic management tools and risk management models were triangulated to form a conceptual map through which data was collected. The research participants encompassed the entire management and staff fraternity at the company. Data was collected in the month of June 2016. This research was based on self-reports which are vulnerable to response bias such as the tendency to respond in a certain way regardless of the actual state of affairs. It was assumed that the use of a census approach washed out any effects of self-report on the findings.

1.7 Definition of Terms

1.7.1 Growth

This refers to positive shifts in business assets, turnover and number of employees (Kaufmann & Shams, 2016).

1.7.2 Risk

This is the potentiality that future events may have an adverse effect on the survival and growth of business (Ng’ang’a et al., 2015)

1.7.3 Strategic Risks

Strategic risks are the uncertainties and untapped opportunities that characterize a firm’s business environment and affect mission critical elements of strategy formulation and execution (Roggi & Altman, 2013; Segal, 2011).
1.7.4 Strategic Risk Management

This refers to the process of defining, assessing and managing risks and uncertainties affected by scenarios that could inhibit a firm’s ability to achieve its growth objectives (Kumar, 2015).

1.7.5 SMEs

In Kenya, SMEs are firms whose annual turnover exceeds half a million shillings and, which employs between 10 and 100 people (Republic of Kenya, 2012).

1.7.6 Political risks

Political risks are risks related to actions of government which threatens the survival and growth of business (Kansal, 2015).

1.7.7 Technological risks

Technological risks are events that adversely affect the sufficient, appropriate or management of investment in business processes, operations and competitiveness (Chapman, 2011).

1.7.8 Social risks

Social risks are changes in society that adversely affect the survival and growth of business (Chapman, 2011).

1.8 Chapter Summary

This chapter has provided the background to the study. This has entailed an overview of the subject of strategic risk and definition of related terms. The background has also placed the discourse within the context of the SME sector. Subsequently, the problem has been stated and objectives of the study clarified. Further, the significance and scope of the study has been discussed.

The rest of the chapters are outlined as follows:

Chapter two reviews the conceptual, theoretical and empirical literature underpinning
research on strategic risks.

Chapter three provides a detailed explanation of the methodology that guided the study. This entails the research design, the population and sampling design, the research instruments, procedures and data analysis techniques to be employed.

The results are presented and interpreted in chapter four.

Finally, chapter five draws conclusions and makes recommendations from the findings.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews the theoretical, conceptual and empirical literature pertinent to the study. The chapter is structured based on the specific objectives. The first section reviews the political risks factors potentially affecting SME growth. The second section reviews social risks and SMEs. The last section discusses technological risk factors influencing SME growth. A summary of the literature review is presented at the end of the chapter.

2.2 Political Risks and Growth of SMEs

According to Kansal (2015), political risks are associated with actions of government which deny or restrict business from using or benefiting from their assets or reduces the value of the business. This definition encompass domestic politics, regulatory changes, actions of trade unions, social movements and changes in labour laws. A study of SMEs in India by Bhatnagar (2013) found that political risk is due to different political backgrounds of the countries and may manifest in the form of war, weak law and order situation.

2.2.1 Terrorism

An aspect of political risk which is increasingly commanding the attention of the business sector is global terrorism (Kvint, 2015). According to Enderwick (2006), all businesses are likely to be victims of terrorism. Kansal (2015) observes that since terrorist organizations like Al Shabaab are no longer associated with a specific nation or a geographical area, politically motivated terrorism is a political risk. There may also arise circumstances wherein such terrorism is focused against a specific industry, sector, economy, government or its policy framework. Even ancillary impacts owing to such acts of terrorism and halt of transport owing to border/road closure due to inter-state fighting are included within this risk. Extending this view, Lloyd (2007) opines that while businesses may not be the primary target of terrorism, a business will find itself physically located near, under or on top of an intended target. In addition, a business may find that its staff is unable to get to work in the wake of an event, or that a link in its supply chain has been either directly or indirectly hit.
Nafiu, Okpanachi and Nurudeen (2014) examined the impact of terrorism on SME mortality rates and standards of living in the northern region of Nigeria. Their study comprised personal interviews and questionnaires administered to randomly selected respondents and analyzed their data using Chi-square method. The findings showed that terrorism can lead to high mortality rate of SMEs and degradation of the living standards of the people in the northern part of Nigeria. They concluded that terrorism will not only lead to high mortality rate of SMEs and degrade the living standards of the people, but may crumble the country’s national economy in the long run if no vibrant measures are taken to halt the menace.

In terms of international business, Sherazi, Iqbal, Asif, Rehman and Shah (2013) observed that terrorism and suicide bombings discouraged foreign direct investment in Pakistan. This was identified in their study as among the obstacles to SMEs in the country. This is consistent with the findings of another study in Nigeria by Sanjo and Marcus (2014) who looked at the effect of terrorism on international business. The results showed that there was a correlation between terrorism and imbalance of payment, imbalance of foreign exchange earnings, reduced foreign investment and destabilized financial market. They hence recommended that there should be public enlightenment so that terrorists realize that they are agents of economic destruction. They also vouched for provision of job opportunity for the youth and suggested that laws that create financing of terrorism offenses should be enacted. They further advocated for freezing, seizure and confiscation of the proceeds of crime. In addition, they were of the view that terrorist funding should investigated and laws, regulations, or other enforceable means that impose the required obligations on financial institutions and designated non-financial business and professions should be in place. In addition to that, they recommended that there should be provision of an appropriate institutional or administrative framework and laws that enable authorities to discharge their duties as expected of them.

Kenya has particularly been the target of terrorism, with businesses suffering disproportionate losses. Kinyanjui (2014) assessed the relationship between terrorism and foreign direct investment in Kenya based on secondary data on terrorist attacks and foreign direct investment from 2010 to 2012. Kinyanjui’s study found that terrorism
negatively affects Foreign Direct Investment (FDI) in Kenya and concluded that terrorism activities decrease the foreign investor confidence, which decrease the FDI. One of the ways in which SMEs are affected is the indirect relationship between FDI and SME activities. Terrorist events therefore present real risk to the SME sector. For example, in studying the risks faced and strategies employed by SMEs in Nairobi, Kakwathi, Kamau, Njau and Kamau (2014) identified threat of terrorism as very real in respondents’ business.

2.2.2 Regulatory risks
According to Kansal (2015), regulatory risks mean the risk of politically motivated changes in regulatory policies or legal framework of government which render the business unprofitable. Examples may include: import and export restrictions, price controls, excessive taxation (like taxes on windfall gains, duplicate tax claims by both central and state government), stringent environmental laws or labour standards, preferential policy towards protection of domestic companies or financial institutions. Such policies include: increased taxation over transfer pricing within companies, requiring companies to partner with local firms for specific activities such as processing, or retroactive application of taxes or environmental or health and safety fines. As an example, Dixon, Gates, Kapur, Seabury and Talley (2006) argued that small businesses within the employment threshold of a regulation to take effect may face higher risk of legal action in addition to the administrative enforcement regulation imposed on records management.

