



Risk Management Strategies for Small and Medium-sized Enterprises (SMEs) : A Case Study of Bricol

Bachelor's Thesis
Degree of International Business
Autumn 2022
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DP International Business
Author Hoang Dang Year 2025
Subject Risk Management Strategies for Small and Medium Enterprises (SMEs): A case study of Bricol
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Small and Medium-sized Enterprises (SMEs) contribute effectively towards the growth of an economy but they lack challenges like scarce resources, financial vulnerability, and lack of formal risk handling procedures. In this thesis, the author is going to uncover risk handling approaches in SMEs through a case study of Bricol Palvelut, a cleaning agency that works within Finland.

The aim of this research is to examine how SMEs identify, handle and manage the risks and provide practical recommendations for improving the risk management practices. This research uses a qualitative approach, where primary data is collected through a structure interview between the author and the owner of the company. The findings indicate that the company manages risks based mainly on personal experience and informal methods rather than standardized frameworks such as ISO 31000.

The main challenges Bricol has at the moment is the financial limitations, time constraints, and operating without dedicated risk management staff. Despite these challenges, the owner of Bricol Palvelut demonstrated awareness of risk management concepts and showed willingness to improve their practices in the future.

Based on the research, the author has several recommendations, which include creating a basic risk register, developing guidelines and checklists for the common risks. The suggestions are intended to help SMEs like Bricol Palvelut shift from reactive to more proactive and systematic risk management, which will enhance their long-term viability and resilience.

Keywords Risk Management, SMEs, Risk management challenges.
Pages 32 pages and appendices 1 pages

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1 Introduction

Small and medium-sized enterprises (SMEs) are crucial in the economic development, contributing significantly to creating jobs, economic growth, and innovation (Gherghina, Botezatu, Hosszu, & Simionescu, 2020, p. 1). Ferreira de Araujo Lima (2019, p. 11) stated that: "SMEs operate across various industries and serve as key drivers of economic growth as SMEs are considered the backbone of EU countries' growth". According to European Parliament (2019), in 2015, about 23 million SMEs provided 90 million jobs, generating a higher added value of 3.9 billion EUR. However, they face numerous challenges, such as financial instability, market competition, employee retention, and regulatory compliance issues. To resolve these problems, every company must know its business, strengths, weaknesses, threats, and opportunities and maintain these for future development. Islam, Tedford, and Haemmerle (2008, p. 421) stated: "Threats and opportunities are the downside and upside of risk, described as uncertainty that might have either positive or negative impacts caused by various events". Risk exposure has likewise expanded with the rise of the complexity of products and services. Ferreira de Araujo Lima (2019, p. 16) explains: "However, in many situations, a company can predict the risk and manage it to prevent the company from losing a massive amount of money to recover the loss."

Radner and Shepp (1996, p. 1374) state that: "Risk management is the process of attempting to safeguard the company's assets against the losses it may incur in the exercise of its activities using instruments of various kinds, including prevention, retention, and insurance, under cost-effective conditions that help a company to exploit a new business opportunity". Meanwhile, a risk management strategy enables a business to control its financial problems and respond effectively to potential risks that affect SMEs' long-term growth and stability. In this way, risk management can create value and maximize profits by minimizing costs and losses.

The author chose this topic due to a personal interest in economic risk management and the opportunity to conduct research in collaboration with Bricol Palvelu, a company dedicated to enhancing sustainability and future development. Through this partnership, this research aims to provide deep insights into risk management practices. From that, the author aims to provide a practical solution to minimize risks, maximize profit, and improve the company's sustainability in the long term.

1.1 Research Background

According to Suomen Yrittäjät (n.d.), there are 455265 companies in Finland, not including agriculture, forestry and fishing. These companies provide jobs for 1.46 million people and pay taxes which are used to support public services. Most of these business – which take up 95% of the companies- have fewer 10 employees.

Suomen Yrittäjät (n.d.) also stated that:” SMEs in Finland produce over half (54.1%) of the total 541 billion euros in company turnover and contribute around 40% to the country's GDP. The classification of companies is based on the number of employees, and they are grouped into five different types according to their size:

- Companies with fewer than 10 employees are called micro enterprises
- Companies with fewer than 50 employees are known as small enterprises.
- Companies with 50 to 249 employees are classified as medium-sized enterprises.
- Any company with fewer than 250 employees is considered an SME.
- Companies with 250 or more employees are referred to as large enterprises.

Of all companies, 95,7 % or 435 576, are smaller than 10 people. There are 15,899 (3,5%) small enterprises, 3,108 (0.7%) medium enterprises and 682 large enterprises (0.1%) (Suomen Yrittäjät, n.d.).

All businesses, regardless of size, operate in environments that involve various risks. However, Small and Medium-sized Enterprises (SME) often face daily internal and external problems that can harm their performance (Gorzen-Mitka, 2015, pp. 1). Despite their crucial contributions to employment, innovation, and economic growth, SMEs are more exposed to business failures, financial difficulties, and operational disruptions if risks are not properly addressed (Hudáková et al., 2023, pp. 1, 3).

Small and Medium-sized Enterprises (SMEs) are exposed to various types of risk, including financial, operational, compliance-related, and market risks. Unlike larger corporations, SMEs often lack dedicated risk management systems or specialized personnel to address these uncertainties. As a result, their ability to assess and respond to risks is often unstructured and inconsistent. This reliance on informal practices increases their exposure to disruptions and may threaten their overall sustainability (Hudáková et al., 2023, pp. 3–4).

1.2 Objective

Realizing that many SMEs lack a structured approach to risk management, this study aims to provide a comprehensive analysis of the strategies that may help SMEs improve their business by minimizing the risk and maximizing the profit to help the company explore more business opportunities in the future. Having Bricol as a commission company, the author can examine Bricol's risk management practices and enhance the acknowledgement of how SMEs can reduce the risks more effectively. Furthermore, the study will analyze how risk management affects business sustainability, growth and financial stability in SMEs. From that, the author has the insight and provides a good solution or recommendation to improve the risk management strategies that are applicable to SMEs across different industries. By presenting a practical case study with Bricol Palvelut, this study also aims to bridge the gap between the theoretical and practical solutions that apply to SMEs.

1.2.1 Scope and Limitation

This research focuses on Bricol Pavelut company, an SME operating in a competitive business environment. The main objective of this research is to identify how the company recognizes, manages and responds to various business and financial risks that SMEs commonly face.

The scope of this thesis is limited to the investigation of Bricol Palvelut's internal risk management practices through a qualitative analysis based on the interview between the owner of the company and the author. This thesis concentrates on the owner's own experience, knowledge, and steps in terms of risk management within the context of a small enterprise. The thesis does not extend to analyse the data of customers, financial records or external stakeholders.

