



Minimizing Risks, Maximizing Performance: The Role of Enterprise Risk Management in SMEs



Presented by

Dr. Muhammad Shahid Rasheed
Malik Firoz Khan Noon Business School
University of Sargodha

Iqra Kanwal & Dr. Muhammad Shahid Rasheed

Noon Business School, University of Sargodha

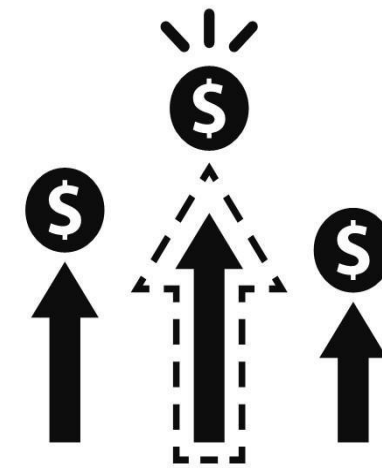
INTRODUCTION

- SMEs contribute approximately 40% of Pakistan's GDP and 25% of total exports.
- They account for 78% of non-agricultural employment.
- Poor risk management remains a major challenge for SMEs.
- Enterprise Risk Management (ERM) provides a structure and integrated approach to managing operational, financial, and strategic risks.
- Adopting ERM enhances sustainability and competitiveness among SMEs.



COMPATITIVE ADVANTAGE & FIRM PERFORMANCE

- Competitive advantage refers to the factors that enable a company to produce goods or services more efficiently or cost-effectively than its rivals.
- In a highly competitive environment, expanding and sustaining competitive advantage becomes a key challenge among firms.
- A strong competitive advantage drives greater success and market impact.



INFORMATION TECHNOLOGY & SMEs PERFORMANCE

- Information Technology (IT) enables data transmission, storage, processing, and retrieval.
- Supports accurate business calculations and reporting
- Enhances performance and competitiveness through effective IT use
- Efficient IT utilization helps firms gain and sustain competitive advantage.



FINANCIAL LITERACY & CA

- Financial literacy is the ability to understand and effectively apply financial skills such as budgeting, investing, and financial management.
- SMEs cannot achieve or sustain competitive advantage through ERM without sufficient knowledge of financial rules, regulations, and policies.

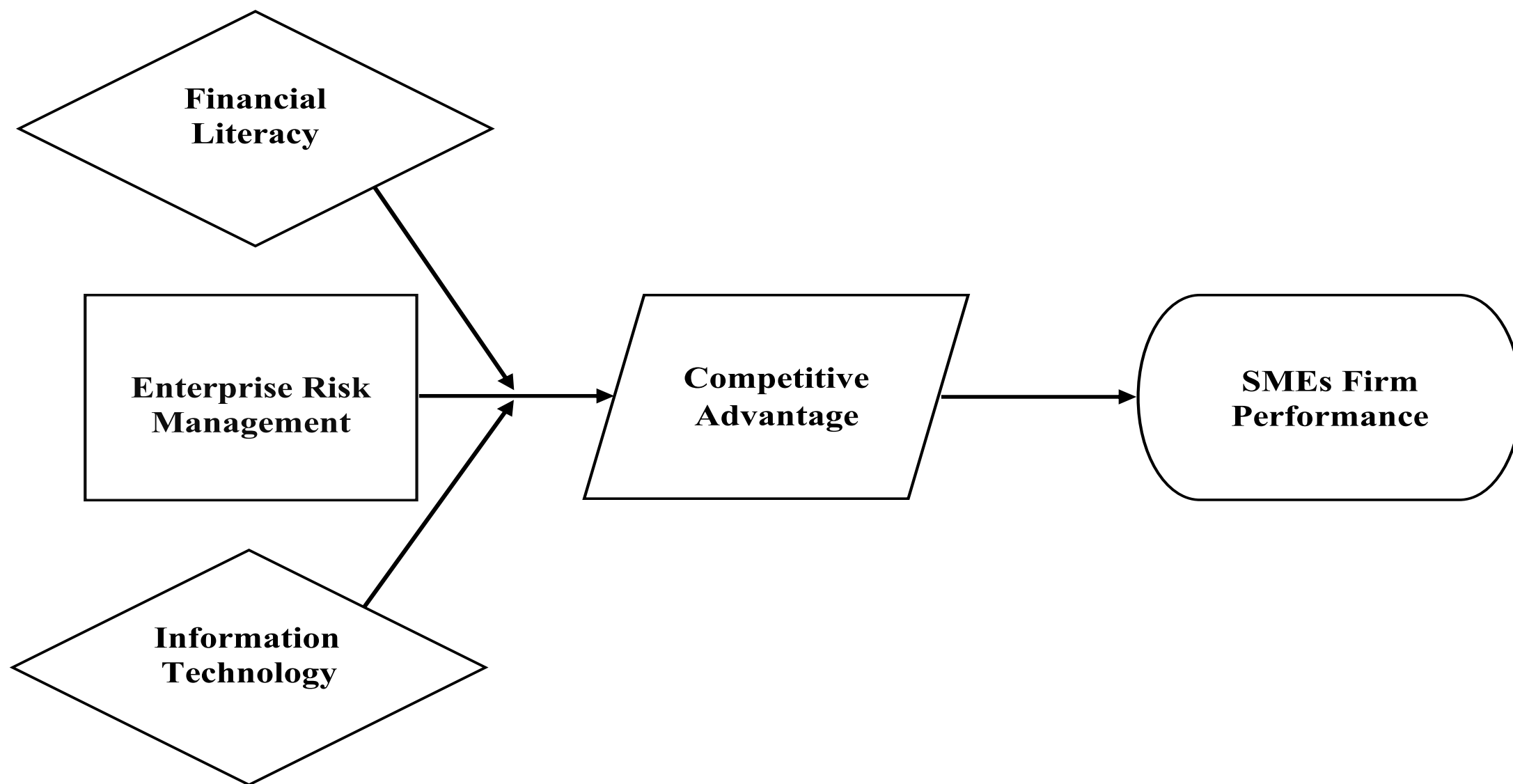


RESEARCH OBJECTIVES

- Examine the impact of ERM on SME performance.
- Check the role Competitive Advantage (CA) as mediator between ERM and performance
- Assess the moderating effects of Financial Literacy and IT Strategy.
- Provide policy recommendations for SME growth and development.



