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Risk Transfer Strategy and Competitiveness of Small and Medium Enterprises in Kenya

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Abstract: *The purpose of the study was to the influence of risk transfer strategies and competitiveness of small and medium enterprises in Kenya. Specifically, the study sought; to determine the influence of adoption of outsourcing, contract with stakeholders and uptake of insurance policies on competitiveness of Small and Medium Enterprises (SMEs) in Kenya. Risk transfer strategy for this study was viewed as the contractual shifting of a pure threat from one party to another. The existing literature showed that research has been done on risk management. However, very few studies were done on risk management and competitiveness of SMEs in Kenya having in mind the scope of Kisumu County and specifically the risk transfer strategy. Therefore, the study sought to address this gap. The success of an organization depends upon the risk management strategies put in place. The strategies adopted can reduce earnings volatility, maximizes value for shareholders and promotes job security and financial security in the SMEs. This study adopted a descriptive research design. The target population was SMEs registered by the County Government City of Kisumu, with the category permit fee of between Ksh 5000 and Ksh 200,000 as of December 2018 and employing between 1 to 99 employees. Stratified random sampling was used then simple random sampling was used to pick a total sample of 375 respondents from each stratum. The study achieved 78% response rate. The study used linear regression model to establish the relationship between risk transfer strategy and competitiveness of SMEs in Kenya. The strata representation was selected using the proportional allocation method for each one in the target population to have an equal chance of participation. Tool for data collection was a standardized questionnaire. The study established that risk transfer has a significant influence on SMEs competitiveness yet very few SMEs indicated that they transfer risk through insurance.*

Keywords: *Risk, transfer strategies, Competitiveness*

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I. Introduction

Risk management is evolving and taking a center stage in how organizations run their businesses (KPMG Limited, 2017). Although risk is generally considered the possibility of outcomes deviating from what was expected, primarily firms are concerned with negative outcomes since their negatively affect the business operation and thus require proper management (Crouhy, Galai, & Mark, 2013). Therefore, it is important for a business to manage its risk exposure. Particularly, SMEs competitiveness is handicapped by inadequacies in risk management with lack of appropriate response to risk facts affecting small firms more compared to large firms (Şenera, Savrulb, & Aydına, 2014). Firms develop strategies to enable them to seize strategic initiatives and maintain a competitive edge in the market (Porter, 2007). The Scope of the study was Kisumu County. This was guided by the fact that, Kisumu County is one of the Kenya's 47 counties. Specifically, Kisumu County is mainly volatile to political challenges. Small Medium Enterprises (SME) in Kisumu have been hard hit with political stalemate in the region with most of them getting to the brink of dying (Juma, 2019).Juma in his report further noted that some of the SMEs had closed for 4 months as political temperature continued to mount in 2017. The study hypothesized that different business environments expose firms to risks and the firms therefore need different strategies which have different requirements for success. SMEs in Kenya has faced a number of challenges and has used a number of strategies including risk transfer strategy to enable them survive in the competitive environment. It is due to these that the study evaluated influence of risk transfer strategy on SMEs competitiveness in Kenya. The findings will help SMEs in Kenya to assess their current and future strategic positions, identify critical factors and find methods of assuring success (Kithinji, 2012).

II. Problem Statement

Engaging in risk management strategies approach to SMEs competitiveness requires a certain budget and human resource. This hampers SMEs ability to set up and invest in a comprehensive risk management program. This is so as SMEs are characterized with scarcity of resources-both financial and human resources.

SMEs therefore have little option left and as a result, they have to absorb most uncertainties and risks confronting them. However, they are unable to absorb most of these uncertainties and risks. According to the Kenya agribusiness and agroindustry alliance report for 2016, in 2014, 80 percent of jobs created were dominated by these enterprises. Despite their significance, SMEs in Kenya are faced with the threat of failure with past statistics indicating that three out of five fails within the first few months and two thirds of SMEs fail within the first few years of operation (Ng'ang'a, Muthus, & Nassiuma, 2015). The SMEs however continue to grow and has attracted both local and international into Kenya. In the Kenyan economy, various studies have been done on risk management strategies across various contexts and sectors with limited focus on risk transfer strategy and SMEs based in Kisumu. In his study, Elahi (2013) focused on risk faced and mitigation strategies employed by SMEs in Nairobi, Kenya. Muchiti, (2021) in her study, focused only on risk management strategies adopted in lending to SMEs in Kenya.In his study, Spikin (2013) states that the increasing volatilty and competition which organizations have faced in this era, have forced them to implement at least some level of risk management.He continues to state in the same study that risk management is not only an instrument to prevent organization damaging events but a force to see opportunities.Since risk transfer strategy is influences firm's economic success, this study sought to investigate risk transfer strategy and SMEs competitiveness in Kisumu County, Kenya.