Due to the qualitative nature of the research and data collection through a single interview, the findings of this thesis represent the perspective of one individual - the owner - and may not fully reflect the practices or challenges of other SMEs operating in different industries or environments. Therefore, although the study provides considerable insight into managing risk in small businesses, recommendations are clearly specific to the context of Bricol

Palvelut and need to be adapted when applied elsewhere in organisations with different structures, resources, or operating environments.

Additionally, the time limitation and the absence of access to internal company documents, financial data, or staff interviews restrict the depth of analysis. The conclusions and recommendations of this study are based on the owner's self-reported information and practical experiences, which may be subjective and influenced by personal management style.

Despite these limitations, the study aims to provide practical recommendations intended to support Bricol Palvelut in developing its risk management practices with the view to enhancing its sustainability and improving its resilience in business operations

1.3 Research Question

The central research question of this thesis is: “How can small and medium-sized enterprises (SMEs) effectively manage risks to ensure long-term business continuity and resilience in a competitive environment.”

1.4 Commission Company

Bricol Palvelut is a Finnish cleaning and property services company founded by Mohammed Benzara on November 29th, 2021. The company is primarily operating in the Pirkanmaa and Uusimaa regions. Bricol Palvelut offers a wide range of services, including professional cleaning services that fit the requirements of other businesses and households and specialized cleaning requirements (Bricol Palvelut, n.d.). With a good reputation and a strong emphasis on good quality and responsibility, Bricol is committed to delivering a high-quality service and cleaning solutions that improve hygiene, efficiency and customer satisfaction.

Bricol offers clients a comprehensive range of cleaning services that meet customer demands and maintain cleanliness and hygiene in various commercial or industrial environments, such as warehouses, stairwell cleaning, construction, high-level dusting, or furniture cleaning. In addition, Bricol provides services for private households.

As a professional cleaning service, Bricol Palvelu aims to provide high-quality cleaning services and commits to professionalism, environmental responsibility, and operational efficiency. This will make the company the best choice for both corporations and private clients. With its strong dedication to success, Bricol seeks to contribute positively to the cleaning industry by providing high-quality, innovative and sustainable cleaning solutions.

2 Theoretical Framework

2.1 Risk Management in SMEs

2.1.1 Definition of Risk and Risk Management

According to Shah (2025, p. 131), “risk is commonly defined as events that may happen and negatively impact the business objectives. Risk management is the systematic process of identifying, assessing and mitigating the risks that may affect a business’s operation, financial stability or reputation” . Having an effective risk management strategy helps a business reduce the risk and uncertainty that negatively affect the business. Furthermore, it helps a business make good decisions, enhance profit, explore more business opportunities and ensure long-term sustainability.

Risk management is particularly critical for small and medium-sized enterprises (SMEs) due to their limited financial and human resources, and their increased exposure to external shocks compared to larger corporations. SMEs often lack formalized risk management systems or professional risk managers, which makes them more susceptible to operational, financial, and market-related risks. According to Hudáková et al. (2023), many SMEs manage risks based on informal practices and the personal experience of owners rather than structured processes. As a result, these businesses face higher chances of disruption and financial instability when risks are not properly addressed (Hudáková et al., 2023, pp. 3–4).

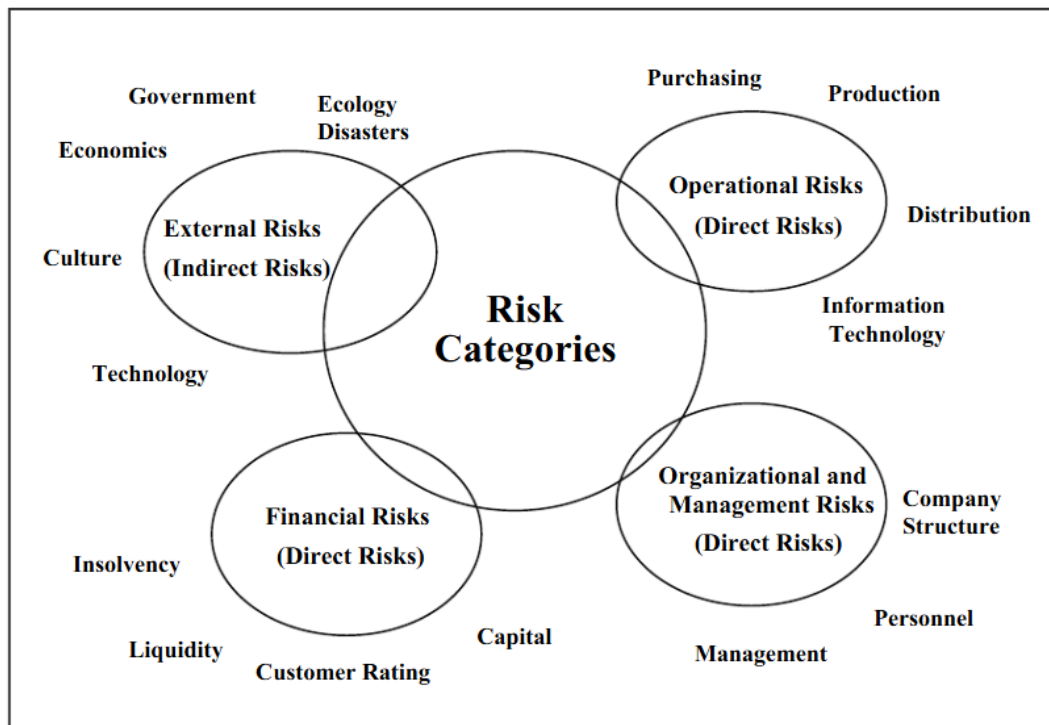


Figure 1: The

Enterprise's Risk Categories (Bannert, 2008)

The figure 1 above shows an enterprise's risk categories. As we can see, SMEs face a variety of risks that can be grouped into 2 main categories: External risks (Indirect Risks) and internal risks (Direct Risks) which include financial, operational, and management risks.

First, SMEs always have indirect risks, which are affected by technology improvement, culture changes, economic fluctuations and environmental events. These risks start from the outside of the organisation and typically beyond its control. Next, SMEs must face direct risks. The direct risks include organizational risks; they can be directly responsible for critical developments because they are directly connected with the company (Bannert, 2008):

- Financial risks are related to the company's money and financial health. Common financial risks include insolvency, cash flow problems, lack of access to capital, and customers not paying on time.
- Operational risks happen during daily business activities. These may include issues with purchasing, production delays, supply chain problems, or failures in IT systems.

- Finally, direct risks also include organizational and management risks. These risks are linked to how the company is run. These may involve poor management decisions, a weak company structure, or staffing problems such as skill shortages or high employee turnover.

In general, SMEs should be aware of the types of possible risks, and they should possess an effective risk management system. By identifying whether a risk is external, financial, operational, or organizational, businesses can better assess their vulnerabilities and develop targeted strategies to address them. This classification provides an effective framework which can be used to guide SMEs to identify sources and the probable impact of risks which is an important precursor to the attainment of resilience and long-term sustainability.

