

The Influence of Operational and Financial Risk Mitigation Strategies in Enhancing The Survival of Small and Medium-Sized Entities in Zimbabwe's Volatile Business Environment

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Abstract

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The business environment in Zimbabwe is highly volatile as witnessed by soaring inflation, exchange rate volatility and shortage of foreign currency. This study therefore, scrutinizes the effectiveness of the operational and financial risk mitigation strategies employed by small and medium-sized enterprises in Zimbabwe given the current unstable business environment. A survey of small and medium-sized enterprises in the Harare Central Business District was undertaken for data collection and quantitative data analysis was done, 162 responses from a sample of 260 were obtained and analyzed. Results of the study show a range of operational and financial mitigation strategies adopted by small and medium-sized enterprises in Harare, Zimbabwe. It is evident from the results that there is a significant correlation between effective risk management and survival of small and medium-sized enterprises in Harare, this is because small and medium-sized enterprises that make efforts to implement robust risk mitigation measures show a higher likelihood of survival as compared to those that are reluctant to implement effective risk mitigation strategies. Based on the research findings, several recommendations are drawn which can be insightful to small and medium-sized enterprises as follows: small and medium-sized enterprises should strive to develop a holistic approach to risk management in order to curb the negative effects of operational and financial risks, this can be done through regular risk assessments, implementation of suitable risk mitigation measures, as well as designing robust and ongoing monitoring mechanisms; Small and medium-sized enterprises can also consider collaborations with industry associations, financial institutions and academia who have access to expertise and resources for effective risk management. This study is of significance to policy makers who may consider formulating and providing support and incentives to enable small and medium-sized enterprises implement effective risk mitigation measures that can enhance their sustained survival.

Keywords: Operational Risk, Financial Risk, Small And Medium-Sized Enterprises, Survival, Zimbabwe

1.0 Introduction

Despite globalization being generally good, it brings its fair share of challenges that hinders operations of businesses of all types and size (Hrašková & Bartošová, 2014), for example global shocks such as the financial crisis of 2008

and the Russia-Ukraine war are being felt even by SMEs in faraway places as Zimbabwe, this is so because the financial system and supply chain is interlinked to such an extent that it is difficult to totally eliminate systemic risk in the value chain (Moak, 2017). However, some au-

thors such as (Bourletidis & Triantafyllopoulos, 2014; Dewi & Sari, 2024) find that in the face of crisis, SMEs have proven to be resilient and can rejuvenate faster compared to large companies, mainly because SMEs are more flexible in their operations. Despite global shocks causing risks within the business fraternity, there are other risks which can be considered local, affecting different nations at different wavelengths, for example in the case of Zimbabwe hyperinflation (McIndoe-Calder et al., 2019) and the unstable exchange rate between the Zimbabwean currency (ZWL) and the USD are taking a toll not only on the welfare of citizens but on businesses as well, thereby posing as financial risk because it is difficult for businesses to plan/ budget if they are transacting using the ZWL. More so, the operating environment is uncertain as a result of regulatory uncertainties and policy inconsistencies (Mining Zimbabwe, 2022), political instability (Sibindi & Samuel, 2019), as well as the effects of the COVID-19 pandemic (Dewi & Sari, 2024; Adam & Alarifi, 2021; Warwick & Roshen, 2020), furthermore, Zimbabwe, like other countries in the region is faced with an El Niño induced drought (United Nations, 2023), these are some of the factors that brought the volatile business environment in Zimbabwe which can make it difficult and impossible for the sustained survival of businesses including SMEs. It is against this background that we sought to determine the operational and financial risk mitigation strategies implemented by SMEs in Harare, Zimbabwe and the implications of such on the survival of SMEs.

