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GENERAL INSURANCE, A TOOL FOR MANAGING BUSINESS RISKS: A CASE STUDY OF SMEs IN THE TAMALE METROPOLIS

BY

JOHN ADUKO- (PG3026709)

(BEd. SOCIAL SCIENCES)

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DECLARATION

I, John Aduko, hereby declare that this research submitted is my own work for the award of CEMBA degree and that, to the best of my knowledge, it has not been previously submitted or published by another person for the award of any other degree of this University or another University or institution, except where references have been made and acknowledgement duly made.

PG3026709	…………………………..	29/05/11
(Student I D)	Signature	Date

Certified by

Mr. Ayimpusah Ayine Emmanuel	…………………………..	02/06/2011
(Supervisor)	Signature	Date

Certified by

………………………….	…………………………	..……………………
(Dean, KNUST-IDL)	Signature	Date

DEDICATION

This piece of work is humbly dedicated to my wife, **Patience Akolgo** and children, **Yinsum Ximines** and **Ntariyine Xenia.**

ABSTRACT

SMEs are noted as the foundation of the emerging private sector in developing countries and government's assistance is paramount to sustaining and growing them for the sector's contribution to the country's economy (World Bank report, 2000). Despite efforts to enhance performance of SMEs, little or no attention is given to the sector to become business recovery conscious in moments when disaster strikes. Events such as violent floods, fire outbreaks, traffic accidents, occupational hazards, accidental damage to properties and harm caused to lives, theft and armed robbery, as well as other unforeseen events have slowed down private sector investment activities, and in some instance discontinued the existence of businesses. The need to possess appropriate insurance policy cover is significant and beneficial to both public and private stake holders; and more importantly to the survival and success of the Small and Medium Enterprises (SMEs) sector. The survey involved the collection of data using questionnaire and observation as a complement. In all 184 questionnaires were administered. The data gathered were primary in nature and then analysed using frequency counts, cross tabulation, graphs and percentages. The basic motive of this research was to establish whether SMEs within the Tamale Metropolitan Area use non-life insurance as a risk management tool. The results have shown that most of the SMEs do not have insurance policies for their businesses, and the level of information on insurance is relatively low. Owners of SMEs are required to be educated on the need to have insurance and appropriate insurance to recover business losses associated with their operations through periodic workshops organised by industry players. The need to enforce the Insurance Act on fire and liability insurance to ensure compliance is paramount to enhancing business recovery mechanism for the sector.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Life is full of risks; expected or unexpected. In recent years there have been a lot of disasters and uncertainties affecting personal lives and the business environment across the globe. These events have had adverse effects on the socioeconomic activities on developed and developing nations; particularly Ghana. There have been violent floods, fire outbreaks, traffic accidents, occupational hazards, accidental damage to properties and harm caused to lives, theft and armed robbery, as well as other unforeseen events that impact negatively on various economic ventures; especially the private sector investment activities. These mishaps remind us of the need to adopt risk management measures. Risk is everywhere but the business world is much exposed to it. To overcome the losses arising from these risks some take up insurance, others do not.

Aizenman and Marion (1999), highlight the adverse effects of risks on investment using macroeconomic data from more than forty (40) developing countries. They emphasized the fact that the uncertainty about business decisions in the future and the resulting gains cannot be optimistic.

Despite efforts by successive governments through economic reforms to heighten the private sector to complement government's investments and enhance economic growth, the sector's response is relatively low; and this could be attributed to their risk averse attitude. Entrepreneurs make decisions regarding their investment in a dynamic and risky environment.

The outcomes of their decisions are generally not conclusive due to the uncertainties associated with the future outcomes. Variability in future outcomes is the biggest source of risk, particularly among Small, and Medium Scale Enterprises (SMEs). The use of insurance as a risk mitigation tool provides confidence and prospects in successful business decisions, however to some degree.

The basic function of insurance is risk transference; risk is transferred from one party (the insured) to another party (the insurer). The transfer of risk by no means eliminates the possibility of misfortune, but the insurer provides financial security and tranquillity for the insured when the insured risk occurs. In return, an insured pays a premium in a very small amount when compared with the potential losses that may be suffered (Morton, 1999).

Insurance as a risk management tool in Ghana is made extensive and mandatory by the Insurance Act, 2006 (Act 724). The Act makes it compulsory for private commercial property owners such as hotels, restaurants, hospitals and clinics, Auto shops, manufacturing firms and many other related businesses to obtain fire and liability insurance just as it is compulsory for vehicle owners to obtain the Third Party Motor Insurance cover under the compulsory third party motor insurance Act 1958 (Act 42). Sections 183 and 184 of Act 724 state that: "a person shall not construct or cause to be constructed a commercial building without insuring with a registered insurer the liability in respect of construction risks caused by negligence or the negligence of servants, agents or consultants which may result in bodily injury or loss of life to or damage to property of any workman on the site or of any member of the public; every commercial building shall be insured with an insurer against the hazards of collapse, fire, earthquake, storm and flood, and an insurance policy issued for it; the insurance policy shall cover the legal liabilities of an owner or occupier of premises in respect of loss of or damage to property, bodily injury or death suffered by any user of the premises and third parties." The Act sought to provide psychological satisfaction and financial leverages to investors buying insurance to safeguard business interests.

The compliance of the Act (Act 724) is in doubt: as the 2007, ENGAS company filling station gas explosion at Asokwa in Ashanti Region did not fulfil its obligation per the law; the 2011 fire explosions at the Western Steel and Forging Ltd in Tema caused injury, death and damages to people and properties; also, the destruction of properties at Kantamanto Market and the VRA computer room (housing its server) by fire evidence the need for insurance covers to minimize the effects of hazards to SMEs, Government Agencies and Departments; hence, the call on government with other stakeholders to assist victims.

1.2 Problem Statement

Risk is one of the most overlooked areas in SMEs in spite of the fact that it is clear to most entrepreneurs that, operating any business involves risk such as losses associated with property, income, injury and liability. These risks are inevitable to most entrepreneurs in businesses. Prudent business owners take steps to minimize the risk of their businesses in other to maximize returns on investments. A good risk management system is a continuous process of analysis and communication to select the appropriate tool to manage risk.

SMEs in Ghana serve as vital indicative sources of growth, technological innovation and flexibility. However, they are saddled with challenges to complement government's efforts towards growth and development strategies. SMEs are exposed to many risks in their ordinary course of business, such as interest rate risk, foreign exchange risk, market risk, natural disasters, political risk, and technological risk and so on, that minimize their profit by increasing their financial losses. However, insurance enshrined in sections 183 and 184 of the Insurance Act, 2006 (Act724) to serve as a buffer in the event of mishaps is not given the attention it deserves regardless of its significance to mitigate the effects of risks resulting from disasters or unexpected events. In Tamale, the level of patronage of insurance by SMEs as a risk transfer mechanism to mitigate risks such as collapse of building, fire outbreaks, accidents, burglary, business interruptions, and dishonesty of personnel tend to be wavy. What were the recovery measures in the wake of the potential losses and financial hardships?

In view of this, the researcher examined the extent to which non-life insurance was used as a risk management tool by SMEs.

1.3 Objectives of the Study

The research broadly sought to assess the extent to which SMEs adopt insurance as a risk management tool and the benefits there in. Specifically, the research intended to achieve the following objectives to:

1. Identify what business risk(s) SMEs face;
2. Examine the response of SMEs towards the use of non-life insurance to mitigate pure risk(s);
3. Assess the benefits SMEs derive from using insurance as a risk management tool;
4. Identify any problems SMEs encounter in using insurance; and
5. Find out solutions to the challenges that SMEs encounter in using insurance.

1.4 Research Questions

The main research question addressed was: do SMEs use insurance to mitigate business risk(s)? The specific related questions to solve the research problem included the following:

1. What were the risk exposures that an SME was faced with?
2. Did entrepreneurs of SMEs have enough insurance for their businesses?
3. What was the level of response to using insurance as a risk management tool?
4. What benefits did SMEs derive from using insurance as a risk management tool?
5. What were the problems that SMEs encounter in using insurance?
6. What were the solutions to overcome the challenges that SMEs encountered in using insurance?

1.5 Significance/Justification of the Study

The study would help identify the reasons for the level of patronage of insurance as a risk transfer mechanism and create a changed behaviour of the owners of SMEs. The research would benefit, risk managers, business consultants and business continuity consultants by identifying areas that they might need to consider when preparing disaster recovery plans, particularly for SMEs. Findings that emerged from the study would serve as a spring board to generate interest for further research into the other aspects of insurance challenges. The research work would also be of enormous assistance to various levels of educational institutions in the country, especially the universities as reference material for further studies and research work on insurance as a risk management strategy. The study would further contribute to the existing literature on mitigating and providing confidence to entrepreneurs in their investment decisions. Also, the insurance regulator in the country should find it useful to adopt pragmatic means to enforce the unenforced insurance Acts in the country. Lastly, it might influence the level of premium incomes of non-life insurance companies in the country.