2.1.2 Importance of Risk Management in SMEs

Risk management plays a critical role in ensuring the sustainability and success of small and medium-sized enterprises (SMEs), which frequently operate under resource constraints and a higher vulnerability compared to larger corporations (Verbano & Venturini, 2013, p.186). SMEs often face heightened exposure to risks, including financial instability, operational disruptions, competitive market pressures, and technological vulnerabilities (Henschel, 2006, p. 555). Effective identification, assessment, and management of these risks can significantly improve an SME's resilience and ability to thrive amid uncertainty (Blanc-Alquier & Lagasse Tignol, 2006, p.273).

One critical aspect that underscores the importance of risk management in SMEs is their limited financial buffer. SMEs generally have fewer resources and less financial flexibility to absorb shocks compared to larger organizations (Verbano & Venturini, 2013, p.186). A single adverse event, such as a major client default, sudden market shifts, or a cyberattack, can severely impact the cash flow and potentially threaten the continuity of a small or medium business (Yakob et al., 2019, p. 493). Effective risk management strategies help SMEs anticipate these scenarios, allowing them to implement precautionary measures that safeguard their financial stability (Lima & Verbano, 2019, p.493).

Additionally, SMEs commonly rely heavily on key personnel, which makes them particularly susceptible to human resource risks. The loss of critical employees or knowledge gaps created by staff turnover can disrupt operations significantly (Verbano & Venturini, 2013). Proper risk management includes succession planning, cross-training, and knowledge

management practices, which minimize the adverse effects of employee turnover and ensure continuity of operations (Yakob et al., 2019).

Moreover, SMEs operate in increasingly competitive and dynamic markets, where rapid changes in technology and customer preferences require agility and responsiveness (Henschel, 2006, p.561). Risk management supports SMEs in adapting to these changes proactively rather than reactively. Firms that systematically integrate risk considerations into strategic decision-making are better equipped to seize opportunities, manage competitive threats, and adapt swiftly to market fluctuations.

Lastly, effective risk management can enhance the confidence of external stakeholders, such as investors, financial institutions, suppliers, and customers (Lima & Verbano, 2019 p. 5). SMEs demonstrating robust risk management practices are often perceived as lower risk, which can lead to better access to financing, favourable contract terms, and strengthened business relationships (Yakob et al., 2019, p. 495).

In summary, effective risk management is indispensable for SMEs to enhance resilience, ensure operational continuity, adapt to market dynamics, and build stakeholder confidence, ultimately supporting long-term growth and stability (Verbano & Venturini, 2013 p. 186).

2.1.3 Risk Management Process

The risk management process is defined as a methodology that helps an individual or organization understand the risks clearly, such as business threats (Infrastructure Risk Group, n.d.). From that, the organization can respond effectively to the risk, improve the quality of business, and enhance the result. The risk management process includes:

- Establishing the context: This is the first step of the process, where the leader needs to understand the project's business goals, environments, scopes, and objectives before defining the risk that they are going to meet. When this stage is cleared, everyone will understand the scene and know what is important and at stake. This stage is crucial because it is the earliest and holds important information. According to Institute of Risk Management (2010, p. 4): "Having the correct stakeholder is crucial to help an organization understand the context, which includes accelerated discussions on risks and risk validation, reducing the potential for follow-up meetings, confidence that all the risks have been addressed, and reducing the chances of those risks happening again to the organization."

- Identification: In this stage, everyone in the organization will work together to spot potential risks that negatively affect the overall result. This stage also includes every possible event that causes problems or unexpected changes to the business. According to the Institute of Risk Management (2010, p.5): “The sources of identification consist of a review of objectives, work breakdown structure, schedule, critical path identification, risk breakdown structure or categories, grade of the risk, surveys and questionnaires, formal conversations with key stakeholders, and review of early warning notices”. Figure 2 below illustrates how risk is identified and classified. Based on the figure, risk is categorized into two main types: Pure risk and speculative risk.

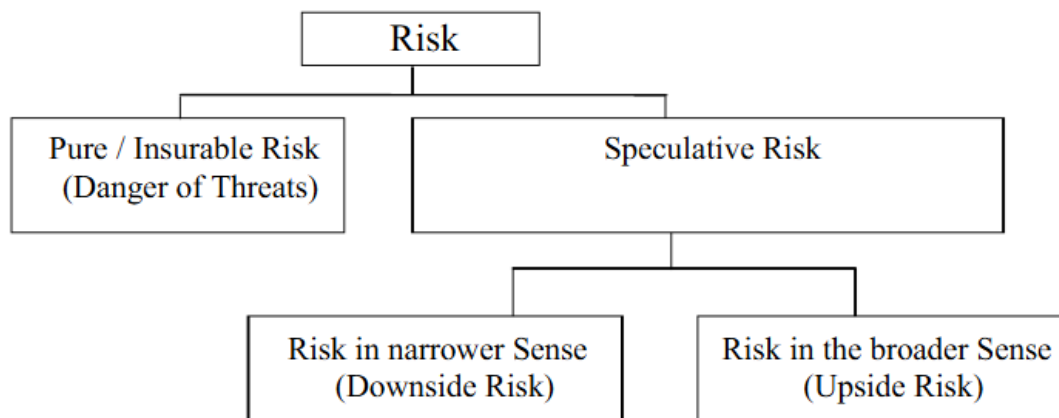


Figure 2: Classification of the Term Risk adapted from Kless (1998, p. 93) and Münzel and Jenny (2005, p. 29)

- Pure (Insurable risk) is the situation that only includes the possible loss or no loss, in which case the organization only finds the risks where there is no opportunity for any gains. These risks consist of threats, accidents, natural disaster, etc. These risks are measurable, predictable and pure risks are often insurable.
- The next one is speculative risk which includes both loss and gain. These risks are typically linked to business decisions such as investments, market expansion, or product innovation. Unlike pure risks, speculative risks are not usually insurable due to their uncertain nature, and we can divide the speculative risk into 2 types: Risk in narrow sense belongs to risk that has the potential to give the organization a negative result. On the other hand, risks in the “broader sense” are those that may also gain benefit for the organization, by bringing opportunities, competitive advantage or by increasing the market share.

- **Assessment:** Once the risks are identified, the organization will evaluate the possible risks and the extent of their impact on the business. From this, the organization will sort the risks, prioritize which risks need more attention, and continue monitoring them.
- **Response:** Different Risks require different approaches and solutions, which the risk team decides on. These solutions involve avoiding the risk, reducing its impact, transferring it to another party such as through insurance, or accepting it as part of the business process. Furthermore, the response must be appropriate and should align with the objectives that the organization needs. By using an appropriate strategy, the leader can respond to risks appropriately. However, the risk owner is to ensure that the timescales to complete are in line with the risk exposure and that the associated cost of the response is captured (Infrastructure Risk Group, n.d.).
- **Monitoring and reviewing:** Risks may change over time. The organization needs to check them regularly to see their status. From that, they can have a clear picture of the situation to adjust the approach and continue to implement the solution.
- **Escalate and Communicate:** All risks must be properly identified and communicated to ensure smooth business operations.