Operational risks are experienced in various ways including human resource challenges, technological deficiencies, supply chain disruptions and inadequate infrastructure (Chari et al., 2021). Financial risks can be witnessed in many forms including inflation, currency fluctuations,

poor financial management practices and lack of access to finance. All these risks can hinder efficiency of operations in SMEs as well as having some implications on the finances, as a result SMEs owner/managers should devise or adopt risk management strategies to reduce or eliminate the impact of these risks and improve performance (Falkner & Hiebl, 2015). This study focuses on addressing this critical area of risk management to uncover the influence of the various operational and financial risk mitigation strategies in a volatile business environment context. Zimbabwe is chosen as a country for carrying out this study because currently (February 2024) its inflation rate is ranking second after Venezuela (IMF, 2024), also the USD/ZWL exchange rate is skyrocketing uncontrollably (The Africa Report, 2023), therefore these are some of the metrics that makes the operating environment in Zimbabwe to be considered as volatile, this unstable business environment leaves most businesses including SMEs being victims of the prolonged economic crisis (Gwarada, 2020), it is arguments such as these that ordered the birth of our study to consider whether or not the current operational and financial risk mitigation strategies are playing a part to the survival of SMEs in Harare, Zimbabwe. Also many studies on the topic of risk management are focused on large entities (Lima et al., 2020), hence there is a gap in literature pertaining to risk management for SMEs.

Every business undertaking involves risk taking (Chingwaro, 2022) and SMEs experience a lot of risks as they are vulnerable to a myriad of economic shocks (Dewi & Sari, 2024), therefore examining the various risk mitigation strategies employed by SMEs to address risk is paramount, this is because worldwide SMEs are regarded as critical as they bind the social and economic fabric together by providing employment opportu-

nities, thereby improving the livelihoods of people in the country.

Research Objectives:

To identify the operational and financial risk mitigation strategies adopted by SMEs in Harare, Zimbabwe.

To investigate the relationship between operational risk mitigation strategies and survival of SMEs in Harare, Zimbabwe.

To evaluate the relationship between financial risk mitigation strategies in enhancing survival of SMEs in Zimbabwe.

2.0 Literature Review

2.1 Theory of constraints

The Theory of Constraints (TOC) developed by Goldratt & Cox (1984) was adopted as a basis for guiding this study. TOC acknowledges that every business process in a business setting consists of a series of interrelated activities, as a result there are weak links/ limiting factors (also known as constraints) that negatively affects the output of the entire process. The theory's focus is on finding ways to optimize, manage or improve the constraints in the process so as to maximize output. The TOC is guided by two major components as follows: a philosophy which focuses on on-going improvement and the "thinking process" which focuses on investigating, analyzing and providing solutions to problems (Rahman, 1998). In this regard, given the context of our study wherein the focus is on understanding the influence of operational and financial risk management strategies on survival of SMEs, TOC can therefore be adopted to identify the operational and financial risks that have the potential to limit survival of SMEs in Zimbabwe in the volatile business environment, and once the constraints (risks) are identified then strategies

to mitigate the risks can be suggested to mitigate the impact of the risks (Chari et al., 2021), and ensure survival and success of the SMEs.

2.2 SMEs survival prospects

Survival of SMEs can be affected by many factors, Al-Hattami & Kabra (2024) find that a properly set accounting information system (AIS) is necessary to ensure survival of SMEs. On the other hand, Anwana (2023) emphasizes the availability of assets and funding as barriers to success and survival of SMEs, which means that SMEs survival is enhanced when the required resources are available. In the case of Zimbabwe, availability of resources is of major concern given that there is a shortage of foreign currency which is needed to finance capital expenditure and a greater part of the working capital needs of SMEs. Msomi et al. (2023) show that there is a significant positive correlation between effective debtors' management and SMEs resilience, this is so because once debtors are managed effectively it reduces the likelihood and impact of liquidity risk. Guo et al. (2020) attribute survival of SMEs to digital technology adoption, this can be attributed to the fact that we are in the digital era, therefore most activities are taking place in the 'digital world' for example marketing and advertising on social media platforms is likely to reach wider market as compared to advertising in print media such as newspaper. Moreover, to survive businesses need to manage risk so as to enhance growth (Malahim, 2023). More so in order for small businesses to survive it is paramount that the owner/ managers' be financially literate, this is in line with Parmitasari & Rusnawati (2023) who finds a positive relationship between financial literacy and sustainability of SMEs. When SMEs owner/managers are financially literate it means that they will be alive to the possible repercussions of every financial choice that they make.

