An Assessment of Risk Management of Small and Medium Scale Enterprises in Nigeria

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Abstract
This study adopts a survey research design to assess the level of risk management by SMEs in Nigeria with particular emphasis on the level of accounting records maintained by SMEs and the insurance policy cover undertaken by their business with a view of reducing their risk. To achieve the objective of the study, one hundred and ten (110) SMEs in Benue state operating in eleven (11) different lines of businesses were selected. An open-ended questionnaire was distributed to each Owner or Manager of the SMEs selected for the study and the data collected were analyzed using descriptive statistics. The findings reveals that SMEs do not maintain proper accounts as a result they cannot be able to identify, assess and plan the management of their business risk effectively. More so, about eighty four percent of SMEs do not cover their business against risk. This clearly indicates that risk management by SMEs is low. The study recommend among others that SMEs should try to maintain proper books of accounts so that they will be able to plan, identify, asses and manage their risk effectively, in addition SMEs owners as a matter of necessity should take an insurance policy for their business as this may not only help to protect them against uncontrollable risk, but will help to bring them back to their position whenever they suffer losses.
Keywords: Small and Medium Scale Enterprises, Accounting Record keeping, Insurance Policy, Risk Management, Benue State - Nigeria.

1. Introduction

The operators of small, medium and large Scale businesses face certain degree of risk in their daily operation globally. Risk is the probability that the outcome of an action or event could bring up adverse impacts on the business. It may include environmental risks, including natural disasters maintaining sufficient staff numbers and cover, employee safety and up-to-date skills , Development Risk -Can the original product or service idea actually be created? , Manufacturing Risk -If the product can be developed, can it actually be produced in appropriate volume?; Marketing Risk -If the product can be made, can it be sold effectively? ; Financial Risk -If the product can be sold effectively, will the resulting company be profitable and can the profits actually be realized in a form that allows investors to receive cash; Growth Risk -If the company can achieve operating profitability at one level, can profitability be maintained as the company grows and evolves?.

Some of these risks can be controlled if appropriate action is taken to do so, whereas, some are largely unpredictable and uncontrollable. When every aspect of the business is carefully considered, planned and executed based on accounting information. The managers can only control the risk within their control. However, a business could still face risk of closure due to some factors that are beyond its control such as: fire, flood, tornado, tsunami, hurricanes, earthquakes, political crises and war among others. The ability of the management of Small and Medium Scale Enterprises (SMEs) to carefully identify the risk that their business face and take action accordingly to counter the risk, will certainly be successful, profitable and contribute to the economic growth of the nation.

It is therefore, important for every business organization, be it small, medium or large scale to take its risk management seriously. Managers that do not take risk management of their businesses seriously are faced with the problem of performance which threatens the continuous existence of their business, be it small or large.

Risk management involves identifying, analyzing, and taking steps to reduce or eliminate the exposures to loss faced by an organization or individual. The practice of risk management utilizes many tools and techniques, including proper accounting records keeping and insurance, to identify and manage a wide variety of risks. Every business encounters risk, some of which are: predictable and under management's risk control, while others are: unpredictable and uncontrollable, therefore, some companies undertake policies with insurance companies to serve as a cover for them.

Risk management is particularly vital for small businesses, since some common types of losses—such as theft, fire disaster, flood, legal liability, injury, or disability—can destroy in a few minutes what may have taken entrepreneur years to build. Such losses and liabilities can affect day to day operations, reduce profits, and cause financial hardship severe enough to cripple or bankrupt a small business (Azende, 2012), and prevent it from contributing to the economic development of the nation. But while many large companies employ a full time risk manager to identify risks and take the necessary steps to protect the firm against them. Small companies rarely have that luxury. Instead, the responsibility for risk management is likely to fall on the small business owner.