2.1.4 Barriers to Risk Management in SMEs

Risk management introduces a strategic process to help managers define and reach company objectives (Crovini, Ossola, and Britzelmaier, 2021, p. 118). According to Gazzawi and Hammarberg (2022, p. 5):” Risk management, regarding SMEs, is an evolving topic as the need for it has grown, whilst SMEs rarely prioritize risk identification, assessment, and monitoring”. Gazzawi and Hammarberg (2022, p. 5) also stated that “the practical implementation challenges for SMEs can vary compared to the larger corporations due to the differences in resources and the know-how”. However, because SMEs often lack sufficient resources and expertise, they tend to neglect the risk management process, and it is seldom fully carried out (Crovini, Ossola, and Britzelmaier, 2021, p. 118). Various frameworks have been proposed for information security risk management (ISRM), primarily targeting large companies and industries like manufacturing and finance. This shows that existing risk management approaches are not well adapted to the needs of SMEs, which often operate with limited resources. (Gazzawi & Hammarberg, 2022, p.5)

Msoni (2018, p. 7) found that: “Another common barrier is the lack of knowledge and expertise in risk management”. Many SME owners and managers may have limited

awareness of international standards such as ISO 31000 or Enterprise Risk Management (ERM) frameworks. Their understanding of risks is usually based on practical experience rather than formal education or training in risk management. This results in informal and reactive approaches to risk handling rather than proactive planning and risk mitigation strategies.

Human resource constraints present a considerable challenge to the implementation of effective risk management in small and medium-sized enterprises (SMEs). As noted by Hudáková et al. (2023, p. 3), most SMEs operate with a limited number of employees and often do not have designated personnel or departments responsible for managing risk. Consequently, the burden of risk identification and mitigation typically falls on the owner or manager. This heavy reliance on individual judgment, rather than structured and consistent processes, significantly undermines the quality and reliability of risk management practices in these enterprises

Furthermore, many small and medium-sized enterprises (SMEs) encounter challenges related to organizational culture in the implementation of risk management. According to Hudáková et al. (2023, p. 3), risk management is often viewed as a process more applicable to large corporations, which leads SME owners to undervalue the relevance of structured risk practices within smaller firms. This perception results in a reliance on personal intuition and experience rather than systematic procedures. Consequently, SMEs may fail to identify or respond effectively to potential threats, leaving them more exposed to operational disruptions and long-term instability.

2.2 Theoretical and Strategic Frameworks

2.2.1 Enterprise Risk Management (ERM)

Bromiley, McShane, Nair, & Rustambekov (2015, p. 1) stated that: “Enterprise Risk Management (ERM) proposes that firms address all their risks comprehensively and coherently, instead of managing them individually”. According to D’Arcy and Brogan (2001, p.2). Enterprise Risk Management (ERM) has evolved from several earlier approaches, including corporate risk management, business risk management, holistic risk management, strategic risk management, and integrated risk management.

Figure 2 below will illustrate the relationship between essential ERM elements based on COSO's Enterprise Risk Management: Integrating with Strategy and Performance (Maia, 2017, p.3), which offers a comprehensive and strategic framework that can be easily understood, identified, and managed across the organization. At first, the picture starts by defying the goals, objectives, and strategies to ensure that all the risk management efforts align with the risk assessment. According to University of Tennessee (n.d.): "When implementing ERM, leaders must create a risk-aware culture and determine the organization's risk appetite, that is, the extent to which the organization is willing to take and accept risks."

Once the goals, objectives, and strategies are clear, leaders come to the next step, which is risk assessment. The evaluation includes identifying risks and understanding the risks' impacts or possibilities to the business. From this assessment, leaders can have a massive picture of an organization's risks. Following assessment, the organization formulates appropriate risk responses, including avoiding, accepting, reducing, or transferring risks, depending on their nature and potential impact. According to University of Tennessee (n.d.): "Leaders should create feedback by ensuring that the risks are constantly monitored and that the results of those activities are reported to the leaders". In addition, the information and data help leaders respond to risks by making changes, updating goals, or setting new ones. They also make sure the organization keeps an eye on the environment to spot new risks or opportunities. When used properly, this model can help improve how well the business or organization works (University of Tennessee, 2022, p.1).

Enterprise Risk Management Model*



*Based on COSO's *Enterprise Risk Management: Integrating with Strategy and Performance* (2017).

Figure 2: The image illustrates COSO's 2017 Enterprise Risk Management model, which integrates risk management with organizational strategy, performance, and governance (University of Tennessee, 2022, p. 1)

2.2.2 ISO 31000 Risk Management Principles

The ISO 31000 standard helps a business with a base to manage the risks which can have consequences relating to economic performance, professional reputation, environmental safety and societal outcomes (Wolters Kluwer, n.d.). By following the standard, a business or an organization can easily achieve objectives, targets, explore more opportunities, reduce the risks and improve the resources for risk treatment.



Figure 3: The ISO 31000 Risk Management Process, illustrating the key steps of risk identification, analysis, evaluation, and treatment in a continuous cycle. (Wolters Kluwer, n.d.)

The ISO 31000 standards offer a complete framework for risk management, guiding organizations through the entire process by addressing all key areas involved. The Figure 3 below is an example of risk management process from the ISO 31000 standard:

The measures for risk management follow the guidelines and phases defined by ISO 31000, as displayed in the following diagram. It is illustrated as a cycle, implying that the process is recurrent in risk management. In its essence, the process starts with identifying

the scope, context, and criteria, all of which set down the ground and the condition within which risks would be tackled. It is followed by risk assessment, which entails three sub-processes, namely risk identification, where risks are acknowledged. Risk analysis is a process of determining the likelihood that a business is going to experience certain risks and their probabilities of occurrence and their negative effect. Risk evaluation is a process of judging the risks as being severe or otherwise. Communication and consultation with other stakeholders to ensure that they are involved in monitoring and reviewing to make the necessary adjustments is important. The arrows drawn in circles show that risk management is a cycle of identifying and reconsidering risks, which underlines the idea of constantly engaged and iterative decision-making.

According to the International Organization for Standardization (ISO), ISO 31000 is essential for every business because it provides a structured framework for risk management. It helps organizations clearly understand different types of risk and apply effective strategies to reduce them across all departments. It also supports strategic decision-making by integrating risk management into governance, strategy, planning, reporting processes, policies, values, and organizational culture. Furthermore, operational excellence can be achieved through ISO 31000, as it enables organizations to identify potential threats and opportunities in a timely manner, and to allocate resources efficiently, and enhance stakeholder confidence. By promoting a proactive approach, the standard helps organizations anticipate and address risks before they escalate, transforming potential challenges into strategic advantages. Additionally, a well-structured risk management process enhances stakeholder confidence by demonstrating the organization's commitment to resilience and preparedness, thereby reinforcing trust and credibility among investors, customers, and other key stakeholders (ISO, 2018).

