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IMPACT OF RISK CONTROL IMPLEMENTATION ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) TRADING COMPANIES IN MALACCA

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SUPERVISOR'S APPROVAL

'I hereby acknowledge that I have read this works and in my opinion this works is sufficient interms of scope and quality for the submission and award of a Bachelor Degree of Technopreneurship with Honors'

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This Report is Submitted in Partial Fulfilment of Requirements for the Bachelor of Technopreneurship (Honours)

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DECLARATION OF ORIGINAL WORK

"I hereby declare that this thesis entitle "Impact of Risk Control Implementation on Financial Performance of Small and Medium-sized Enterprises (SMEs) Trading Companies in Malacca" is my own work except for the quotations summaries that have been duty acknowledged"

Signature :

Name : WAN AMIRUL ARIF BIN WAN ZAINUDIN

Date : ....

DEDICATION

I would like to dedicate this research to my beloved parents and my siblings and to my lecturer. Their unconditioned love and encouragement have allowed me to strive and push myself beyond limits that I never thought would be possible. With their support, I was able to complete this research paper smoothly. I will give this thesis as a special gift for my parents especially to my father and mother for their support, this also as feedback for what they have done for me during my whole life.

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ABSTRACT

The purpose of this research is to examine the impact of risk control implementation on financial performance of Small and Medium-sized Enterprises (SMEs) trading companies in Malacca. To attain the objective of this research, research question and four hypotheses are developed and tested. Thus, each hypothesis is measured accordingly and result obtain are subsequently. Besides, literature review are included in this research project to provide the truly impact on trading companies financial perfomance through implementation of risk control. Primary data were collected through survey questionnaire for this research and around 234 sets questionnaire were distributed to targeted respondent which are the management of trading companies, which include level occupations and educational level. In this research, descriptive, reliability, correlation and regression analysis has been used. As a result, the most significant significant risk control techniques (avoidance, loss prevention, loss reduction and segregation of exposures) that can effect to SMEs trading companies financial performance are loss reduction and avoidance. This research also proved the impact of risk control avoidance, loss prevention, loss reduction and segregation of exposures on financial performance of SME trading companies.

ABSTRAK

Tujuan kajian ini adalah untuk mengkaji kesan pelaksanaan kawalan risiko kepada prestasi kewangan Perusahaan Kecil dan Sederhana (PKS) syarikat-syarikat perdagangan di Melaka. Untuk mencapai objektif kajian ini, persoalan kajian dan empat hipotesis dibangunkan dan diuji. Oleh itu, setiap hipotesis diukur dengan sewajarnya dan kemudianya akan mendapatkan keputusan tersebut. Selain itu, kajian literatur adalah termasuk dalam projek penyelidikan ini untuk menyediakan kesan yang sebenar ke atas syarikat-syarikat perdagangan dalam prestasi kewangan melalui pelaksanaan kawalan risiko. Data primer diperolehi melalui borang soal kaji selidik untuk kajian ini dan lebih kurang 234 set soal selidik telah diedarkan kepada responden yang disasarkan yang tediri daripada bahagian pengurusan syarikat-syarikat perdagangan, termasuk peringkat pekerjaan dan tahap pendidikan. Dalam kajian ini, deskriptif, kebolehpercayaan, korelasi dan analisis regresi digunakan. Hasilnya, teknik yang paling ketara dalam kawalan risiko (pengelakan, pencegahan kehilangan, pengurangan kerugian dan pengasingan pendedahan) yang boleh memberi kesan kepada prestasi kewangan syarikat perdagangan PKS adalah pengurangan dan mengelakkan kerugian. Kajian ini juga membuktikan kesan mengelakkan kawalan risiko, pencegahan kehilangan, pengurangan kerugian dan pengasingan pendedahan terhadap prestasi kewangan syarikat- syarikat perdagangan PKS.

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LIST OF ABBREVIATIONS AND SYMBOLS

FYP	= Final Year Project
H0	= Null (rejected)
H1	= H one (accepted)
SPSS	= Statistical Package for Social Science
%	= Per cent
<	= Greater-than
>	= Less-than
=	= Equals

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CHAPTER 1

INTRODUCTION

1.1 Background of Research

Risk is defined as uncertainty associated with future results or events (Banks, 2004). Risk is a concept that denotes a potential negative impact on the assets or some features of the value that may arise from some present process or future event (Wildavsky et al. 1982). (Rejda, 2008) defines risk management as the process by which an organization identifies exposure to losses faced and chooses the most appropriate techniques to treat disclosure.

In risk management, a prioritization process must be followed to enable the risk to the greatest loss and the greatest probability of occurrence of first-run and risk with lower losses run later (Kiochos et al. 1997). However there are, no specific model for determining the balance between risk and loss and the greatest probability of those who lost lower, making risk management complicated. Banks (2004) stated that primary focus of risk management control, as opposed to eliminate, the risk of exposure so that all stakeholders are fully aware of how the firm is likely to be affected.