The Small business owner is any person or group of people that starts and runs a Small and Medium Scale Enterprises (SMEs). Small and Medium Scale Enterprises (SMEs) is any enterprise with a total capital employed of not less than N1.5 million, but not exceeding N 200 million (including working capital but excluding cost of land) and with the staff strength of not less than 10 and not more than 300 workers (Obamuyi, 2010; Azende 2012; Iorpev,2012). SMEs all over the world play important role in the process of industrialization, economic growth, and sustainable development of any economy (Ariyo, 2005). According to CBN (2011), SMEs are critical to the development of any economy, as they possess great potentials for employment generation, improvement of local technology, output diversification, development of indigenous entrepreneurship and forward integration with large-scale industries. Kpelai (2009) stressed that, SMEs are the engine room for economic growth. According to Azende (2012) SMEs may look small or inconsequential but are actually the foundation of any economically stable nation. The potential benefits of SMEs to any economy include contribution to the economy in terms of output of goods and services, creation of jobs at relatively low capital cost, provision of a vehicle for reducing income disparities, development of a pool of skilled and semi-skilled workers as a basis for future industrial expansion.

More so, the reversal of the high unemployment rate, poverty which stood at 69 percent of the 163 million population of Nigeria in 2010 (NBS, 2010), Security challenges facing the country and the realization of the Nigerian vision 2020 goal of being one among the top 20 largest economies in the world by the year 2020, hinged on the survival and sustainability of SMEs in Nigeria. Ife (2011) asserts that the survival and sustainability of SME's is critical to the future of the country and so with the firm. However, the level of risk management by SMEs is critical to its survival and Sustainability.

SMEs in the world and Nigeria in particular, in recent time, are faced with serious risk, ranging from changes in costs of operation due to the removal of fuel subsidy, political crises, fire disaster, flooding, and war among others. These risks have posed a great challenge to the performance, survival, growth of SMEs and its contribution to the gross domestic product (GDP) as they are unpredicted. It is based on this that the paper seeks to examine the level of risk management of SMEs in Nigeria with a view of mitigating the effects of risk on their businesses and the economy. In particular, the study seeks to assess the level that SMEs keeps accounting records and take insurance policy, as this will assist in reducing information risk , improve planning for managing financial risk (as accounting records provides information needed) and insurance policy provide a cover for other risk that are beyond the managers control. This paper is important as it provides policy makers and mangers of SMEs information on the extent of risk management in SMEs. More so this is another modest contribution to the existing literature on SMEs risk management in Nigeria.

The remainder of this paper is as follows: Section two (2) takes a brief review of related literature; Section three (3) is the methodology; Section four (4) discusses the results of the study; Conclusion and policy recommendations are presented in section five (5).

2. Literature Review

2.1 Small and Medium Scale Enterprise

There are various definitions to what constitutes a small or medium sized firm (Abor and Adjasi, 2007). OECD (2005) defines small or medium sized firms as the non-subsidiary and independent firms which employs less than a given number of employees. Jordan *et al* (1998) define small or medium sized firms as firms with less than 100 employees and less than a turnover of EUR 15 million. In February 1996, the European Commission adopted the definition for SMEs as firms with less than 250 employees, less than EUR 40 million turnovers and less than EUR 27 million total assets (Abor and Adjasi, 2007). However, some countries set the limit of 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees (OECD, 2005). OECD (2005) also defines small and medium sized firms by using financial assets and state that:

The turnover of medium-sized enterprises (50-249 employees) should not exceed EUR 50 million; that of small enterprises (10-49 employees) should not exceed EUR 10 million while that of micro firms (less than 10 employees) should not exceed EUR 2 million. Alternatively, balance sheets for medium, small and micro enterprises should not exceed EUR 43 million, EUR 10 million and EUR 2 million, respectively (p 17).

SMEs is any enterprise with a total capital employed of not less than ₦1.5 million, but not exceeding ₦ 200 million (including working capital but excluding cost of land) and with the staff strength of not less than 10 and not more than 300 workers (Obamuyi, 2010; Iorpev,2012). SMEs all over the world play important role in the process of industrialization, economic growth, and sustainable development of any economy (Ariyo, 2005). According to CBN (2011), SMEs are critical to the development of any economy, as they possess great potentials for employment generation, improvement of local technology, output diversification, development of indigenous entrepreneurship and forward integration with large-scale industries. Kpelai (2009) stressed that, SMEs are the engine room for economic growth.