2.3 Operational Risk Management

He & Lu (2018) classify risk into four categories as follows: financial risk, hazard risk, operational risk and strategic risk. This study focuses only on operational and financial risk. In this regard operational risk covers internal processes and external factors impacting business operations, for example access to capital and other resources, technological innovations, regulatory and political factors. Internal processes include the following: supply chain management, product development and business planning. Factors that have a likelihood of impacting operations of SMEs are explained as follows:

Electricity availability: Electricity is a vital resource for business operations as it is used to power many of the relevant gadgets used in business such as computers, machinery and refrigerators. A big chunk of Zimbabwe's electricity is hydroelectricity, generated from Kariba power station (Zimbabwe Power Company, 2022). Due to the intermittent rainfall received in Zimbabwe, electricity challenges and load shedding are the order of the day (Mining-Zimbabwe, 2022), as a result alternative power options are needed to ensure smooth flow of operations. Some alternative power options that can be employed include solar and use of generators. Businesses that cannot afford to secure alternative power have to rely on the intermittent electricity which has a timetabled availability and again sometimes the timetable is not even officially available and is unreliable.

Natural phenomenon, cyclones, fire and fraud: Some constraints which can negatively affect operations of any business include natural factors such as cyclones (Chan, 2012), also some unexpected occurrences such as fire and theft can hinder the operations of any business including SMEs depending on the magnitude of the

constraint. For example, cases of fire outbreaks in Harare Central Business District (CBD) have been of concern, and businesses end up losing inventory worth thousands of dollars and buildings are ravaged by fire, recently (January 2024) a fire broke out at one of Harare's shopping mall near Joina City building (The Herald, 2024), the shopping mall is a hive of activity as it houses a lot of SMEs selling different products, all that was ravaged by fire in a single night. Also fraud and theft are other hindrances that can have a negative implication on SMEs operations, for example between October 2020 and August 2021, some Getbucks employees were suspected of misappropriating bank's funds (iHarare, 2023), and this can be a sign that the internal controls of the bank were not robust at the time. Such scenarios of misappropriation of funds can also happen to SMEs hence there is need for effective internal controls such as segregation of duties, audit trail and an effective AIS among others. In the same vein, Safeguard (2022) reports that cases of burglaries were on the rise as criminals were targeting poorly secured premises and taking valuable items including cash and inventory. As such SMEs need to implement risk mitigation strategies to cope with such risks as outlined. Some of the risk mitigation strategies that can be employed include buying insurance coverage (Adikaram & Surangi, 2024), installing closed circuit television (CCTV) (Min & Midhunchakkaravarthy, 2024) and employing security personnel to guard against theft.

Political, legal and government factors: These factors are critical in business management as they significantly influence how business owners and managers conduct their affairs. Some government policies and laws support the growth of SMEs, while others threaten their survival. In the case of Zimbabwe, the government has crafted some laws and policies which are sup-

portive of SMEs such as the Indigenization and Empowerment Policy (IEP) of Zimbabwe and the Zimbabwe Industrial Development Policy (2012–2016) (Musabayana et al., 2022). However, their implementation normally becomes a challenge as a result of the volatile business environment. Moreover, as the case in any country in the world, politics also take center stage in the operations of businesses. This is particularly witnessed during election times, as young democracies like Zimbabwe are sometimes faced with political turmoil such as the case of 01 August 2018 where people's lives were lost and some properties in Harare CBD were destroyed (Human Rights Watch, 2018) and this can also affect operations of SMEs which operate within the affected areas. To guard against such risks, SMEs can implement various measures such as full compliance with all laws as promulgated by relevant authorities, and in order to be well prepared for any mishaps in terms of law an SME can have their own corporate lawyer who can assist them to maneuver the legal environment so as to mitigate risks such as labour related issues and non-compliance.

Technological factors: The 21st century has seen an unprecedented change in emerging technologies such as digital technologies and Artificial Intelligence (AI). These come with opportunities and challenges, in most cases these technologies make it easy for businesses to communicate with third parties such as customers and suppliers, as well as enhancing management information systems within the companies, for example Guo et al. (2020) in the context of the Covid-19 pandemic note that digital technology adoption helped SMEs enhance their survival prospects. However, technological risks normally arise as a result of resistance to change, slow uptake, reluctance to adopt and lack of funding to acquire the technological infrastructure (Belás et al., 2015).

