Elevating the profitability of small and medium enterprises: Systematic review on risk management principles

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1. Introduction

SME profitability is essential for promoting sustainability and economic growth. SMEs, which are frequently seen as the foundation of many economies, play a vital role in innovation, job creation and general economic growth (Dvorsky et al. 2021, Krüger and Meyer 2021).

These businesses, which are distinguished by their modest operational scale, operate across a wide range of sectors and industries, including technology, services and manufacturing. Their capacity to create jobs is one of the main elements that add to the relevance of SME profitability. Their capacity to be profitable allows businesses to make investments in research and development, which drives innovation in their specialized fields and advances technology as a whole (Yakob et al. 2020, Crovini et al. 2021).

Their capacity to create jobs is one of the main elements that add to the relevance of SME profitability. SMEs are renowned for their agility and flexibility, which enable businesses to adjust the shifting market conditions. Another important factor linked to SMEs’ profitability is innovation. These businesses lead the way in innovative business models and technology breakthroughs. A culture of creativity and adaptation is fostered by SMEs’ capacity to implement new ideas due to their smaller organizational structure and lack of bureaucracy (Lepistö et al. 2022, Catanzaro and Teyssier 2021).

Using empirical data, theoretical frameworks and useful case studies, we aim to offer an analysis of risk management in SME profitability. Using a variety of sources, we hope to identify common patterns, obstacles and benchmarks for excellence in the field of SME risk management.
2. Strategies

The paper takes up the fundamental principles that (Williams et al 2021) established for performing systematic reviews of management and business literature. Three parts make up a systematic literature review, organizing the review, executing it and reporting and sharing the results. The purpose of the review is outlined in the first phase, preparing the review. Finding appropriate research is in the subsequent step, executing the review.

The process of implementing SME requires a broad keyword group that includes variants like "small business," "medium-sized firm," and "SME." This fits the methodology employed in other reviews with an SME focus (Cleary et al 2022).

The subsequent keyword category steers clear of particular risk categories or associated problems by emphasizing risk management. The search term contains variants such as "risk management" and "manage risk" which employ asterisks to accommodate differing word endings.

Two requirements must be met by relevant articles that are accessible online from 2019 for this review to be included. First off, publications appear in the Academic Journal Quality Guide of the "Association of Business Schools (ABS)” that they fulfill a journal quality criterion. A recognized indicator of journal excellence for comprehensive literature reviews in this criterion.

The first search turned up 28 publications, which were evaluated for relevance to the particular issue of the literature review by (Dvorsky et al 2021) guidelines. Because they were practitioner-oriented or concentrated on risk management for corporations without taking into SMEs, 10 articles were eliminated. The succeeding steps of the systematic review of the literature and the findings reported in the ensuing sections were based on a deeper investigation of the remaining 18 publications.

3. Review results

3.1. Features of the reviewed articles

The research designs of the 18 studies reviewed and summarized in (Table 1). The data-gathering techniques for 18 articles are compiled in the table. A small percentage use empirical qualitative techniques like case studies and interviews, but the majority use surveys and other empirical quantitative approaches. Additionally, these included in theoretical and conceptual approaches.

<table>
<thead>
<tr>
<th>Author</th>
<th>Article Type</th>
<th>Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Zadorozhnyy et al 2023)</td>
<td>Empirical qualitative</td>
<td>×</td>
</tr>
<tr>
<td>(Dvorsky et al 2020)</td>
<td>×</td>
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<td>(Ferreira de Araujo Lima 2019)</td>
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<td>(Çera et al 2019)</td>
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<td>(Shihadeh et al 2019)</td>
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<td>(Virglerová et al 2020)</td>
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<td>(Islam et al 2020)</td>
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</table>
3.2. Various Risk Categories in SMEs

The reviewed articles placed a high value on recognizing and debating various kinds of risks in SMEs, even though we searched and not concentrate on particular types of risks in SMEs. This is because recognizing risks is typically an essential condition for later risk management. As a result, we start by outlining the risk categories that SMEs face that have been discussed in the research to date.

3.2.1. Risk of interest rates

Due to their heavy reliance on outside funding, SMEs use loans to get capital, which exposes them to interest rate concerns. According to (Zadorozhnyy et al. 2023), banks claim that lowering information asymmetries can lessen perceived risks and keep interest rates stable. Weak financial positions lower the probability of receiving financing, but good collateral lowers risk for SMEs with low-risk tolerance (Shihadeh et al. 2019). However, high collateral is unable to counteract the negative consequences of high risk-taking. Banks need to evaluate risk perceptions and SMEs to navigate funding obstacles to comprehend these dynamics.

