
The Relationship Between Risk Management and the Success of Small and Medium-Sized enterprises in Riyadh city

¹Ahlam Alotaibi, ²Majed Amari,³ Norah AlSubaie,⁴Mohammed Al Nasser, ⁵Mohammad Alduriweesh

[¹]Corresponding author ,Health administration specialist ,National Guard hospital, K.S.A.[²] Senior level business, Company, K.S.A [³] University lecturer ,Business college K.S.A [⁴]Entrepreneur , Company, K.S.A [⁵]Cybersecurity General Manager ,NCA. K.S.A

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ABSTRACT

Small and medium enterprises are often regarded as the foundation of economic and social development in developing nations, and there is no doubt that these initiatives face numerous economic, financial, and administrative risks. However the most significant of which are financial risks. To confront these financial risks must follow carefully considered strategies so that they can be developed and growth. To do so, it must have competent management that is focused on controlling various environmental risks in general and financial risks in particular. The objective of this paper is to discuss the role of financial risk management in the success of small and medium-sized enterprises in Riyadh . Finding a link between financial risks and their beneficial effects on small and medium-sized businesses' growth in Riyadh is the research problem. The paper seeks to comprehend this relationship In order to offer advice and risk-management solutions through a comprehensive literature review . The research also concentrated on the dimensions of financial risks represented by the following: -1- Inadequate financial liquidity.2- Inadequate treasury management .3- Inadequate financial planning.4- The risk of failing to repay loans and debts. The findings of the study will help to raise awareness of the importance of financial risk management in small and medium-sized businesses, as well as provide project owners with the knowledge and resources they need to achieve success and sustainable growth in Riyadh. In addition this paper will present and highlight the most important financial risks that small and medium enterprises will face when they begin, how to avoid these risks, and how to monitor and follow up on these risks for small and medium enterprises when carrying out their activities in order to improve the financial situation of small and medium enterprises in the city of Riyadh. The paper will also give ideas to assist small and medium-sized businesses in dealing with financial risks in order to stabilize and improve their performance and financial status in order to meet project objectives.

Keywords: Risk management, Small and medium-sized enterprises, Weak financial liquidity, Poor cash flow management, Weak financial planning, Risk of non-repayment of loans and debts

INTRODUCTION

Risk management and the success of small and medium-sized projects are crucial topics in the business arena in Riyadh. These projects are also of significant importance in supporting the local economy, providing new job opportunities, and enhancing economic development. However, these projects face various challenges that may impact their success, such as weak financial liquidity, poor financial planning, weak financial management, and the risk of failing to repay loans and debts.

In financial terms, risk is the anticipated direct damage to the economic activity associated with an economic unit. It may result from economic, natural, political events, or human actions. In the event of its occurrence, it leads to significant losses that may result in the discontinuation of the economic unit's operations and its exit from the market (The Oxford Illustrated Dictionary, 1989). It is also defined as the "possibility of deviation in the future, where the

desired outcomes differ from what is expected, or uncertainty about the financial outcome in the future. The economic individual makes decisions in the present based on the results of studying the natural phenomenon's behavior in the past" (Nashed, 1998).

It is worth noting that financial risk management is a crucial process for small and medium-sized projects, as it enhances the chances of success and continuity. By analyzing and evaluating potential financial risks, projects can take appropriate measures to mitigate the impacts of these risks and implement strategies to deal with them.

The purpose of the paper

The goal of this study is to analyze the role of financial risk management in the success of small and medium-sized businesses in Riyadh and to find a link between financial risks and their good effects on the growth of small and medium-sized firms in Riyadh. The purpose of this paper is to comprehend this relationship thorough literature review in order to provide advise and risk-management options.

The expected results of the study will contribute to enhancing awareness of the importance of financial risk management in small and medium-sized projects. Additionally, it aims to provide project owners with the knowledge and tools necessary to achieve success and sustainable growth in Riyadh.

RESEARCH OBJECTIVES

First Objective

To continuously assess the financial risks faced by small and medium-sized projects in Riyadh and understand how they impact overall performance by

1. Defining financial risk management, including weak financial liquidity, poor cash flow management, weak financial planning, and the risk of non-repayment of loans and debts in small and medium-sized projects.
2. Measuring the impact of financial risk management, encompassing weak financial liquidity, poor cash flow management, weak financial planning, and the risk of non-repayment of loans and debts, on the profitability of small and medium-sized projects.

Second Objective

To identify the strategies adopted by these projects in confronting risks and evaluate them to ensure the success of the project in achieving its objectives.

