

A QUALITATIVE STUDY OF ENTERPRISE RISK MANAGEMENT IN SMALL MEDIUM ENTERPRISES

Meiryani MEIRYANI¹

¹*Accounting Department, Faculty of Economics and Communication, Bina Nusantara University, Tangerang, Indonesia 15143*
meiryani@binus.edu

ABSTRACT

The goal of this study is to look at the CEO's impact on SMEs' ERM implementation. With the use of archives and an open-ended questionnaire, we employed a number of methods to ascertain the CEO's understanding of the significance of ERM. According to our empirical data, a lot of CEOs still do not see the value of installing an ERM system because it is expensive and may be done so informally (by applying risk management in a manual manner using their own estimation and computation). This suggests that there is still a low level of ERM implementation among SMEs in Indonesia.

Keywords: Economics, SMEs, ERM, Performance

1. INTRODUCTION

The corporate environment will inevitably develop quickly. There is a lot of opportunity in growing a firm, particularly for SMEs, which play the most significant role in many nations, particularly emerging nations. According to Ayyagari, Demirguc-Kunt, and Maksimovic (2011), the World Bank Enterprise Surveys database indicates that 49,370 SMEs across 104 countries are the primary drivers of increased employment and sales revenue, as opposed to enterprises. SME development is estimated to be between 88.8 and 99.9% in ASEAN alone, and remarkably, it increases employment contracts by 51.7% to 97.2%. In Indonesia, the number of SMEs that continue to grow, primarily between 2014 and 2017, is evidence that the country's SMEs are developing at a quick pace. Regretfully, entrepreneurs are still thought to have a low level of risk management awareness.

A management risk system called enterprise risk management, or ERM for short, detects possible events that could pose threats to achieving strategic objectives or present a chance to obtain a competitive advantage. According to COSO's (2004) definition, enterprise risk management (ERM) is a process that involves stakeholders organizing a strategy to detect potential threats to the organization and managing such risks by allocating them to the appropriate risk appetite.

There are others who may question the significance and excellence of the ERM framework. The CEOs may identify the main risks that could impact their company, manage them more effectively, and put in place mitigation procedures to lessen threats by using the ERM framework, which is important since it can improve and unify risk reporting throughout the organization. Remarkably, ERM can save money by preventing company disruptions, which is a long-term financial advantage. In addition, it will be of tremendous assistance to the audit and accounting departments and improve user work environments by helping to balance opportunities and risks inside the company. The ERM framework consists of five components: information, communication, and reporting; strategy and objective-setting; performance; review and revision; and governance and culture. CEOs of SMEs who understand the benefits of Enterprise Risk Management (ERM) typically are reluctant to put it into practice because it usually requires careful planning and is expensive. Because risk management is generally simple and affordable, entrepreneurs occasionally believe they can handle it alone without the assistance of an ERM system (Cantonnet et al. 2019). Such a claim renders the ERM system appear unnecessary and insignificant. The Malaysian government introduced a corporate governance code in 2012, which requires public board companies that will be listed on the stock exchange to have appropriate risk control and mitigation measures (Securities Commission Malaysia, 2012). This information was reported in research by Mahmud, M. S., Aziz, K., Yazid, A. S., Rasid, N., Salleh, F., Ghazali, P. L., & Mahmood, S. (2018). However, in contrast to other industrialized nations, the adoption of ERM is still very low (Togok, 2016; Yazid, Hussin, & Daud, 2011).

There have been certain incidents in Indonesia where the cases resulted in large losses because businesses did not manage risks. The first example is Jiwasraya, whose failure might be attributed to a lack of risk management. Because of the inadequate management, Jiwasraya Finance continues to deteriorate. Before the quarter ended, they purchased

second- and third-tier stocks as window dressing to "improve" their financial report, which ultimately led to the enterprise's collapse.