1.6 Method of the study

The researcher made use of the survey method to generate primary data to achieve the objectives of the study, (Zikmund, 2000). A multiple stage sampling design was used to draw sample frame to avoid any bias. First, the metropolis was clustered into three electoral constituencies, constituting 19(nineteen) towns (Figure 3.1). A cluster sampling of 4(four) small scale businesses, 5(five) medium scale businesses were taken from each sample elements from the: central, south and north constituencies respectively. Nine (9) business units were clustered from each town. SMEs were divided into different clusters according to the number of employees. A total of 171 registered and non-registered SMEs were sampled and questioned. Different clusters of SMEs had the same number of employees as one sub-cluster. All thirteen insurance companies in the metropolis were respondents to section “C” of the questionnaire (appendix 2). A total of 184 respondents were contacted.

Primary data was collected from respondents per the questionnaire. In gathering data, the researcher self-administered 13% of the questionnaire, while 87% of the remaining questionnaires were administered by trained personnel to administer and gather information from the entrepreneurs. The rationale for using this approach was to allow the respondents ample time with monitoring to answer at their own pace without taking them away from their work. The trained personnel read and interpreted questionnaires to non-literate respondents. In answering the questionnaire, the respondents were asked to indicate their responses to the questions on a five point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree), (Likert, 1932). Also closed and opened ended response questions were analysed.

The researcher made use of qualitative and quantitative survey design for this study. The design involved the collection of data concerning the study. Frequency tables and percentages (%), figures and cross tabulation were used in analyzing the data with the aid of Statistical Package for the Social Sciences (SPSS).

1.7 Scope and Limitation of the Study

The study covered the use of insurance as a risk management tool by SMEs, evidence and prospects in the metropolis. Four categories of insurance protection were classified for any businesses: property, liability, people and income (Dorfman, 2008). These categories remained the focal points of reference in the research. Indemnification and risk pooling of the various categories of insurable risks enhance commercial transactions and the provision of credits by reducing losses. The research took a period of five months.

Tamale Metropolis was one of the 20 administrative districts in the region of the area of study. It is the central business district and the capital of the northern region. The Metropolis shares boundaries with Savelugu-Nantong to the North West, Yendi to the East and Gonja to the South.

The Tamale metropolis is the political, economical and financial capital of the region. The major government departments, NGOs and ministries have Tamale as the operational centre.

In recent times, the Metropolis witnessed the influx of banks, insurance companies and micro-finance institutions all geared at stimulating monetization in the region to provide services of economic value such as: the use of credit cards, money transfer, savings, and current accounts, provision of credits and risk transfers and returns on life insurance. That indicated the economic prospects of business growth in the metropolis.

Majority of the indigenes are principally engaged in primary occupation such as farming, weaving, leather work and hunting; while others and immigrants are engaged in micro, small and medium-scale businesses. There are some commercial crops (sheanuts and cotton) that are processed for exports.

Data gathering was challenged as follows: there was delay in getting responses on time due to the schedule of work, especially entrepreneurs. Again, the questionnaires were read and interpreted to non-literates before they could respond. Extra time and financial resources were committed. The limited time given for the completion of the thesis had a negative impact on my productivity at the office and stressed me.

Notwithstanding the above limitations, the study results were not affected and thus the findings were credible, reliable and useful for any purposes of evaluation and feedback.

1.8 Organisation of the Research

The dissertation was divided into five chapters. Following from above, chapter two of the study concentrated on reviewing literature on SMEs, and insurance as a risk management mechanism as the conceptual framework for the research. Chapter three involved the research methodology. Chapter four was concerned with the presentation, analysis and interpretation of data collected on the topic. The last chapter presented findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Defining the Small Business; Overview and Key Definitions

There is no universal definition for Small and Medium-Scale Enterprises (Storey, 1994). Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ less than a given number of employees. This number, however, varies across countries, (William, 2000; Bakare, 2009). Many researchers have battled with the question of defining relevant criteria for SMEs (Curran et al., 1986). This definition problem could have stemmed from two main factors. First, the conflicting ideas upon which economic aggregates were used to base the analysis. Hence, the extent to which SMEs may be classified according to number of employees, turnover, profitability or net worth (Potobsky, 1992). Second, the industrial and economic difference across sectors and countries was another factor. A small firm in the oil industry might probably have much higher levels of capitalization, sales and possible employment than a small firm in the service sector (Tonge, 2001).

Various attempts to overcome this definition problem have been made without much success. Some models classify firms as small if they met criteria of market share, management and level of independence. While other models based their classifications on various sectors of an economy from which an SME might have emerged.

Following from the above, the European Commission (2003) categorized SMEs using staff headcounts. Firms with less than: ten (10) employees are classified as micro enterprises; fifty (50) are classified as small enterprises; and two hundred and fifty (250) employees are known as medium size. In addition to staff headcount either the turnover or the balance sheet ceilings of firms might be considered in the classification.

In almost all senses, Storey (1994) argued that the EC definitions were more appropriate. A key problem with the EC definitions of an SME; however, is that for a number of developing countries with their sectoral development it is too “all embracing”. In the case of internally domestic purposes within countries, the SME definition would not be helpful (Tonge, 2001). Following from that, the trend had been for each country to define an SME based on criteria that reflected its own micro and macro-economic characteristic sector performances. According to Tonge (2001), the heterogeneity of the small firms sector meant it was necessary to modify definitions according to the particular sectoral, geographic or other contexts in which the small firms were being considered.

According to the World Bank (1976), Firms with fixed assets (excluding land) less than US$ 250,000 in value were considered Small Scale Enterprises. Grindle et al (1989), Small scale enterprises were firms with less than or equal to 25 permanent members and with fixed assets (excluding land) worth up to US$ 50,000.

United Nations Industrial Development Organization’s (UNIDO) definitions for developing Countries were stated as follows: Large - firms with more than 100 workers; Medium - firms with 20 - 99 workers; Small, between 5 - 19 workers; Micro, less than 5 workers. However, its definitions for Industrialized Countries were stated as follows: Large - firms with more than 500 workers; Medium - firms with 100 - 499 workers; Small, less than 99 workers. Small Scale enterprises were variously defined, but the most commonly used criterion was the number of employees of the enterprise. The above thoughts of classification then depended on various nations with their specific motives for SMEs under sectoral performance, geographic location and financial exchange regimes of a said country in its foreign exchange market with particular reference to time.

2.2 History of Medium Scale Enterprises (SMEs) in Ghana

Ghana’s structural policies were focused on three main areas: public sector reform, financial sector reform, and private sector development. The government’s policy towards private sector development aimed at creating a more business- friendly economic and regulatory environment, strengthening property rights, seeking expanded market access for Ghana’s exports, and promoting entrepreneurial skills. The business and regulatory environment had improved considerably in response to earlier reforms. According to the World Bank (2009) the time required to start a business in Ghana had fallen from 129 to 34 days, and the licensing fees and associated costs involved in starting a business had also reduced. Building on previous successes, the government approved a new National Medium-Term Private Sector Strategy in March 2004.

Small and Medium Enterprises (SMEs) were the focal point of the government’s efforts to spur growth and reduce poverty. SMEs were found in both urban and rural areas, and covered a wide spectrum of economic activities. 80% of businesses fell within the category of Micro, Small and Medium Enterprises (MSME) and with an employment capacity of close to 70% of the Ghanaian labour force. They ranged from farming activities, health, education, agri-businesses, light manufacturing, art and craft, textiles and garments, retail, financial services, construction and carpentry (The Statesman, Thur, March 9, 2006). The World Bank's Country Director for Ghana, Mats Karlsson, when launching a project for SMEs in Ghana said Growth and employment in Ghana were directly linked to the growth of SMEs. Some estimates put the contribution of SMEs to total GDP at about 22 per cent, with the largest contribution coming from those in the agriculture, trade and transport.

There is a long history of government initiatives to promote and finance SMEs in Ghana. However, lack of finance remained the major restriction to SME development in the country. Ghana began officially promoting the activities of SMEs in 1969 with the establishment of the Credit Guarantee Scheme by the Bank of Ghana to assist entrepreneurs in obtaining bank credit. That was followed in 1970 by the creation of the Ghana Business Promotion Programme. The objective of these initiatives was to provide financial and technical assistance to newly established and existing SMEs, but their impact was limited. Support of SMEs was intensified in 1990 following the creation of the National Board for Small-Scale Industries (NBSSI). The major financing scheme operated by the NBSSI was a credit line - the Fund for Small and Medium Enterprise Development (FUSMED) – financed by the World Bank's small and medium enterprise project. The fund offered credit to enterprises in all sectors of the economy except primary agriculture, real estate and trading. The government also established a credit assistance scheme under the Programme of Action to Mitigate the Social Cost of Adjustment and Development (PAMSCAD), intended to cushion the effects on SMEs of the Structural Adjustment Programmes (SAPs). The credit facility, which was managed by the NBSSI, was intended to assist entrepreneurs in procuring scarce but essential raw materials (African Economic Outlook, 2005).

2.3 Characteristics of SMEs for the Research

It flowed from the above that a research concerning SMEs should be confronted with what working definition to adopt at what particular period. The implication for research would be that researchers would likely have to continue using their own definitions of small enterprises which might be appropriate to their particular “target” group (Storey, 1994).

