Book Review
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Risk Management in Small and Medium Enterprises

by Thomas Henschel*

This essay offers a review of the book *Risk Management in Small and Medium Enterprises* (2019), written by Chiara Crovini. The purpose of this review is to provide a theoretical background to the book in the context of risk management for small and medium-sized enterprises.

Risk has emerged as an area attracting increasing interest in the literature. Over recent decades, the topic of risk has been shown to be an inescapable reality of modern businesses. Until very recently, systematic research into business risk management has been concerned with only large corporations (Brancia, 2011; Falkner and Hiebl, 2015; Ferreira de Araújo Lima et al., 2020; Heinze and Henschel, 2020; Rostami et al., 2015; Verban and Venturini, 2013). This book, based on a PhD thesis at the University of Turin, Italy, is the first study of its kind to investigate the current state of risk management practices in Italian small and medium-sized enterprises (SMEs) and to provide a detailed analysis of the main barriers in developing an effective risk management system for SMEs.

As emphasized by this book, risk management is a relatively well-established research topic, but Crovini’s book is original in its focus and in the integration with the decision-making process for the development of a holistic risk management framework for SMEs. I am very pleased that Crovini has brilliantly considered such integration as the core of her research and put this as the foundation of this unique book.

SMEs face a high risk of insolvency, and many firms struggle to grow as they have planned; they also encounter difficulties when trying to raise funds, a problem that has increased since the last financial crisis (Crossan et al., 2018; Herbane, 2013; Kottika et al. 2020; Osiyevskyy et al., 2020).

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Although these issues are frequently caused by management errors and weaknesses in organizational design, many of these failures can be mitigated by the introduction of robust risk management and governance systems that will potentially provide better planning and management structures (Banham, 2004; Eggers, 2020; Herbane, 2019), resulting in SMEs’ reduced likelihood of failure and increased likelihood of gaining access to financing. Crovini’s book can help SMEs to establish a sound risk management system in using their already established management tools for the application of risk management. This will be an effective and cost-efficient way to conceptualize a practical and easy-to-use risk management approach in SMEs.

Crovini’s book is organized into five chapters, which are structured as follows. After a general introduction to the topic and the contextual debate within this discipline, the first chapter provides the definition of SMEs and a new definition of risk, called “Risk definition 4.0,” in which uncertainty represents a dimension of risk because today, even though an event can be predicted in its probability of manifestation, such a probability is defined by people on the basis of past events. Hence, risk is a future dimension that is not perfectly knowable and predictable. Probabilities and previsions are subjective and linked to human perception of reality. Therefore, human knowledge and the cultural and social environment strongly emphasize the way risks are perceived and considered while managing a business. This chapter ends with a brief review of the state of the art on risk management and decision making.

The second chapter reviews the literature on the management of risks in SMEs. The author points out that little is known about the risk management application of SMEs in developed and developing countries. This is mostly due to the challenges faced by researchers when trying to conceptualize the theory of risk management in the context of SMEs. Challenges can be clustered into two big areas, one of which is concerned with the development of an enterprise-wide risk management framework suitable for SMEs (Verbano and Venturini, 2013). Here, the majority of past research is conceptual, and there is no or little evidence as to which subsystems or preconditions are useful to support the risk management process in SMEs (Brustbauer, 2016). Moreover, the characteristics of owners-managers are also important. Here, it is particularly interesting to acquire deeper knowledge about how factors such as educational background (Herbane, 2010), prior work experience (Kim and Vonortas, 2014), and risk perception (Block et al., 2015) can either enable or hinder successful risk management in SMEs.
This area has been researched for some time; however, the reported studies mostly concentrate on entrepreneurs (Block et al., 2015; Kim and Vonortas, 2014) and not on established or mature SMEs. Here, in particular, further research is required concerning risk management strategies that are useful to survive in the market in the long run (Islam and Tedford, 2012). In this vein, it might also be important to study how SMEs can be preempted, how they can respond to risks and crises (Herbane, 2013; Marcelino-Sadaba et al., 2014), and how risk can be factored into the business-planning and decision-making process. The second area is concerned with the organization and formalization of the risk management system in SMEs. Here, in particular, more research is required regarding risk management strategies that allow companies to survive in the market in the long run (Islam and Tedford, 2012). Crovini concludes that the research, together with our understanding of risk management in SMEs, is still in its infancy and requires further investigation.

The third chapter introduces the research method adopted for the empirical analysis. Through a multiple case study methodology, with a blend of quantitative and qualitative approaches, Crovini adopts an effective design to investigate the current state of risk management, business planning, and the decision-making process in a sample of Italian SMEs and an in-depth analysis of the components of holistic risk management. The case study approach is organized as a longitudinal study covering three companies over three years. The compiled material was collected from micro-, small-, and medium-sized firms from the industrial and manufacturing sector. In total the author conducted 10 interviews with the owner-managers, which varied in length between 30 and 90 minutes. Three coordinates were used to build a specific part of the interviews: business management and the decision-making process, understanding of risk and uncertainty, and the risk management process and its relationship with key stakeholders.

The fourth chapter discusses the findings from the case study and develops a risk management decision framework, which is the major contribution of the book. The development of an integrated risk management and decision-making process for SMEs is a sound piece of work. The introduced framework is based on the solid and empirically tested work of Guo (2008). Chiara Crovini adopted this organizational model and made it applicable for risk management purposes. The underlying steps to determine the individual risk type is well documented in the appendices. The match between the risk management system and decision-making process is an excellent way of implementing sound risk management in SMEs, where procedures
and a formalized process are usually not adopted. Overall, the developed theory-based risk management framework is excellent and provides a good foundation for improving the risk management efforts of Italian SMEs. In particular, it is fundamental to emphasize the crucial role of entrepreneurs as a preliminary and often unconscious risk analysis is made while making decisions. Hence, if risk management is effectively integrated in already existing processes (i.e., decision making), it enables SMEs to be resilient and agile in all their activities. To make the proposed framework more robust in the statistical sense, it needs more testing with a large questionnaire survey, but this can be the next step in this interesting research project.

In the fifth chapter, Crovini provides a conclusion and highlights areas for further research. In particular, the author stresses that the link between knowledge management and risk management should be further explored. In the former area, it might be interesting to focus on intellectual capital as a key driver for knowledge management and on the impact on the organization, even in terms of related risks to be managed. This is a current topic that will also involve the issue of decision making (Durst and Henschel, 2020) and may be useful to improve the risk management and decision-making model further.

To the extent of my knowledge, there is no similar study providing the same level of data-driven and comprehensive analysis for this type of firm. The introduction of the risk management decision-making framework and the development of a country-specific reference model represent a significant contribution to knowledge in this subject.

As a final comment on this interesting book, I believe that it offers important insights for understanding and developing sound risk management systems in SMEs. Moreover, it opens up new research avenues and provides practical advice for SME consultants on how to establish sound and cost-effective risk management systems for this type of firm.

References

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