Kansal (2015) explains that regulatory changes may occur when there is a change in the ruling government, or even when the pre-existing host government changes its priorities, or when the political system itself changes. For instance, if the power to effect such regulatory changes is delegated to administrative authorities in a parliamentary democracy, the risk will be much higher for lack of need of extensive parliamentary deliberations. If, sufficiently prior to enacting such adverse regulatory changes, the host government notifies the concerned investor/owner, this risk may be minimized. In Kenya, an act of parliament known as the Micro and Small Enterprises Act 2012 was legislated to govern how small businesses should operate.
2.2.3 Risk of Trade Controls

Kansal (2015) argues that there is a risk of government adopting stringent currency or trade controls. Imposition of trade barriers, licensing requirements, restrictions on cross-border transfer of resources are examples of trade controls. There is empirical evidence that uncertainty of severity and duration of these controls are aggravating factors for political risk. For instance, a study by Patmore and Haddoud (2015) on the drivers and barriers facing SMEs in the US market found that trade controls and policies often impose significant problems for internationalising SMEs with foreign country tariff, para-tariff and non-tariff measures including anti-dumping and countervailing duties, quotas and licensing requirements, embargos, minimum import prices, state trading and prohibitions, direct import taxes and charges.

In Kenya, Nganga (2014) studied barriers to trade and investigated the procedural obstacles experienced by business people in Kenya. He found that non-tariff barriers were a combination of import measures and procedural obstacles including delay of clearance of goods at the port of Mombasa due to lengthy clearance processes, non-recognition of certificate of origin, a lack of harmonized import/export documentation procedures, the requirement for transit fees and bonds, administrative levies and corrupt practices. These were found to have a very severe impact on business in Kenya. Specifically, distributional constraints and technical quality standards were cited by 83.3% of the respondents as having a severe impact on business while two-thirds of the respondents regarded import and export permits and licenses as having a severe impact on business.

2.2.4 Currency Risks

According to Kansal (2015), there is a risk of inconvertibility of local currency revenues into foreign currency required to pay off the debts owing to foreign exchange shortage in the host country. Currency risk also includes risk of devaluation which is the shortfall in ex ante returns from foreign investment owing to depreciation of local currency in which revenue was earned in host country. This currency risk becomes political risk when the currency market is fixed or regulated by the host government or its instrumentality.

Henderson (2006) identifies three types of currency risks. These are: transaction risks, translation risks and economic risks. He explains that transaction risk is risk related to any
transaction such as receivables, payables or dividend. He argues that the most common type of transaction risk relates to export or import contracts whereby when there is an exchange rate move involving the currencies of such a contract, there is a direct transactional currency risk exposure to business. With respect to translation risk, exposures accrue from the consolidation of parent company and foreign subsidiary financial statements. This causes a variation on either the average or end of period exchange rates, thus, all foreign currency-denominated profit is exposed to translation risk as exchange rates vary. Finally, economic risks focuses on how exchange rate moves change the real economic value of the business, and this reflects the effect of exchange rate changes on items such as export and domestic sales and the cost of domestic and imported input.

### 2.2.5 Risk of Political Upheaval

Kansal (2015) explains that political upheaval includes political revolution, social movements, protests, strikes, civil commotions, internal armed conflicts like insurrections, riots, mutiny, rebellion or military coup d’état and civil wars which may arise due to social mobilization or change of public opinions aimed at thwarting corruption, creating political imbalance/instability and removing existing power structures. Therefore, the higher the improprieties present in political or administrative system including nepotism, corruption, bribery and administrative laxity, among others, the higher the risk of such upheaval and the lesser the viability of investments.

Dupas and Robinson (2012) studied the hidden costs of political instability drawing from evidence from Kenya’s 2007 election crisis where they found that the election crisis had a sizeable effect on small scale businesses. Specifically, income was 47% lower in the first week of January 2008 than it was for an average week in November 2007, and remained significantly lower throughout the month of January. Shop owners who had much larger businesses were affected even more as average incomes dropped by 59%. However, a study by Ng’ang’a, Muthusi and Nassiuma (2015) on SME risk management in Kenya found that despite the political upheaval that was experienced in the 2007 electioneering process in Kenya, 88% of medium and large enterprises and 100 percent of micro and small enterprises had not taken any action to manage similar risks in the future.
2.3 Social Risks and Growth of SMEs

Social risk is identified as a key strategic risk that business organizations often misdiagnose (Bekefi, Jenkins, & Kytle, 2006). These scholars define social risk as challenges business organizations face from the stakeholder environment due to real or perceived business impact on human welfare. These range from working conditions, environmental quality and health issues. The consequences of these are reputational damage, increased regulation, litigation, consumer boycotts and operational sabotage. The authors illustrate the social risk dynamics as shown in Figure 1. According to the figure, there are four components of social risks: social issue, stakeholder groups, perceptions about the business and means of reaction.

Bekefi et al. (2006) identify that social and environmental issues including diseases, environmental degradation, climatic change and rapid urbanization are increasingly demanding the attention of businesses across the world. However, most business owners and managers fail to recognize the significance of these factors to their businesses.
Various stakeholders including civil society organizations, international agencies and even individuals can react to business activities in a manner that adversely affects the continued existence of the business. This largely depends on information they have obtained about the business from news sources, the internet, word of mouth and the business itself. Whether the information is accurate or inaccurate, stakeholders can influence public opinion and cause protests which can result in government action against the businesses.

2.3.1 Risk to reputation
With the advent of social media, reputational risk is increasingly emerging as a strategic risk management issue emanating from the social environment. According to a survey of 300 executives around the world by Delloite (2013), reputation risk is now the biggest risk concern, due in large measure to the rise of social media, which enables instantaneous global communications that make it harder for companies to control how they are perceived in the marketplace. This stems from extensive literature sources which claim that it takes twenty years to gain reputation, but five minutes to lose it (Gecikli, 2013). Honey (2009) argues that reputation is slippery, volatile, easily compromised, impossible to control and amorphous. Reputation is based on a perception and does not have to rely on truth or reality but on a combination of the experience, knowledge and belief of stakeholders. An organization has the capacity to improve a stakeholder experience and some ability to improve their knowledge but relatively little power to influence belief.

In defining reputation, Spedding and Rose (2008) hold that the constituent parts of the overall reputation story of an enterprise encompass brand, vision, values, media, public affairs and public policy, compliance, governance, regulation and corporate responsibility. Gecikli (2013) observes that any event or condition resulting from any product, service, activity and relations and leading to the weakness of trust or image of the corporation is accepted as reputation risk.

Rospigliosi and Greener (2014) speculated that use of social media could increase reputational risk as a result of unfavorable exposure. According to the American Institute of Certified Public Accountants (2015), in a business environment where a damaging
Twitter post can have disastrous effects on a company’s financials, reputational risk remains the top non-financial concern for corporate directors according to survey reports. A survey of Australian small businesses with respect to their social media usage as undertaken by Peres and Mesquita (2015) reported interesting findings that suggest that SMEs have to be ready to deal with different negative feedback and be prepared to use different strategies to deal with them. The survey found that SMEs were faced with a range of reputational risks including: other businesses posting negative comments on their social media pages, customers complaining about activities that were not within the control of their business and complaints that were rude and offensive.

Holder (2013) outlined six key points regarding reputational risk that highlight the importance of a company’s intangible assets in a globalized world. These are: reputation is a prized, and highly vulnerable corporate asset – this preoccupation with reputation risk stems primarily from the fact that executives now see reputations as a major source of competitive advantage; companies struggle to categorize reputational risks and risk managers are divided on whether reputational risk is an issue in its own right or simply a consequence of other risks; compliance failures are the biggest source of reputational risk – the biggest threat to reputation is seen to be a failure to comply with regulatory or legal obligations; SMEs lag behind on reputational risk; the CEO is the principal guardian of corporate reputation and is pivotal in providing an ethical identity for their companies; and, good communication is vital to protecting against and repairing reputational damage – reputation is ultimately how the business is perceived by stakeholders including customers, investors, regulators, the media and the wider public.