III. Research Objectives

General Objective:

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

Specific Objectives:

Specifically, the study sought; to determine the influence of adoption of outsourcing, contract with stakeholders and uptake of insurance policies on competitiveness of Small and Medium Enterprises (SMEs) in Kenya.

IV. Rationale Of The Study

This study will be of importance to the SMEs as it brings out the role of adoption of outsourcing, contract with stakeholders and uptake of insurance policies on competitiveness of SMEs. The results of this study will also be valuable to policy makers as it provides empirical evidence to direct policy formulation and implementation. The results of the study will also be useful to researchers and academicians as it acts as source of reference for future studies.

V. Literature Review

Risk Transfer Strategy

Risk transfer is a risk management and control strategy that involves the contractual shifting of a pure risk from one party to another. Risk control requires an organization to settle on choices to lessen and additionally acknowledge dangers. At this phase about the organization's convention, past therapeutic experience and writing survey the satisfactory dimension of hazard ought to be characterized which can be utilized as a threshold to raise a trigger. Leaders utilize different processes, including advantage cost examination, for understanding the ideal dimension of hazard control and in the long run choose to either hold or exchange the risk. Incorporating danger move systems into your choice hazard plan will decrease the probability and seriousness of disappointments amid the recuperation process (Waldron, 2010). The hazard procedure involves, Risk identification. Assessment and hazard displaying are an intricate movement that requires multidisciplinary approaches in various parts of science or learning of the financial, mechanical, sociological, or political. Hazard evaluation results and achievement systems conclusively impact choices taken at full scale and micro (Florescu, Barabaş, & Barabaş, 2015).

In this context risk, can be looked at as a hazard which an organization needs to exchange for competitiveness. This exchange involves a broad and control technique that includes the legally binding moving of an unadulterated hazard starting with one gathering then onto the next. To realize what needs to be contracted to the third party, organizations need to carry out an assessment. After the effective distinctive confirmation that indeed threats exist in the and before the significance of alleviation exercises, it is first essential to perceive the risks that genuinely matter and to develop needs (Food and Agriculture Organization of the United Nations, 2013).This can be achieved through an examination stage that ought to be assessed to approve if the dangers are recognized according to the criteria that have been setup by the different organizations. The underlying advance is to evidently understand the methods and results which really matter with an explicit true objective to achieve organizational goals.

In identifying the best transfer strategy, Organizations need to assess the distinctive portfolios accessible before settling on the choice on which to put resources into. Portfolio theory is the formalization of risk management from a modernistic empirical approach. In the context of this study, risk transfer strategy was

guided by the portfolio theory. Portfolio theory encourages asset diversification to hedge against market risk as well as risk that is unique to a specific organization (Omisore, Munirat, & Nwufo, 2012). The theory is an extension of the old sayings 'don't put all your eggs in one basket'. It explains the risk reducing effect of spreading investment across a range of financial assets. Markowitz hypothesis breaks down different portfolio resources and dangers required before settling on the correct portfolio. This will help SMEs in understanding the choices available in the marketplace as they choose to transfer risk to a third party and the return rate thus enable SMEs make an informed and settle on the best available strategy to incorporate for SMEs competitiveness.

To make the best choice organizations undertakings depend on various factors including managerial and stakeholder involvement in decision making. Various strategies are available to organizations including contractual risk transfer. Contractual risk transfer is the ability to transfer a risk/loss from one party to another party through the language written in a contract. This may include exchanging internal activity of express creation to an outer gathering, or gatherings. The reason could be that the venture does not have required procedure, required foundation, individuals and aptitudes, innovation, and measurements capacities to suitably convey the action yet the other party has the muscle to do so (Mweru & Muya, 2015). Contracting/redistributing is one of the hazard exchange strategies that enables associations to use an incentive from for all intents and purposes anyplace in the world (Fang, 2016).

In straightforward terms, an organization may protect it is representatives from damage if this is true, if a specialist is harmed, the insurance agency pays the expense. In the event that the organizational structure is protected against flame and a structure burns to the ground, the insurance agency pays to supplant it. Insurance agencies charge an expense, or a protection premium, for tolerating this hazard. Furthermore, there are deductibles, stores, reinsurance and other money related understandings that alter the monetary hazard the insurance agency expects. Hazard exchange can likewise be practiced through non-protection understandings, for example, contracts (Aolin, Guangyuan, & Weiguo, 2015).

