

# Effect of implementing business risk management in micro, small medium enterprise

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## ABSTRACT

Risk management is very important to do because it can prepare the company to face certain conditions that cause losses for the company. The research method using qualitative, qualitative types that the author uses are interviews and observations. The author's goal of choosing MSME Blackforest Cakeshop as a partner in carrying out this project is because the authors consider that MSME Blackforest Cakeshop has a wide market reach and many consumers. In addition, the MSME Blackforest Cakeshop is located in one of the economic centers of the city of Batam which has very promising market opportunities and the author wants to advance MSME partners by providing advice on how high the risk of this writing partner is in the business world. This study aims to determine the application of risk. The contribution of the research is that it can provide risk management analysis for MSME businesses, especially Blackforest Cakeshop using a risk matrix so that the impact on MSME businesses can be known and solutions that can be applied to risk management problems in Blackforest Cakeshop MSMEs.

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## 1. Introduction

Risk management is very important to do because it can prepare the company to face uncertain conditions. According to (Pardjo, 2017) by identifying, measuring, mitigating, creating alternative risk treatments, tracking their whereabouts, and controlling risk management or prevention, risk management is used to disclose various risks that may arise. Risk management can also reduce the possibility of failure which has the potential to reduce the possibility of internal and external losses to company profits (Sipayung & Ardiani, 2022), legal violations, decreased HR productivity, and decreased company reputation.

According to (Agmasari, 2018), one of the 16 creative industry sub-sectors in Indonesia is the food and beverage sector. Where this sub-sector is understood as the production of goods from regional culinary specialties and their marketing in Indonesia.

Supply chain risk management is a risk approach system implemented within a supply chain structure. Risks that arise in supply chain activities such as scheduling, technology, and uncertain costs, can be managed separately based on risk perception (Pardjo, 2017) In the supply chain, risks often occur and can affect the quality of business processes within a company. Particularly in perishable product supply chains, risks are quite difficult to avoid. The risk that this occurs often causes too much disruption, therefore this can affect the supply chain sustainability of perishable products. Risk is the possibility of something happening that can have a positive or negative impact on a particular goal. In other words, the risk is an outcome that can cause harm from an action or action (Siswanti et al., 2020).

The MSME that the author analyzes is BlackForest Cakeshop. Blackforest Cakeshop is a micro, small and medium business from Batam which is engaged in the culinary field, especially cakes and bread. The type of ownership in the Blackforest Cakeshop MSME is in the form of a Limited Liability Company (PT) which receives an injection of capital from the founder of the business.

The reason the author chose Blackforest Cakeshop SMEs as partners in carrying out this project is that we consider that Blackforest Cakeshop SMEs have a wide market reach and many consumers. In addition, the MSME Blackforest Cakeshop is located in one of the economic centers of the city of Batam which has very promising market opportunities.

## **2. Research Method**

### **2.1 Strategic Risk**

According to (Frigo & Anderson, 2011), Strategic Risk Management is the process of identifying, assessing, and managing risks and uncertainties, affected by internal and external events or scenarios, that may hinder an organization's ability to achieve its strategies and strategic objectives with the ultimate goal of creating and protecting shareholder and stakeholder value. Strategic risk management is one of the important processes that must be considered by entrepreneurs when starting a business to successfully run the business properly (Hopkins, 2018).

### **2.2 Tactical Risk**

Tactical risks are opportunities that arise from planned events, anticipated events, unforeseen events, and opportunities that, if taken, will win the business competition. This process is very important to gain an advantage over other competitors in the market (Schulte & Hallstedt, 2018b). In the past, organizations have concentrated on the management of tactical risks or risks related to operations and information technology. Risks that affect or are caused by the strategy and objectives of the company also known as proactive or strategic risks are what businesses need to concentrate on today (Schulte & Hallstedt, 2018a).

### **2.3 Operational Risk**

Operational risk according to (Colem, 2010) (Violin, 2019) is the business risk of loss resulting from inadequate or failed internal processes, external events, fraud, bookkeeping errors, equipment damage, or theft. Company Operational Standards (SOP) are vital in carrying out an effort to prevent Operational Risk as explained by Rodney Coleman. The risks are connected with everything involved in the daily business operations, such as technical difficulties and personal problems, technical setbacks, such as problems with the website, problems with servers, etc. Individual issues can include employee data entry errors, dealing with customers who don't follow SOPs, and more (Bril et al., 2019; Sipayung & Cristian, 2022; Violin et al., 2022).