There have been instances in Indonesia where companies failed to manage risks, leading to significant losses. Jiwasraya is the first example, whose demise may have resulted from inadequate risk management. Jiwasraya Finance keeps getting worse because of the poor administration. They bought window dressing, or second- and third-tier equities, before the quarter closed in an attempt to "improve" their financial report; this ultimately contributed to the demise of the enterprise. SMEs are public economic enterprises that generate over 200 million in income annually, excluding property and buildings. They are held by Indonesian citizens and have annual sales profits of little more than \$1 billion (K Kwartono). SMEs are the dependent variable in this study because they are typically targets of fraud attacks. Even for SMEs, ERM is essential and required since it can offer a number of advantages, including identifying possible risks and boosting the company's worth to investors. ERM is the independent variable in this study, which aims to provide the reader with additional insight into the significance and advantages of putting the ERM framework into practice. The inspiration for this study came from previously published papers. The advantages of that earlier research, however, piques our curiosity to learn more about SMEs and ERM from a commercial perspective. It is intended that this research would help readers deal with management risk-related occurrences in SMEs. The ERM software is designed to recognize, anticipate, and avert any risks that may have an adverse effect on the organization. Entrepreneurs of SMEs can choose from a variety of ERM models, including financial, operational, risk, and strategic ERM. The danger component should be an entrepreneur's primary priority, but all of the components are typically significant because they are interconnected. The reason for this is because hazard ERM can identify a financial threat that, if ignored or unresolved, could push a business into bankruptcy. According to earlier research, there are still fewer entrepreneurs that wish to use ERM systems in their businesses (Mahmod, M. S., Aziz, K., Yazid, A. S., Rasid, N., Salleh, F., Ghazali, P. L., & Mahmood, S., 2018). The expense of implementing ERM appears to be prohibitive for small and medium-sized businesses, which is the issue. However, there are informal ways to mitigate hazards that can be carried out in person. In the short term, that approach might appear like a terrific cost-effective option, but if some of the potential concerns go unnoticed and unresolved, it could pose a serious threat. In order for the system to function properly, the entrepreneur must first choose the appropriate risk analysis model (either by taking on this responsibility personally or assigning it to a special committee). Next, the entrepreneur must equalize risk perception in order to assess and debate the company's risk level, investor expectations, market conditions, and sensitivity analysis. Finally, the entrepreneur must assess the resources that are available for specific goals. In this phase, business owners have to make sure that their directors still reflect the cutting edge of development, creative thinking, and leadership skills. ERM places a strong focus on coordination and communication, bringing the vision that leaders will present to life and enabling field workers to carry it out technically. Therefore, strong bonds and open communication are essential for effective ERM.

A Conceptual Framework of ERM Practices Among SMEs IN Malaysia is a study that this study adds to. Because we concentrated on the application of ERM methods in Indonesia, this article is distinct. The purpose of this study is to highlight how crucial an ERM system is for Indonesian SMEs. This study is also used to educate entrepreneurs on the value of the ERM system and the advantages of using it for their business, both now and in the future. The purpose of the literature study in section 2 of this research is to highlight the significance of ERM for businesses, particularly SMEs. The research approach is described in Section 3. The data analysis results are presented in Section 4, which is then followed by a discussion. The research's conclusion is presented in Section 5.

2. METHOD

The data from this study are analyzed using a qualitative methodology. Archival material and an open-ended question serve as the main sources of data for the procedures. After then, the questionnaire was distributed across Indonesia, mostly in the regions of Jakarta and Tangerang.

Archival techniques and open-ended questionnaires are the approaches utilized to collect the data. While the distribution of an open-ended questionnaire to SMEs owners in the Jakarta and Tangerang region serves as one of the main strategies for gathering data.

The present study used the qualitative technique to analyse the data obtained from open-ended questionnaires. The study's qualitative methodologies offer a thorough and in-depth explanation of complicated occurrences.

3. RESULTS AND DISCUSSION

4.1 Data Description and Research Design

This study used a qualitative data gathering method that combined an archive-based secondary approach with an open-ended questionnaire as the primary method. After being gathered using a Google form, the responses are analyzed and used in the data findings.

Table 4.1.1 Questionnaire Distribution

No	Description	Total
1	Total of filled questionnaire	31
2	Total of filled questionnaire that are eligible	31

Table 4.1 shows that all 31 respondents completed their questionnaires completely and indicated which ones were eligible for data.

4.2 Data Analysis Methods

4.2.1 Qualitative Test

The data from the respondents was gathered by qualitative research, and then processed through data analysis to provide a summary of each response. A fundamental tool of the study itself, the qualitative method is a post-positivist philosophy that observes the scientific variable (Sugiyono, 2011). As a result, the description and data findings are visible to the readers. The influence of implementing internal controls in a corporation and the significance of fraud insight are also known to the readers. After data processing, readers will be informed about the significance of Enterprise Risk Management (ERM) and the level of knowledge among SMEs' entrepreneurs regarding the management risks framework system.

Table 4.2.1 Demography of the Respondents

Gender	Total	Total (%)
Male	17	54.84%
Female	14	45.16%

The thirty-one respondents who completed an open-ended questionnaire, seventeen (54.84%) were men and fourteen (45.16%) were women who run small and medium-sized businesses in Indonesia.

Table 4.2.2 data based on respondent age

Age	Total	Total (%)
15 - 20	3	9.68%
21 - 25	15	48.39%
26 - 30	2	6.45%
31 - 35	1	3.22%
36 - 40	3	9.68%
41 - 45	2	6.45%
46 - 50	1	3.22%
51 - 55	1	3.22%
56 - 60	2	6.45%
61 - 65	1	3.22%

The majority of entrepreneurs in table 4.2.2 are between the ages of 21 and 25, which is referred to as the productive age. It can be inferred that SMEs businesses appeal to the majority of college students. It is our aim that this study will enable them to safely establish their own business.

