Risk Management Practices in the Moroccan SMEs

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Abstract

The ‘’SMEs’’ Like any enterprises, are affected by a variety of risks, starting from the strategic to the operational activities, through processes and projects. Knowing how to identify Risks, Assign a priority level, develop actions, and mechanisms to reduce the effects and monitor continuously, and those are the elements that constitute an essential step to ensure the survival of enterprises and create a sustainable value, Also this is particularly true from the SMEs, Which are more exposed to the harmful effects of Risks, due to limited resources and structural features.

The Objective of this study is to analyze the available literature on the subject of Risk management For the SMEs. So we propose thus regard to clarify the concepts of ‘’Risk’’ and ‘’Risk Management’’, through a synthesis of different theoretical and empirical work dealing with these notions. In addition there’s a filed study that will be conducted on a significant sample of Moroccan ‘’SMEs’’ to determine their perception of Risk and the different characteristics of the risk management approach and out of the reasons of such a risk management approach, it is not yet structured and implemented in addition to the impact of the latest one on the performance Of the Moroccan’’ SMEs’’.

Keywords: Risk, Risk Management, Performance, SMEs.

Introduction

Uncertainty is an inherent given to the life of any organization. Currently, the Moroccan SMEs face the risk of several types: identified, emerging or even undetectable and may affect the achievement of objectives.

In the era of the crisis, enterprises need to monitor current expenditures and forecast potential costs that could be caused by unsafe acts. This is especially true for Small and Medium sized Moroccan enterprises , which are more exposed to a multitude of risks, because of a several difficulties including the internal and external failures as well. Although they represent 93% of the Moroccan economy, the contribution of SMEs is far below the potential that this enterprise category can be argued, adding that finding the increase in failures of these companies by 33% in 2013.

The integration of the risk management process, has become essential since adequate risk control that allows the backup, under the best of possible conditions cost the heritage of the enterprises, and therefore to be made between different expected performance.
1. Problem and methodology considered:

1.1. Problem definition:
The risk today is a central variable, in strategic and organizational reflection of Moroccan enterprises; the risk issue has become a key concern for the enterprises that has increased in recent years.
The interest of this work is to show the importance of the implementation of a process of “Risk management” in The Moroccan SMEs, which allows among others the achievement of enterprises objectivity, because its growth is the growth of other countries’ economy.
Therefore, we are going to expose our searches and would try to answer the following problem: "what is the impact of the implementation of the practice 'Risk management' within SMEs Moroccans, independently of any similar function?" To address this major issue, the answer to the following questions:

• First what is the attitude of the leaders of the SMEs to face the Risk?
• How did these enterprises identify and mastered their Risks?
• What is the Impact of the implementation process “Risk Management” within the Moroccan “SMEs”?
• Starting From the assumption that the implementation of the practice “Risk Management” impacts positively on the performance of Moroccan SMEs. Several under hypotheses referring to:
  • The “Risk” and “Risk management” culture is not yet established in the Moroccan SMEs.
  • Risk management practices are applied informally.
Adopting risk management practices depend on organizational characteristics, financial and corporate sector of activity.

1.2 Objectives and research methodology:
The main objective of our research is to try to understand and to understand the concepts around the notion of Risk and Risk Management, and the importance of its integration into the overall strategy of the company; and the evaluation of its effectiveness and added value on the Performance of Moroccan small and medium enterprises.
So, to try to answer all the questions derived from our central problem, our research will focus on: The first part will be devoted to the theoretical reflection around a set of concepts that seem relevant to the research question. Research will be carried by a broad literature on the concept of risk, and the Risk Management approach. We also discuss the attitude of SME managers to risk and their perception of the Risk Management approach.
The objective of this part will follow a theoretical model of determining assumptions response to the problem and build an operational theoretical framework for empirical research. A second part will be the subject of a detailed empirical study at the end of this report.