2.2.3 Resource – Based View

The Resource-Based View (RBV) explains that companies can gain and keep a competitive advantage by using their own resources and skills well (Nyamweya, 2023, pp. 13). Originally developed by Wernerfelt (1984, p. 171) and later expanded by Barney (1991, pp. 105–112): “The RBV emphasizes that not all resources are equal — only those that are valuable, rare, inimitable, and non-substitutable (VRIN) can serve as sources of sustained competitive advantage.”.

In the context of SMEs, the RBV helps explain how their internal strengths can support success—such as managerial expertise, organizational culture, brand reputation, and

technological know-how—can be leveraged to overcome external risks and challenges”. Unlike large corporations, SMEs typically lack access to abundant financial or physical resources, making the effective deployment of intangible assets even more critical (Barney, 1991, p. 105).

The Resource-Based View emphasizes that capabilities are important because they reflect a firm's ability to effectively organize and use its resources. For example, an SME with strong adaptive capacity or innovative culture may be more resilient in the face of risk and uncertainty (Wernerfelt, 1984, p. 173).

From a strategic risk management viewpoint, the Resource-Based View (RBV) recommends that firms focus on building and safeguarding key resources that provide a competitive advantage, instead of only reacting to risks. These may include relationships with customers, intellectual property, or employee know-how—all of which can be sources of resilience and strategic agility (Barney, 1991, p. 112).

Thus, the RBV provides a foundation for understanding why some SMEs are better at navigating uncertainty: not because they avoid risks, but because they possess and cultivate unique resources and capabilities that allow them to respond effectively and innovate under pressure.

2.2.4 Dynamic Capability Theory

The Dynamic Capability Theory (DCT) offers a valuable perspective on how organizations adapt, integrate, and reconfigure internal and external resources in response to rapidly changing environments (Teece et al., 1997, p. 516). Dynamic capabilities emphasize the processes that enable firms to innovate, adapt, and grow, rather than relying on the fixed resources highlighted in the Resource-Based View.

According to Drnevich and Kriauciunas (2011, p. 258):” Dynamic capabilities enable a firm to take advantage of revenue-enhancing opportunities and adjust its operations to reduce costs, helping it stays competitive in changing environments.”. These capabilities are essential for SMEs, which often face volatile market conditions and resource limitations. For instance, a small business may need to swiftly adapt its operations or pivot its strategy in response to changes in consumer preferences or regulatory shifts.

Teece (2007, pp. 1321–1323) categorizes dynamic capabilities into three main clusters:

- Sensing: Identifying and assessing opportunities and risks.
- Seizing: Using available resources to take advantage of opportunities and gain value.
- Transforming: Continuously renewing and adapting business models and processes.

In the context of SMEs, DCT highlights the importance of flexibility and innovation. A firm's ability to develop new processes, reallocate resources, and integrate new knowledge helps it survive in turbulent environments. Teece (2007, p. 1325) stated: "Dynamic capabilities thus serve as a strategic tool for SMEs to manage risks and sustain competitive advantage over time".

2.3 Current Risk Management Practices in SMEs

2.3.1 Common Risk Management Practices in SMEs

According to Hudáková and Masár (2023, p. 1), Small and Medium-sized Enterprises (SMEs) are particularly susceptible to a range of internal and external risks due to their limited resources, smaller workforce, and often informal business structures. These vulnerabilities can hinder their ability to respond effectively to market challenges. Implementing effective risk management practices is essential for SMEs to enhance their resilience, ensure survival, and foster growth in a competitive environment. Risk management is a structured process that helps organizations identify risks, understand their nature, and choose suitable methods to assess and manage them (Buganová et al., 2023, p. 1 - 2).

One prevalent practice among SMEs is risk identification, which is often conducted informally. Many SMEs rely on the experience of the owner or senior management team to recognize potential threats. Tools such as SWOT analysis, brainstorming sessions, or simple checklists are frequently used to assess vulnerabilities related to finance, operations, supply chains, and market dynamics (Falkner & Hiebl, 2015, p. 130).

Following identification, risk assessment and prioritization are typically performed using subjective judgment or basic methods like risk matrices. Due to time and resource constraints, SMEs often focus on risks with immediate financial or operational impact, such

as cash flow issues, customer defaults, or equipment failure (Falkner & Hiebl, 2015, p. 131).

To mitigate these risks, SMEs employ various risk mitigation strategies, including diversifying suppliers, maintaining emergency cash reserves, providing employee training, and implementing standard operating procedures. These actions help reduce the likelihood of disruptions and support business continuity (Falkner & Hiebl, 2015, p. 132).

Another common method is using insurance to pass the risk to another party. SMEs often purchase basic insurance policies such as property insurance, liability insurance, and, increasingly, cyber insurance to protect against unexpected losses (Falkner & Hiebl, 2015, p. 133).

Despite the growing role of technology in risk management, the adoption among SMEs varies. Some firms use accounting or inventory management software to monitor financial health and operational performance, while others leverage cloud storage and basic cybersecurity tools to safeguard digital assets (Chapelle, 2023).

However, challenges remain, particularly due to limited financial resources and lack of specialized knowledge. Many SMEs do not have formal risk management systems or dedicated personnel, making it difficult to address complex or long-term risks effectively (Falkner & Hiebl, 2015, p. 134).

2.3.2 Regulatory and Legal Requirements for SMEs

In Finland, SMEs are subject to several regulatory requirements including employment law, environmental regulations, data protection laws, and tax obligations. The Finnish Tax Administration, for example, requires businesses to adhere to strict VAT filing and income reporting standards (Finnish Tax Administration, n.d., para. 3). SMEs must also comply with the Employment Contracts Act, which governs employee rights, working conditions, and employer obligations.

One key regulation is the EU's General Data Protection Regulation (GDPR), which applies to all companies handling personal data of EU citizens. GDPR mandates secure data

processing, clear consent protocols, and the right of individuals to access or delete their data. Non-compliance can lead to significant fines (European Commission, 2020, para. 5).

Furthermore, SMEs in certain sectors, such as cleaning and construction, may be required to obtain licenses or adhere to industry-specific safety and environmental guidelines, monitored by organizations like the Regional State Administrative Agencies (AVI) in Finland (AVI, 2023, para. 2).

Staying compliant helps SMEs reduce legal risks, avoid fines, and build trust with stakeholders. To manage regulatory risks effectively, SMEs should implement compliance monitoring systems, offer training to staff, and stay updated on changes in legislation relevant to their industry.

