

Easy Way To Manage Business Risk For Small And Medium Enterprises

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Abstract

In addition having a positive role for the economy, small and medium enterprises (SMEs) are still faced with various problems and challenges, one of those come from the limitation of ability to identify and manage their business risks.

This study aims to look at the understanding and attitudes towards small and medium enterprises (SMEs) as well as identify business risks, determine the risk rating, and provide a simple solution for managing their business risks.

The results showed that even though SMEs have understanding of the business risks, but the fear of business risk is still quite large. The simple effort starts with making a list of business risks, rank it, determine the handling, implementation, and evaluation simultaneously, can be the easy choice for small and medium-sized enterprises in their business risk management.

Key Word : Business Risk, SMEs, Management

Background

Many facts indicate that the role of small and medium enterprises in the country's economy is matter, not only in terms of national income but also in employment , (Vadiveloo , at all , in 2002 , Cooperative and SMEs Ministry of RI) . In Indonesia , more than 50 % (precisely 57.94 %) of national income contributed by this sector , as did 90 % of labor absorbed by this sector . With this fact , small and medium enterprises became an important state asset .

On the other hand , many studies (Nunuy , 2009, Setiawan 2010, etc.) found that small and medium enterprises still have many constraints and limitations, which if it is solved, it would increase the role of this sector in the economy. Constraints and limited funding has begun to unravel the various government programs, marketing problems has begun solved with a variety of training , cooperation with other businesses, as well as the use of information technology such as using blogs, internet marketing, and social networking. Several other problems also begin to be overcome with the many concerns from researchers, government, and business partners to the small and medium enterprises.

Observed, the various problems faced , the ability of small and medium enterprises in understanding and managing business risks to be one activity that has not been done, so the

impact on the rise and the increasing potential losses for their business . *One reason why 4 out of 5 businesses fail within 5 years of their inception is that entrepreneurs do not understand the business risks before they start or buy their business,* (Morris Bocian , 2005)

Risks in an attempt will never be eliminated , because the risk is part of the business activity itself, (Kimberley and Keetelaar , 2005). This study aimed to identify risk and prioritized , see risk management practices , as well as provide an easy solution for risk management small and medium enterprises .

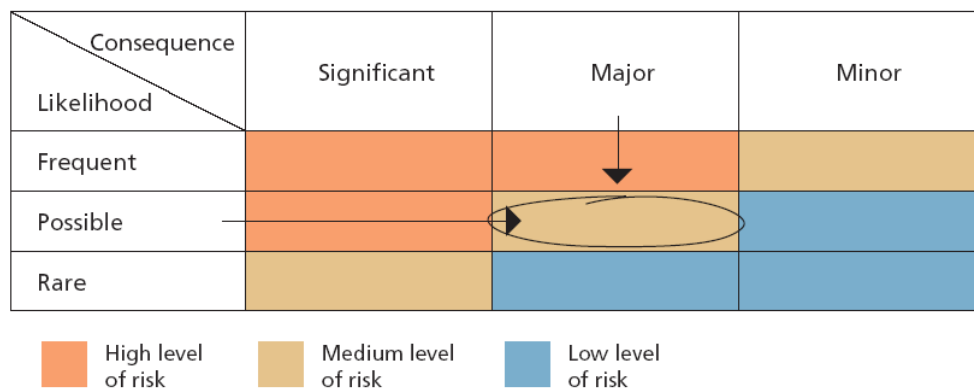
Theory

In lot of literatures, risk is defined as the chance of loss, risk is the possibility of loss ,risk is the uncertainty, risk is the dispersion of actual from expected result , and in another sense the risk is the probability of any outcome different from the one expected.

Business risks can be grouped into the following three categories :

- a. The risk -based , occurs when small and medium enterprises decided to take the opportunity that exists and if not take the chance.
- b. risk -based uncertainty , the chances of the emergence of potential losses due to ignorance or the difficulty to predicting an event
- c. hazard - based risk , the potential emergence of losses because it deals with something that can lead to risk

While the priority ranking of risk that must be overcome to use the benchmark as follows



Sourche : Kimberley Turner, and Deanne Keetelaar

Figure 1. Matrik Penentuan Prioritas Risiko

Methodology

Descriptive study was carried out by conducting a survey of 258 small and medium entrepreneurs in Bekasi West Java Province, as well as analysis of the possibilities and the potential for losses due to the risks of existing businesses. The study concludes with a step and proposed a simple way to manage business risks for small and medium businesses.

Result and Discussion

The results of a survey conducted on 254 small and medium entrepreneurs in Bekasi West Java Province, showed that:

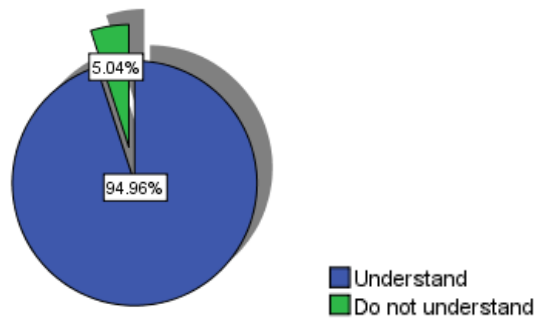


Figure 2. SMEs Understanding of Business Risk

The picture above shows that the majority of small and medium business respondents (258 SMS's = 94.96%) have a understanding of the risks of the business.