Some important characteristics of SMEs were identified by Cronje, and Motlatla, 2003. Those features were observable among SMEs in Tamale: they are generally more labour intensive than larger businesses; on the average, they generate more direct job opportunities per unit of invested capital; they are an instrument for the talents, energy and entrepreneurship of individuals who cannot reach their full potential in large organisations; they often thrive by rendering services to a segment of the market which larger businesses do not find attractive; they are a means of entrepreneurial talent and a testing ground for new industries; they create social stability, cause less damage to the physical environment than large factories, stimulate personal savings, increase prosperity in rural areas and enhance the population’s general level of economic involvement. In addition, they are usually price followers, whilst ingenuity, creativity and devotion are typically found in them. They are by nature often credited with the ability to bring about social stability in the poorer communities. This is done by generating more job opportunities, hence, increasing prosperity due to the population’s general level of economic participation (Du Toit et al. 2001). These varied features expose SMEs to various levels of business risks that affect the fabric of their operations in the events of uncertain business moments.

2.4 The Ghanaian Situation

The difficulty in providing a definite and universal definition for SMEs perhaps might have been confirmed by the International Labour Organisation’s (ILO) recommendations no. 189 which recommended member states to define SMEs according to their own national economic and social conditions. The objective of the Recommendation was to create a supportive environment conducive to the growth and development of SMEs (ILO, 98).

As a result, SMEs have therefore been defined against various criteria, the main ones being the number of workers employed, volume of output or sales, and the value of assets employed.
In Ghana the most commonly used criterion was the number of employees of the enterprise (Kayanula and Quartey, 2000). In applying this definition, difficulty often arose in respect of the uncertainty and cut off points used by the various official sources.

Data from the Registrar General indicated that about 90% of companies registered were micro, small and medium enterprises. That target group had been identified as the catalyst for the economic growth of the country as they were a major source of income and employment. Data on this group was however not readily available as revealed in chapter three (3.3). The Ministry of Trade and Industry (MOTI), in 1998 estimated that the Ghanaian private sector consisted of approximately 80,000 registered limited companies and 220,000 registered partnerships from which they came out with the following definitions: micro enterprises-those that employed up to 5 employees with fixed assets not exceeding the value of $10,000; small enterprises-employ between 6 and 29 employees with fixed assets of $100,000; and medium enterprises-employed between 30 and 99 employees with fixed assets of up to $1million (Mensah, 2004).

Also, the Ghana Statistical Service (GSS) considered firms with fewer than 10 employees as small-scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises. Ironically, the GSS in its national accounts considered companies with up to 9 employees as SMEs (Kayanula and Quartey, 2000). The value of fixed assets in a firm was also used as an alternative criterion for defining SMEs. However, the National Board for Small Scale Industries (NBSSI) in Ghana applied both the “fixed asset and number of employees” criteria. It defined a small-scale enterprise as a firm with not more than 9 workers, and had plant and machinery not exceeding 10 million Ghanaian cedis. The Ghana

Enterprise Development Commission (GEDC), on the other hand, used a 10 million Ghanaian cedis upper limit definition for plant and machinery. It was important to caution that the process of valuing fixed assets posed a problem. Secondly, the continuous depreciation of the local currency as against major trading currencies often made these definitions outdated (Kayanula and Quartey, 2000). In defining small-scale enterprises in Ghana, Steel and Webster (1991), and Osei et al (1993) used an employment cut-off point of 30 employees. Osei et al (1993), however, classified small-scale enterprises into three categories. These were: micro - employing less than 6 people; very small- employing 6-9 people; small - employing between 10 and 29 employees. A more recent definition was the one given by the Regional Project on Enterprise Development Ghana manufacturing survey paper. The survey report classified firms into: micro enterprise that employed less than 5 employees; small enterprise, employed between 5 -29 employees; medium enterprise, 30 – 99 employees; large enterprise, 100 and more employees (Teal, 2002).

The definitions given by MOTI, GSS and NBSSI might not stand the test of time due to the following loopholes the researcher identified. The prevailing currency market indicated that there was in consistency in both the US dollar and the local currency due to fluctuation in the parity rates of the currencies used as the units of measure in determining the value of assets of a firm. Again, the researcher sought to question what value of fixed assets and in what currency was used by the GSS as the alternative criterion? The value adopted by the NBSSI had become marginal and insignificant in determining the classification per the type of business. The level of price index of the country did not remain stable, thus the value of Ten Million Ghanaian cedis (¢10,000,000.00 now GH¢1,000.00) in the year 2000 was certainly not the same in 2011.

2.4.1 Working Definition

In view of the foregoing, the researcher adopted the definition and classification per staff headcount by the Ghana Statistical Service (GSS) without considering the value of assets. The adoption was based on the geographic location of the region, sociocultural factors and the micro/macroeconomic ventures engaged by the dwellers in the metropolis.

2.5 Strategic Role of SMEs

Parallel with ownership reform and privatization, the number of SMEs was on the increase. The strategic importance of SMEs was acknowledged around the world for the following reasons: small-scale rural and urban enterprises were one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low income countries. The enterprises were recognised as the engines through which the growth objectives of developing countries could be achieved. They were potential sources of employment and income in many developing countries. It was estimated that SMEs employed 22% of the adult population in developing countries (Daniels, 1994; Daniels & Ngwira, 1992; Daniels & Fisseha, 1992; Fisseha, 1992; Fisseha & McPherson, 1991; Gallagher & Robson, 1995). They were more labour intensive than larger firms and therefore, have lower capital costs associated with job creation (Anheier & Seibel, 1987; Liedholm & Mead, 1987; Schmitz, 1995). SMEs performed useful roles in ensuring income stability, growth and employment. Since SMEs were labour intensive, they were more likely to succeed in smaller urban centres and rural areas, where they could contribute to an even distribution of economic activities in a region and could help to slow the flow of migration to large cities. They also improved the efficiency of domestic markets and made productive use of scarce resources, thus, facilitating long term economic growth. These strategic roles would be made robust with an effective and efficient risk management plan in place to ensure business survival and continuity under risk turbulence.

2.6 Challenges of SMEs

Given the features of SMEs, they are faced with a variety of constraints owing to the difficulty of absorbing large fixed costs, the absence of economies of scale and scope in key factors of production, and the higher unit costs of providing services to smaller firms (Liedholm & Mead, 1987; Liedholm, 1990; Steel & Webster, 1990). Research indicated that there were a lot of constraints that confronted the SMEs; among which included input, finance, labour, equipment and technology, domestic demand, regulatory, legal, managerial and institutional. There was an assertion that high premiums, non-payment of claims, underpayment of claims, undue delay of claim settlement and under insurance were some of the difficulties faced by SMEs in the metropolis. The following were cited conversation with a few stakeholders: "insurance companies are quick to receive premiums, but delay when it comes to claims", Salifu of Community Pharmacy said. Mr. Nimo Charles on 26/04/11 remarked, "the insurance quotations are very high and this discourages us from taking insurance". "Insurance premiums in Ghana are higher than what is charged in Lebanon", remarked by Mr. Hatoum on January 11, 2011.

Information obtained from all the thirteen non-life insurance companies indicated that majority of the owners of SMEs were not usually interested in securing insurance cover unless under compulsion from the banks when securing financial facility.

2.7 The Concept of Risk

Risk is a concept that indicates probability of specific eventualities. Technically, the notion of risk is independent from the notion of value, as such; eventualities might have both beneficial and adverse consequences. However, in general usage the convention was to focus only on potential harmful impact to some characteristic of value that may arise from a future event. Risk is "the effect of uncertainty on objectives" (ISO 31000:2009). Thus, any variability in future outcome would affect the set objectives of the entrepreneurs of SMEs.

Risk is defined as the variation of the actual outcome from the expected outcome. Risk therefore, implies the presence of uncertainty. There might be uncertainty as to the occurrence of an event producing a loss, and uncertainty as regards the outcome of the event. The degree of risk is interpreted with reference to the degree of variability and not with reference to the probability that it will display a particular outcome (Valsamakis et al. 2005).

Risk can also be defined as any source of randomness that may have an adverse impact on a person or corporation (Culp, 2001). The definition of risk as the deviation of an actual outcome from the expected result or outcome implied the following: uncertainty surrounds the outcome of the event. The decision-maker is uncertain about the outcome but predicts an expected outcome. If the outcome were certain there would be no uncertainty, there would be no deviation from the expected result therefore there would be no risk; the degree of uncertainty of the actual outcome about the expected outcome determines the level of risk. The greater the possible deviation between the expected and actual outcomes, the greater the risk (Valsamakis et al. 2005).

"Risk" is used in risk management and insurance literature and practice to mean: the possibility of loss, the probability of loss, a peril, a hazard, the property or person exposed to damage or loss, potential losses, variation in potential losses, and uncertainty concerning loss. (Williams, Head, Horn, and Glendenning, 1981).

In the researcher's view, risk might refer to as an eventuality, unforeseen circumstance or an uncertainty about future events. It might be a variability in future outcomes that impacts negatively on the mission and visions of business operations.

Business decisions revolve lack of complete certainty; thus, the existence of more than one possibility. Given the unknown, risk may be classified as speculative risk or pure risk.

2.7.1 Types of Risks

With regards insurability, there are basically two categories of risks; speculative risk and pure risk.

2.7.1.1 Speculative or Dynamic Risk

Speculative risk is a situation in which either profit or loss is possible. Examples of speculative risks are betting on a soccer match, investing in stock market and real estate market. The daily conduct of businesses is faced with decisions that entail an element of risk. The decision to venture into a new market, purchase new equipments, diversify on the existing product line, expand or contract areas of operations, commit more resources into advertising, borrow additional capital, carry risks inherent to the business are classified as speculative risk. The outcome of such risk is either beneficial or a loss. Speculative risk is uninsurable (Valsamakis et al. 2005; Dorfman, 2008).