RESEARCH MODEL



Hypotheses Overview

- H1: ERM → Firm Performance (positive)
- H2: ERM → Competitive Advantage (positive)
- H3: CA → Firm Performance (positive)
- H4: CA mediates ERM → Performance
- H5: Financial Literacy moderates ERM–CA relationship
- H6: IT Strategy moderates ERM–CA relationship



THEORETICAL BACKGROUND

- **Risk Management Theory**

RM theory focuses on reducing costs related to bankruptcy, taxation, financing, and shareholder expenses, thereby enhancing firm performance

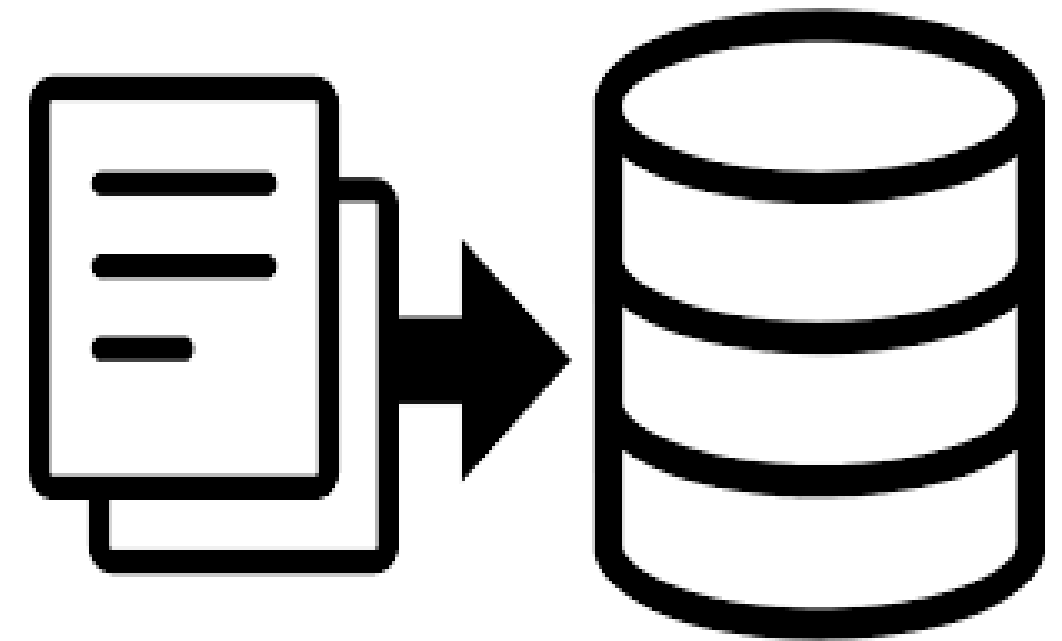
- **RBV Theory**

Firms achieve superior performance by efficiently utilizing tangible and intangible assets, reducing risks and costs, and offering unique products and services



Data & Methodology

- Self administered adapted questionnaire
- Population: 3.3 million SMEs in Pakistan
- Sample: 295 SMEs (Lahore, Faisalabad, Sargodha).
- Method: Purposive sampling, SmartPLS 3.0 (SEM).
- Response rate: 42.1%.



Data Profile

	Category	Number	Percentage
Number of Employees	0-50	271	92%
	50-100	6	2%
	101-150	8	3%
	151-200	6	2%
	200- More	4	1%
Nature of the Business	Manufacturing	46	16%
	Merchandising	124	42%
	Services	125	42%
Duration of the Business	1960-1980	4	1%
	1981-2000	26	9%
	2001-2022	265	90%



Key Results (Measurement Model)

- All factor loadings > 0.7
- $VIF < 5$
- Strong convergent and discriminant validity ($AVE > 0.5$, $CR > 0.7$).



Structural Model Results

- ERM → Firm Performance: $\beta = 0.192$, $p = 0.005$
- ERM → Competitive Advantage: $\beta = 0.221$, $p < 0.001$
- CA → Firm Performance: $\beta = 0.352$, $p < 0.001$
- CA mediates ERM → Performance: $\beta = 0.078$, $p = 0.005$
- Financial Literacy moderates ERM–CA: $\beta = 0.114$, $p = 0.003$
- IT Strategy Negative but not significant.



Key Insights

- ERM enhances SME performance via competitive advantage.
- Financial literacy strengthens the ERM–CA relationship.
- IT's impact is context-dependent (budget & capability limits).
- ERM = strategic capability under RBV framework.



Policy & Practical Implications

- Institutionalize ERM training via COSO-aligned frameworks.
- Integrate financial literacy modules in SME programs.
- Encourage partnerships: banks, universities, and chambers of commerce.
- Develop gradual IT infrastructure aligned with SME needs.



Conclusion

- ERM boosts SME competitiveness and resilience.
- Financial literacy is a key enabler of ERM success.
- Policy-driven ERM culture fosters sustainable growth.



Q&A / Acknowledgments

- Questions and Discussion
- Acknowledgment: ADB, CAREC Institute and Conference Management Team