The following figure also shows that 48% of them or 124 small and medium enterprises are afraid of the risks or potential losses.

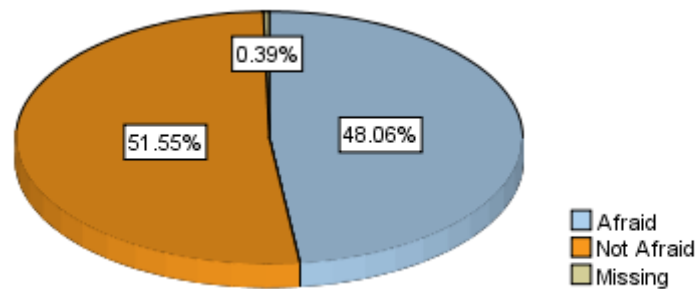


Figure 3. Fear feeling of SMEs to Potential Losses

Other results also showed that the level of understanding of the risks of existing businesses , there are still quite a lot of small businesses (almost 60 %) are not insured.

Although aware of the risks that inherent in their business activities, but lack of knowledge about risk management that are owned by small and medium enterprises can be overcome by following a simple way to manage risk as follows .

1. The first step , identify and list the various risks that may occur in their business activities. In general shape of risks facing the sector include :
 - Risk due to a mistake choosing the type / shape business
 - Risk due to a mistake choosing a business location
 - Risk due to delaying in obtaining raw materials
 - Risk due to damage to production equipment
 - Risk due to power failure
 - The risk of misstating due to selecting sources of capital
 - Risk due to recording errors

- The risk of illness due to key employees
 - The risk of mistaking due to selecting media for promotion
 - And other risks
2. The second step, analysis and determine the level of interest from the list of risks that have been made . For example, to photo copy and printing business, the risk due to power would be the first priority, and etc. The different types of businesses will produce a different order of priority risks.
 3. Step three, select and specify actions to address any risks, according to their priority. For the example above, if a power failure is a major priority, it can be prioritized by buying engine generators , hospital employees risk by providing a clean work space, and so on
 4. The fourth step , carry out what has been done up to the fourth step, in accordance with the priorities and form of action to be performed.
 5. The fifth step, an evaluation of the risk management measures that have been carried out . For example, is the purchase of the generator engine has been able to overcome the risk of loss of losses during a power failure ? Is providing workspace bersif been able to keep employees healthy ? If it is do not optimal yet, action needs to be modified to address these risks in a way and another attempt
 6. The sixth step, the first step back to re- identify and re-create a list of current risks, whether identified risks are still the same , reduced or new risks emerge , and continue to the next stages, continuously throughout the business is still running .

Keep in mind that the risk of business back will not be eliminated , small and medium businesses can take measures to reduce the risks that exist with these easy steps only.

Observed, the business risks that occur in small and medium enterprises have already occurred at the time of preparation, production activities, financial activities, marketing activities, and other activities. In summary , the following matrix can provide an overview of the various business risks faced by small and medium enterprises following priority handling.

Table 1
Matrik of Risk Types in SMEs and It's Handling

No	Step	Types of Risk	Priority	Alternatif Self Handling
1	Business Preparation	Business choise mistake, Location choice mistake, HR mis-rekrutment	Medium to High, Low frequencis but huge impact	Do Feasibility Study
2	Production	Delay of raw materials faulty engine Employees are not present	Medium tend to High, because even though does not happen often but if it happens pretty big impact.	dequate inventory, machinery and employees good maintenance
3	Marketing	Packaging mistake Marketing target mistake	Sedang, jarang terjadi dan dampaknya cukup besar	Always ask to see the market trend

4	Financing	Miss transaction recording Miss Counting	High, high frequencies and high impact	Good monitoring
5	Etc.			

The results of the evaluation of business risks , in addition to handling their own anticipation to do, some formal action alternatives that can be done is :

1. When the possibility of too often and have a huge impact, small and medium enterprises should avoid their activities. Suppose the small and medium enterprises that have locations in areas affected by flooding or earthquake every day.
2. When Possible low incidence but a huge impact, if any funds can be insured, for example, would be a fire risk because it is such a crowded location in the market.
3. When the likelihood is low and the impact is small also, faced alone
4. If the likelihood is high frequencies but low impact, small and medium enterprises need to undertake preventive measures . For example, a restaurant business can design buildings with a semi-open design against risk due to power failure

Conclusion

Limitations of understanding and knowledge of the risks and management, often making small and medium enterprises have the potential for substantial losses, and if this happens then the contribution of this sector to the economy will be reduced and will certainly have a great impact.

Generely, the survey indicate that although the majority of SMEs aware of the risks of business , but fear terhadap potential risks that may arise from the still quite large. Efforts of risk management on small and medium enterprises can be done with five simple steps (make a list of risks , mak a rank the existing risks, define actions for each risk , implementing risk management, and evaluation should be done on an ongoing basis, because of the risk of business will not be eliminated, and can be reduced only.

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