Strategic Risk Determinants Influencing Growth of SMEs: The Case of Vietnam

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Abstract
Risk is inherent in all business functions and in every kind of activities. This is especially true for small and medium sized enterprises (SMEs) that are most exposed to the harmful effects of the risks, due to limited resources and structural features. Therefore, this study is conducted for identifying the relationship and impact strategic risk determinants including Political risks, Technological risks, Social risks on the growth of 30 small and medium forest enterprises (SMFEs) in Dien Bien as the case study. Political risks, Technological risks, Social risks are independent variables and the growth of SMFEs is a dependent variable. Data were collected through the questionnaire survey and using mean, correlation and regression analysis for this paper. The results show that there is a statistically significant negative correlation between strategic risk determinants on SMFEs growth.

Keywords: Political risks, Technological risks, Social risks, Growth, SMEs

1. Introduction
Small and medium enterprises (SMEs) is the backbone of all nations and is increasingly recognized as a prime vehicle for economic development of both developed and developing nations (Segal, 2011). This sector plays an important role in any economy through employment generation, contributing to the growth of Gross Domestic Product (GDP), embarking on innovations and simulating of other economic activities (Smit, 2012). So, the development of this sector is of paramount importance for any country, irrespective of their level of development. SMEs perform as a useful vehicle for economic growth of countries because they have the capacity to achieve rapid economic growth, while generating a considerable extent of employment opportunities (Brace, 2008).

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

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

2.1. Political Risks and Growth of SMEs

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

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

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

2.2. Social Risks and Growth of SMEs

Risk to reputation
With the advent of social media, reputational risk is increasingly emerging as a strategic risk management issue emanating from the social environment. According to a survey of 300 executives around the world by Deloitte (2013), reputation risk is now the biggest risk concern, due in large measure to the rise of social media, which enables instantaneous global communications that make it harder for companies to control how they are perceived in the marketplace. This stems from extensive literature sources which claim that it takes twenty years to gain reputation, but five minutes to lose it (Gecikli, 2013).

Insecurity
Insecurity as a concept connotes different meanings including absence of safety, uncertainty, danger and lack of safety – a state of fear stemming from real or imaginary threat to lives and property (Okonkwo et al., 2015). The opposite of insecurity is security, defined by Achumba et al. (2013) as stability and continuity of livelihood, predictability of daily life, protection from crime and freedom from psychological harm. It is also construed as the situation that exists as an outcome of the protection of life and property against hostile persons, influences and actions (Achumba et al., 2013).

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

2.3. Technological Risks and Growth of SMEs

Obsolescence
Barreca (2016) define obsolescence as “a measure of an asset’s loss in value resulting from a reduction in the utility of the asset relative to market expectations”. The author proceeds to explain two types of obsolescence: external obsolescence and functional obsolescence. Depreciation risk is generally defined as the risk of an
investment losing value. It is “a measure of the loss in service value incurred in connection with the consumption or prospective retirement of property” (Barreca, 2016, p.2). One study recommended that SMEs should pay particular attention to depreciation of equipment, the cost of possessing the equipment and create back-up insurance (Ghasemi & Talebbeydokhi, 2015).

### Intellectual Property

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

### Product design risk

According to Kim and Vonortas (2014), the technology of many SMEs, especially startups is frequently unproven and the application yet to be demonstrated. Further, development may take longer than expected, may not produce the desired outcome, may not work or may be superseded by competing technologies. Thus, this type of technological risk underscores many SME’s inability to completely understand or accurately forecast some aspects of the technological environment. Mansor et al. (2015) reviews that SMEs might not envision upcoming of new technology or notice when the technology becomes obsolete.

### Rudimentary Technological Skills

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

### 3. Research methodology

#### 3.1. Research Design

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

#### 3.2. Population

Population refers to all the subjects in the category of things being researched (Denscombe, 2014). In this study, the population comprised of all the 30 SMFEs in Điện Biên.

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

#### 3.3. Data Collection

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

3.4. Research Hypotheses

Based on the previous findings, combined with the context of Dien Bien SMFEs, we selected through interviews with quality experts from universities, experts in the Department of Forestry. The research team has identified three factors that influence the growth of SMFEs: political risks, social risks and technological risks - Ndope's model development (2016).

These variables have been recognized in various studies as factors influencing the growth of SMFEs, so the model used in this study will be illustrated as follows:

![Conceptual Model of the Research](Ndope, 2016)

- **Growth**: This refers to positive shifts in business assets, turnover and number of employees (Kaufmann & Shams, 2016).
- **Risk**: This is the potentiality that future events may have an adverse effect on the survival and growth of business.
- **Strategic Risks**: Strategic risks are the uncertainties and untapped opportunities that characterize a firm’s business environment and affect mission critical elements of strategy formulation and execution (Roggi & Altman, 2013; Segal, 2011).
- **Strategic Risk Management**: This refers to the process of defining, assessing and managing risks and uncertainties affected by scenarios that could inhibit a firm’s ability to achieve its growth objectives (Kumar, 2015).
- **Political Risks**: Political risks are risks related to actions of government which threaten the survival and growth of business (Kansal, 2015).
- **Technological Risks**: Technological risks are events that adversely affect the sufficient, appropriate or management of investment in business processes, operations and competitiveness (Chapman, 2011).
- **Social Risks**: Social risks are changes in society that adversely affect the survival and growth of business (Chapman, 2011).
- **Small and Medium Enterprises**: According to decree 39/2018 / ND-CP dated March 11, 2018, SMEs are identified as follows: Small and medium enterprises in the forestry sector are enterprises with a number of laborers from 10 people to not more than 200 people, and the total capital of not more than 100 billion VND.