2. Role of SMEs in the Moroccan economy
2.1 Definition of SMEs:
One of the first findings that could raise at SME analysis is the ambiguity surrounding their definition. According to the OECD (2005), small and medium enterprises are the non-autonomous subsidiary companies employing less than a given number of employees. Jordan and al further top (1998) define SMEs by giving details of the size c-a-d. the number of employees and turnover, and they say that SMEs are companies with less than 100 employees and a turnover that is less than 15 million euros. however, most definitions are based on the size and use of the main bases as the number of employees, financial position or annual turnover (zindiye and others. 2008).

2.2 The legal version of the Moroccan SMEs
In morocco, the SME charter developed in 2002, holds two families of determining criteria for SMEs, the first is the number of permanent employees (less than 200) and the second is the turnover or balance sheet total. three criteria are considered in the official definition in the charter of the SMEs for qualified SMEs, existing companies are required to have:
• A lower effective 200 permanent employees,
• An annual turnover before tax not exceeding 75 million dirhams, and / or a balance sheet total limited to 50 million dirhams.

For new SMEs, the law stipulates that they have a lower initial investment program or equal to 25 million dirhams and respect a ratio.

Investment per job less than 250 000 DHS. also, this definition is complex and does not allow having a correct estimate of the proportion of companies that can qualify as SMEs. In addition, it deviates several companies because the threshold is relatively low and leads to the exclusion of companies with capital intensive activities.

However, ANPME and CGEM (general confederation of enterprises of morocco), have developed a new definition at the national level which is twofold. This is to have a unified definition that reflects the size businesses need to face globalization and contribute to the coherence of the operation support system for SMEs.

Indeed, ANPME into account in its definition only the criterion of turnover disregarding the company's workforce. According to this thinking, there are three types of companies:
• The very small enterprise: fewer than 3 million dirhams (ca).
• Small business: between 3 and 10 million dirhams. (it)
• The average company: between 10 and 175 million dirhams (ca).

2.3 SMEs in the national economy: current situation

SMEs play important roles in economic growth and sustainable development of each nation, (moore and others. 2008) .in effect, they play a critical role in the social development of the country.

In Morocco, the SME has a significant importance in the economic fabric, in which they account for 95 % according to the statistics from confederacy of the SME.They constitute the nerve center of our economy with 40 % of the production, and 31 % of the exports. According to the ANPME, the SME is present in all sectors of economic activity with a 98 % rate: the industry, the small business sector(crafts) and the BTP(BUILDING AND CIVIL ENGINEERING WORKS), trade and finally the services(departments) which include the tourism, the communications, the transport, the financial services..

SMEs participate effectively in the promotion of employment. It is estimated that currently SMEs employ 80% of the workforce.

3. Risk management and SMEs (Theoretical background)

3.1 Defining Risk:

‘Risk’ is inherent in the company, it has always existed and is according to economists, its essence.to create an enterprise is already taking a risk. Its survival is never guaranteed. Even companies large sizes have no guarantee of sustainability. Risk is a multidisciplinary concept defined in several ways in the literature:
• "The risk consists on the realization of a feared event with negative consequences" (W.D.ROWe)
• Uncertainty objectified as to the occurrence of an adverse event "(R.A.WILLET)
• "the measure of the probability and severity of a loss event" (W.W.LOWRANCE)
• A risk is a measurable risk, targeting specific goods or activities, damaging economic consequences "(J.charbonnier)
• "by risk means the possibility that the objectives of a system focused on a specific goal will not be achieved" (Mr Haller)

The definition which appears the most interesting is the one we give Mr. HALLER, because it refers to the achievement or otherwise of original objectives. Adding that this definition of "ERNEST cabinet and Young," which seems to us more comprehensive and general "risk is the threat that an event, action, or inaction affects the company's ability to achieve its objectives strategic compromise and value creation. "

The risk in management constitutes an evolution of the other acceptances. The acceptance of the risk will thus be represented by the AFNOR, the ISO COSOII repository
According to the AFNOR, the risk is the effect of uncertainty on objectives. These uncertainties may arise from factors internal to the organization and factors outside to the organization.

External risks come from changes or threats in the enterprise environment (political, economic, technological, sociological, changes in markets, customers, competitors, products, suppliers) who can exercise a negative influence on the objectives and strategies of the company.