2.7.1.2 Pure or Static Risk

The major types of pure risk that are associated with great economic and financial insecurity with regards to business operations include; personal risks; property risks; and liability risks. Usually damage to property, consequential losses arising out of fire/collapse, injury to people and liability claims from sudden and accidental events resulting in the above mentioned losses are insurable risks (Valsamakis et al. 2005; Dorfman, 2008).

Personal risks directly affect an individual. They among others involve the possibility of loss or reduction of income, resulting in extra expenses, and the reduction of financial assets. **Property risk** is the risk of having property damaged or loss from numerous hazards. Property loss could occur as a result of fire, lightning, windstorms, pipe burst, riots, impacts, civil strife, earthquakes and others.

Liability risks are obligations to third parties if a risk occurs. It is another important type of pure risk that many people face more often. One could be sued for any frivolous reason. One has to defend himself when sued, even when the suit is without merit (Insurance Act, 724).

2.7.1.2.1 Why some Risks (speculative risks) are not insurable

It is important to distinguish between pure and speculative risks for three reasons: First, through the use of commercial, personal, and liability insurance policies, insurance companies in the private sector generally insure only pure risks. Speculative risks are not considered insurable with some exceptions. Second, the law of large numbers can be applied more easily to pure risks than to speculative risks. The law of large numbers in a pool is important in insurance because it enables insurers to predict loss figures in advance. It is generally more difficult to apply the law of large numbers to speculative risks in order to predict future losses. An exception of speculative is that of gambling, where casinos can apply the law of large numbers in a very efficient manner. Finally, society as a whole might benefit from a speculative risk even though a loss occurs, but it is harmed if a pure risk is present and a loss occurs. For instance, a Nissan auto manufacturer's competitor develops a new technology to produce faster moving vehicles and life safety compartments more cheaply. As a result, it forces the Nissan Auto into bankruptcy. Despite the bankruptcy, society as a whole benefits since the competitor's product work faster and are sold at a lower price. On the other hand, society would not benefit when most pure risks, such as an earthquake occur, (Spaulding, 2011; Viswanathan, and Cummins, 2003).

2.8 Risk Management

It is a process of understanding and managing the risks that an entity is inevitably subject to in attempting to achieve its corporate objectives. In terms of management purposes, risks are usually categorised into operational, financial, legal compliance, information and personnel. An integral solution to risk management is enterprise risk management (CIMA, 2005).

The estimated rate of failure increases dramatically following a fire or other major events such as floods and significant storm damage. When a fire or crisis occurs, the business person has to manage his business as normal but, in addition, prudence dictates that he must manage the rebuilding, the sourcing and replacement of the plant and equipment, as well as the re-supply of stock on hand (Manning, 2002).

It is therefore a logical process of identifying and analyzing potential loss exposures in order to select the best way to protect assets and reduce loss possibilities. The management of risk benefits all kinds of economic and social ventures facing potential losses (Dorfman, 2008; Rejda, 2007).

Risk is pervasive in every business and claims will always occur, but their impact can be minimised and contained within acceptable limits through an effective risk management programme.

2.8.1 Managing risk

There are four ways of managing an identified risk. These include: acceptance, transfer, reduction, and elimination depending on the severity of loss and the frequency of loss. An entrepreneur may decide to: accept a risk because the cost of eliminating it completely is too high or cannot be justified; transfer a risk, which is typically done with insurance if severity of loss is high but with low frequency of loss; reduce the risk by introducing new safety measures if the cost justifies the benefits; eliminate it completely by changing a technology. Managing risk involves putting in place processes, methods and tools to deal with the consequences of events a manager identifies as significant threats to the business. It is not a one-off exercise. Continuous monitoring and reviewing are crucial for the success of one's risk management approach. Such monitoring ensures that risks are correctly identified and assessed and appropriate controls put in place. It is also a way to learn from experience and make improvements to an entrepreneur's risk management approach (Dorfman, 2008; Rejda, 2007).

2.9 Insurance as a Risk Management Tool

Insurance is one of the solutions to the problem of risk financing. It is the transfer of potential losses by business owners, individuals and families to an insurance pool and the redistribution of costs of losses among policy holders of the pool (Dorfman, 2008).

In law and economics, insurance is a form of risk management primarily used to hedge against the risk of contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. Insurance coverage is an association's first line of defence in risk management. Being underinsured can mean disaster, while duplicate coverage wastes dollars better spent elsewhere. "To the extent that a single catastrophe or lawsuit can potentially put an association out of business, insurance is a significant priority, a must-do," said, Jim Dunn.

This view is supported by Valsamakis, Vivian and Du Toit, (2005). Insurance represents an important method of meeting the financial consequences of risk. It has been traditionally defined as the business of transforming event (insurable) risks by means of two-party contract. Insurance provides a mechanism for the transfer of the cost of risk rather than the transfer of risk.

Insurance contract is a contract in which a party purchases the right to be indemnified by another party for insured losses. Insurance companies are risk transformers. Insurance companies supply financial innovations to their customers that allow the insureds to transform their risks (Culp, 2001).

Insurance is vital to a free enterprise economy. It protects society from the consequences of financial loss resulting from mishaps to life and property. The person seeking to transfer risk, the insured, pays a relatively small amount, called premium, to the insurer, which issues an insurance policy in which the insurer agrees to reimburse the insured for any losses covered by the policy. It is the process of spreading the risk of economic loss among as many as possible subject to the same kind of risk and is based on the laws of probability and large numbers. There are many perils that society faces, these are: earthquakes, hurricanes, tornados, flood, drought, arson, theft, fraud, vandalism, contamination, pollution, terrorism. Insurers are able to provide coverage for virtually any predictable loss. One of the smartest moves any business owner can make is having the appropriate kinds of insurance. Not only does this protect cost of business assets from risks that could very well reduce them to nothing if a catastrophe struck, it also safeguards cost of personal assets, which are often on the line, from a liability point of view (Siegel & Yacht, 2010)

2.10 SMEs Insurance, the Perspectives

Studies conducted in Australia showed that the rate of Small and Medium business failure was reduced by the business having insurance covers. With modern business insurance, the policyholder was better off. Cover was available with reinstatement conditions. In layman's terms, this meant "new for old". Therefore, the business suffering the loss had compensation, not for the written down or market value of their building, machinery and plant, and other contents, but rather the cost of replacing the item with new property (Manning and Allan, 2004).

The monetary value and benefit to the business owner could be substantially different. After the loss, the business would have all new assets. These assets were often more efficient or required less maintenance than the property destroyed. Subject to adequate cover, the major benefit of course was that the business did not have to be re-financed to purchase a new property when it was lost as the "new for old" cover provided the additional funds to meet those costs (Manning and Allan, 2004).

The modern insurance policy went further to provide an additional cover under the extra costs of reinstatement memorandum. This cover protected policy holders from additional costs incurred to build the premises, and any plant and equipment up to the standards required by the current building, local government, environmental protection agencies, worker cover, fire brigade or state and federal government regulations. The benefit of the modern insurance policy in Australia did not stop at the property loss which was referred to as the material damage cover. It also covered the loss of profit sustained by the business. This is known as Business Interruption, Consequential Loss or loss or profits insurance (Manning and Allan, 2004). With this cover providing significant additional benefits, the business assets, although damaged, should be able to be put back with no financial loss to the business owner. In fact, on paper, the business should be better off with buildings and equipment upgraded to modern equipment. The reality is that some businesses survive the fire or loss and some businesses do not.

However, a survey of SMEs by the Insurance Council (Woolcott, 2008) revealed the following: the survey found that 25.6% of small businesses do not have any form of general insurance; Sole traders have the highest rate of non-insurance with 40.0% of those sampled indicating they had no general insurance; Small businesses with 1-4 employees and 5-10 employees both had a rate of non-insurance around 21.0% while small businesses with 11-19 employees had the lowest rate of non-insurance at 16.7%.

Studies were also carried out in the United Kingdom that illustrated that it was possible for a business relationship to be forged between SMEs and insurance companies. Most SMEs had a tendency not to insure their businesses which became a problem. They needed to ensure that their business was kept running in the event that their key personnel who were usually the owner of the business was unavailable due to one reason or another (Thorpe, 2004).

The review of the theory undertaken showed that there was little or no research undertaken on insurance companies and SMEs, with past research predominantly concentrating on large organizations. Manning (2004), in his research entitled "Strategic Management of Crises in Small and Medium Businesses" provided a model for the management of crisis particularly for SMEs. The Crisis management Model for SMEs was aimed at assisting owners or managers of SMEs to minimise the risk associated with losses caused by disasters. This model addressed the need for adequate insurance cover by SMEs and the need for business recovery plans for SMEs. The model aimed at assisting SMEs on how to manage their business in times of crisis. A research conducted into the business protection market aimed at what the level of insurance businesses hold, what types of insurance they believed were important and what insurable risk would have the largest impact on their business, should it occur. The findings from the research highlighted the need for protection in whatever type of business. Business relationships were valuable long-term assets of a company. It was necessary to invest in such relationships and to manage this investment to ensure their repeat businesses. Getting a customer or a supplier to come back over and over again was a challenge for businesses that operated in a competitive environment. Trust, which was an important informal safe-guard, was developed on the basis of personal contacts and confidence in performance. In such a close relationship fluid communications and information flows were essential for implementing long-lasting relationships (Claro, 2004). This substantiated the need for a business relationship between SMEs and insurance companies, as a relationship of that nature could be beneficial for both parties involved. In business-to-business relationships, firms usually customise products and services more than in business to customer relationships. For that reason, prices were seldom standardised, and calculated for each customer individually.