3 Methodology

3.1 Research Approach

Qualitative research enables a deeper understanding of how risk is identified, assessed, and managed within an organization, especially in the context of small and medium-sized enterprises (SMEs). This design is suitable for an interpretative, understanding-based approach, which emphasizes the importance of individual experiences and contextual factors (Creswell & Poth, 2018, p. 7). In this study, the objective is to explore the lived experience and perceptions of risk management within Bricol Palvelut. The interview questions were formulated as open-ended to encourage the respondent to express their thoughts, feelings, and experiences in greater detail. Open-ended questions are widely recognized in qualitative research for enabling rich, descriptive responses that reflect participants' realities (Patton, 2015, p. 14).

Qualitative research is particularly useful for answering exploratory questions such as "How?", "What?", or "Do?", aiming for a comprehensive and in-depth understanding of the phenomenon under investigation (Merriam & Tisdell, 2016, p. 24). The data collected are typically in textual or spoken form, which can make the analysis complex and less standardized. As a result, qualitative research typically involves a small number of participants to provide in-depth insights rather than broad generalizations (Silverman, 2021,

p. 45). In this research, the qualitative approach was selected because of the nature of the topic—risk management behavior in SMEs. A qualitative interview format allows for the exploration of the factors influencing engagement with risk management practices and provides insight into how individuals conceptualize risk management frameworks. This approach ultimately helps the author to generate practical recommendations for the commissioning company based on nuanced, real-world understanding.

3.2 Research setting of the questionnaire

To fulfil the objectives of this thesis, the data is collected through the online interview with the owner of Bricol Palvelut. As the company's founder and current manager, the owner is directly involved in all strategic, operational, and financial decisions. He is responsible for identifying and addressing risks that may affect the company's performance.

The online interview was held on the 8th of April 2025, 12th of April 2025 and 18th of April 2025 through Google Meet. The author had 20 minutes of each meeting with the owner of Bricol Palvelut. A set of open-ended questions was used to guide the conversation. This flexible format allowed the interviewee to share insights in his own words, while still addressing key themes such as risk awareness, identification, handling practices, and challenges. No other data sources such as company documents, customer records, or financial reports were used in this research. The analysis and conclusions are based solely on the content of the interview.

The interview questions were designed to clearly understand how risk is seen and recognized in a small business setting. Overall, these questions provided rich, qualitative data that reflect the real-life risk management behaviour of an SME. The responses allow the author to identify the themes related to informal strategies, reactive practices and challenges that small and medium businesses must face in managing the risk. The insights gathered supported the research aim of exploring practical, experience-based risk management in the SME context

In this research, the data collection strategy adopted was purposive sampling. This non-probability sampling method was chosen because the study required insights from an individual with direct and comprehensive experience in managing business risks in an SME. The owner of Bricol Palvelut was purposefully selected due to his dual role as

founder and current manager, making him the most suitable respondent for the research topic. He is responsible for all strategic, operational, and financial decisions, which positioned him as a key informant. Purposive sampling is particularly suitable in qualitative research, as it enables researchers to collect rich and relevant data from individuals who have specific knowledge of the phenomenon being studied. This approach aligned with the aim of this thesis to explore practical, real-world understandings of risk management in a small business setting.

4 Data Analysis

This thesis adopts a qualitative approach to analyze the data collected through a semi-structured interview with the owner of Bricol Palvelut, a small cleaning service company based in Finland. The purpose of the analysis was to gain an in-depth understanding of how risk is perceived, managed, and reflected upon within the daily operations of a small enterprise. Qualitative content analysis was chosen as the appropriate method for interpreting the participant's responses, as it allows the researcher to identify patterns, concepts, and themes through a close examination of verbal data. This approach is particularly suitable for exploratory research in business studies, where the goal is to understand personal experiences, perceptions, and behaviors in a real-life context (Graneheim & Lundman, 2004, p. 106).

The interview was conducted online and recorded with the participant's consent. The entire conversation was transcribed word-for-word to preserve the accuracy and richness of the original responses. Once the transcription was completed, the researcher read the document multiple times to become thoroughly familiar with the content. This stage helped to identify meaningful insights and phrases that were relevant to the research objectives.

Rather than using pre-set categories, the researcher examined the data line by line to detect recurring expressions, views, and reflections made by the participant. These insights were then grouped based on similarities in meaning and relevance to risk management in small businesses. From these grouped ideas, several key themes began to emerge. These themes reflected the business owner's attitudes, experiences, and practices concerning business risks, including financial uncertainty, customer-related risks, and the role of personal responsibility in risk handling.

As the analysis progressed, attention was given to how the participant described their day-to-day experiences, how they reacted to challenges, and how past situations had influenced their current decision-making. The findings were interpreted in the context of existing literature to draw meaningful conclusions and provide practical recommendations for other SMEs experiencing similar challenges.

The analysis process was conducted manually and with a strong focus on maintaining the integrity of the participant's voice. The aim was not to generalize findings but to gain a deep, contextual understanding of one entrepreneur's approach to risk in the specific setting of a Finnish small business. This approach reflects the nature of qualitative research, which values depth, nuance, and the richness of individual experience.

5 Finding

5.1 Findings

In this section, the author presents the key findings of this study based on the interview between the owner and the owner of Bricol Palvelut. These findings reflect the company's current practices and attitudes toward risk management.:

- **Understand the risk:** The owner recognizes risks at any event or issue that can negatively impact the operations, service delivery or customer satisfaction of the business. Although the owner is aware of formal frameworks such as ISO 31000, he chooses not to use them, citing time constraints and the complexity of applying such models to a small-scale business.
- **Risk Identification Practices:** The company does not follow a formal risk identification process. The business does not use tools such as risk registers, checklists, or structured assessments. There is no system for recording past incidents or lessons learned, and employees are not involved in identifying or discussing risks. This means that risks are often identified reactively rather than proactively.
- **Risk Handling Strategies:** Bricol Palvelut follows a reactive approach to risk management. When a risk emerges, the owner responds based on experience and judgment, without predefined protocols or contingency plans. For example, if a customer is dissatisfied with service quality, the owner personally contacts the customer, apologizes, and arranges for corrective action - usually within one day.

There is no documented process for addressing these issues, and each situation is handled independently.

- **Absence of Formal Frameworks:** While the owner is aware of formal standards like ISO 31000, they are not applied in the business. Risk management is entirely informal and based on personal knowledge. The owner has never used software or external risk management resources and does not have any written strategies or documentation outlining how risks should be managed.

Furthermore, the company faces other challenges such as time constraints, financial limitations and human resources. Because of these factors, the owner faces with significant barriers that limit the ability to implement the risk management practices. However, the owner shows a strong willingness to implement the risk management practices. He expressed interest in adopting simple and cost-effective tools or guidelines if they are specifically designed for small businesses. The owner stated that he would welcome a customized risk management plan that fits the company's size and operational reality.