3.2.2. Risk of raw material cost

According to (Lepistö et al. 2022), deregulation and the elimination of subsidies in the agricultural markets are to blame for the raw material risk that SMEs face. In competitive marketplaces, SMEs encounter challenges in rising costs to clients due to elevated unpredictability in raw material pricing. Larger businesses can respond by making technological investments SMEs may lack the necessary resources to adjust to changes in raw material prices. These conceptual discoveries require validation through empirical study.

3.2.3. Technology and e-business risks

Through qualitative interviews conducted with fifteen SMEs, (Virglerová et al. 2020) determined that the main risk facing SMEs in e-business was related to online safety. They noted risks such as credit card fraud, identity theft and cyberattacks, emphasizing the danger associated with putting mission-critical software into use, particularly when choosing open-source suppliers over major for-profit ones.

SME managers stated that customer trust is essential to Internet commerce. However, SMEs frequently find it difficult to create such assurance due to their limited size and volume of transactions. The report underscores how reputation and confidence among consumers can be impacted by any breaches in internet security. SMEs find difficult to restore their internet reputation after security issues because of their limited funding.

3.2.4. Chain of supply concerns

A quantitative study found that increasing product options to satisfy customer needs results in a greater reliance on supply chains, which adds complexity. The complexity and supply chain hazards increase as SMEs expand into new markets (Kotaskova et al. 2020). Due to the increased complexity of SME supply chains, there is a major risk to their existence if trade debt levels rise. Arrears on unsecured trade loans significantly increase the risk of insolvency for young SMEs.

According to a qualitative study (Akbar et al. 2023) SMEs use a single-sourcing procurement approach. By focusing the buy volume on a single supplier, this technique seeks to strengthen negotiations and guarantee price benefits. However, if a supplier has problems, this strategy puts SMEs at greater risk of production disruptions by increasing their reliance on certain providers.

3.2.5. Growth hazards

The bigger enterprises as unable to handle expanding expenditures, only a small number of SME managers interviewed (Virglerová et al. 2020) stated a desire for sustainable growth. Viewing the professional development of SME executives as a potential source of risk rather than a strategic goal, despite a common objective for larger corporations. Lack of experience and good project management methods provide serious hazards to SME growth, which is frequently accomplished through projects.

3.2.6. Employees and Management

SMEs confront knowledge management issues, according to (Virglerová et al. 2020), because departing experienced personnel can mean losing important relationships and information. For SMEs, losing long-term staff members and managers can be dangerous because no one else in the company has the same expertise. The case study (Bobriková 2022) showed that informal risk management knowledge is common in SMEs, which makes it more difficult for staff members to enhance their risk management skills.
The results show that small and medium-sized business owners understand the value of employees' implicit knowledge and the risks of knowledge retention that come with it. SME owners don't seem willing to spend money on knowledge-building initiatives that could help reduce these risks. This emphasizes the need for study on practical ways for SMEs to handle the risk of knowledge loss, particularly about risk management, if important persons or employees quit or other reasons for dissatisfaction.

3.3. SMEs' risk management procedure

Five essential elements comprise a comprehensive risk management process, risk identification, analysis, technique selection, strategy implementation, and control. Based on a survey of the literature, specific insights for SMEs indicate that informal risk management techniques can impede knowledge exchange and capacity growth. But (Ntare et al 2022) find examples of proactive risk management in SMEs, pointing to less structured and more codified methods in the literature.

3.3.1. Identification of Risks

Finding potential sources of loss and associated risks is the initial step in the risk management procedure, which needs to be completed. They provide a list of three techniques SME managers can employ to determine loss risks through examinations of all information about the company's assets and operations, financial statement analysis to pinpoint the origins of possible financial losses and flow chart analysis of all corporate operations and activities.

For the management of SME projects, efficient risk identification is essential. Removing risks associated with strategic projects that endanger the viability of SMEs while managing operational risks. However, (Gamage et al 2020) point out that employees' lack of risk management presents a barrier to effective risk detection. Employee risk management skills must be developed if SMEs are to identify hazards. This is because resource limitations force SMEs to concentrate on the most important risks after analysis. To investigate the specific procedures of recognizing risks in SMEs, more investigation is required.

3.3.2. Analyzing risks

Evaluating the incidence and effect of possible losses as well as prioritizing risks constitute risk analysis, defined as the subsequent phase in the risk management process. Poor staff education can prevent effective risk analysis, despite its vital role in SME project management.