In Nigeria, there has been gross under performance of SMEs sub- sector and this has undermined its contribution to economic growth and development. The major challenges of SMEs in the country are: unfriendly business environment, poor funding, low managerial skills and lack of access to modern technology. Among these, shortage of finance occupies a very central position (CBN, 2011) which may be due to the risky nature of SMEs. According to Iorpev (2012) the shortage of finance to SMEs in Nigeria is due to the perceived risk and uncertainties associated with SMEs. Marsch, Schmieder, &Aerssen (2007) assert that SMEs are more opaque in terms of information, that is, the Information asymmetry, which is a situation where business owners or managers know more about their business prospects and risk than lenders. Information asymmetric between SMEs and banks arise from SMEs' lack of accounting records, inadequate financial statements or business plans which makes it difficult for creditors and investors to assess the credit-worthiness of potential SME proposals (Iorpev, 2012). The ability of SMEs to maintain proper accounting records at the same time take an insurance cover will help in reducing information problem, improving availability of funds and covering their business against risk.

2.2 The Concept of Risk Management

Risk is a combination of probability that some (dangerous) event will occur and the consequences of it if it actually occurs (Labodova´, 2004). From the definition two variables are identified: the *frequency* of the occurrence (probability) of the risk event, that is to say the number of times that it happens during a set period of time; and the *magnitude* of the event, which is the set of consequences that can result if the event happens. Therefore risk is the chance of something or an event happening that will have effect upon set goals that is unexpected and unforeseen. Put differently risk is the possibility of deviation from a planned outcome or goal. According to COSO (2004) the events that can cause risk are divided into two- external factors and internal factors. The external factors include: economic factors (capital, credits, insolvability, liquidity, financial market, unemployment, competition, joint venture); environmental factors (pollutions, energy, national disaster, sustainable development) ; political factors (law, public policy, rules, political changes); social factors (demographic, consumer beheviour, firm nationality, privacy, terrorism) and technological factors(interruption, e-commerce, external data, emerging technologies). The internal factors include: infrastructure (material resources availability, material resources potentiality, capital access, complexity); human (human potentiality, fraud, health and safety); process (sources, design, execution, suppliers); technology (data integrity, data and system availability, system choice, development, diffusion, maintenance).

The type of risk that a business may faced could be hazard risk (fire or property damages, windstorm and other natural perils, crime, personal injuries, diseases and disability), financial risk (price of commodity, interest rate, foreign exchange, asset value, liquidity, credit default, inflation, purchasing power), operational risk (human resources, product developments, efficiency, products/service failure, supply chain management, information relevance and availability, information /business reporting – budgeting and planning, accounting information, pension fund, investment evaluation, taxation), and strategic risk (reputation damage in form of trademark/brand erosion, fraud and unfavorable publicity, competition, capital availability, regulatory and political trend).

On a broad perspective, there are two type of risk inherent in a company and their securities and these are; systematic or un diversifiable risk and unsystematic or diversifiable risk. Systematic risks are the risk that affects every security or company in the industry or economy.For instance, declining economic condition, global inflation or recession, declining gross domestic product and declining foreign reserves. The pure risks or systematic risks cannot be influenced by the manager and are independent of business decisions. Whereas unsystematic risk are risk that are peculiar or unique to each security or company such as the nature of the products or service the company is involved in, the industry in which the company operates, management inefficiency among others. These (unsystematic) risks are the result of managerial decision-making and can either have a negative or a positive outcome. Systematic risk are uncontrollable where as the unsystematic risk are controllable through diversification.

Therefore, the risk that any business faces depends on the type of industry and economy where it operates. The available literature indicate that Business organization whether Small, medium and large faced risk in their operations globally (Azende, 2012; Meulbroek, 2002; Muhammad and Amber,2011; Arewa, 2004). Business organisations face risk at the stage of start up, grow and exit. To start a business takes one of the biggest risks of all, for example if you leave a well-paid job to start up a business you risk your own money to finance it or that of financiers/lenders. To grow a business you risk the funds required for growth as well as the livelihood of those you employ. To exit a business you've worked hard to build, you risk leaving it in the hands of others who may manage it for their self-interest. Business owners and entrepreneurs are, probably by their nature, less risk averse than those who are happy to work for someone else and let them take the risk. Being prepared to take a risk is necessary if business start-up and growth is to occur, but what is also necessary to succeed is the ability to avoid as much mishap as possible, through well thought out 'risk management.