A business relationship between SMEs and insurance companies was possible to enhance security and business continuity.

In Nigeria, there was the collapse of several promising SMEs and other business concerns in the business landscape in the past four decades. This had been attributed to lack of awareness of business owners. The need to strengthen their risk-taking ability and long-term sustenance of their enterprise through adequate and appropriate insurance coverage for their investment was evident (Saghana, 2009).

Insurance provides one of the most important means for small firms to transfer business risks. A sound insurance program was imperative for the proper protection of a small business. Many small firms carried insufficient insurance protection. This was a fact that the entrepreneur often came to realise only after a major loss (Longenecker et al. 2003).

A review of United Kingdom and Australia showed evidence of insurance and its prospects to the entrepreneurs and other stakeholders; despite the discouraging revelations in Australia (Woolcott, 2008). The case of Nigeria was a replica of the situation in Ghana. As such, the need to let SMEs and insurance companies appreciate the relevance to develop closer business relationships to enhance economic development through the management of insurable risks was supreme. The absence of appropriate insurance for transferable business risks caused a lot of SMEs to fold up due to no compensation or inadequate compensation in Ghana and the developing economies.

CHAPTER THREE

METHODOLOGY

3.1 Overview

This chapter discussed the methods employed in collecting data for the study. Specifically, it considered the research design, data collection instrument, population, sample size, sampling procedure, data collection and analysis. It included qualitative and quantitative research regarding the objectives of the dissertation. Limitations of the research encountered by the researcher in the course of the study have been stated.

3.2 Research Design and Data Collection Instrument

The study was descriptive, in that it was conducted to determine and describe the variables that affected risk management by SMEs and the related insurance policies to mitigate risk. The survey involved the collection of data using questionnaire and observation.

Mainly, this study made use of one research instrument designed specifically for the population targeted and complemented by observation. The data collection instruments were a set of questionnaire as in appendix 2. The questionnaires were administered to owners/managers of SMEs and mangers of insurance companies in the Tamale Metropolitan Area. The questionnaires were chosen because: they enabled a broader survey of the population, they were less stressful than one on one interview, people were more willing to be truthful because their anonymity was guaranteed, and they were easier to analyse.

However, the limitations associated with the technique were that: they did not allow the researcher to interact fairly with respondents. The questionnaire were both self administered and with the assistance of two other personnel; the researcher had a chance to interact with some of the respondents. They were also limited in the depth to which the researcher was able to probe any particular respondent and did not allow for any digression from the set format (Hofstee, 2006; Fisher, 2004). The questionnaires were however designed to deal with the weaknesses.

3.2.1 Questionnaire

The questionnaires were conducted by the researcher and with the assistance of two other persons to collect data from the owners or managers of SMEs and managers of insurance service providers. The questionnaires were structured as appendix 1. The questionnaire contained sections “A” to “C”.

3.2.2 Pre-testing of the Research Instrument

The questionnaire were pre-tested among a sample of 15 selected respondents to check for glitches in wording of questionnaire, ambiguity of instructions, and to avoid anything that could obstruct the instrument's ability to gather data in an economical and systematic manner for the attainment of the research objectives.

3.3 Population and Sample Size

The population of the study comprised over four hundred (400) SMEs in Tamale Metropolis (Domestic Tax Revenue Division of Ghana Revenue Authority, 2011). Though, there was no registered list of SMEs within the Metropolis with the Registrar General Department; a few lists of registered enterprises were obtained from National Board for Small Scale Industries (NBSSI) and Business Advisory Centre (BAC). The registered businesses were said to have obtained some credit facilities from the respective bodies. The exact population of SMEs in

Tamale Metropolis was unknown. However, 76 Micro/Small Enterprises, 95 Medium Enterprises were sampled. In addition, all the 13 Non-life Insurance companies in the Metropolis formed part of the respondents to determine the level of patronage by SMEs. The total sample size was 184 respondents. A cluster sampling of 4 small scale businesses, 5 medium scale businesses were taken from each sample; central, south and north constituencies respectively. This clustering was done because the researcher intended to ensure that all sections of the Metropolis were covered. The three constituencies comprised of the following towns: Tamale Central, 9(nine) sample towns; Tamale South, 5(five) sample towns; and Tamale North, 5(five) sample towns. The following were the communities/towns that were purposively sampled: Dakpema, Zogbeli, Worizehi, Gumbihini, Tishiegu, choggu, Changle, Kukuo, Vittin, Kakpayili, Nyohini, Lamashegu, Buipela, Gurugu, Kalpohin, Gumani, Kanvili, Jisonayili and Sakasaka. All the insurance companies could be located in Tamale central constituency which housed the central business district.

Table 3.1 An illustration of the population of the study, sample units, sampled elements, actual sample size for the questionnaire and the number of questionnaire returned for the study

A. Population of Study

SMEs and Insurance providers in Tamale Metropolitan Area

↓

B. Sample Units

SMEs and Non-Life Insurance providers operating within towns of the 3(three) constituencies

↓

C. Sample Elements

Owners/Managers of SMEs and all Managers of Insurance providers within the selected towns.

↓

D. Actual Sample Size

184(One Hundred And Eighty Four) Respondents

↓

E. Number of Returned Questionnaire for analysis

184

Source: researcher's own construction, 2011, unpublished.

3.4 Sampling Technique

In a sample, each population element was selected individually, (Cooper and Schindler, 2003). The researcher divided the population into clusters for random sampling. The aim of probability sampling was to obtain a subset of a population that was representative of the population. The procedure was useful for the researcher who had little or no knowledge about the population that might be dealt with to avoid any bias.

Following from above, the technique was via cluster sampling. The significance of this was that it provided suitability for the study due to heterogeneity between subgroups and homogeneity within subgroups. The SMEs were sampled into clusters according to the number of employees as this was consistent with the classification of SMEs per the GSS definition. The different clusters had SMEs that had the same number of employees as one cluster, one cluster contained small businesses and the other had medium sized businesses as illustrated:

Table 3.2: Classifications of SMEs Using Headcount

FORM	Employees
Micro/Small	1 – 9
Medium/large	9+

Source: GSS in Kayanula and Quartey, 2000.

3.5 Data Preparation for Analysis

Questionnaire returned were prepared for analysis. The process involved editing, handling blank responses, coding, and processing for analysis, interpretation and presentation (Fisher, 2010).

3.6 Data Analysis

Descriptive statistics such as frequency counts, cross tabulation, graphs and percentages were used to summarize and describe variables in the sample. The data was analysed by the researcher. The statistical package SPSS was made use of for the analysis of graphs.

Descriptive statistics condensed the large volumes of data into summary measures.

3.7 Limitations

Given limited time and financial constraints of the researcher thorough follow ups were made to ensure extensive recovery of the questionnaire for the research. There were undue delays in getting responses on time due to the schedule of work, especially owners. Again, some of the respondents (illiterates) had their questionnaire read to them with the help of an interpreter before they could respond. Some respondents were apprehensive about Question 10 (appendix 2). It was stressful combing work, social responsibilities, studies and the research.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter dealt with the analysis of data from respondents on the research. It was purely from field survey. This section presented information per appendices one (1) and two (2).

4.2 Types of Business, Ownership and their Size

Business information were analysed in their fields. First, according to the sector in which they operated and then according to their size.

Table 4.2.1: Sectoral involvement of SMEs

Business sector	Frequency	Percentage (%)
Education (private)	-	-
Health (private)	8	4.7
Retailers	80	46.8
Micro finance	2	1.2
Hospitality	12	7
Internet service providers	4	2.3
Washing bays	3	1.8
Artisans	51	29.8
Other	11	6.4
Total	**171**	**100**

Source: Researcher's computation from field survey, 2011

Table 4.2.1 of the study revealed that the largest type of business in the Tamale Metropolitan Area is the retail business. This category of business constituted 46.8%, followed by artisans with 29.8%, and the hospitality sector with 7%. It further indicated that 4.7% was made of private health service providers; 2.3% was made up of internet service providers; washing bay comprised of 1.8%; micro finance 1.2%; while other forms of businesses was made up of 6.4%. At the period of data collection, all schools were on Easter break and so no responses were obtained from that sector.

4.2.2 Classification of Business

Businesses were classified according to size and ownership / management.

Figure 4.1: Classification of business size

Source: Researcher's illustration from field survey, 2011

From figure 4.1 above, the study indicated that 72% was made of small scale businesses and 28% medium/large scale businesses within the Metropolis that responded to the questionnaire. The information attested to the fact that the small scale sector has the greatest potential of providing jobs to the youth and others in the informal sector of the economy when given the needed support than the formal sector.

Following from above, 60% of valid respondents comprised owners of SMEs; 21% were supervisors; 12% were managers and 7% were only partners. The research indicated that most SMEs were managed by their owners which presupposed that the owners of SMEs were more likely to take business recovery decisions independently.