In conclusion, the findings indicate that Bricol Palvelut operates with an informal but highly responsive risk management approach. The company's reliance on the owner's experience and quick reactions ensures immediate risk mitigation but limits long-term preparedness and resilience. There is a clear opportunity to enhance risk management by introducing basic tools and involving staff in the process, all tailored to the company's limited resources and small structure.

5.2 Risk Identification

The second theme explored how risks are identified within Bricol Palvelut. The owner made it clear that he was solely responsible for this process. Risk identification in the company is carried out informally, without using formal structures, checklists, or risk assessment tools. Instead, it is based on personal experience, daily operational awareness, and intuition.

The owner confirmed that he is still actively engaged with all aspects of company operations, which allows him to identify risks when and if they occur. Some of these risks comprise customer satisfaction, schedule, cash flow, service quality, and staff availability risks. None are being monitored or recorded by systems in place. For example, there is no

written risk register or risk log to record issues that have occurred or to help predict future risks.

This lack of documentation means lessons learned from past risk events are not formally captured. Therefore, the owner decides on a risk-by-risk basis based on his experience and memory alone. When asked if any staff members are assigned to assist with identifying the risks, the owner replied that he does this himself and that there is no delegation or involvement by others.

This approach is common in small businesses where resources are limited, and the owner is heavily involved in day-to-day management. However, it does restrict the company's forward or long-term risk-planning capabilities. It is an interruption- or event-based risk identification that is reactive rather than through constant risk evaluation or forecasting.

5.3 Strategic Responses to Risk

Once a risk is recognized, Bricol Palvelut responds through immediate action guided by the owner's experience and situational judgment. There is no formalized risk response framework, nor are there written protocols, standard operating procedures, or contingency plans to guide the company's actions. The owner handles all risk-related decision-making on a case-by-case basis.

The interview revealed that the company adopts two main types of strategies:

- Anticipatory or planned responses for known risks
- Reactive responses for unexpected or sudden issues

For foreseeable risks, such as those involving customer dissatisfaction or service disruptions, the owner considers possible scenarios in advance and tries to think of possible solutions. However, this planning is not written down or shared with others. Instead, it exists as part of the owner's personal management style.

When the author asks the interviewee about the response for the risk when it is identified, the interviewee answered:

"If I know it could happen, I try to prepare something. But if something comes suddenly, we just react as fast as possible."

In the case of unexpected risks, the company takes immediate action to contain and resolve the issue. For example, one common risk involves customer complaints regarding service quality. The owner treats such issues as critical because they can harm the company's reputation. His typical response involves

- Personally, contacting the affected customer
- Acknowledging the issue and offering a prompt apology
- Scheduling a follow-up visit to address the problem
- Making sure the customer is satisfied after the correction

This hands-on and customer-focused strategy demonstrates a commitment to resolving risks quickly and maintaining good relationships. However, these actions are performed without any written documentation or predefined process. The effectiveness of the response depends entirely on the owner's availability and ability to act quickly.

Additionally, the company does not currently engage in formal risk treatment activities such as risk avoidance, risk transfer (e.g., insurance or outsourcing), or formal risk mitigation planning. Instead, the owner uses his own discretion to decide the best course of action in the moment. This casual yet adaptive reply reflects the business's time, personnel, and budget limitations.

The company's risk management in general is pragmatic, intuitive, and prompt in nature. While this has hitherto worked in ensuring customer needs and continuity of operations, this may limit the firm to deal with simultaneous or composite risk events in the future.

5.4 Challenges in Risk Management

In this section, the study explored the primary obstacles the owner faces when managing risks in a small business environment. The owner identified three major challenges: limited financial resources, lack of time, and operating the business as a sole decision-maker.

The first and most significant challenge is financial constraint. The owner explained that while he often identifies possible risks and solutions, he is not always able to act on them due to budget limitations. For example, hiring additional help, investing in better systems, or expanding the business requires funding, which is not always available. As a result,

some risks must be tolerated or handled reactively because the business cannot afford preventive measures:

The second challenge is time management. Since the owner is personally responsible for all areas of the business—including service delivery, administration, customer relations, and risk handling—he has very little time left for forward planning or strategic risk management. This results in a day-to-day survival mindset, where immediate issues are prioritized over long-term preparation.

Thirdly, the owner faces challenges related to human resource capacity. There are no specialized staff or departments responsible for managing risk. As the company relies heavily on the owner's individual knowledge and efforts, this creates a single point of dependency. If the owner is unavailable or overwhelmed, the business may be at risk of operational disruption.

These combined challenges contribute to a reactive rather than proactive approach to risk management and highlight the structural and resource-based limitations typical of many micro and small enterprises.

5.5 Theoretical Linkages

The final section of the interview focused on the owner's thoughts about potential improvements and his attitude toward evolving risk management practices. The owner expressed a clear desire to improve the current approach and acknowledged the benefits of having a more structured system. However, he also stressed that any improvements must be compatible with the company's size, resources, and current operations.

He indicated that while his existing methods are based on personal experience and intuition, he is open to adopting formal practices if they are simple, affordable, and tailored to his business context:

The owner's comment reflects a common sentiment among small business operators: the need for solutions that are practical, not overly complex, and require minimal time and financial investment. He showed a positive attitude toward training, planning, and using

tools to document and prioritize risks in the future, provided that such efforts do not burden the already limited resources of the business.

Although he does not currently have a risk register, documented procedures, or risk management software, the owner is aware of these tools and believes they could help improve the business's ability to handle risks proactively.

In conclusion, the owner is willing to enhance the company's risk management strategy, especially if the support and resources to implement a fitting solution become available. This openness to improvement is a positive sign for the company's future adaptability and resilience.

The final part of the interview explored the owner's perspective on improving the company's risk management practices. He expressed a clear interest in developing a simple and practical risk management strategy that would be tailored to the size and nature of his business. While he acknowledged that his current approach is informal and based on intuition, he is open to learning and applying a more structured approach in the future:

This comment shows a willingness to enhance business operations through better planning, provided that any proposed system is realistic, cost-effective, and easy to implement. Although no immediate plans for formalization exist, the owner is aware of the need to evolve and adapt in order to ensure long-term business resilience.

In summary, the findings indicate that risk management at Bricol Palvelut is based on informal, experience-driven practices. While the owner is knowledgeable and responsive, the absence of formal systems, documentation, and resource support limits the potential for more proactive risk management. Nevertheless, there is openness to improvement and learning, especially if the tools and approaches are accessible and appropriate for SMEs.

6 Conclusion and recommendations

6.1 Conclusion

The aim and focus of this study were to examine risk management practice within a small and medium-sized enterprise (SME) by taking the case study of Bricol Palvelut. The study found that the company's current risk management practice is extremely informal and

reliant on the owner's intuition and personal experience and everyday participation in the operations of the company. It is common in most micro and small enterprises with scarce resources that the risk management practice is not formalized.