Table 4.2.3 data based on respondent region

Region	Total	Total (%)
Jakarta	19	61.29%
Bogor	-	-
Depok	-	-
Tangerang	12	38.71%
Bekasi	-	-
Others	-	-

The responders to the open-ended questionnaire issued using Google Form are primarily from the Jakarta and Tangerang regions, and data collection is conducted in Indonesia.

Table 4.2.4 data based on respondent SMEs founding

Years of Founding	Total	Total (%)
< 1	7	22.6%
1 - 5	16	51.61%
6 - 10	2	6.45%
> 10	6	19.35%

Most SMEs were established many years ago. The respondent ought to be sufficiently knowledgeable about managing risks for their company, it might be determined. Since it is among the most important things that one needs.

Table 4.2.5 data based on respondent employees on SMEs

Employees	Total	Total (%)
None	8	25.81%
1 - 5	20	64.51%
> 5	3	9.68%

The majority of SMEs appear to have one to five employees. Consequently, it can be said that the majority of the respondents' SMEs are small-scale enterprises. Given the small size of the company, even a moderate risk has the potential to rock the foundation. Moreover, the organization will eventually fail if a sound risk management strategy is not put in place.

Respondent knowledge on risks management

Table 4.2.6 data based on respondent knowledge of risk management

Knowledge of risk management	Total	Total (%)
Advanced	12	38.71%
Basic	10	32.26%
None	9	29.03%

Table 4.2.6 reveals that a surprising number of entrepreneurs are still completely unaware of the significance of risk management. Although a basic understanding of the subject appears to be sufficient, it would be ideal if entrepreneurs began to increase their awareness of risk management so they could launch their businesses successfully. The person who is unfamiliar with risk management should learn about its significance because it will benefit them in the long run.

Table 4.2.7 Data based on the importance of risk management

Importance of risk management	Total	Total (%)
Important	25	80.65%
Decent	2	6.45%
Unimportant	1	3.22%
Not Knowing	3	9.68%

The majority of respondents are aware of the significance of applying risk management in businesses, particularly SMEs. Nevertheless, 80.65% of respondents acknowledged the significance of risk management. The purpose of this article is to raise awareness of the value of risk management applications in businesses.

Table 4.2.8 data based on respondent knowledge of applied risk management

Ways to applied risk management	Total	Total (%)
Ways with the assistance of technology	23	74.19%
Ways without the assistance of technology	5	16.13%
None at all	3	9.68%

In this day and age, a large number of respondents already manage risk utilizing technology. However, installing CCTV alone shouldn't be the extent of the technological answer. For risk management, the majority of respondents solely use CCTVs, however this is insufficient for businesses with employees.

Table 4.2.9 data based on respondent interest in ERM Framework

Respondent Interest of ERM framework in SMEs	Total	Total (%)
Interested in ERM	15	48.39%
Not interested	16	51.61%

For a variety of reasons, more than half of the respondents indicated that their SMEs do not require ERM. However, the most frequent explanation given by respondents is that they believe they can manage their risks more easily and affordably on their own than by using technologies they are unfamiliar with. Surprisingly, ERM is the easiest and most affordable solution for SMEs to manage risk over the long run since it can do more than just manage risks—it can also accomplish a number of other beneficial tasks for the business. For a variety of reasons, more than half of the respondents indicated that their SMEs do not require ERM. However, the most frequent explanation given by respondents is that they believe they can manage their risks more easily and affordably on their own than by using technologies they are unfamiliar with. Surprisingly, ERM is the easiest and most affordable solution for SMEs to manage risk over the long run since it can do more than just manage risks—it can also accomplish a number of other beneficial tasks for the business.

4. CONCLUSION

According to the study's findings, the following factors have an impact on ERM and how it affects the growth of SMEs in Indonesia, particularly in Jakarta and the Tangerang region. Even in SMEs, entrepreneurs need to understand ERM. The reason for this is that the ERM framework system provides the business with more advantages than just a risk management system. Because it will also assist the company in planning their strategy and avoiding possible hazards that, if left undetected, could turn into a threat. Additionally, it contributes to raising the enterprise's worth so that investors can participate. Therefore, whether they are big businesses or SMEs, organizations should definitely use the ERM framework system. In order to reduce the possibility of unanticipated events, further research should be done on the relationship between the ERM framework system and additional benefits for small and medium-sized enterprises. Since the ERM framework system is the sole subject of this study, more research can identify other risk management systems that are comparable to or more appropriate for SME business types. In addition, by including SMEs from areas outside than the Indonesia region, future research could expand the pool of respondents.

ACKNOWLEDGMENT

For the first and foremost, the writer would like to express her deepest gratitude for Almighty God. The author also expressing her extremely grateful to Micheal Evan dan Rosana.

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