4.2.3 Type and Locations of Business in Tamale Metropolis

The locations of businesses were considered under the three constituencies in the Metropolis as indicated on the table below.

Table 4.2.2: Business location

Constituency	Frequency	Percentage (%)	Valid Percentage (%)
Tamale South	41	24	24
Tamale Central	92	53.8	54
Tamale North	37	21.6	22
Valid Total	170	99.4	100
Not indicated	1	0.6	
Total	171	100	

Source: Researcher's computation from field survey, 2011

In respect of table 4.2.2 above, the location of respondents comprised: 54% of towns from Tamale Central Constituency, 24% of towns from Tamale South Constituency and 22% of towns from Tamale North Constituency. Tamale Central Constituency had more businesses than the other two. The use of the constituencies was to afford the researcher the opportunity to analyse if possible the types of businesses by location and how if possible that affected their business risk disposition and likelihood of patronising insurance policy.

4.2.5 Registration of Businesses

The study sought to obtain information on the number of registered businesses that were legally operating in the Metropolis since data was not readily available from the Registrar General Department.

Table 4.3: Institution of Registered SMEs

Organization	Frequency	Percentage%	Valid percentage%
National Board for Small Scale Industry	1	0.58	1
Registrar General Department	74	43.27	70
Micro-finance and Small Loan Centre	2	1.17	2
Other	29	16.96	27
Valid Total	**106**	**61.98**	**100**
Non response	65	38.01	
Total	**171**	**100**	

Source: Researcher's computation from field survey, 2011

Table 4.3 above shows that 70% of valid responses of SMEs were duly registered with the Registrar General Department; 2% and 1% registered with MASLOC and NBSSI respectively. 27% of SMEs registered with other institutions and those institutions among others included the District Assembly, Domestic Revenue Authority, Membership Associations of business units and the Tourist Board. SMEs that registered with bodies other than Registrar General Department, obtained: Financial assistance to support their businesses; business operation permit from the Assembly; tax stamp from IRS, permit from Ghana Tourist board (i.e. Hospitality industry) and recognition from membership associations.

4.3 Analysis of Risk Management

This section analysed the risks that businesses face in Tamale Metropolis.

Table 4.4: Risks that Businesses face in Tamale Metropolis

Risk Type	Frequency	Percentage (%)	Valid Percentage (%)
Fire and Allied perils	35	20.5	21
Burglary and Theft	33	19.3	20
Accident and Injury	16	9.3	10
Fire and Allied perils and burglary and theft,	29	17	18
Other	51	29.8	31
Valid Total	**164**	**95.9**	**100**
Non response	7	4.1	
Total	**171**	**100**	

Source: Researcher's computation from field survey, 2011

From table 4.4 above, 21% of valid respondents were exposed to fire and allied perils; 20% were exposed to burglary and theft; 18% were exposed to burglary, theft, fire and allied perils; while 10% were exposed to accident and injury and 31% represented other that stated particularly speculative risks which were influenced by market conditions. The table reflects that more SMEs were likely to experience fire and allied perils that could affect gravely their business capital and profits. The recent fire outbreaks in the markets such as Kantamanto, Makola both in Accra and Asafo market in Kumasi with some enterprises in Tamale such as Gariba Lodge and Total Supplies attested to the high level of business exposures to fire and allied perils that affect property and liability. The stated risk could be categorised into Property Risk, Liability Risk, Income Risk and Personal Risk, as acknowledged by the respondents that they affect negatively their incomes, property, business image, litigation, and socioeconomic livelihood. All 12 but 1 insurance companies' managers stated the same as above, but added bonds with the exception of speculative risk.

4.4 Management of Business Risks by Entrepreneurs of SMEs

This sought to ascertain the management of risk(s) among SMEs in the Metropolis.

Table 4.4.1: The Use of Insurance as a Risk Mitigating Tool

Responses	Frequency	Percentage (%)	Valid Percentage (%)
Strongly Agree	14	8.2	8
Agree	118	69	70
Neutral	33	19.3	20
Disagree	4	2.3	2
Strongly Disagree	-	-	-
Valid Total	169	98.8	100
Non response	2	1.2	
Total	171	100	

Source: Researcher's computation from field survey

From table 4.4.1 above, 70% of the valid respondents agreed and 8% strongly agreed that insurance was a tool for mitigating business risk(s). It was conclusive that more than 70% of the respondents had a positive opinion about insurance as a tool for managing risks. Managers of insurance service providers responded in the affirmative, "yes"; indicating the need to possess insurance policies by business operators. Paradoxically, 78% of valid respondents did not use insurance as a tool for managing business risk(s) (Table 4.4.2). Service providers asserted that the level of patronage was low and indicated that of those SMEs that insure, in most cases they under insure. The legislated Insurance Act, 2006 was not duly enforced and so most entrepreneurs resorted to risk acceptance as a management mechanism (table 4.4.2) despite its uneconomical implications. Of the 78% who do not use insurance to manage risk(s), 83% of valid respondents adopted risk(s) acceptance; 5% adopted risk reduction and 1% avoided risk(s).

Table 4.4.2: Other Business risk(s) management tools

Other Means	Frequency	Percentage (%)	Valid Percentage (%)
Risk Avoidance	1	0.6	1
Risk Reduction	6	3.5	5
Risk Elimination	-	-	-
Risk Acceptance	111	64.9	83
Other	15	8.8	11
Valid Total	133	77.8	100
Non Response	38	22.2	
Total	171	100	

Source: Researcher's computation from field survey, 2011

Following from above, a relationship between educational level of entrepreneurs and insurance usage that connoted the irony of the management of business risk(s) regarding insurance was illustrated as below. From table 4.4.3, the study revealed that majority of owners obtained Secondary school and Tertiary education respectively; with marginal figures representing College, Primary and Other. Again, the table presented a discouraging relationship between the educational level of owners and its influence on the choice of using insurance. Apart from the college level entrepreneurs that had 75% positive response and except others, the rest had less than 25% "yes" response. Rather, secondary and tertiary levels respectively had 79.6%

and 78.6% negative response to using insurance to manage business risk(s). Overall, 78% against 21% do not use insurance. Majority of owners/managers of SMEs who had obtained secondary and Tertiary educational levels, respectively were thought to be better informed to know the hazards that negatively affected business profits and to adopt pragmatic insurable measures to combat such hazards that manifested into losses. The reason for that outcome could be linked to the following: the non experience of a risk, low level of vulnerability, the negative perception about insurance and the risk acceptance attitude.

Table 4.4.3: Relationship between Educational Levels of Entrepreneurs and Insurance Usage

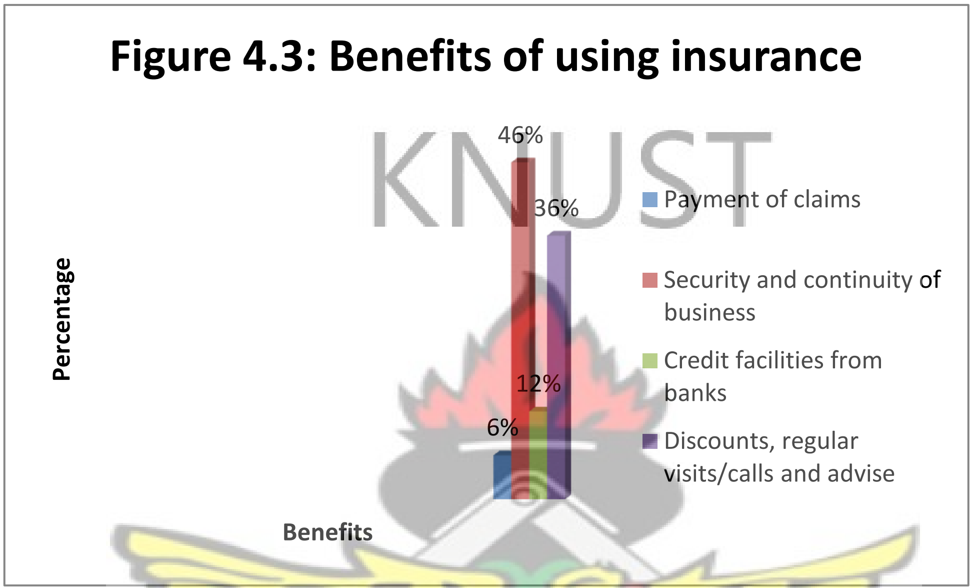
Level of Education		Non Response	Insurance Usage by Owners		Total
			Yes	No	
Primary	frequency,		1	8	9
	percentage		11%	89%	100%
Secondary	frequency	1	20	82	103
	percentage	1%	19.4%	79.6%	100%
College	frequency		3	1	4
	percentage		75%	25%	100%
Tertiary	frequency	1	9	33	42
	percentage	2.38%	19.05%	78.57%	100%
Other	frequency		4	9	13
	percentage		31%	69%	100%
Total	frequency	2	36	133	171
	Percentage	1%	21%	78%	100%

Source: Researcher's computation from field survey

However, the above relationship could only be influenced positively if owners of SMEs required loans from banks that demanded insurance on their collateral as a pre-requisite to the approval of a credit facility. Unfortunately, most of those compelled under the circumstance did not renew their policy covers when they expired.

4.5 Benefits of Insurance

The researcher sought to obtain from respondents the benefits that they have had for taking the appropriate insurance covers.