The owner of Bricol Palvelut demonstrated a clear understanding of the concept of risk, recognizing it as any factor that may negatively affect the company's ability to operate, deliver services, or maintain customer satisfaction. However, the risk identification process is reactive rather than proactive. Risks are identified through real-time observation and operational experience without any formal documentation, risk assessments, or preventive planning.

Risk-handling strategies are focused on immediate problem-solving. If and when risks do occur, the owner responds quickly to reduce their impact, particularly in customer complaint or disruption to the operations. Nevertheless, lack of defined risk processes, documented procedures, and designated responsibilities is itself a significant risk to the risk resilience of the company in the long run.

The major issues in the study are money constraints, human resource constraints, and time constraints. Everything is done by the owner himself in the company, and this increases work burden and decreases the likelihood of strategic risk planning. Despite these challenges, the owner expressed openness to adopting risk management improvements, provided they are simple, cost-effective, and suitable for the company's operational scale

6.2 Recommendations

Based on the findings from the study, here are proposed holistic and actionable recommendations to address the issues of Bricol Palvelut and reinforce its risk control procedures. Solutions are designed to be easy to adopt, affordable, and suitable to the small firm environment of the company:

1. **Develop a Basic Risk Register:** The company should maintain a risk register to record all the risks noted down with the causes, probable impact, and countermeasures being implemented against them. It could be an Excel spreadsheet with columns like risk description, impact potential, probability of occurrence, countermeasures, and responsible person. Having this on record would make risk follow-up easy, avoid repetition of the same errors and provide wiser decision making. It would simplify learning from past experiences and planning more formally for the future risks.
2. **Create Guidelines and Checklists for Common Risks:** Bricol Palvelut should develop simple guidelines for handling frequent risks, such as customer complaints, service delivery problems, or operational disruptions. This can include step-by-step instructions or checklists outlining:
 - How to respond to customer complaints quickly and professionally
 - Procedures for handling delays or equipment failures
 - Contact lists for emergency situations
 - Communication templates for customer updates
3. **Schedule Regular Risk Review Meetings:** To shift from a reactive to a proactive risk management style, the owner should allocate specific time- such as once a month- for reviewing risks. During this session, the owner can:
 - Review the risk register
 - Evaluate whether recent risks were handled effectively
 - Identify any new potential risks
 - Plan actions for prevention or mitigation
4. **Participate in Basic Risk Management Training or Consultation:** The owner can benefit from free or inexpensive training offered by local business associations, chamber and commerce, or through the internet. They are then offered step-by-step instructions and easy-to-use tools designed for SMEs. Another option is to seek the guidance of a risk adviser for an initial session that would provide professional guidance to the specific operations of Bricol Palvelut. Awareness and assurance in applying enhanced risk management methods would be increased with this action.

5. Encourage Employee Involvement and Communication: Even though the company is small, involving part-time or temporary employees in risk reporting and feedback is beneficial. The owner could:
 - Conducting short meetings to obtain employees' input on potential risks
 - Encourage employees to report problems or suggestions openly
 - Establish a user-friendly reporting system (oral or via a shared document) where staff members can input any observation pertaining to risks

6.3 Suggestions for future research

This research focused on a single case study of a small cleaning and property services company. Future research could generalize to numerous SMEs from many sectors to make comparisons and identify differences and similarities in practices across sectors. Comparative study could examine more clearly industry-specific risks and risk issues equally encountered by SMEs.

Additionally, future research could explore the development and effectiveness of simplified risk management tools, frameworks, or training programs specifically tailored for micro and small enterprises. Investigating the role of government or industry support in facilitating SME risk management practices could also provide valuable contributions to the field.

In conclusion, while Bricol Palvelut currently operates with an informal and reactive approach to risk management, there are clear opportunities for improvement. Implementing the recommended actions would help the company enhance its risk awareness, improve operational resilience, and better prepare for future challenges. The findings of this research highlight the importance of adopting practical and scalable risk management practices within SMEs to support their long-term sustainability and success.

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Appendix 1. Data management plan

The research data in this thesis consists of qualitative data collected through a semi-structured interview with the owner of Bricol Palvelut, a small cleaning service company based in Finland. The interview was conducted online via Google Meet and recorded with the participant's informed consent. The data collection aimed to explore the owner's experiences and understanding of risk management in the context of small and medium-sized enterprises (SMEs).

The interview was transcribed verbatim and used as the primary source for qualitative content analysis. The researcher applied manual record to the transcript, identifying key themes and patterns related to risk perception, decision-making, and business continuity strategies in an SME setting.

The collected data includes the original audio recording (MP3 format), the full transcript (DOCX format). These files are securely stored on the researcher's personal device with password protection and are also backed up on a secure, access-restricted cloud drive.

As the identity of the business owner is disclosed in the thesis, the participant was informed in advance and gave explicit written consent to use their identity and business name in the publication. The participant was also informed of their right to withdraw at any point prior to thesis submission. Any sensitive personal details outside the agreed scope have been excluded from the thesis to maintain ethical standards.

Due to the inclusion of identifiable information, the research data will be stored securely for a period of 12 months following thesis approval, in accordance with institutional guidelines. After this period, all digital copies of the audio, transcript, and analysis files will be permanently deleted. The data will not be shared publicly or reused for future research. No data-sharing agreement is necessary, as the data will remain confidential and under the sole access of the researcher and thesis supervisor.

Appendix 2. Interview Questions

Can you briefly describe your business and your role in it?

How long has your company been operating?

How many employees do you currently have?

What does “risk” mean to you as a business owner?

What are the most common risks your company has faced in the last few years?

Has your perception of risk changed over time?

How do you usually identify risks in your business?

Do you involve others in the company when identifying risks?

Do you document or track risks in any way?

How do you typically respond when a risk is identified?

Can you describe a past risk situation and how you handled it?

Do you have contingency plans or backup strategies?

What types of decisions do you personally make on a daily, weekly, and long-term basis in your business?

Have you ever considered expanding or changing your services due to risks in the market?

How often do you review your company’s goals and adjust operations based on unexpected events?

How do you prioritize between multiple risks happening at the same time?

Have you ever made a wrong decision about a risk? What did you learn from it?

How do you keep track of customer expectations, and what do you do when those expectations are not met?

Do you have any method for communicating potential risks with employees, partners, or suppliers?

How often do customers or clients help you notice problems before you see them yourself?

Have you made any long-term changes in your company because of a past risk event?

If you could go back to when you started the business, what would you do differently in terms of risk?

What type of support or knowledge do you wish you had earlier to handle risk better?

What are the signs that tell you your current way of managing risk is working or not working?

How do you personally feel when a risk appears — is it stressful, motivating, or something else?

Do you see risk as something that limits your growth or something that pushes you to adapt?