Also, these days most businesses are marketing their products and services using digital technology platforms such as Facebook, Instagram, X (formerly twitter) and WhatsApp. Some companies even make use of AI tools such as chatbots to enhance their customer services (Adam et al., 2021). In most cases an organization that quickly embraces these technologies gets ahead and has greater chances to survive and those that cannot are likely to suffer the consequences. More so, another major risk related to technology is security threat for example hacking and loss of data, if an organization is devoid of a strong information technology (IT) department it is likely to face cybersecurity risks and loss of valuable information. In order to safeguard their information stored electronically, SMEs may need to implement the following measures: ensure the network is secure, use of passwords on computers, and regular backup of data to prevent loss.

2.4 Financial Risk Management

Financial risk involves credit, liquidity, exchange rate and inflation uncertainties (He & Lu, 2018). Financial risk management plays a significant role in influencing operations and survival of firms (Belás et al., 2015), therefore SMEs like any other type of business should employ appropriate financial risk mitigation strategies so as to ensure survival of SMEs.

Credit Risk: Credit risk arises when there is potential for a loss as a result of a counterparty such as a customer in a business relationship failing to honor their obligations. When customers fail to pay their dues on time, the business may face liquidity challenges which may take a toll on their operations, ultimately impacting their survival and growth, hence credit risk has a negative impact on financial performance (Harsono, 2024). In order to safeguard against such instances of credit risk SMEs may consider establishing a

customer database where they can monitor credit customer history as well as conduct thorough credit risk assessments, also they can diversify their customer portfolio to avoid sole reliance on a single customer.

Liquidity risk: Liquidity risk is when the company is unable to meet its short-term financial obligations, in essence the company's coffers are dry. Liquidity risk can arise as a result of difficulties in accessing funding, and this phenomenon is prevalent in SMEs who at times may not have collateral and find it difficult to obtain external funding from financial institutions (Husain & Windsperger, 2010). On the other hand, non-dependence on formal credit can be considered an advantage for SMEs especially in periods of economic crisis, the shocks in the formal financial system cannot be hard felt by those not depending on it (Bourletidis & Triantafyllopoulos, 2014). Also cash flow mismatches and unexpected expenses can leave the business with cash flow problems to such an extent that they fail to meet their short-term and long-term financial obligations, and this is a problem that is pervasive in SMEs (Lu et al., 2020; McGeever et al., 2020). As a result, SMEs may end up incurring interests and spoil their goodwill with suppliers, all this is detrimental to the survival of SMEs. To deal with this issue SMEs need to at least maintain adequate working capital to ensure enough liquid resources are available to cover any short-term financial obligations as they become due, one such way for effective working capital management is through effective debtors' management (Msomi et al., 2023). To ensure this is possible, SMEs may need to prepare budgets and cash flow forecasting to clearly identify periods of potential liquidity crunches. SMEs may also secure lines of credit from financial institutions tailor made to the needs of SMEs.

Currency risk: Currency risk results from fluctua-

tuations in exchange rates. In the case of Zimbabwe currency risk is prevalent between the USD/ZWL exchange rate where the ZWL is losing value at a faster rate than businesses can cope with, ultimately rendering the ZWL worthless (VOA News, 2024). Because of the highly volatile exchange rate it has become difficult for local SMEs to entirely invoice their products and services in the ZWL local currency, invoicing in local currency is too risky especially when selling on credit terms because by the time the customer pays the ZWL would have lost value by a greater margin to an extent that the business cannot even replace its inventory. In such a scenario for SMEs to survive they may only trade on cash terms or make use of forward pricing where they choose to keep trading using the ZWL.

Inflation risk: Zimbabwe's inflation is ranking second after Venezuela (IMF, 2024), also some of the price increases are resulting from the various tax measures implemented by the minister of finance in his 2024 national budget statement. Inflation risk is detrimental as it affects the buying power of customers, and SMEs have no control over such. To ensure their survival, SMEs can simply follow suit the market and raise prices accordingly.