2.3.2 Insecurity

Insecurity as a concept connotes different meanings including absence of safety, uncertainty, danger and lack of safety – a state of fear stemming from real or imaginary threat to lives and property (Okonkwo, Ndubuisi-Okolo, & Anagbogu, 2015). The opposite of insecurity is security, defined by Achumba, Ighomereho and Akpor-Robaro (2013) as stability and continuity of livelihood, predictability of daily life, protection from crime and freedom from psychological harm. It is also construed as the situation that exists as an outcome of the protection of life and property against hostile persons, influences and actions (Achumba et al., 2013). Achumba et al. (2013) enumerates that
insecurity to business manifest in different forms that range from burglary and theft to armed robbery, blockading of business installations and fraud. This is illustrated by the authors as shown in figure 2.

**Figure 2.2 Insecurity Environment of Business**

Source: Achumba et al. (2013, p. 84).

In Kenya, an occasional report covering the period 2010 to 2014 published by the Kenya National Human Rights (2014) revealed that Kenya has witnessed a runaway number of insecurity incidences and cases over the period. The report concluded from a survey of 30 counties that there was rising incidences of violence and massive destruction of property. The report recorded 46 criminal gangs operating in different parts of the country undertaking different activities including burglary, theft, extortion of businesses and illegal levies. Of these, extortion of businesses and burglary accounted for nearly all of the cases. Extortion and illegal levies increase the cost of doing business which potentially affects the SME sector. Besides extortion, it is common for business people in Kenya to suffer other forms of insecurity problems including shop-lifting, obtaining money/property by false pretense, misappropriation of funds and pilferage (Omboto, 2013). As a consequence, businesses incur cost on security which is transferred to the final consumer through higher prices which make businesses less competitive.
2.3.3 Environmental Issues

SMEs are increasingly being challenged to take seriously the impact of their business activities on the environment. According to Walker, Redmond, Sheridan, Wang and Goeft (2008), SMEs are more pollution-sensitive than large corporations yet many owner managers of the SMEs do not see environmental issues or the need to act in an ecologically friendly way as a significant issue for their businesses. However, Salimzade, Courvisanos and Nayak (2013) identify that the cost of implementing ecologically sustainable business is very high for SMEs especially with regards to environmental regulation and standards set by the government. Such regulations include environmental protection and labour, health and safety regulation. Meanwhile, the competitive environment makes this cost difficult to transfer to the final consumer.

2.4 Technological Risks and Growth of SMEs

According to Miles (2011), since technology and information technology are driving forces in many industries, technology continues to be a consequential factor in the success or failure of an enterprise. The influence of technology on the success or failure of a firm is critical. This introduces the concept of technological risk. Technological risk is defined as the likelihood of physical, social, and/or financial harm/detriment/loss as a consequence of a technology aggregated over its entire lifecycle (Renn & Benighaus, 2013). According to Lanz (2013), technology is changing, as is the process by which companies purchase and use it to achieve business objectives. Although these changes affect organizations of all sizes, they are especially pronounced in the small and midsized business market. For example, the rise and availability of cloud computing enables small and midsized businesses to shift their focus from the detailed management and configuration of technology parameters to the important challenge of achieving strategic ends for the firm’s stakeholders.

2.4.1 Obsolescence

Barreca (2016) define obsolescence as “a measure of an asset’s loss in value resulting from a reduction in the utility of the asset relative to market expectations”. The author proceeds to explain two types of obsolescence: external obsolescence and functional
obsolescence. Barreca argues that functional obsolescence accrues out of material, structure or design deficiency that reduces the function and utility of an asset. Sometimes the functionality of the asset may remain constant but customer expectations may increase as technology advances, thereby impairing the value of the asset. From the customer’s perspective, the asset has a flaw because it cannot meet new expectations. The market value depreciates proportionately.

Depreciation risk is generally defined as the risk of an investment losing value. It is “a measure of the loss in service value incurred in connection with the consumption or prospective retirement of property” (Barreca, 2016, p.2). One study recommended that SMEs should pay particular attention to depreciation of equipment, the cost of possessing the equipment and create back-up insurance (Ghasemi & Talebjbeydokhi, 2015). This is because in some technological sectors, technological obsolescence has an immediate and drastic impact on the rate of depreciation of older equipment; sometimes dropping in value by 20 percent overnight (Barreca, 2016).

Particularly for SMEs, the risk of technological obsolescence is higher because of their inherent resource constraints. Obsolete technology leading to high cost of production raises the cost of production making it difficult for the small enterprises to meet the demand of the buyers at competitive price. Technology is changing at a fast rate so entrepreneurs should keep updating their technologies and keep upgrading their tools to face the challenges (Bhatnagar, 2013). Findings by Delloite (2013) have shown that other technologies are also having a major impact on the business and risk landscape. The majority of surveyed companies (53%) believe technology enablers and disrupters such as social, mobile, and big data could threaten their established business models, and 91% have changed their business strategies since those technologies began to emerge.

New technological innovations also carry risks as much as they pursue opportunities. The technology is likely to be unproven and the application yet to be demonstrated; development may take longer than expected, it may not work or it may be superseded by competitors (Vonortas & Kim, 2011). Delloite (2013) found that the emerging technology enablers and disrupters are prompting many companies to rethink their business strategies. Specifically, 91% of the surveyed companies in their study said they have
changed their business strategies since the emergence of mobile, social, big data and various other major technology innovations.

2.4.2 Intellectual Property Theft

Another strategic risk associated with technological innovation is intellectual property risks. Intellectual property is increasingly being recognized all over the world as an important commercial asset and a driving force in technological progress and socioeconomic development of the country (Sople, 2012). An organization’s knowledge and expertise is its intellectual property and it is the lifeblood of every enterprise. In today’s knowledge based economy, there is an increasing need of effective management of IP assets such as technical know-how, confidential information, copyright material, design work and trademarks and patents, which give the business competitive advantage.

In order to manage intellectual property, the business enterprise must first identify and then prioritize it based on its importance and the value attached to it (Sople, 2012).

According to Ulsch (2009), threats to information integrity come in many forms, have many dimensions and originate from outside and inside the organization. The impact of these diverse threats, the ones that overwhelm or outmaneuver existing controls, can significantly alter the future of any organization. He argues that there is a widespread economic espionage of intellectual property and trade secrets, with some 106 countries worldwide targeting US research and development companies at an annual cost of approximately US$300 billion.

In some industries and certain countries, it is observed that IPR laws are easy to circumvent such that simply filing the documents necessary for competitive protection often provides the very information that aids competitive imitation (Smith et al., 2005). Even when circumventing such laws is difficult, the cost of enforcement can be higher than the benefits of enforcement (Frey, 2013). Such costs include the cost of negotiating licenses, collecting royalties, litigating infringements and fighting against piracy on a worldwide scale (Biber-Klemm & Cottier, 2014). Further, SMEs lack the advantage that large firms have in terms of economies of scale and scope that enable them reap the rewards of their IP assets in good time (Frey, 2013).
2.4.3 Product design risk
According to Kim and Vonortas (2014), the technology of many SMEs, especially startups is frequently unproven and the application yet to be demonstrated. Further, development may take longer than expected, may not produce the desired outcome, may not work or may be superseded by competing technologies. Thus, this type of technological risk underscores many SME’s inability to completely understand or accurately forecast some aspects of the technological environment. Mansor, Yahaya and Okazaki (2015) reviews that SMEs might not envision upcoming of new technology or notice when the technology becomes obsolete.