Techniques for managing risk can be classified broadly as either risk control or risk financing. Risk control refers to techniques that reduce the frequency or severity of losses. Risk control is a generic term to describe technique for reducing the frequency or severity of losses. Regarding risk management in organizations we can mention the definition of the risk management process by (Martin Fone et al. 2005), whose have done efforts in terms of translating these concepts to the sector. These scholars also consider the third stage of the risk management process, there would be a risk control step, where the entity would have to decide whether to eliminate, avoid, reduce or prevent the risks identified and measured.

There are three major risk control techniques include avoidance, loss prevention and loss reduction and one minor technique which is segregation. Related to risk control, through risk mitigation, the team develops strategies to reduce the possibility or the loss impact of a risk. Risk mitigation produces a situation in which the risk items are eliminated or otherwise resolved. For example of risk mitigation strategies follow is risk avoidance. When a lose-lose strategy is likely (Hall, 1998), the team have option to eliminate the risk an example of a risk avoidance strategy is the team opting not to develop a product or a particularly risky feature.

In addition, risk control are define as the process of selecting and implementing measures to modify the risk. Risk treatment includes as its major element, risk control or mitigation, but extends further to, for example, risk avoidance, risk transfer and risk financing. Effective risk control can bring far reaching benefits to all organizations, whether large or small, public or private sector (Ranong and Phuenngam, 2009). These benefits include, superior financial performance, better basis for strategy setting, improved service delivery, greater competitive advantage, less time spent firefighting and fewer unwelcome surprises, increased likelihood of change initiative being achieved, closer internal focus on doing the right things properly, more efficient use of resources, reduced waste and fraud, and better value for money (Wenk, 2005).

According to (Dorfman, 2007) ensuring that an organization makes cost effective use of risk control first involves creating an approach built up of well-defined risk control practices and then embedding them. Besides, search the step to controls risk which is identify all the things (controls) that we have in place that are aimed at reducing the likelihood of our risks from happening in the first place and, if they do happen, what we have in place to reduce their impact (consequence).

As part of the Small Medium Enterprises (SMEs), trading companies are businesses working with different kinds of products which are sold for customer, business or government purposes. Trading companies buy a specialized range of products, maintain a stock or a shop, and deliver products to consumers. Different kinds of practical conditions make for many kinds of business. Usually two type of businesses are defined in trading. Importers or wholesalers maintain a stock and deliver products to shops or large end customers. They work in a large geographical area, while their customers, the shops, work in smaller areas and often in just a small neighbourhood. When talking about "trading companies", today we refer mainly to global B2B traders, highly specialized in one goods category and with a strong logistic organization. Changes in practical conditions such as faster distribution, computing and modern marketing have led to changes in their business models.

In this research study, the scope of focus on the risk control implemented in SMEs trading companies. This research is a specific for a trading companies in Malaysia especially in Malacca . By examining the influence of the company's risk control implemented to the finacial performance of the trading companies.

1.2 Problem of Statement

Knowing the environment and be capable in decision making in a prompt and correct manner is the key to success in managing today's challenge and risk imminent. In case of not recognise both internal and external risks factor of the trading company, the managerial decision-making error will take place. Moreover, it will cause problems in time and cost assessment forecasting. Through risk management, it can identify the risk control or remove such risk factors through analyzing and choosing the suitable action.

As one of the subfields in the nine knowledge area of project management, risk control is still being paid less attention in Malaysia. In very few organisations, employers or contractors can be seen who have a proper insight into risk management. There are no any practical guidelines to be properly implemented for risk control in this business.

So, by adopting scientific approach to risk control, introducing its process and eventually its compliance with existing realities in development plans, particularly in trade are a necessity. The issue of risk control was for the first time raised in mid-1990s in the United States. Laws and regulations for applying risk control in business have now been adopted. Since risk control is a new field, except for several seminars and universities research project, applied research has not taken place in risk control in Malaysia.

Malaysia's economic scenario is poorly and quiet unstable, Furthermore, the prices of goods continue to rise when the government implemented the Goods and Services Tax (GST) of 6%. Due to that, the demand of consumers has decreased significantly, so how trading companies can survive by implementing risk control.

Based on that fact, in this research, the researcher try to identify how the risk controls implemented that contribute to the financial performance in trading companies? Therefore, this study need to examine the relationship between the risk controls implemented influence financial performance of trading companies in Malacca?

1.3 Research Objective

Therefore, the objective of this study are:

1. To identify the most significant risk control techniques (avoidance, loss prevention, loss reduction and segregation of exposures) that can effect to SMEs trading companies financial performance.

2. To examine the impact of risk control avoidance, loss prevention, loss reduction and segregation of exposures on financial performance of SME trading companies.

1.4 Research Question

The research question are related to the problems that facing by trading SMEs in controlling risks. The research questions as below:

1. To what identify the most significant risk control techniques (avoidance, loss prevention, loss reduction and segregation of exposures) that can effect to SMEs trading companies' financial performance?