3.0 Materials and methods

The study utilised quantitative methodologies as it was aimed at understanding the relationship between operational and financial risk on the survival of SMEs. The study used a correlational design as it aimed at understanding relationships between variables. The study population was 130 SMEs in Harare CBD which consisted an aggregate of 800 people, and the sample size was 260 derived from Raosoft. Simple random sampling was used to determine the respondents. Questionnaires were distributed via Google docs, and a total of 162 were returned, implying a response

rate of 62% which is acceptable according to Adam et al (2021). For the purposes of data collection and analysis, our study only adapted the financial indicators which were all measured on a five point Likert scale ranging from strongly agree (5) to strongly disagree (1). Only three indicators were taken as proxies for survival from Barbosa (2016) and these are: cash availability, reserved cash and technology use.

3.1 Demographic data

Table 3.1 shows that the most dominant demo-

graphics were male, people aged 28-37, people employed in the retail industry and general employees. However, the study was made up of people from diverse demographics making the study generalizable within a wider population.

3.2 Reliability & Validity

3.2.1 Cronbach’s Alpha

Cronbach’s alpha was used to test for internal reliability of the study. Table 3.2.1 presents Cronbach Alpha scores.

Table 3.1:Demographic data

Gender	
Male	100
Female	62
Age	
18-27	56
28-37	72
48-57	30
57 and above	4
Industry	
Mining	15
Education	27
ICT	38
Commercial	33
Retail	39
Others	10
Level of Employment	
Owner	15
Management	34
General Employees	114

Source: Own

Table 3.2.1: Cronbach Alpha Reliability Test

	Scale Mean if Deleted	Scale Variance if Deleted	Corrected item-Total Correlation	Cronbach’s Alpha if item deleted
FS	7.43	3.687	0.73	0.69
ORMS	7.32	3.442	0.72	0.67
FRMS	7.45	3.553	0.77	0.63

FS: firm survival, ORMS: operational risk mitigation strategies, FRMS: financial risk mitigation strategies

Source: SPSS v24.0

Table 3.2.1 shows that all variables have a Cronbach Alpha above 0.7. This demonstrates that the study is reliable. In terms of validity convergent validity was used to determine validity. Indicators of firm survival were correlated to determine whether they correlate or not as shown in table 3.2.2.

Table 3.2.2 shows that the indicators of firm survival converge as they have positive correlations. This means that the study is valid and generalizable. Of importance is that the correlations

are not more than 0.8, meaning that there is no duplication of measures.

4.0 Results & Discussions

Operational and financial risk mitigation strategies

Descriptive statistics were used to determine the most frequently used operational and financial risk mitigation strategies in Zimbabwe. Table 4.1 shows the operational and financial risk and mitigation strategies used by SMEs.

Table 3.2.2: Spearman Correlation Test for Firm Survival Indicators

	Cash availability	Technology use	Reserved cash
Cash availability	1	0.72	0.70
Technology use		1	0.63
Reserved cash			0.55

Source: SPSS v24.0

Table 4.1: Operational financial risk mitigation strategies

ORMS	Mean
Alternative power	4.5
Use of CCTVs	3.0
Compliance with laws	4.3
Secure internet network	3.2
Regular backup of data	3.1
FRMS	
Customer database	4.6
Credit lines from financial institutions	4.1
Pricing in forex	4.7
Frequent upward price adjustments	3.2

ORMS: operational risk mitigation strategies, FOMS: financial risk mitigation strategies

Source: SPSS v24.0

Table 4.1 shows the five main operational risk mitigation strategies used by SMEs in Zimbabwe for survival. The major operational risk mitigation strategy is alternative power. This mitigation strategy is not picked up by Guo et al (2020) and Anwan (2023) because in their countries there are no operational challenges emanating from electrical power cuts. In Zim-

babwe this is an issue as the country has been facing excessive shortages of electricity leading to 10 or more hours of load shedding. Hence, for SMEs to survive they need alternative power. Compliance is another operational risk management strategy that was identified as major. This is because Zimbabwe is heavily regulated and for firms to survive they need to comply with these

laws (Chingwaro, 2022). Use of CCTVs, secure internet network and regular backup data were found to be minor operational strategies. This deviates from studies by Barbosa (2016) and Lu et al (2020). The major reason may be the harsh economic conditions in Zimbabwe resulting in SMEs failing to upgrade their technologies.