In analyzing business risk management features and problems in small and medium-sized trading and manufacturing enterprises in Lithuana, Belinskaja and Velickiene (2015) identified risks related to product design among the problems faced by majority of the SMEs. Zheng and Possel-Dolken (2002) explain that the SME business operation could be disrupted because of adoption of new technology that still lacks reliability. Further, other alternative technologies might evolve that are more cost effective. Related to this is the risk that often arises when customers do not fully understand the new technology the SME introduces into the market (Mansor et al., 2015).

2.4.4 Rudimentary Technological Skills
Lack of technical capability is another technological risk identified in literature (Mansor et al., 2015). According to Karanja, Muturi, Mukabi, Kabata, Wahome and Kayogo (2013), inadequate technical skills within the business environment adversely affect many SMEs. Often SMEs do not have the technical capabilities to optimize the potential inherent in new technology. A report by the Capital Markets Authority (2010) indicated that many SMEs in Kenya apply simple and relatively rudimentary technology in production which limits their product quality and make them less competitive. In the view of Karanja et al. (2013), product quality is low because the human resource of most SMEs lack the technical know-how to produce better ones, and the skills are lacking because low wages make attraction of high talent to the sector particularly challenging.
2.5 Chapter Summary

This chapter has reviewed the theoretical concepts and models as well as the empirical literature related to strategic risk factors and SME growth. It has discussed the political, social and technological risk factors facing SMEs. The next chapter presents a detailed description of the research methodology to be adopted.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter is concerned with the steps, methods and procedures that were followed to undertake the research. It details the research design to be used; the population, sampling frame, sampling technique and sample size; the data collection methods, research procedures and data analysis methods.

3.2 Research Design

The researcher adopted descriptive research design to undertake the study. Descriptive research design entails gathering information regarding perceptions and behaviors through the use of questionnaires (Matthews & Kostelis, 2011). This design is generally meant to generate a description of what is happening with respect to a specific phenomenon within a given population (Rovai, Baker & Ponton, 2013). This choice of design was applied to the current study because the researcher wished to describe the strategic risks faced by SMEs and the risk management culture of the company in order to determine the relationship between strategic risk management practices and SME growth. Thus, the dependent variable was SME growth and the independent variables were strategic risk factors and risk management culture.

3.3 Population and Sampling Design

3.3.1 Population

Population refers to all the subjects in the category of things being researched (Denscombe, 2014). In this study, the population comprised of all the 30 management and support staff of Markmann and Company Limited. The population distribution is as shown in table 3.1.

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board and management</td>
<td>8</td>
<td>26.7</td>
</tr>
<tr>
<td>Support staff</td>
<td>22</td>
<td>73.3</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Markmann and Company Limited (2016)
3.3.2 Sampling Design

3.3.2.1 Sampling Frame
Sekaran and Bougie (2010) define sampling frame as a list representing all elements in the population from which the sample is drawn. For the purpose of this study, the list was obtained with permission from the Human Resource Manager at Markmann and Company Limited.

3.3.2.2 Sampling Technique
Because the study population was relatively small, a census was undertaken instead of sampling. As Lodico, Spaulding and Voetgle explain (2010), census technique is whereby the researcher surveys the entire realistic population and therefore it is a method appropriate when the realistic population is not too large. By extension, the application of census technique makes irrelevant the need and rigour of sampling since the sample size represents 100% of the population size.

3.3.2.3 Sample Size
Denscombe (2010) defines a sample as a section of a part that represents a population. Since the entire population was surveyed, the sample size was 30 respondents, representing 100% of the population size. Thus, the sample size distribution and population distribution was similar as shown in table 2.

Table 3.2 Sample Size Distribution

<table>
<thead>
<tr>
<th>Category</th>
<th>Sample size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board and management</td>
<td>8</td>
<td>26.7</td>
</tr>
<tr>
<td>Support staff</td>
<td>22</td>
<td>73.3</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Author (2016)

3.4 Data Collection Methods
Primary data was collected. This was done by using a questionnaire survey instrument. The questionnaires comprised of Likert-type scale statements. Likert Scale is a technique that presents respondents with a series of attitude dimensions, for each of which they are asked whether, and how strongly, they agree or disagree, using one of a number of positions on a five-point scale (Brace, 2008). The five point scale may range from
1 to 5 or from -2 to +2. Likert type scales are therefore scales that use some assumptions and design approach of the Likert scale (Boone & Boone, 2012). The statements were applied to research variables structured as per the three objectives. The first section of the instrument however contained questions with respect to general company information and respondents’ demographic data. The Likert-type scale was applied to the political, social and technological risks and perceptions of the relationship between these strategic risks and SME growth.

### 3.5 Research Procedures

The first stage in conducting this research was to determine the validity and reliability of the data collection tool. According to Krishnaswamy, Sivakumar and Mathirajan (2009), validity is concerned with whether or not the actual content of the items on a test makes sense in terms of the construct being measured. The authors opine that the determination of content validity is judgmental and can be approached in several ways. One way to do so is to use an expert judge to gauge how well the instrument meets the standards. Another way suggested by Hersen and Van Hasselt (2012) is to ensure that numbers used in statistical analyses should be obtained from random samples of target populations and they should be normally distributed. Drawing from these discussions, validity was ensured by seeking the expert input of the supervisor while concerns with normality were offset by the census approach.

The questionnaire was then pilot-tested on a small sample of six respondents representing 20 percent of the total sample. This was undertaken to help gauge the clarity and robustness of the instrument in measuring what it intended to measure as recommended by Cargan (2007). Thus, the questionnaire feedback was used to identify any ambiguity of the questions so that refinements were made accordingly. The final instrument was administered through mail survey, followed up by telephone calls while observing all ethical considerations such as confidentiality of the respondents.

### 3.6 Data Analysis Methods

The data was first entered into the Statistical Package for the Social Sciences (SPSS) where the statistical techniques were run. Inferences were drawn using correlation analysis, Analysis of Variance (ANOVA) and regression modeling techniques.
Correlation is an inferential statistical technique that helps determine whether there is an association between the dependent and independent variable (Ornstein & Lyhagen, 2016). ANOVA explains the degree of a response variable of interest (Doncaster & Davey, 2007). Regression analysis allows for the quantification of the systematic variation of one variable (the dependent variable) according to the level of another variable (the independent variable (Gordon, 2012).

3.7 Chapter Summary

The purpose of this chapter was to describe the methodology that was used to guide the research. The chapter has detailed and provided a justification of the research design. It has also described the population and sampling design to be used. It has further discussed the data collection tool, the research procedures and data analysis techniques. In the next chapter, the findings were presented and analyzed.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
The purpose for this study was to establish the strategic risk factors affecting the growth of Markmann and Company Limited. This chapter presents the data analysis results, interpretation and presentation.

4.2 Response rate
The respondents comprised of all the 30 management and support staff of Markmann and Company Limited. All the 30 questionnaires administered were returned indicating a response rate of 100% as shown in table 4.1.

Table 4.1 Response rate

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responded</td>
<td>30</td>
<td>100</td>
</tr>
<tr>
<td>Did not Respond</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

4.3 Demographic Characteristics
This section discusses the results of the general information about the respondents including the gender, age bracket, department, the staff cadre, length of service and the education level.