SIGNIFICANCE OF THE RESEARCH

The significance of this research becomes evident in studying the importance and role of financial risk management in the success of small and medium-sized projects. Many projects commence without considering the importance of financial risk management and studying the financial situation and capabilities of emerging projects.

This research will shed light on the crucial financial risks that small and medium-sized projects may face at their inception and how to mitigate these risks. It will also explore methods for monitoring and managing these risks for small and medium-sized projects during their operations to enhance their financial standing in Riyadh. Furthermore, the research will provide recommendations to assist small and medium-sized projects in facing financial risks, helping them stabilize and improve their performance and financial position to achieve project goals.

THEORETICAL FRAMEWORK

Study of Al-Jaafari, Etal (2021) finds that Small and medium-sized projects in the Sabha region, Libya, face multiple financial risks. Another study by Younes Mia Ali, Etal (2023) revealed that the owners of small and medium-sized enterprises in the study area possess risk management skills to a high degree, with relative importance at 70.53%. Weak financial liquidity and the risk of loan repayment are among the forefront financial risks affecting small and medium-sized projects in the Sabha region, Libya. Al-Jaafari (2021). The study of Bathina Hassan, Etal (2023) aims to identify the impact of liquidity risk management on improving the profitability of small and medium-sized projects by applying it to the companies listed on the Egyptian Nile Stock Exchange which found that there is no significant impact of liquidity risk management on improving the profitability of small and medium-sized projects listed on the studied stock exchange. Small and medium-sized projects encounter various obstacles in implementing suitable strategies which led to the success of these projects . Al-Jaafari (2021).

Concept of Risk Management

In language, risk is defined as overseeing destruction and the fear of damage, indicating hesitation between the existence and non-existence of a matter (Al-Razi, 1986). In the specialized dictionaries, risk is described as a random phenomenon associated with an unpredictable future, unlike uncertainty related to an unpredictable future (Jaber, 2008, p. 79). Risks are defined as the uncertainty of a specific loss, measured based on personal estimation of outcomes arising from a particular situation (Salama, Etal, 2010). Risk management is the practice of attempting to manage the uncertainty that surrounds the objectives. The risk management process's goal is to ensure that these goals are met. Risk management's purpose is to produce and sustain value through risk control while being held accountable for the process. In the near term, risk management promotes transparency both within and outside of the organization by raising awareness of

potential, unexpected occurrences. Risk management will result in greater efficiency by minimizing losses, more predictable performance, and cheaper financing costs in the long term. This will eventually result in a higher overall valuation of the organization (D. van der Waal, 2017)

Types of Risks. To identify and develop strategic plans to monitor and address risks, it is essential to understand the classification of risks that small and medium-sized projects may encounter. The following points illustrate the most common types of risks faced by small and medium-sized projects (Yarub Hussein, 2007).

- a. **The financial risk :** encompasses cash flow, budgeting, tax obligations, and more. In financial terms, risk refers to the expected direct damage to an economic unit's activity due to economic, natural, political, or human-induced events. In case of its occurrence, it results in significant losses that may lead to the discontinuation of the economic unit's activity and its exit from the market (The Oxford Illustrated Dictionary, 1989). It is also defined as the "possibility of a deviation in the future, where the desired outcomes differ from what is expected, or uncertainty about the financial outcome in the future for a decision made by an economic agent in the present based on the study of the natural phenomenon's behavior in the past" (Anashid, 1998). It represents the risks that projects are likely to face, affecting their financial capability and performance in meeting financial commitments, managing debts, and consequently impacting their stability in the market and financial value.
- b. **Credit risk :** This refers to the threat faced by a project or business that impacts its market value and the value of its goods, leading to financial losses as a result.
- c. **Liquidity risk:** This results from the inability to execute financial transactions and meet financial commitments due to insufficient liquidity, leading to the necessity of selling assets to obtain additional cash flow.
- d. **Currency risk:** The fluctuation in the currency value in the country where the projects are based affects the value of goods.
- e. **Stakeholder management risks:** It involves facing challenges, establishing, and maintaining relationships with internal and external stakeholders.
- f. **Service delivery risks:** It includes the quality of service delivery, the manner in which it is provided, and the interaction after service delivery.
- g. **Technical risks/technology:** It includes the application of management, maintenance, and updating of the technologies used.
- h. **Risk Mitigation Strategies:** Strategies to reduce risks and their impacts include the use of indicators that indicate the likelihood of risk occurrence, predicting risks, and insurance solutions for recovering from risks (Al-Jaffari, 2010).