The Internal risks may come from different sources like: the enterprise strategy, processes, resources, intangible factors, information management.

**The ISO CEI Guide defines risk as:**

"A combination of the probability of an event and its consequences' (ISO / CEI 73)

"Expectation of loss of life, injuries, property damage and damage to economic activity during a reference period and in a given area, for a particular hazard. Risk is the product of hazard by the vulnerability"

- According to the COSO framework, an organization is exposed to a set of events, which undermine the objectives already identified, with a positive or negative impact or both. Those who have a negative impact are qualified risks. The risk therefore consists of any event likely to lose money to the company. They are therefore the events that prevent the enterprise expect its strategic objectives: Risk management must be a logic for any enterprise"

### 3.2 Risk Management

Since the middle 1990s, Risk management has expanded dramatically in scope and significance of the transformation of one aspect of management control to become a reference of good governance for banks, hospitals, schools, charities, and many other organizations. According Lamant G. (Guy LAMANT) is responsible for Risk management in COGEMA and former President of the Association for Risk Management and Insurance of the Company or AMRAE), "manage risk is to use more limited resources to minimize a variety of risks that one can never be reduced to zero. " Although risk management is specific to each company, its goal remains the same: "to ensure the safety of persons and property, sustain operations and protect resources and the environment, in two words: make it safer and sustainable"

The concept of "risk management" was born in the United States between 1950 and 1960. At that time it was only by the transfer of risk to an insurer. Dominated by the issue of insurance and the inclusion of financial losses, the concept has evolved. The inclusion of financial data as a means of hedging, led to the attachment of "risk manager" on financial management of the company. In the 1980s, due to the sophistication of financial tools and awareness by companies of the importance of continuity planning, risk management approach has extended to other areas. It is at this time that one wonders, for example, on its application to the management of projects.

Risk management is an approach that treats and manages the risks the company faces; it is defined as follows:

"A process was implemented by: the board of directors, the head office; the management and all the collaborators of the organization. It is taken into account in the elaboration of the strategy as well as in all activities of the organization. It is conceived to identify and manage the Risks."

It is conceived to identify the potential events susceptible to affect the organization and to manage risks within its palatability for the risk. It aims to provide reasonable assurance as to the achievement of organizational objectives. "However, this definition is in the Broad sense. It proves that the principals on which an organization is based to define their risk management strategy and it requires the implementation of such strategy within an organization."

- the risk management can be approached from another perspective:
"The risk management is an iterative matrix process of decision-making and implementation of the instrument who allow to reduce the impact of the event of internal or external break pressing on any organization.

The process of decision contains three stages: analysis (diagnosis), treatment and audit. The implementation supposes that the risk manager assumes four components of any management function: planning, organization, animation or control"

From this definition, it seems that the Risk management is all the tools, the techniques and the organizational devices, allowing the identification, the evaluation, the treatment and the follow-up of the risks. The carried attention on the risk management in enterprises has increased, this is simultaneously translated by a strengthened regulatory framework and by a growing pressure of markets for an awareness of the companies of the necessity of mastering the risks. The objective of the RISK management is then to protect the enterprise by assuring beyond protecting the conditions of its growth. The main advantages of an approach "Risk management" are summarized above:

A) Help the decision-makers to make lit choices, to prioritize the actions and to choose the most relevant action plans.

B) Allows taking into consideration, the understanding of the uncertainty to determine the measures of treatment.

C) A systematic, fast and structured approach contributes to the efficiency and to the coherent, comparable and reliable results.

D) Allows the decision-makers to recognize capacities, perceptions and intentions of the external and internal partners who can facilitate or hinder the realization of the objectives of the organization.

3.2 Process Risk management

According to the aforesaid, we discovered that the importance of the Risk Management approach in the enterprises especially in SME is completely significant. A structured risk management approach allows a company to continue its strategies and can predict the risk exposure of each activity carried on, and eventually to better results at lower cost. (Nthane, 1995)

Indeed, structured risk management allows owner-managers of SMEs to objectively evaluate their actions. One of the problems in risk management is that most risk assessments are related to a specific discipline that is not necessarily known by the owner-managers. In addition, owner-managers may be able to recognize the obvious risk, but their depth of knowledge of the risks may hamper the identification of risks or indirect knowledge of the inter-connections of risks (Watt, 2007).