VI. Research Methodology

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

VII. Results And Discussions

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

Risk Transfer Strategy

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

Types of Insurance Policies

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

Table 4.1: *Insurance Policies*

Insurance Policy	Percentage (%)
Goods	25%

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

Source: Survey Data (2021)

Outsourced Services

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

Table 4.2: *Outsourced Services*

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

Source: Survey Data (2021)

Portfolio Risk Assessment

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

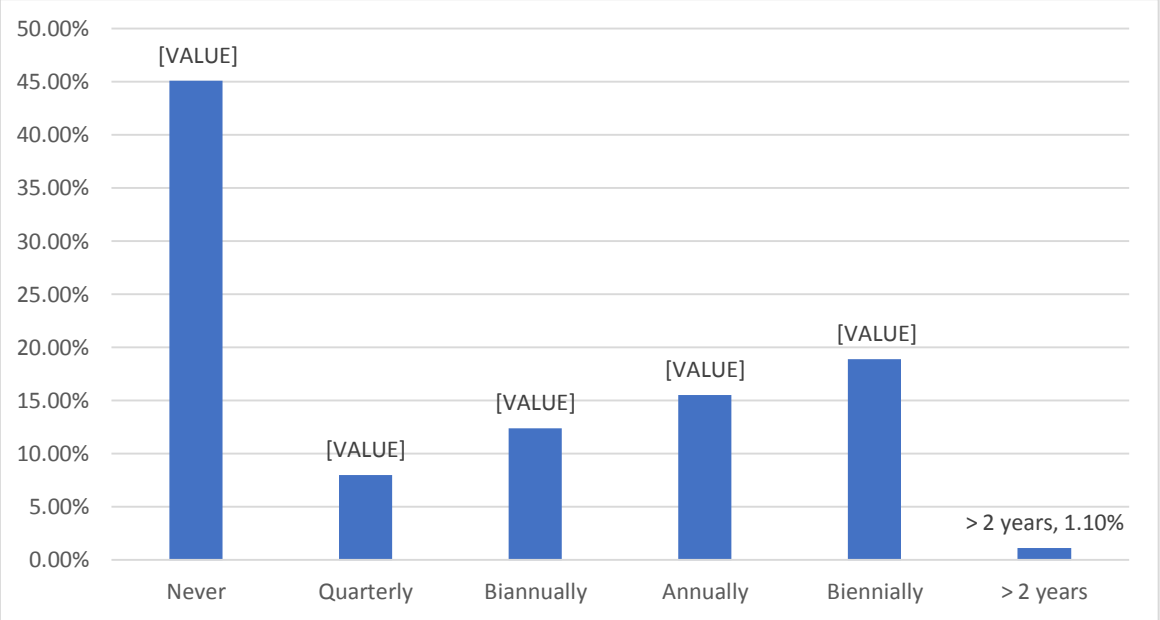

Figure 4.1: **Frequency of portfolio risk Assessment**

Source: Survey Data (2021)

Risk Transfer and Competiveness

The findings show that risk transfer strategy significantly predicted sustainable competitive advantage (B_1=0.350, p<.05). The regression results further indicated that considered individually, risk transfer strategy explained 29.6% variance in sustainable competitive advantage (adjusted R^2 = 0.296, F (1, 291) = 123.99, p<.001).

Table 4.6: Model for Hypothesis Testing

Model Summary				Number of obs	=	292
Source	SS	df	MS	F(1,291)	=	123.995
Model	44.131	1	44.131	Prb > F	=	0.0000
Residual	103.570	291	.356	R-Squared	=	0.299
Total	147.701	292		Adjusted R-Squared	=	0.296
				Std Err. Estimate	=	0.597
SCA	Coefficient	Std. Err.	t	P>|t|	[95% Conf.	Interval]
_cons	2.050	.116	17.648	.000	1.821	2.278
Transfer	.350	.031	11.135	.000	.288	.412

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

Y= 2.05 + 0.350 x Risk Transfer Strategy + ε

VIII. Conclusion

The study confirms that risk transfer has a significant influence on SMEs competitiveness yet very few SMEs indicated that they transfer risk through insurance.

IX. Recommendation

The study recommends that they are encouraged to take up insurance to grow their capital base in case of risk occurrence. Since the study focused only on Kisumu County other studies can be done in other counties and generalized to confirm the study.

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