4.3.1 Department.
The study sought to determine which department the respondents were in. The study findings showed that 20% of the respondents were in the sales department. 17% of the respondents were in the finance department. 13% of the respondents were in the marketing department. 10% of the respondents were in both IT and security. 7% of the respondents were technicians. 3% of respondents were either in accounts, Customer Service, Engineering, Human Resource, Management, Procurement or Reception as indicated in table 4.2.
<table>
<thead>
<tr>
<th>Department</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>customer service</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Engineer</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Finance</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>Human resource</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>IT</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Management</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Marketing</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Procurement</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Reception</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Sales</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>Security</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Technician</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

### 4.3.2 Staff cadre

The study findings sort to determine the staff cadre of the respondents. From the study findings majority of the respondents, 80% were support staff while 20% of the respondents were in the board or management as indicated in figure 4.1

![Figure 4.1 Staff Distribution](image-url)
4.3.3 Gender
The study sought to determine the gender of the respondents. From the study findings majority of the respondents (57%) were male while 43% of the respondents were female as indicated in figure 2.1.

![Gender Pie Chart]

**Figure 4.2 Gender**

4.3.4 Level of education
The study sought to determine the respondents’ level of education. The study findings showed that majority of the respondents (52%) were college graduates, 41% of the respondents were university graduates holders. 7% of the respondents had secondary qualifications as indicated in figure 4.3.

![Population Distribution Bar Chart]

**Figure 4.3 Population Distribution**
4.3.5 Age
The study sought to determine the age group of the respondents. From the study findings, majority of the respondents (57%) were between the ages of 30-39 years, 37% of the respondents were between the ages of 18-29 years of age, while 7% of the respondents were of age 40-49 years as indicated in figure 4.4.

![Figure 4.4 Age bracket](image)

4.3.6 Service in the company
The study sought to determine how long the respondents have served in the company. From the study findings, majority of the respondents (43%) had served for 1-3 years, 23% of the respondents had either served for 3-5 years or 6-10 years, 7% of the respondents had served for less than a year while 3% of the respondents served for over 10 years as indicated in table 4.3.

<table>
<thead>
<tr>
<th>Length of service</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than a year</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>1-3 years</td>
<td>13</td>
<td>43</td>
</tr>
<tr>
<td>3-5 years</td>
<td>7</td>
<td>23</td>
</tr>
<tr>
<td>6-10 years</td>
<td>7</td>
<td>23</td>
</tr>
<tr>
<td>Over 10 years</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>
4.4 Descriptive Analysis of Study Variables

This section discusses the descriptive results as per the objectives.

4.4.1 Political Risk Factors facing the Company

The study sought to examine the respondents’ views on the extent of political factors on the growth of the company. From the findings in table 4.4, majority of the respondents (37%) agreed that business disruptions was not due to terrorism, 40% of the respondents agreed to a moderate extent that new industry regulations affected the growth of the company. 30% of the respondents agreed to a small extent that unstable political climate influence company growth. 33% of the respondents agreed to a large extent that legal risks/ lawsuits against the firm affected the growth. 30% of the respondents agreed to a moderate extent that government bureaucracy affected the growth. 53% of the respondents agreed to a large extent that import duty and taxes influenced growth. 53% of the respondents agreed to a very large extent that corruption affected the growth.

Table 4.4 Political risk factor facing the company

<table>
<thead>
<tr>
<th>Political risk</th>
<th>Very large extent (%)</th>
<th>Large extent (%)</th>
<th>Moderate extent (%)</th>
<th>Small extent (%)</th>
<th>Not at all (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business disruptions due to terrorism</td>
<td>23</td>
<td>10</td>
<td>17</td>
<td>13</td>
<td>37</td>
</tr>
<tr>
<td>New industry regulations</td>
<td>3</td>
<td>30</td>
<td>40</td>
<td>20</td>
<td>7</td>
</tr>
<tr>
<td>Unstable political climate</td>
<td>10</td>
<td>27</td>
<td>27</td>
<td>30</td>
<td>7</td>
</tr>
<tr>
<td>Legal risks/ lawsuits against the firm</td>
<td>13</td>
<td>33</td>
<td>27</td>
<td>17</td>
<td>10</td>
</tr>
<tr>
<td>Government bureaucracy</td>
<td>13</td>
<td>23</td>
<td>30</td>
<td>20</td>
<td>13</td>
</tr>
<tr>
<td>Import duty and taxes</td>
<td>23</td>
<td>53</td>
<td>13</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Corruption</td>
<td>53</td>
<td>17</td>
<td>17</td>
<td>3</td>
<td>10</td>
</tr>
</tbody>
</table>

4.4.2 Social Risk Factors Facing the Company

The study sought to examine the respondents’ views on the extent social risk factors affected the growth of the company. From the findings in table 4.5, majority of the respondents (47%) agreed to a very great extent that changing customer demographics affected the company’s growth. 50% of the respondents agreed to a large extent that adverse publicity affected the growth. 47% of the respondents agreed to a very large
extent that unfavorable social media affected the company’s growth. 47% of the respondents agreed to a large extent that loss of key personnel affect company’s growth. 43% of the respondents agreed to a moderate extent to compliance failures affected growth. 30% of the respondents agreed that a small extent that attitude towards safety affected growth. 37% of the respondents agreed to a moderate extent that buying habits affected growth.

### Table 4.5 Social risk factors facing the company

<table>
<thead>
<tr>
<th>Social risk</th>
<th>Very large extent (%)</th>
<th>Large extent (%)</th>
<th>Moderate extent (%)</th>
<th>Small extent (%)</th>
<th>Not at all (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changing customer demographics</td>
<td>47</td>
<td>33</td>
<td>20</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Adverse publicity</td>
<td>20</td>
<td>50</td>
<td>17</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Unfavorable social media</td>
<td>47</td>
<td>17</td>
<td>13</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Loss of key personnel</td>
<td>23</td>
<td>47</td>
<td>23</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Compliance failures</td>
<td>10</td>
<td>27</td>
<td>43</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Attitude towards safety</td>
<td>13</td>
<td>23</td>
<td>13</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>Buying habits</td>
<td>10</td>
<td>10</td>
<td>37</td>
<td>13</td>
<td>30</td>
</tr>
</tbody>
</table>

#### 4.4.3 Technological Factors Facing the Company

The study sought to examine the respondent’s views on the extent to which technological factors affected the growth of the company. From the findings in table 4.6, majority of the respondents (47%) agreed to a very great extent that critical equipment breakdown affects company’s growth. 50% of the respondents agreed to a large extent that technology shifting rapidly affects growth. 33% of the respondents agreed to a very large extent that disruptive new innovations affects growth. 33% of the respondents agreed to a very large extent that equipmen obsolescence affects growth. 33 % of the respondents agreed to a moderate extent that threat to intellectual property affects growth. 27% of the respondents agreed to a very large extent that digital convergence affects growth. 30% of the respondents agreed to a very large extent that globalization affects the company’s growth.
Table 4.6 Technological risk factors facing the company

<table>
<thead>
<tr>
<th>Technological risk</th>
<th>Very large extent (%)</th>
<th>Large extent (%)</th>
<th>Moderate extent (%)</th>
<th>Small extent (%)</th>
<th>Not at all (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Critical equipment breakdown</td>
<td>47</td>
<td>17</td>
<td>10</td>
<td>17</td>
<td>10</td>
</tr>
<tr>
<td>Technology shifting rapidly</td>
<td>13</td>
<td>50</td>
<td>23</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Disruptive new innovations</td>
<td>33</td>
<td>23</td>
<td>30</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Equipment obsolescence</td>
<td>17</td>
<td>33</td>
<td>37</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Threat to intellectual property</td>
<td>10</td>
<td>13</td>
<td>33</td>
<td>13</td>
<td>30</td>
</tr>
<tr>
<td>Digital convergence</td>
<td>27</td>
<td>20</td>
<td>26</td>
<td>17</td>
<td>10</td>
</tr>
<tr>
<td>Globalization</td>
<td>17</td>
<td>17</td>
<td>30</td>
<td>13</td>
<td>23</td>
</tr>
</tbody>
</table>

4.4.4 Growth
The study sought to examine the respondent’s evaluation of the performance of the company based on various growth measures. From the findings in table 4.7, majority of the respondents (53%) agreed that the value of business assets was good. 40% of the respondents agreed that sales turnover was very good. 40% of the respondents agreed that the growth of number of employees was average.