Watt, 2007 Then included, that the structure of SME allows a process of creating a strategic risk management function is relatively simple because of the narrow relation between the owners, the administrators and the partners of the enterprises.
3.3 Risk management in SMEs:

SMEs Like any enterprises, are affected by a variety of risks (financial, economic, environmental, etc.) because of which they have to develop their systems so as to develop a capacity to face it. Indeed, by the specificity of their organization and operation, SMEs are less inclined to "allocate human and financial resources dedicated to the dimensions of risk management and risk coverage". The risk management constitutes one of the important concerns for all enterprises, particularly the small and medium-sized enterprises which are particularly sensitive to the commercial risk and to the competition. (Alquier et Lagasse, 2006). Applied to the SME the risk management is the principle core on which the entrepreneur or the direction (management) should be focused to identify the future uncertainty, By formalizing plans to approach these risks and to reduce or eliminate, its impact on the objectives of the enterprise. (Nthlane, 1995).

Nationally, In spite of their dominance in number in the Moroccan economic fabric, the contribution of The Moroccan SMEs to real growth of the country remains below the industrialized countries. The current statistical device is not able to allow a good visibility on the behavior of The SMEs. But we can enumerate the main guidelines that detect the weaknesses of this category in the enterprise. This is translated most of the time by an under-performance of the Moroccan SMEs, a lack of competitiveness and a rate of high failure.

This Observation comes to join the results of the study carried out by the cabinet Inforisk (Based in 2008 by the Group Finances, is specialist in Morocco of the Commercial Piece of information) which notes an increase of the failures of 33% on the Moroccan SMEs in 2013.

**SOURCE:** (CROUGHY, GALAY, MARK, 2009)
The PME is confronted with the necessity of modifying quickly and frequently their manners to work and their business models to adapt itself to an uncertain environment, in permanent evolution (St-Pierre and al ., on 2003)

Indeed, The need for a risk management, then, persist, as long as adequate mastery of this last will allow the enterprise "to watch better the use of its resources, to avoid expensive decisions and to increase the success of its projects ".

It is thus necessary to imagine ways allowing at the same time the leaders of the SMEs to warn and to limit the risks to protect the sustainability of their organization and assure the success of their strategic decisions, and with the diverse stakeholders.

Although this study concentrates on SME Moroccans, the international literature reviews and seems important. According to Matthews and Scott (1995), of numerous SME has no explicit image of the risk and the risk management is neither often badly structured nor systematic or normalized.

Henschel (2008) asserts that lack of expertise and knowledge in SME can make an enormous risk for SMEs. According to O " Hara and al (2005), SME two obstacles to a risk assessment such as the pressure of time as well as the access to the orientation and appropriate corrective actions.

Nthlane (1995) proclaims that, some leaders and owners of the SMEs are aware of risks and they concentrate generally on the programs "of control of the loss" in the zones of fire, the security, the health and the insurance of the quality. These programs "of control of the loss" are oversee or by the contractor or another administrator. In the absence of the identification structured the risks, SME assume the exhibition in ordinary and unplanned risks in which will be consequently, to the detriment of their limited financial resources.

Nthlane (1995), continued by saying that, in most of the SME left the risk without manage it, until they surface it and can stimulate the action of the SME to remedy it. Also, the control measures put in place to address risks are ineffective, they are reactive and non-automated. The study identified that actions are focused on risk prevention, rather than designing risk control procedures To avoid the risks has the effect of hindering the economic progress in an enterprise as all the enterprises can develop if they are capable of seizing the business opportunities which often present more greater risk (Nthane, 1995).

Supporting, Janney and Dess (2006) noted that SME(SMALL AND MEDIUM-SIZED ENTERPRISE) are far from adopting a positive approach to the risk management, because of certain failures such as the insufficiency of infrastructures and technical expertise, The lack of financial and intellectual resources, and the weakness of the investments in the research and development Also, a study of Turpin (2002) asserts that most of the SME have no official strategy of risk which is due to problems of organization and communication by making the delegation of the missions of risk management to the employees. His study notes besides that the increase of the competition, the evolution of the demands of the customers, the bad strategies (because of the lack of data of market) and the rate of absenteeism of the employees are often and the most important risks for SMEs.