Concept of Small and Medium-Sized Enterprises (SMEs): *The concept of SMEs can be elucidated in various ways and classified based on capital, number of employees, sales volume, and products. The definition of SMEs varies from one country to another (Al-Douri, 2007). The criteria and indicators for defining SMEs have been formulated based on capital, number of employees, and sales value by the International Labor Organization. The definition of these enterprises is determined as follows (Al-Sehlawi, 2001) (Al-Baridi and Al-Touijri, 2022).* 1. *Very Small Enterprises (1-19 employees)* 2. *Small Enterprises (20-99 employees)* 3. *Medium-sized Enterprises (100-499 employees)* 4. *Large Enterprises (500 or more employees)* The Saudi Ministry of Commerce clarified the definitions for Micro, Small, and Medium-sized Enterprises (SMEs) as follows, based on the first meeting of the Board of Directors of the General Authority for Small and Medium Enterprises, as stated on the ministry's website (1438) • *Micro-sized enterprises are those with 1-5 employees or sales not exceeding 3 million Saudi Riyals.* • *Small enterprises are those with 5-49 employees or sales ranging from 3 million to 40 million Saudi Riyals.* • *Medium-sized enterprises include 50-249 employees or sales ranging from 40 million to 200 million Saudi Riyals.*

Concept of Treasury

The treasury is the cash inventory and the amount of ready cash available for use, resulting from the difference between working capital and capital needs. In other words, it represents the cash inflows and outflows associated with the projects' activities (Islam, 2021). The processes of managing cash flow and liquidity for projects, along with managing the necessary financing to enable projects to perform their functions and achieve their goals defines treasury management. This also practically involves managing assets and liquid assets that can be easily converted into cash, as well as managing cash liquidity, available cash, and the management of projects' receivables and obligations (Islam, 2021).

Concept of Loans and Debts

One of the most significant and primary challenges facing small and medium-sized projects is the issue of financing, especially in the early stages of these projects. They often rely on one or more of the following resources: (Roshan, 2022)

1. The financial resources saved personally.
2. Financial resources obtained from family members and personal relationships, commonly known as debts. These are commitments to be repaid after an agreed-upon period without additional interest.
3. Bank loans, which are financial liquidity obtained from banking institutions. They require financial guarantees, a specified repayment period, and additional financial interest on the liquidity amount. Financing small and medium-sized projects constitutes one of the financial risks faced by these projects in meeting the repayment obligations of debts and financial loans during their maturity periods, aiming to avoid financial defaults and delays in repayment. (Raqani and Ghanmi - 2022)

DISCUSSION

After reviewing literature review it appears that most of these studies addressed risk management in general, including a focus on liquidity risk management. These studies helped us identify the research gap, which was the lack of research studies addressing 'Financial Risk Management' and its impact on the success of small and medium-sized projects in 'Riyadh city.

Given the rapid growth in Riyadh and the increasing number of small and medium-sized projects, this research gap led us to form the theoretical framework and prepare for the current study. This study aims to investigate financial risks in general, with a specific focus on liquidity risks, poor treasury management, weak financial planning, and the risks associated with non-repayment of debts and loans. The study will explore the impact of these factors on small and medium-sized projects in Riyadh.

RECOMMENDATION

Based on the relationship between risk management and the success of small and medium-sized projects, there are some recommendations that can help enhance project success through effective risk management:

1. Analyze Potential Risks: Conduct an analysis of all potential risks that may affect your small project. Identify and assess the impact and likelihood of each risk.
2. Develop a Risk Management Plan: Based on the previous analysis, create a plan outlining how to deal with each identified risk. Specify the necessary steps to mitigate the impact and occurrence of potential risks.
3. Strong Supervision and Continuous Monitoring: Form a strong team to oversee risk management and monitor the implementation of the prepared plan. Ensure the existence of a continuous monitoring mechanism that identifies any changes in risks and takes necessary actions promptly.
4. Communication and Awareness: Raise awareness among the team about the importance of risk management and their role in it. Provide continuous guidance and awareness regarding risk analysis and coping plans.
5. Periodic Evaluation of Risk Management: Regularly assess the efficiency of implemented risk management and evaluate the effectiveness of adopted plans. Make necessary adjustments to improve the process.

In general, risk management can contribute to mitigating the impact of potential problems and increasing the chances of success for small and medium-sized projects.

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