Risk management consists of identifying and analyzing the events that may cause loss, and choosing the best way to deal with each of these potentials for loss. Risk Management a term often linked to major corporations as a corporate governance requirement, is a useful process that SME's can adopt to improve their chances of sustained and successful longevity (Labodova´ , 2004). In recent times we have heard about the increase in frequency in natural events, including floods, political crises, religious crises, devastating earthquake, wars among others. As most of the losses relating to these events are covered by insurance, the bigger risks to businesses are the less obvious risks that are not claimable through insurance policies. To assist SMEs in avoiding losses, or to enable SMEs to recover from a loss 'better', we believe that risk management is more important to business now than ever before and they can do this effectively with the use of accounting records keeping and taking insurance policy.

2.3 Accounting Record Keeping, Insurance and Risk Management in SMEs

The level at which an origination whether Small or large maintain its books of account determines the level of information available to the organization managers and other stakeholders such as investors, lenders and tax authorities, thereby reducing information asymmetry which poses risk to organizations and SMEs in particular, which suffers most from lack of information due to inadequate record keeping. Maseko and Manyani (2011) posit that accounting system provides a source of information to owners and managers of SMEs operating in any industry for use in the measurement of financial performance.

In Nigeria one challenge being faced by SMEs is finance due to their risky nature which is caused by their inability to keep proper accounting records among others. According to Alfred (2011) good record keeping of financial transactions is one of the key requirements by finance providers to access funds. Unfortunately, this requirement considered very critical for assessing the capacity of Small entrepreneurs to manage funds for sustained growth and expansion is lacking. He further argued that this explains why out of the N 40 billion set aside by banks under micro finance scheme for Small-Scale businesses less than 50 percent of the amount has been accessed. Azende (2012) stressed that it is difficult for SMEs to access funds from the formal sources because of stringent collateral security requirement and inadequate risk mitigating schemes for the formal sources of finance. However finance is central to the running of any business and SMEs will be able to attract funds from the formal sector when they are seen not to be risky.

When SMEs do not keep proper record they are considered as being risky. However, SMEs that keep proper accounting records can use the information provided to manage the risk (financial risk) faced by them, because the financial data and ratios form the basis for risk (financial) management. One way of managing risk with financial data is by identifying financial risks through the analyses of the financial statements of the company. Therefore the results of risks and also weaknesses of the financial situation of the business can be found. The effective keeping of accounts and records by SMEs can be used to assess how their business was and will be able to be economically. More so if the financial analysis is reliable it will help in assessing the insolvency or bankruptcy risk of SMEs and at the same time is easy to apply by SMEs owners. This will aid SMEs managers to effectively manage risk that is within their control through diversification or ignore to undertake such activity and the ones they cannot diversified can be covered or managed through insurance policy.

Insurance is all about planning for the unexpected. It refers to an equitable transfer of the risk of a loss from one company to another in an exchange for a periodic payment known as premium. The premium or fee paid will depend on the policy undertaken such as fire insurance, money insurance, burglary insurance, personal accident insurance, marine insurance, general third party insurance, workmen's compensation insurance, goods in transits and professional indemnity insurance policy. There are many types of insurance policies available because there are different risk exposures that businesses face. More so Insurance is used as a risk management strategy or tool that protects the insured (SMEs or individuals) from risk. The roots of risk management can be traced to the insurance sector in the 1960s. The acquisition of insurance makes it possible to secure business against Systematic risks. Over time the understanding of risk management was extended and now also includes the management of unsystematic risk .In today's risky business era, no one can survive without covering up the business risks with some insurance. As Douglas (2009) assert that running a business with basic insurance is a very smart way in managing the identified risk and reduce uncertainty. Insurance is all about planning for the unexpected which is one way SMEs can manage (cover for) their risk exposures and potential opportunities realized. The primary function of any insurance firm is to pay the claims of insured and for that purpose they need a mix of debt and equity to make good the losses and achieve their own financial goals. Businesses may stop operating or may go insolvent due to a high risk that is why insurance companies are very watchful to maintain their financial structure sound to lend a hand to other businesses (Bilal, Muhammad and Abdul, 2012) and SMEs in particular at a time that business environment is volatile. This is due to the significance of SMEs to the economic development of any nation.