In terms of financial risk management strategies, Table 4.1 shows four strategies. The major strategy is pricing of goods in forex. This is strange and is not picked up by Falkner & Hieble (2015). This is because Zimbabwe's currency is highly volatile and SMEs have resorted to pricing using US dollars which is a more stable currency. Hence, frequent upward price adjustments were not regarded as a mitigation strategy because prices are pegged in forex. The second major financial risk mitigation strategy is customer database. This is in line with Adam & Alarifi (2021) that a customer database is handy in guarding against credit risk. Credit lines from financial institutions is another financial risk management strategy. This is inline with Guo et al (2020) that

credit lines guard against liquidity.

4.2 Relationship between operational risk mitigation strategies and survival of SMEs

The second objective of the study was to establish the relationship between operational risk mitigation strategies and survival of SMEs. Pearson product moment correlation was used to establish the relationship between various indicators of operational risk management strategies and firm survival as shown in Table 4.2 below.

Table 4.2 shows that operational risk mitigation strategies have an impact on SME survival in Zimbabwe. All indicators of operational risk mitigation strategies have a positive relationship with firm survival. This is consistent with other studies that operational risk mitigation strategies help SMEs to survive (Guo et al, 2020; Barbosa, 2016). The major operational risk mitigation strategy is alternative power as it has a correlation of 0.75. Indicating that electricity challenges are a major challenge in SME operations.

Table 4.2: Correlational matrix of operational risk mitigation strategies and firm survival

	Alternative power	Use of CCTVs	Compliance with laws	Secure internet network	Regular back up of data	Firm Survival
Alternative power	1					
Use of CCTVs	0.44	1				
Compliance with laws	0.68	0.05	1			
Secure internet network	0.21	0.36	0.23	1		
Regular back up of data	0.39	0.35	0.27	0.38	1	
Firm Survival	0.75	0.42	0.68	0.41	0.32	1

Source: SPSS v24.0

Table 4.3: Correlational matrix of operational risk mitigation strategies and firm survival

	Customer database	Credit lines from financial institutions	Pricing in forex	Frequent upward price adjustment	Firm Survival
Customer data-base	1				
Credit lines from financial institutions	0.46	1			
Pricing in forex	0.33	0.55	1		
Frequent upward price adjustment	0.28	0.59	0.29	1	
Firm Survival	0.72	0.58	0.78	0.49	1

Source: SPSS v24.0

4.3 Relationship between financial risk mitigation strategies and survival of SMEs

The third objective of the study was to establish the relationship between financial risk mitigation strategies and SME survival. Pearson product moment correlation was used to determine the relationship between various indicators of financial risk mitigation strategies and firm survival. Table 4.3 shows the correlational matrix of financial risk mitigation strategies and firm survival.

Table 4.3 shows that various financial risk mitigation strategies have a positive relationship with SME survival. This is similar to studies by Falkner & Hieble (2015) and Lu et al (2020). However, the major financial risk mitigation strategy is pegging prices in forex which is peculiar to the Zimbabwean environment, as other studies argue for continuous price adjustment rather than using foreign currency. All other indicators of financial risk mitigation strategies have a positive relationship with SME survival indicating the need to prioritize financial risk mitigation strategies in a harsh business environment.

5.0 Conclusions & Recommendations

The study found that use of alternative power is the major operational risk mitigation strategy, and pricing goods and services in forex as a major financial risk mitigation strategy critical for SME survival. The study also shows that there is a positive correlation between operation and financial risk mitigation strategies and SME survival. Therefore, the study proffers the following recommendations to SMEs:

Use of an array of operational risk mitigation strategies by SMEs to improve chances of survival;

Adoption of multiple of financial risk mitigation strategies by SMEs to improve chances of survival;

A follow-up qualitative research to get insight on the impact of these risk mitigation strategies on SME survival; and

Further research on operational and financial risk mitigation strategies for large corporations in Zimbabwe.

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