Table 4.7 Growth measure

<table>
<thead>
<tr>
<th>Growth measures</th>
<th>Very good (%)</th>
<th>Good (%)</th>
<th>Average (%)</th>
<th>Poor (%)</th>
<th>Very poor (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of business assets</td>
<td>27</td>
<td>53</td>
<td>20</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sales turnover</td>
<td>40</td>
<td>17</td>
<td>33</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Number of employee</td>
<td>20</td>
<td>33</td>
<td>40</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

4.5 Inferential Statistics

4.5.1 Reliability Analysis
The reliability for the items of growth, political risk social risk and technological risk was assessed by computing the overall Cronbach’s alpha reliability coefficient. The reliability for each construct was demonstrated since the overall Cronbach’s alpha statistics were 0.771, 0.731, 0.719 and 0.751 respectively which is greater than the accepted threshold of 0.7 as indicated in table 4.8.
Table 4.8 Reliability for the variables

<table>
<thead>
<tr>
<th>Construct</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>0.771</td>
</tr>
<tr>
<td>Political risk</td>
<td>0.731</td>
</tr>
<tr>
<td>Social risk</td>
<td>0.719</td>
</tr>
<tr>
<td>Technological risk</td>
<td>0.751</td>
</tr>
</tbody>
</table>

4.5.2 Correlation

Political risk was found to be negatively and significantly related to growth (r = -0.608, p-value = 0.002<0.05 level of significance). Social risk was found to be negatively and significantly related to growth (r = -0.766, p-value = 0.000<0.05 level of significance). Technological risk was found to be negatively and significantly related to growth (r = -0.506, p-value = 0.014<0.05 level of significance). These are indicated in table 4.9.

Table 4.9 Correlation Analysis

<table>
<thead>
<tr>
<th>Construct</th>
<th>Political Risk</th>
<th>Social Risk</th>
<th>Technological Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>-.608**</td>
<td>-.766**</td>
<td>-.506*</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.002</td>
<td>0</td>
<td>0.014</td>
</tr>
<tr>
<td>N</td>
<td>23</td>
<td>23</td>
<td>23</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

4.5.3 Regression

The R square value as indicated in table 4.10 is 0.710 which clearly suggests that there is a strong relationship between political risk, social risk and technological risk and growth of the company. This indicates that political risk, social risk and technological risk share 71% amount of information about the growth of the company.

Table 4.10 Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.843a</td>
<td>.710</td>
<td>.664</td>
<td>.51955</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Technological risk, Political risk, Social risk

b. Dependent Variable: Growth
The F value in the Anova table 4.11 indicates that the overall model was a good fit (F-value=15.50 and p-value=0.000<0.05).

**Table 4.11 ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>12.552</td>
<td>3</td>
<td>4.184</td>
<td>15.500</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>5.129</td>
<td>19</td>
<td>.270</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>17.680</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Growth  
b. Predictors: (Constant), Technological risk, Political risk, Social risk

Political risk was found to have a negatively linearly significant influence on growth of the company ($\beta=-0.346$, $p=0.017<0.05$). Here one unit change in political risk results in 0.346 unit decrease in growth of the company. Social risk was found to have a negatively linearly significant influence on growth of the company ($\beta=-0.719$, $p=0.000<0.05$). Here one unit change in social risk results in 0.719 unit decrease in growth of the company. Technological risk was found to have a negatively linearly significant influence on growth of the company ($\beta=-0.363$, $p=0.003<0.05$). Here one unit change in technological risk results in 0.363 unit decrease in growth of the company. The most influential strategic risk is social risk (Beta = -0.897), then followed by technological risk (Beta = -0.435) and the least influential is political risk (Beta = -0.400) as indicated in table 4.12.

**Table 4.12 Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.280</td>
<td>.101</td>
<td>2.779</td>
</tr>
<tr>
<td>Political risk</td>
<td>-.346</td>
<td>.134</td>
<td>-.400</td>
<td>2.574</td>
</tr>
<tr>
<td>Social risk</td>
<td>-.719</td>
<td>.160</td>
<td>-.897</td>
<td>4.502</td>
</tr>
<tr>
<td>Technological risk</td>
<td>-.363</td>
<td>.107</td>
<td>-.435</td>
<td>3.391</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Growth
4.6 Chapter Summary

This chapter has presented the results and findings of the study. The major findings showed that political risk was found to be negatively and significantly related to growth ($r = -0.608$, p-value = 0.002 < 0.05 level of significance). Social risk was also found to be negatively and significantly related to growth ($r = -0.766$, p-value = 0.000 < 0.05 level of significance). Similarly, technological risk was also found to be negatively and significantly related to growth ($r = -0.506$, p-value = 0.014 < 0.05 level of significance). The next chapter discusses the findings, draws conclusions and makes recommendations.
CHAPTER FIVE

5.0 SUMMARY, DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the study findings, draws conclusions from the discussions and makes recommendations based on the conclusions. The chapter begins by presenting a summary of the major findings. The discussion is divided into three sections as per the research objectives. The first section discusses the effect of political risks on SME growth. The second section looks at the effect of social risks on SME growth. The third section considers the effect of technological risks on SME growth. For each section, the discussion relates the findings to the literature and compares with past studies. Subsequently, the study makes conclusions for each research objective. Finally, recommendations for practice are made and suggestions for future studies discussed.

5.2 Summary

The general objective of the study was to establish the strategic risk factors affecting the growth of SMEs in Kenya. The specific objectives were; to establish the effect of political risk on SME growth, to determine the effect of social risks on SME growth and to determine the effect of technological risks on SME growth.

The researcher adopted descriptive research design to undertake the study. The population comprised of all the 30 management and support staff of Markmann and Company Limited. The sample size was 30 respondents, representing 100% of the population size. A questionnaire survey instrument was used to collect data. Inferences were drawn using correlation analysis and regression modeling techniques. The data was analyzed using SPSS and presented in figures and tables.

Political risk was found to be negatively and significantly related to growth (r = -0.608, p-value = 0.002<0.05 level of significance). Majority of the respondents (37%) agreed that business disruptions was not due to terrorism, 40% of the respondents agreed to a moderate extent that new industry regulations affect the growth of the company. Thirty percent (30%) of the respondents agreed to a small extent that unstable political climate influences company’s growth. Further, 33% of the respondents agreed to a large extent
that legal risks/ lawsuits against the firm affect the growth; 30% of the respondents agreed to a moderate extent that government bureaucracy affect the growth; 53% of the respondents agreed to a large extent that Import duty and taxes influences the growth; and 53% of the respondents agreed to a very large extent that corruption affects the growth.

Social risk was found to be negatively and significantly related to growth ($r = -0.766$, p-value $= 0.000 < 0.05$ level of significance). Majority of the respondents (47%) agreed to a very great extent that changing customer demographics affects the company’s growth. Fifty percent (50%) of the respondents agreed to a large extent that adverse publicity affects the growth; 47% of the respondents agreed to a very large extent to unfavorable social media affects the company’s growth; 47% of the respondents agreed to a large extent that loss of key personnel affects company’s growth; 43% of the respondents agreed to a moderate extent to compliance failures affects growth; 30% of the respondents agreed to a small extent that attitude towards safety affects growth; and 37% of the respondents agreed to a moderate extent that Buying habits affects growth.