3.5. Data Analysis Methods

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

4. Results and Discussions

4.1. Statistical Analysis

**Gender**: The study sought to determine the gender of the respondents. From the study findings majority of the respondents (62%) were male while 38% of the respondents were female.

**Level of education**: The study sought to determine the respondents’ level of education. The study findings showed that majority of the respondents (38%) were college graduates, 56% of the respondents were university graduates holders. 6% of the respondents had master qualifications.
Age: The study sought to determine the age group of the respondents. From the study findings majority of the respondents (59%) were between the ages of 36-55 years, 33% of the respondents were between the ages of 25-35 years of age, while 8% of the respondents were of age 56-60 years.

4.2. Results

Reliability Analysis

The reliability for the items of growth, political risk social risk and technological risk was assessed by computing the overall Cronbach’s alpha reliability coefficient. The reliability of variables of growth, political risk, social risk, and technological risk were demonstrated as 0.78, 0.75, 0.79 and 0.81 respectively which is greater than the accepted threshold of 0.7.

Correlation

The objective of this test is to examine whether the independent variable correlates significantly with the dependent variable (each independent variable is considered). When the significance level (Significance, Sig.) of the partial regression coefficient is 95% or greater (Sig. <.05), it can be concluded that the correlation between the independent variable and the dependent variable is statistically significant (Nguyen, 2013; Dinh, 2014).

Political risk was found to be negatively and significantly related to growth (r = -0.618, p value = 0.003<.05 level of significance). Social risk was found to be negatively and significantly related to growth (r = -0.686, p-value = 0.000<.05 level of significance). Technological risk was found to be negatively and significantly related to growth (r = -0.526, p-value = 0.016<.05 level of significance). These are indicated in table 1 as below:

<table>
<thead>
<tr>
<th>Table 1. Correlation Analysis</th>
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<tbody>
<tr>
<td>Political Risk</td>
</tr>
<tr>
<td>Growth Pearson Correlation</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>N</td>
</tr>
</tbody>
</table>

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

Regression

The R square value as indicated in table 2 is 0.713 which clearly suggests that there is a strong relationship between political risk, social risk and technological risk and growth of the company. This indicates that political risk, social risk and technological risk share 71.3% amount of information about the growth of the company.

<table>
<thead>
<tr>
<th>Table 2. Model Summary</th>
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<tbody>
<tr>
<td>Model</td>
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<tr>
<td>1</td>
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</tbody>
</table>

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

ANOVA

This test is conducted to examine the linear relationship between independent variables and dependent variables. The model is considered inappropriate when all regression coefficients are zero, and the model is considered appropriate when at least one regression coefficient is not zero. Analysis of Variance (ANOVA) is employed to test the appropriateness of a model. If the assurance level is at least 95% (Sig. <.05), the model is considered appropriate (Nguyen, 2013; Dinh, 2014).

The F value in the Anova in Table 3 indicates that the overall model was a good fit (F value=15.621 and p-value=0.000<0.05).

<table>
<thead>
<tr>
<th>Table 3. ANOVA</th>
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<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>Regression</td>
</tr>
<tr>
<td>Residual</td>
</tr>
<tr>
<td>Total</td>
</tr>
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</table>

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

Political risk was found to have a negatively linearly significant influence on growth of the company (β=-0.356, p=0.018<0.05). Here one unit change in political risk results in 0.356 unit decrease in growth of the company. Social risk was found to have a negatively linearly significant influence on growth of the company (β=-0.809, p=0.000<0.05). Here one unit change in social risk results in 0.809 unit decrease in growth of the company. Technological risk was found to have a negatively linearly significant influence on growth of the company (β=-0.365, p=0.002<0.05). Here one unit change in technological risk results in 0.365 unit decrease in growth of the company. The most influential strategic risk is social risk (Beta =-.899), then followed by technological risk (Beta =-.465) and the least influential is political risk (Beta =-.389) as indicated in Table 4:
Table 4. Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.282</td>
<td>.101</td>
<td></td>
<td>2.779</td>
</tr>
<tr>
<td>1</td>
<td>Political risk</td>
<td>-3.56</td>
<td>.134</td>
<td>-.389</td>
</tr>
<tr>
<td></td>
<td>Social risk</td>
<td>-8.09</td>
<td>.160</td>
<td>-.899</td>
</tr>
<tr>
<td></td>
<td>Technological risk</td>
<td>-3.85</td>
<td>.107</td>
<td>-.465</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Growth

From the results of the above analysis, the regression equation is expressed as follows:

\[
\text{Growth} = 0.282 – 0.356 \times \text{PR} – 0.809 \times \text{SR} – 0.385 \times \text{TR}
\]

5. Conclusions and Recommendations

Risk avoidance should be part of the strategic risk mitigation approaches where careful assessment and analysis of political conditions is undertaken and refraining from investment in areas that are too risky. SMEs also need to have in place an exit strategy and evaluate alternative investment options.

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

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

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

References