3. Methodology

This study adopts a survey research design to assess the level of risk management by SMEs in Nigeria with particular emphasis on the level of accounting records maintained by SMEs and the insurance policy cover undertaken by their business with a view of reducing their risk. To achieve the objective of the study, one hundred (110) SMEs in Benue state were selected. The selected SMEs comprises of eleven (11) each from the following line of businesses, namely; Printing, Laundry, Table water production, Hotels, Barber shop/Hair salon, Mechanics/Vulcanizers, Rice Millers, Patent Medicine Stores, Private Schools ,and Cyber café/Computer services. These are the main lines of businesses operating in Benue State. The choice of Benue State is because all the tribe in Nigeria operates Small and medium Scale businesses in the State due to its relative peace . An open-ended questionnaire was distributed to each Owner or Manager of the SMEs selected for the study. The instrument was deliberately designed to give the respondents the freedom to express their views on the level of risk management in their business and other issues. The data collected were analyzed using descriptive statistics.

4. Data Presentation, Analysis and Discussion

The results presented below are based on the data collected from the questionnaire issued to one hundred and ten SMEs managers in the eleven line of businesses operating in Benue State.

Table 1a indicates that from the sampled SMEs 80.9 percent of the owners are male whereas 19 percent are female. Also, 46.4 percent of the owners' holds diploma and degree certificate, 31.8 percent holds secondary school corticated and below and 21.8 percents holds post graduate degree (see, Table 1b). Table 1a and 1b shows that about 81 percents of sampled SMEs are owned by male only 19 percent is owned by female. More, so about 68 percent (46.4 +21.8) of SMEs holds diploma, degree and post graduate degree qualifications only 32 percent of the SMEs owners holds secondary school certificate and below.

The results obtained from the survey (see Table 2) indicates that 69 of the 110 SMEs that were examines in the study their owners or managers are preparers of accounts and financial statements, 17 employed full time accountants officers to prepare financial statements, none of the SMEs used consultants in prepare financial statements and 24 of the SMEs did not used anybody (none) to prepare financial statements. SMEs owners were ask to choose accounting records kept from a given list. Table 3 shows that expenditure (bills) book ranked highest with 30 percent, sales day (receipt) book ranked second with 26 percent and those that did not kept any book (none) ranked third with 18 percent. The payroll records ranked fourth with 11 percent, purchase day (order) book and other books (such as cash book) ranked fifth with 7 percent. Finally, asset register ranked sixth with o percent meaning that none of the sampled SMEs maintained asset registers. This means that 20 out of the 110 SMEs sampled did not maintained any accounts and all the SMEs did no kept asset register, however about 30 percent of the SMEs kept expenditure records. This implies that SMEs did not keep proper accounting records.

To know the list of financial statement prepared by SMEs, the results reveals that the statement of income ranked highest with 50 percent, those that did not prepare any accounts ranked second with 30 percent and statement of cash flow third with 16 percent. 5 percent prepares statement of financial position and no SMEs prepare statement of changes in equity during the study period.

This clearly shows that most SMEs did not maintain proper accounts as revealed above. This may be due to inadequate skilled manpower as 62 percent of the 110 SMEs owners prepare financial statements' and accounts and 22 percent did not have any body to prepare their accounts. However, to be able to identify and assess you risk effectively, SMEs need to keep proper records.

Table 5 shows that 83 percent of the sampled SMEs agree that there business faced risk, only 17 percent of the 110 SMEs in the study did not know that there business faced risk. On whether SMEs owners take insurance cover as a way of managing the risk exposed to by their business only 16 percent of SMEs took insurance cover however 84 percent of the SMEs did not cover their business (see Table 6). The reasons for not taking insurance policy are that SMEs owners did not trust insurance companies and they did not know about insurance among others (see Table 7). On the level of risk management the results shows that is low with 65 percent, moderate with 32 percent and high with 4 percent (see, Table 8). This clearly indicates that the level of risk management by SMEs in the study area is low.

5. Conclusion and Recommendations

This study examines how SMEs manage their risk using proper book keeping of accounting records and taking of insurance policy. The findings reveals that SMEs did not maintain proper accounts as a result they cannot be able to identify, assess and plan the management of their business risk effectively. More so, about eighty four percent of SMEs did not cover their business against risk. The study therefore concludes that risk management in SMEs is low.

As a result of the importance of risk management to the performance, survival and sustainability of SMEs to the economic growth of Nigeria, the study recommends that:

SMEs should try to maintain proper books of accounts so that they will be able to plan, identify asses and manage their risk effectively.