Technological risk was also found to be negatively and significantly related to growth ($r = -0.506$, p-value $= 0.014 < 0.05$ level of significance). Majority of the respondents (47%) agreed to a very great extent that critical equipment breakdown affects company’s growth; 50% of the respondents agreed to a large extent that technology shifting rapidly affects growth; 33% of the respondents agreed to a very large extent that disruptive new innovations affect growth; 33% of the respondents agreed to a large extent that equipment obsolescence affects growth; 33% of the respondents agreed to a moderate extent that threat to intellectual property affects growth; 27% of the respondents agreed to a very large extent that digital convergence affects growth; and 30% of the respondents agreed to a very large extent that globalization affects the company’s growth.

5.3 Discussions

5.3.1 The effect of political risks on SME growth

The study found that political risk was negatively and significantly related to business growth. Further, this relationship was strong, suggesting that SME growth declined with increase in political risk. This agrees with the perspective of Kansal (2015) who asserted that political risks, especially actions of government, stifle business growth through
adverse actions such as putting restrictions on businesses to benefit from their assets. Every political cycle and especially electioneering periods are characterized by low investments which trickle down to the SME sector, affecting their prospects for growth. This argument is supported by the findings of Aisen and Veiga (2011) which found an adverse effect of political risks, especially political instability on growth by lowering the productivity growth rate as well as human and physical capital accumulation.

The results also showed that majority of the respondents agreed that terrorism caused business disruptions to a small extent or not at all. This suggests that terrorism did not affect SME business growth. This contradicts the findings in Nigeria by Nafiu et al. (2014) whose results indicated that terrorism led to high mortality rate of SMEs. One explanation for these differences in study results may be due to differences in methodology adopted. The study in Nigeria was a survey of SMEs while the current study is a case study. This suggests that there are potential industry differences, whereby some SMEs operating in vulnerable industries such as tourism are exposed to the vagaries of terrorism than SMEs in the ICT sector for instance. Thus, while SMEs in the study by Kakwathi et al. (2014) identified terrorism as a very real threat to their business, the current study suggests that the degree of risk vary by the industry sector.

The study findings revealed that majority of the respondents identified the introduction of new industry regulations as a political risk factor affecting the growth of the business to a moderate or large extent. This is consistent with the finding of Wanyingi (2013) in which regulatory risks were ranked high among the strategic risk factors faced by import oriented SMEs in Kenya. This consistency may be explained by the fact that just like other import oriented SMEs, the company in this case study also engaged in the import business and thus was exposed to the regulations governing importation of goods into the country. It is noteworthy that import regulation policy guideline published by the Kenya government through the ministry of trade specify explicitly that Kenya is pursuing an export-led economy. It means that the regulation was designed to the disfavor of importers.

Majority of the respondents indicated that government bureaucracy affected the growth of the company to a large extent. This agrees with the findings of Nganga (2014) who
recorded that government bureaucracy, which manifested through procedural barriers such as delays in clearance of goods at the port occasioned by lengthy processes, non-recognition of certificate of origin and administrative levies severely impacted business growth in Kenya.

The study also found that majority of the respondents identified import duty and taxes as influencing business growth to a large extent. This finding echoes the findings of Nganga’s (2014) study where a significant percentage of respondents experienced constraints regarding import and export permits. Related to this is corrupt practices whereby the highest proportion of respondents observed that the vice of corruption was a political risk factor to a very large extent. This is in harmony with another study by Kansal (2016) whereby corrupt practices were found to stifle business growth.

5.3.2 The effect of social risks on SME growth.

The results showed that social risk was negatively and significantly related to company growth. Specifically, changing customer demographics had the highest effect on the company’s growth. This agrees with the view of Hancock and Beasley (2015) who identified changes in customer demographics as one of the risks that threatened business performance and growth. This suggests that changes in customer demographic brought with it new demands on the business that may not have been considered in the strategy. In this case, SMEs that fail to adapt quickly to the new business environment are at a greater risk of stagnation and closure.

Adverse publicity was also found to negatively influence company performance as the majority of the respondents said it was a social risk to a large extent. This is consistent with the findings of a survey of 300 executives around the world which was undertaken by Delloite (2013). In this survey, reputation risk was considered by majority of the respondents to be the biggest concern. In the survey by Delloite, reputation risk was attributed in large part to the rise of social media which made it difficult for companies to control their perceived image in the marketplace. In this study, majority of the respondents indicated that social media was a social risk factor to the company to a very large extent. Consistent with this discourse and finding is the assertion by Rospigliosi and Greener (2014) that use of social media could increase reputational risk as a result of
unfavorable exposure. The results also agree with the perspective of the American Institute of Certified Public Accountants (2015) who explained that in today’s business environment, a damaging social media post can have disastrous effects on a company’s performance thus reputational risk remains the top non-financial concern for corporate directors according to survey reports. Similarly, this study finding confirms the results of Peres and Mesquita (2015) who suggested that SMEs have to be ready to deal with adverse publicity accruing from social media and be prepared to use different strategies to deal with them.

Similarly, majority of the respondents observed that loss of key personnel was a social risk factor affecting the growth of the company to a large extent. This suggests that SMEs were vulnerable to the impact of sudden loss of key personnel since by definition, the smallness of the SME implies that they are already constrained in terms of human capital due to their sheer smallness. Thus, loss of key personnel would cause a severe blow in terms of lost productivity.

The findings showed that majority of the respondents were of the view that compliance failure was a social risk with potentially adverse effects on business growth to a moderate extent. This is in alignment with Holder’s (2013) outline of the key points regarding social risk in which compliance failures were identified as the biggest source of risk to business performance and growth. SMEs become even more vulnerable because they lack the financial muscle to survive the litigation that follows compliance failures.

5.3.3 The effect of technological risks on SME growth.

The study found that technological risk was negatively correlated to the growth of the company. This implies that technological risks adversely affected SME growth. This finding is consistent with the assertion made by Miles (2011) that technology is one of the consequential factor in the success or failure of an enterprise. Past studies have established that most SMEs still used rudimentary technologies in their production and business systems, making them less competitive (Walker, Bode, Burn, & Webster, 2003). In this study, the risks included digital convergence and globalization, both of which were identified as adversely affecting business growth to a large extent.
The study established that majority of the respondents were of the view that technology was shifting rapidly which affected business growth to a large extent. In this case, the risk manifest as a result of technological shifts which Gates (2006) found to be a strategic risk factor that affected many enterprises in the United States. This may be attributed to the resource constraints that characterize most SMEs thus limiting their ability to keep up with the speed of technological shifts. Further, majority of the respondents agreed to a very large extent that disruptive new innovations affects growth. The finding is consistent with that of Delloite (2013) which found that technology enablers and disrupters threatened established business models.

The study found that majority of the respondents agreed that critical equipment breakdown affected company’s growth to a very great extent. This implies that SME businesses were vulnerable to equipment breakdown. This is potentially so because, unlike their large counterparts, SMEs cannot afford to maintain a standby equipment that can ensure the continuity of production in case a critical equipment broke down. Related findings showed that majority of the respondents agreed that equipment obsolescence affects growth to a large extent. This may be explained by the fact that the company, as a fleet management company, was engaged in the technology sector where obsolescence risks were higher. The finding agrees with the perspective of Barreca (2016) who observed that in some technological sectors, technological obsolescence has an immediate and drastic impact on the rate of depreciation of older equipment, which poses a risk to business sustainability and growth.