According to previous studies, it was noted that the attitude of the SMEs face the risks and risk assessment significantly different from that of large enterprise. risk management practices in SMEs address the beliefs and attitudes of owners / managers, they do not attempt to use special techniques to manage risk. They make decisions based on their activity as a whole and not in terms of specific risk management. Despite some form of identification and risk assessment, SME owners can ignore a particular risk that may impact the achievement of objectives (Sparrow, 1999).

Large enterprises usually appoint people reported to be responsible for the identification and assessment of risks, known RSIK MANAGER (PwC 2000). In addition, more than half of large enterprises are based on internal audit to monitor and examine the risks. (KPMG (2000) found that 77 percent of all large enterprises have established a direct integration of risk management into their business planning. The majority of large enterprises come to investments for their management system of the risks from 50,000 euros to 250,000 euros (Fischer, on 1999).
Nationally, a study was led in 2014 on a sample of 45 Moroccan companies of which half was SMEs. According to this survey, the questioned enterprises perceive the risk as being an accidental event (at the level of 28%), the others consider it as a (24%) of hostility and as being an uncertainty of (23%). To identify and estimate the risks, companies resort more gladly to general tools (audit interns, studios[workshops], meeting of the HEAD OFFICE(GENERAL MANAGEMENT)) rather than in specific instruments of management of risks. Besides, the practices of Risk management seem to be applied in an informal way by using the means of edge and by resorting at least to the specialists.

As a conclusion, the results of this study show that more than half questioned enterprises think that the "RISK MANAGEMENT" is a "Necessity/Opportunity" rather than a mode of management. In this sense, more of 2/3 of the sample asserts that the "RISK MANAGEMENT" can contribute to the competitiveness of the company and the improvement of its performance.

**A Steps to …be followed:**

To actually answer the research questions, a field of research will be conducted in order to achieve concrete results on a problem that stems from research literature. And because of the pursued objectives, our methodology will join a second part in an additive approach based on a qualitative approach. Our empirical research will based on an exploratory study (On practical cases), based on methods of collection of qualitative information. In practice, the directive semi conversations will make the main source of information during our empirical research.

It should be noted also, that this work can join only the qualitative researches; it is necessary to confirm the information collected by a quantitative survey with a statistically significant sample of the Moroccan small and medium-sized enterprises. Certain audit of the performance after the implementation of the process RISK MANAGEMENT by SMEs, would be essential to measure the impact and the effects. The results obtained during the empirical study will be presented then will have to confirm the composed hypotheses. Finally, during the analysis of this research will show what are the contributions, the limits then the future ways of works.

**Conclusion:**

Much more than a topic issue, the issue of risk management takes a considerable place in the heart of corporate conduct in the world, including Moroccan enterprises. The risk management offers the possibility of bringing an effective answer to the risks and to the opportunities associated with the uncertainties which the organization faces, so strengthening the capacity of value creation. But the concept is problematic from the point of view of its definition, of its perception by enterprises, its implementation and how to audit its performance and its efficiency.

Furthermore, the choice of the not financial enterprises and especially SMEs, is justified in the fact that the Moroccan financial institutions were regulated since 2007 regarding risk management. As for the not financial enterprises, in particular SME which constitute 95% of the Moroccan economic fabric, the approach(initiative) "Risk management" structured is often voluntarist and the management formalized by the risks is not a part of the culture of management for the majority of them. In that respect, the awareness of the leaders seems insufficient until nowadays.

The interest of this work is to show the importance of the integration of an approach «Risk management" in the global strategy of the Moroccan SMEs, a process which allows among others the achievement of the objectives of the enterprise, its growth is the growth of the economic country. So, it is first about to evaluate the risk management practices applied by these enterprise and then educate leaders to apply such a model the most appropriate risk management with business objectives and evaluate to know the effectiveness.
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