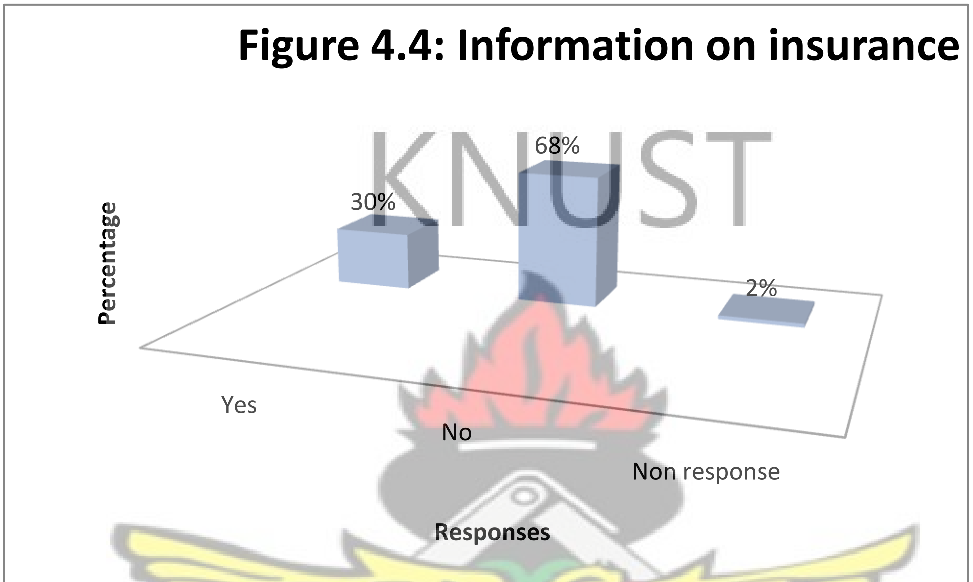


Source: Researcher's illustration from field survey

Figure 4.3 revealed the following statistics: thirty three (33) respondents to the above theme representing 19% indicated that they benefited variously from insurance policies and companies. Of the respondents, 6% benefited from claim settlement by insurers, 46% benefited from security and business continuity in the events of mishaps to their businesses, 12% were supported obtain credit facilities from financial institutions and 36% gained discounts on premiums, souvenirs, regular visits, call from some insurers and prudent business advise. In addition, they benefited from professional advise on due diligence and how to manage stock updates for safety of assets and investments.

4.6 Information on Insurance

The level of patronage of insurance might depend on the level of information available to owners/managers of SMEs on the need to select the appropriate insurance policies.



Source: Researcher's illustration from field survey

From figure 4.4 above, 68% of respondents answered in the negative, while only 30% responded positively to having enough information to choose appropriate insurance policy or policies. This was in conformity with table 4.4.3. The low level of insurance patronage might be due to information asymmetry and other associated factors.

4.6.1 Awareness of Compulsory Insurance

The level of awareness of the insurance Act was to drum home the legal need to have property and liability insurance to enhance the level of response and patronage.

Table 4.5: Awareness level of compulsory fire and liability insurance

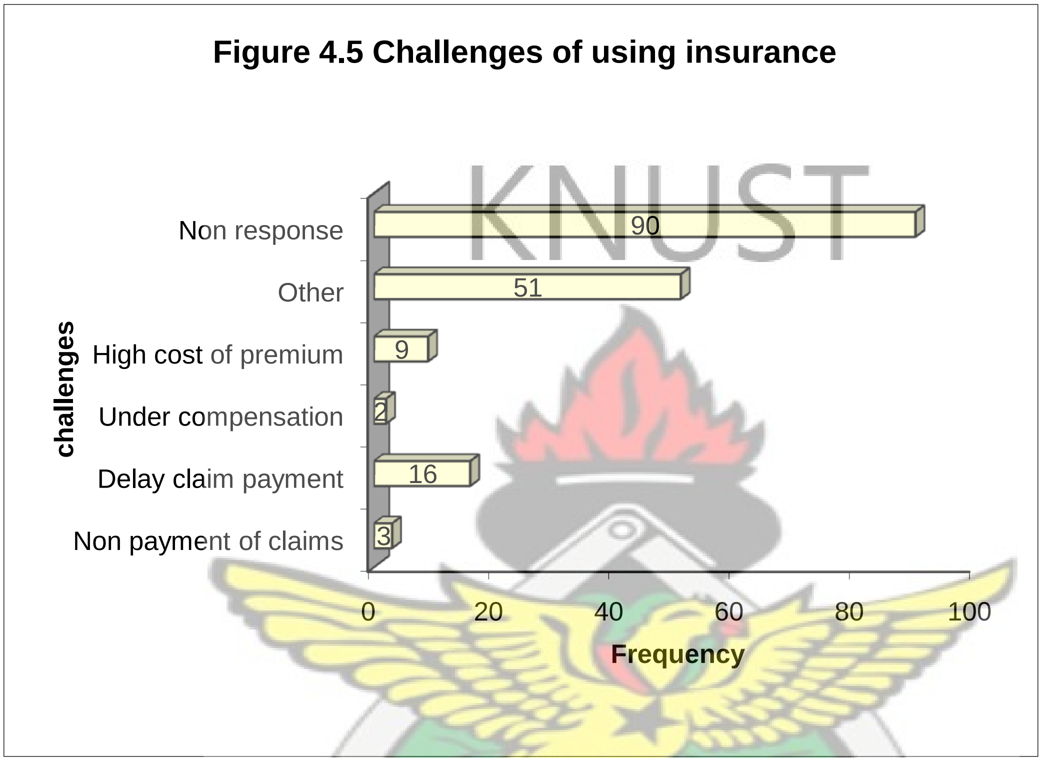
Response	Frequency	Percentage (%)	Valid Percentage (%)
Yes	56	33	34
No	107	62	66
Total	163	95	100
Non Response	8	5	
Total	171	100	

Source: Researcher's computation from field survey

Table 4.5 above, illustrated that less than 35% valid respondents were aware of the mandated fire and liability insurance enacted in 2006, Act 724, sections 183 and 184. The situation called for the industry players to team up with the appropriate agencies, especially the regulatory body to enhance its education and significance.

4.7 Challenges of Businesses Using Insurance

This sought to ascertain the challenges that SMEs were likely to face with insurance companies.



Source: Researcher's illustration from field survey

From figure 4.5 above, of the total respondents of 81, representing 47% of sample size of SMEs: 3 indicated non-payment of claims: 16 indicated delay claim payment; 2 indicated under compensation of claim; 9 acknowledged high cost of premium; and, 51 other stated delayed renewal notice and policy delivery. However, service providers in the industry thought otherwise and stated that appropriate compensations were paid to claimants who had appropriate insurance covers. Again, considering the risk factors that surround the business environment premiums were such charged appropriately.

4.8 Suggested Solutions to Challenges to Using Insurance

The respondents were asked to suggest solutions to problems that they encountered with their insurers in terms of service delivery.

Table 4.6 Solutions to Challenges

Response	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Insurance education	79	46	61	61
Prompt claims settlement	27	16	21	82
Stable and affordable premiums	11	6.4	8	90
Enforce insurance law	1	0.6	1	91
Other	12	7	9	100
Total	130	76	100	
Non response	41	24		
Total	171	100		

Source: Researcher's computation from field survey

From table 4.6 above, 61% of the valid respondents representing the majority applauded insurance education to be enhanced. 21% advocated prompt payment of claims. 8% indicated that the cost of insurance should be made affordable and reliable. 1% called for the enforcement of the insurance law; while 9% representing other appealed to insurance companies to provide loans to SMEs.

CHAPTER FIVE

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the findings and conclusions arrived at in the research. It also dealt with suggestions/recommendations based on the study.

5.2 Summary of Findings

The following were the findings obtained from the survey.

The study showed that businesses were exposed to the following business risks: Fire and allied perils, Burglary and theft, Accident and injury that affected their business operations. These were variously classified by the findings as property and liability risk, income risk and personal risks respectively.

Given the paradox, the study showed that, 78% of valid respondents expressed their opinions in favour of insurance as a tool for mitigating business risk(s); the level of insurance patronage was relatively low in the Metropolis. The majority adopted risk acceptance as a form of managing business risk.

The research revealed the following as benefits derived from using insurance as a risk mitigating tool: payment of claims for insured risk(s) for business recovery, provision of security and peace of mind, provision of renewal premium discounts, regular visits to clients by some insurers, provision of aid to facilitating credit facilities from banks at moderate interest rates and professional advise on due diligence.

The study found the following as some challenges that insured SMEs faced using insurance: delay in claim settlement due to bureaucratic process, incomplete compensation to SME claimants, high cost of risk transfer (i.e. high premiums), late delivery of renewal notices, technical and complex terms of reference with hidden contractual clauses and short circuiting of information and education from agents.

Recommended solutions from the study were identified as follows: enhancement of insurance education, prompt payment of claims, affordable or stable premiums charges for appropriate risk(s).

Furthermore, the research showed that SMEs did not have appropriate insurance covers to manage their risk(s). Of those who insured, many under insured to pay less premiums.

Again, the work showed that the awareness level of the compulsory fire and liability insurance section in the insurance Act, 2006 was marginal. Many SMEs were not familiar and only got informed during the survey. This act was not enforced; that could have also accounted for the inadequacies of their risk recovery response.