3.3.3. Technique selection

After the hazards which have been identified and evaluated, (Gamage et al 2020) proposed that alternative approaches may be taken. According to our assessment, there are several tools and techniques accessible for SMEs' risk management. These are discussed in the ensuing paragraphs.

Coverage: The qualitative analysis made clear that coverage is the main risk management strategy used by SMEs. SMEs are aware of the expenses incurred by insurance and how it covers unforeseen circumstances. Protection against flooding, fire, damage to property, and personal harm is included in insurance coverage. Insurance can benefit SMEs by offering services such as risk analysis, compliance support and management services in addition to financial protection, particularly in cases when the owners are not well-versed in these fields. For SMEs, insurance against potential events promotes a methodical risk assessment.

Derivatives of the weather: Weather derivatives are a risk management tool used by SMEs in response to extreme weather events. SMEs can shift weather-related risks to other parties by using weather swaps. Like with coverage, SME owners sign contracts and can activate them in response to the weather. According to (Bobriková 2022), using derivatives of the weather can help SMEs manage their risks associated with the weather by lowering financial strain and sales volatility.

3.3.4. Execution of a strategy

The risk management procedure's fourth stage, according to the chosen techniques is the chosen strategies into practice once the risks have been identified as well as examined, and a choice has been made regarding which approach to take to mitigate or avoid the risks. They also recommended that the company's risk management goals be communicated to all impacted workers. However, the evaluated studies did not yield any empirical results on the application of risk management techniques consequently, this might be regarded as an exciting area for further investigation.

3.3.5. Control

The last phase of risk management for SMEs entails reviewing and modifying strategies to suit evolving requirements. Establishing performance benchmarks can help SMEs on the procedure. However, there is a shortage of empirical data on this control component in SMEs, necessitating investigation.

3.4. SME owners' risk-taking behavior
The individual traits of small and medium-sized business owners have a big impact on the course of the company and how risk is managed. According to a quantitative study by (Çera et al 2019), risk perception is correlated with organizational size but negatively correlated with willingness to take risks in the fields of finance and health. Smaller businesses, which are financially constrained, tend to favor lower-risk company tactics over ones that are growth-oriented. SME owners also tend to perceive risks highly.

4. Conclusions

Key research directions that have emerged from the examination of risk management in SMEs are listed in (Table 2). It emphasizes the necessity of empirical study, about the control and execution of risk management procedures. Because of the processes involved in detecting and evaluating risks in SMEs, research can close knowledge gaps about the regularity of risk identification and effective risk analysis approaches. The review seeks to provide insights to improve the survival of small businesses and the global economy, to stimulate more studies on managing risks in SMEs.

<table>
<thead>
<tr>
<th>Grouping</th>
<th>Additional Study</th>
<th>Possible inquiry for the study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process of managing risks</td>
<td>Identification of risks</td>
<td>How often and at what point is risk assessment done in SMEs?</td>
</tr>
<tr>
<td></td>
<td>Analyzing risks</td>
<td>What risk evaluation techniques don’t put an excessive amount of load on the meager resources of SMEs?</td>
</tr>
<tr>
<td></td>
<td>Execution of a strategy</td>
<td>How is risk management implemented by SMEs?</td>
</tr>
<tr>
<td>Risk-taking actions of the SME owner</td>
<td>Control</td>
<td>What intervals do SMEs use for risk control?</td>
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<tr>
<td></td>
<td>The business owner’s career</td>
<td>Can risk techniques reduce SME owners’ aversion?</td>
</tr>
<tr>
<td></td>
<td>Sector of industry</td>
<td>Which industries excel in SME risk management?</td>
</tr>
<tr>
<td>Systems for managing risks throughout</td>
<td></td>
<td>How does SME risk management evolve?</td>
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<tr>
<td>the life cycle of SMEs</td>
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</table>

5. Limitations

The review study notes certain limitations, such as the impact of choosing parameters on the results. The purposeful exclusion of general risk-related concerns in favor of a narrow focus on risk management keywords may have limited the breadth of available research. Establishing a quality criterion for inclusion may result in fewer papers reviewed, but it aims to ensure strict standards. The review’s comprehensiveness is limited by its restricted assessment of journal papers, which leaving out other categories of literature.

Ethical Considerations

Not applicable.

Conflict of Interest

The authors declare no conflict of interest.

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References


https://www.malque.pub/ojs/index.php/mr