The study findings revealed that majority of the respondents agreed that the business faced intellectual property theft to a moderate extent and this affected business growth. This is in harmony with a research undertaken by Ulsch (2009) in the US where it was found that intellectual property risks were diverse and their impact on business growth could significantly alter the future of any organization. In this study, a negative correlation was found between technological risks and the performance of the company. This agrees with Njuguna’s (2013) finding which established that this was a strategic risk that significantly determined business growth.
5.4 Conclusions

In view of the discussions and the findings with respect to the objectives of the study, the following conclusions are made.

5.4.1 The effect of political risks on SME growth

Political risks adversely affected SME growth and this manifested in different forms. Terrorism disrupted business. Government regulations were a threat to business in that the regulations that governed import business were not favourable. Specifically, government bureaucracy, import duty and taxes and corruption had the highest adverse impact on the performance of SME businesses. This negatively affected SME growth. Further, legal risks such as lawsuits against the company had a moderate influence on SME growth. However, political instability had little influence on SME growth.

5.4.2 The effect of social risks on SME growth

Social risks had strong negative influence on SME growth. The social risks in question here included changing customer demographics and adverse publicity especially associated with unfavorable social media publicity. In addition, loss of key personnel was a social risk that threatened the growth of SMEs to a moderate extent. Similarly, the risks to SME growth posed by attitude towards safety and buying habits had a moderate effect on the growth of SMEs.

5.4.3 The effect of technological risks on SME growth

Technological risks that adversely affected SME growth manifested in various forms. The pace of technological change and globalization was a major issue affecting SME businesses. Rapid shifts in technology, digital convergence, disruptive new innovations and the related rate of equipment obsolescence adversely affected the growth of SMEs. Further, critical equipment breakdown affected business growth. However, threat to intellectual property theft only moderately impacted on business performance and affected SME growth.
5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 The effect of political risks on Small and Medium Enterprise growth. 
Insurance could be used to transfer political risks such as the threat of terrorism to the business while unfavorable government regulations can be minimized through collective bargaining via industry associations. Risk avoidance should be part of the strategic risk mitigation approaches where careful assessment and analysis of political conditions is undertaken and refraining from investment in areas that are too risky. SMEs also need to have in place an exit strategy and evaluate alternative investment options.

5.5.1.2 The effect of technological risks on Small and Medium Enterprise growth. 
Diversification strategies can be used to neutralize the adverse impact of technological shifts by divesting into industries where the rate of technological obsolescence is relatively low. This includes shifting to different industries and/or considering trade-offs by balancing the obsolescence costs against benefits of technology. Internally, SMEs should ensure that the optimal use of technology in the business is made over the life of the technological equipment. This requires the development of risk mitigation strategies aligned with business processes, structures, operations and objectives.

5.5.1.3 The effect of social risks on Small and Medium Enterprise growth. 
The first risk management strategy that should be adopted by small and medium enterprises to manage social risks is to ensure compliance with all laws and regulations concerning the operation of the enterprise. These include adherence to regulations and minimum requirements concerning health and safety, adherence to labour requirements and environmental laws. Secondly, small and medium enterprises should have in place an issue management system to identify and resolve any issues before they get out of hand. Such a process should track any issue that may adversely impact the survival and growth of the enterprise by ensuring every issue is identified, documented, monitored, reviewed and resolved or reduced as appropriate. In this respect, vigilance is needed to monitor trends and develop response strategies.
5.5.2 **Recommendations for further studies**

Since this research was limited to a single case study, generalization of the findings to all SMEs cannot be made. Therefore, a similar study that adopts a survey approach could be undertaken to corroborate or refute the findings of this study. In addition, the current study did not investigate all the strategic risk factors found in the business environment. Therefore, other researchers should study factors such as economic risk factors and ecological risk factors and their impact on the growth of SMEs.
REFERENCES


APPENDICES

Appendix I: Cover Letter

Asha Ndope
United States International University
P.O. Box 14634-00800
Nairobi

Dear Respondent,

I am carrying out an academic research on the topic “Strategic risk factors influencing SME growth: A case study of Markmann and Company Limited”. This is in partial fulfillment of the requirement of the Master of Business Administration degree program at the United States International University. The results of this study will provide the organization with the necessary information with respect to strategic risk management at the company. I kindly request you to participate in this research by filling the attached questionnaire.

This is a scientific process where confidentiality is strictly emphasized. Please do not reveal your identity anywhere in the questionnaire. Should you require further explanation, please feel free to contact the undersigned.

Asha Ndope
Phone: 0722 773 600
Student ID: 608923
Appendix II: Questionnaire

Kindly fill all the questions either by ticking in the appropriate boxes or writing in the spaces provided.

PART I: GENERAL INFORMATION

1. Department------------------------
2. Staff cadre: Board or Management □ Support staff □
3. Your gender: Female □ Male □
4. Level of Education: University □ College □
   Secondary □ Other (please specify) ____________
5. Age: 18-29 years □ 50-59 years □
   30-39 years □ 60 or over □
   40-49 years □
6. How long have you served in Markmann and Company Limited?
   Less 1 year □ 6-10 years □
   1-3 years □ Over 10 years □
   3-5 years □

PART II: POLITICAL RISK FACTORS FACING THE COMPANY

To what extent do the following political factors affect the growth of the company?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very large extent</th>
<th>Large extent</th>
<th>Moderate extent</th>
<th>Small extent</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Business disruptions due to terrorism</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. New industry regulations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Unstable political climate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Legal risks/lawsuits against the firm</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Government bureaucracy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Import duty and taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Corruption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
PART III: SOCIAL RISK FACTORS FACING THE COMPANY
To what extent do the following social factors affect the growth of the company?

<table>
<thead>
<tr>
<th>Social risk factors</th>
<th>Very large extent</th>
<th>Large extent</th>
<th>Moderate extent</th>
<th>Small extent</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>14. Changing customer demographics</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Adverse publicity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. Unfavourable social media</td>
<td></td>
<td></td>
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<td>17. Loss of key personnel</td>
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<td>18. Compliance failures</td>
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<td>19. Attitude towards safety</td>
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<td>20. Buying habits</td>
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</table>

PART IV: TECHNOLOGICAL RISK FACTORS FACING THE COMPANY
To what extent do the following technological factors affect the growth of the company?

<table>
<thead>
<tr>
<th>Technological risk factors</th>
<th>Very large extent</th>
<th>Large extent</th>
<th>Moderate extent</th>
<th>Small extent</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>21. Critical equipment breakdown</td>
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<td>22. Technology shifting rapidly</td>
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<td>23. Disruptive new innovations</td>
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<td>24. Equipment obsolescence</td>
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<td>25. Threat to intellectual property</td>
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<td>26. Digital convergence</td>
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<td>27. Globalization</td>
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</table>

28. If you were to name one major risk with the highest adverse impact on the company and which presents a real threat to the company’s existence and growth, what would it be? Please explain ____________________________________________________________

29. Which risk factors also present a hidden opportunity for the company to exploit? Please explain ____________________________________________________________

PART V: GROWTH
30. How would you evaluate the performance of the company based on the following growth measures? Please tick the cell corresponding to your answer

<table>
<thead>
<tr>
<th>Growth measure</th>
<th>Very good</th>
<th>Good</th>
<th>Average</th>
<th>Poor</th>
<th>Very poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of business assets</td>
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<tr>
<td>Sales turnover</td>
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<tr>
<td>Number of employees</td>
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</tbody>
</table>

THANK YOU FOR TAKING YOUR TIME TO COMPLETE THE QUESTIONNAIRE