SMEs owners as a matter of necessity should take an insurance policy for their business as this may not only help to protect them against uncontrollable risk, but will help to bring them back to their position whenever they suffer loss. Remaining profitable and continue to operate in perpetuity at the same time contributing to the economic growth of the Nation.

The insurance companies on their part should create awareness on the importance of insurance policy for the management of SMEs risk. At the same time instilling confidence in SMEs owners on their operations in Nigeria, as insurance business can only thrive on thrust. More so, they should developed products that will help to cover the current risk being faced by SMEs due to security challenges effectively.

Acknowledgements

We would like to thanks all the research assistants (Akuma Akish, Erdoo Tsorkaa, James Iwodi, Azuanongo Solomon and Shivah Terna) that help us in distribution the questionnaire and all the managers of the one hundred and ten SMEs sampled in this study.

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TABLE 1A: THE SEX OF SMEs OWNERS

OPTIONS	MALE	FEMALE	TOTAL
FREQUENCY	89	21	110
PERCENTANGE (%)OF FREQUENCY	80.9	19	100

TABLE 1B: QUALIFICATIONS OF THE OWNERS OF SMEs

OPTIONS/QUALIFICATIONS	SS	DD	PG	TOTAL
FREQUENCY	35	51	24	110
PERCENTANGE (%) OF FREQUENCY	31.8	46.4	21.8	100

***SS= Secondary school and below, DD= Diploma and Degree, PG= Post graduate degree**.

TABLE 2: PREPARES OF ACCOUNTS AND FINANCIAL STATEMENT IN SMEs

OPTION	FULL-TIME ACCOUNTANT	CONSULTANT	OWNERS Manager/ STAFF	NONE	TOTAL
FREQUENCY	17	-	69	24	110
PERCENTANGE(%)OF FREQUENCY	15.45	0	62.73	21.82	100

TABLE 3: ACCOUNTING RECORDS KEPT BY SMEs

OPTION	PURCHASE DAY(ORDER) BOOK	SALES DAY(RECEIPT) BOOK	EXPENDITURE (BILLS) BOOK	PAYROLL RECORDS	ASSET REGISTER	OTHERS	NONE
FREQUENCY	8	29	33	12	-	8	20
PERCENTANGE (%)OF FREQUENCY	7.27	26.36	30	10.90	0.00	7.27	18.18
RANK	5	2	1	4	6	5	3

TABLE 4: FINANCIAL STATEMENTS (OR ACCOUNTS) PREPARED BY SMEs

OPTION	STATEMENT OF INCOME	STATEMENT OF FINANCIAL POSITION	STATEMENT OF CASH-FLOW	STATEMENT OF CHANGES IN EQUITY	NONE
FREQUENCY	55	5	18		33
PERCENTANGE (%)OF FREQUENCY	50	4.5	16.4	0	30
RANK	1	4	3	5	2

TABLE 5: TO KNOW IF SMEs IS EXPOSED TO RISK

OPTIONS	YES	NO	TOTAL
FREQUENCY	91	19	110
PERCENTANGE (%) OF FREQUENCY	82.73	17.27	100

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TABLE 6: TO KNOW SMEs THAT TAKE INSURANCE COVER

OPTIONS	YES	No	TOTAL
FREQUENCY	18	92	110
PERCENTANGE (%) OF FREQUENCY	16.36	83.64	100

TABLE 7: THE REASON FOR NOT TAKING INSURANCE POLICY

OPTION	CANNOT AFFORD	CANNOT MEET STRICT REQUIREMENT	DO NOT TRUST INSURANCE COMPANIES	TRIED BUT TURNED DOWN	OTHERS(-DO NOT KNOW ABOUT INSURANCE AND HAVE NO REASON)
FREQUENCY	3	15	50	3	39
PERCENTANGE (%)OF FREQUENCY	2.73	13.64	45.45	2.73	35.45
RANK	3	4	1	3	2

TABLE 8: LEVEL OF RISK MANAGEMENT BY SMES

OPTIONS	LOW	MODERATE	HIGH	TOTAL
FREQUENCY	71	35	4	110
PERCENTANGE (%) OF FREQUENCY	64.55	31.82	3.64	100