The findings revealed that most SMEs demanded insurance for stock in trade and mortgage only when required by financial institutions as a pre-requisite to loan approval and disbursement. However, a few were compelled by a partner company to buy insurance.

5.3 Conclusions

In conclusion, the study generally revealed that: business risk(s) exposures were identified and classified under three main themes; the level of insurance patronage was relatively low; however, insureds businesses derived various benefits under the insurance covers. The insureds also encountered some challenges, but made some suggestions to help overcome those problems.

5.4 Suggestions/Recommendations

The best ingredient is to engage SMEs and Insurance companies as well as insurance intermediaries to encourage motivating business rapports where SMEs can easily have access to risk management information and insurance policy covers discussed to avert any unforeseen business operational calamities such as what occurred at the Western Steel and Forging Ltd in Tema (Daily Graphic, Tuesday April 26, 2011; page 33).

Furthermore, an improved and monitored decentralised claim settlement system be incorporated to reduce the high level of bureaucracy and delays involved in claims processing by insurance companies.

An enforcement of the fire and liability insurance will have positive externalities on businesses and the economy at large. There will be increased comprehensive protection for SMEs and large businesses; premium income of the insurance industry will increase; tax revenue to government will increase; there will be an increase in corporate social responsibility offered to communities; employment level will be enhanced; and it will help increase and sustain the capitalization level of the insurance industry.

Entrepreneurs of SMEs require to be educated on the need to have insurance and appropriate insurance to recover business losses associated with their operations. The need for periodic workshops to be organized by industry players for SMEs is vital to explaining the cost of insurance and measures by SMEs to reduce insurance cost.

There is the need for SMEs to change their risk acceptance attitude to embrace insurance in other to avert using funds not allocated for business losses resulting from hazardous events. Failure to embrace insurance as a tool agreed by almost every SME may result in the business not being able to recover from crises. Such affects business reputation, survival and continuity or even the loss of customers thus affecting profit.

Given the features of SMEs, their risks vary and the ability to afford the cost of insurance might be a challenge. Full needs assessment is therefore required to design customer made/customized policies that best suit the needs of SMEs independently since there are different potentials in different sectors of their operations. With regards to premium payment, a payment plan could be designed for special needs of SMEs over a period.

The compulsory fire and liability insurance Act requires government and the umbrella body of insurance companies to enforce the laws as done for the motor traffic Act of 1985, (Act 42); and insurance stickers (certificate) designed for it.

General insurance companies may form strategic alliance with financial institutions to educate and provide SMEs insurance covers and payment channelled through the financial institutions that are least likely to default.

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APPENDICES

Appendix 1

Section A: Business Information

This section had both closed ended questions to gather information such as size of business, occupation, level of income, educational levels and type of business. Respondents were expected to tick the space containing the applicable response and to provide brief explanation to open ended questions. The rationale behind these questions was that it placed the results in a frame of reference and provided insight into the difference between educational levels and entrepreneurial response with regards to insurance policies.

Section B: Profile of Business Activities and Risk Management

Closed ended and open ended questions were be used to obtain data on the category of insurance policies that the business has purchased and to determine their level of response.

Section C: Views of SMEs Insurance by Insurance Providers

Again, a combination of closed ended and open ended questions were used to gather information from the branch managers of insurance companies to seek their viewpoints about the response of SMEs to insurance policies.

Particulars of respondent

Address:…………………………………………………………………………………………

Telephone Number...................................... Email Address...

Note: Your co-operation in completing this questionnaire is much appreciated.

Appendix 2

Serial No………………….

Questionnaire on Research Topic:

"Insurance, a Risk Management Tool; Evidence and Prospects, a Case Study in the Tamale Metropolis"

Purpose:

The researcher, John Aduko, is pursuing a graduate programme in Business Administration at Kwame Nkrumah University of Science Technology (KNUST). He is currently conducting a research into the above topic. He would appreciate it if you could assist with the completion of this questionnaire to enable him obtain the desired objectives of the research. The responses are solely for academic rationale. All information obtained would be kept in strict confidence.

General instruction: Please, tick the appropriate box to your answer with the mark (√); where demanded state or briefly explain.

SECTION A: BUSINESS PROFILE

Q1. What type of business sector do you engage in?

(a) Education (private schools) [ ]

(b) Health (private health facilities) [ ]

(c) Retailers [ ]

(d) Micro finance [ ]

(e) Hospitality industry [ ]

(f) Internet service providers [ ]

(g) Washing-Bay [ ]

(h) Artisans [ ]

(i)Any other, specify…………………………………………………………….……

Q2.How do you classify your business size?

(a) Small [ ]

(b) Medium [ ]

Q3. Which part in Tamale is your business located?

(a) Tamale North [ ]

(b)Tamale South [ ]

(c)Tamale Central [ ]

Q4. What is your position in this business?

(a) Owner [ ]

(b) Partner [ ]

(c) Supervisor [ ]

(d) Any other, specify..………………………………………………………….…………

Q5. Is your business registered?

(a) Yes [ ]

(b) No [ ]

Q6. If you answered "No" to question 5, please give reasons…………………………………...

Q7.Which of the following organizations is your business registered with?

(a) National Board for Small Scale Industry

(b) Registrar General Department

(c) Micro-finance and Small Loans Centre

(d) Any other, Specify……………………………………………………………………….

Q8. What is the level of your education?

(a) Primary [ ]

(b) Secondary [ ]

(c) College [ ]

(d) Tertiary [ ]

(e) Any other, specify ………………………………………………………………………

Q9. How many people do you currently employ?

(a) 1-9 [ ]

(b) 10-29 [ ]

(c) 30-100+ [ ]

Q10. On average, what approximately is your business turnover per month?

Ans.:……………………………………………………………………………………………

SECTION B.: RISK MANAGEMENT

Q11. What business risk(s) or business risk(s) does your business face?

Ans.:……………………………………………………………………………………………

Q12. Insurance is a tool for managing business risk(s). State your opinion in one of the following.

(a) Strongly agree [ ]

(b) Agree [ ]

(c) Neutral [ ]

(d) Disagree [ ]

(e) Strongly disagree [ ]

Q13. Does your business use insurance to mitigate pure risks?

(a) Yes [ ]

(b) No [ ]

Q14. How do you manage your risk(s) if you do not use insurance?

Ans.:……………………………………………………………………………………………….

Q15. What benefits do you derived from insurance?

Ans.:…………………………………………………………………………………………………

Q16. Which category of risk exposure is your business to?

(a)Property risk [ ]

(b)Liability risk [ ]

(c)Income risk [ ]

(d)Personal risk [ ]

(e)All of the above [ ]

Q17. Does your business have insurance covering the stated category of risk(s) in Question 16 above?

(a) Yes [ ]

(b) No [ ]

Q18. Does insurance contribute to your business security and continuity?

(a) Yes [ ]

(b) No [ ]

Q19. What is your confidence level of surviving a loss if you answered "Yes" to question 18?

(a) Very high [ ]

(b) High [ ]

(c) Neutral [ ]

(d) Low [ ]

(e) Very low [ ]

Q20. Do you have enough information to choose the appropriate insurance for your business?

(a) Yes [ ]

(b)No [ ]

Q21. If you answered "No" to question 20, please give reasons for your answer.

Ans.;……………………………………………………………………………………………

Q22. Are you aware of the compulsory fire and liability insurance for all commercial buildings?

(a)Yes [ ]

(b)No [ ]

Q23.What challenges do you or are you likely to encounter using insurance as a risk mitigation instrument?

Ans.:…………………………………………………………………………………………………

Q24. What possible solutions can you suggest to overcome the challenges?

Ans.:…………………………………………………………………………………………………

SECTION C: SMEs & INSURANCE

Q25. What business risks exist for SMEs?

Ans.:…………………………………………………………………………………………………

Q26. Do you think that it is important for SMEs to protect their businesses?

(a)Yes [ ]

(b) No [ ]

Q27. How will you rate the patronage of insurance by SMEs in the Metropolis?

(a) Very high [ ]

(b) High [ ]

(c) Neutral [ ]

(d) Low [ ]

(e) Very low [ ]

Q28.Do SMEs have appropriate Insurance cover(s) to protect their business risk?

(a)Yes [ ]

(b)No [ ]

Q29. Are SMEs informed to patronize the appropriate insurance for their businesses?

(a) Yes [ ]

(b) No [ ]

Q30. Do SMEs benefit from possessing appropriate insurance covers?

(a) Yes [ ]

(b) No [ ]

Q31. Please, briefly explain your answer to question 6.

Ans.:…………………………………………………………………………………………………

Q32.What is the category of business risks insured against for the past three years (2007-2010)?

Ans.:…………………………………………………………………………………………………

Q33. With reference to Q32, how many SMEs have your company insured for the period?

Ans.:…………………………………………………………………………………………………

Q34. What are the benefits that the SMEs have derived for the stated period in question 8?

Ans.:…………………………………………………………………………………………………

Q35. Is the fire and liability provision in the Insurance Act of 2006 enforced?

(a) Yes [ ]

(b) No [ ]

Q36.How do you rate SMEs reasons for taking insurance policies?

Reason	Very high	High	Neutral	Low	Very low
(a) A bank demands insurance on a collateral before it approves of a credit facility to the beneficiary					
(b) It is made mandatory by a partner/franchising company					
(c) They want to protect their business risk.					

(d) Any other, specify:……………………………………………………………………………