### **2.4 Compliance Risk**

Regulatory risk related to government. In other words, this risk can be caused by failure to comply with the rules or guidelines set by the central or local government. Every community knows that a region has the right, power, and obligation to manage its governmental affairs and environmental interests following statutory regulations.

### **2.5 Financial Risk**

Financial risk is the risk that results from a business's choice to borrow money from others to reduce its cost of capital. Usually, when explaining "Financial Risk", cash flow to the company and potential losses will also be involved (Landoll, 2021). One element that is detrimental to finance is debt. Corporations can face the risk of being excessively indebted, both productively and unproductively, especially if they are unable to turn a profit, even large corporations are vulnerable to this (Drmawi, 2022).

## 2.6 Risk Assessment

Risk Assessment, or risk assessment, is a process that compares various levels of risk posed by known situations or potential threats (Rustam, 2017; Siswanti et al., 2020). In addition, risk analysis can be used to determine whether a particular structure makes the inspection process safe. To assess risk, the author will apply the following comparison (Gie, 2020):

Risk 1: Large and frequent impact

Risk 2: Big and rare impact

Risk 3: Impact is small and occurs frequently

Risk 4: Moderate and rare impact

Risk 5: Small and rare impact

## 2.7 Methodology

### a. Type of Research

The qualitative descriptive research method will be used by the authors in this study. A qualitative approach is a research procedure that produces descriptive data in the form of written or spoken words from people and observed behavior (Sugiyono, 2017). Knowing the information that the writer will observe in the MSME Black Forest Cakeshop is the aim of this qualitative research. Qualitative research seeks to understand the experiences of research subjects, such as financial risks to the People, Premises, Processes, and Products that will be faced by the MSME Black Forest Cakeshop.

### b. Location and time of research

The research location that the writer will do is Jalan Cahaya Garden Blok A number 12. This is where the writer chose that location to find out a strategic location in the data collection that will be examined.

### c. Data Collection Techniques

Data collection methods are techniques or ways that can be used by researchers to collect data (Rahardjo, 2011). The author will examine a data collection technique to obtain information in the form of data to be observed. In the data collection technique, there is a process of observation and interviews conducted by researchers at Blackforest Cakeshop UMKM. The explanation of data collection is as follows.

#### 1) Observation

To complement the results of research observations, the author will make direct observations of the Black Forest Cakeshop SMEs using data collected through observation. Researchers observed the business processes that occur in MSME businesses related to the need to create a risk matrix such as the impact on MSME businesses related to the impact on people, premises, processes and products sold by MSMEs.

#### 2) Interview

Interviews are a collection technique in the form of questions and answers that will be carried out both face to face and online related to the research object, namely the risks that will occur in the future for the MSME Black Forest Cakeshop.

## 3. Results And Discussions

### 3.1 Risk Identification

According to (Budianta, 2019; Primary, 2019), Risk Management - ISO 31000:2018 has provided a clear, concise, and concise guide that will help organizations use risk management principles to improve planning and make better decisions. To run the company's operations according to plan, the Black Forest Cakeshop MSME must implement good risk management. In this discussion, we will analyze further the application of risk management carried out by MSME Black Forest Cakeshop in the financial sector.

#### 1.2. Strategic Risk

Based on the results of the analysis, interviews, and observations that have been carried out, the following are the strategic risks found along with impacts, impacts, solutions, and risk matrices for Blackforest Cakeshop SMEs.

**Table 1.** Results of strategic risk analysis on SMEs Blackforest Cakeshop

Impact	Impact on MSMEs	Solutions for SMEs	Matrix
People	The risk of company failure in recruiting new talents to develop the company's business. This of course can hamper the company's growth.	Companies must be more focused and observant in recruiting new talent.	Medium To High
Premises	The risk of diverting the regional focus point is when the construction of the area around the MSME location has been completed and attracts more residents' attention. This certainly has the potential to reduce the company's revenue.	To prevent this risk, MSMEs must be able to carry out marketing strategies that can attract the attention of many citizens.	high
Process	The risk of inefficiency in MSME work processes where that MSME does not often make changes to the work system. Along with the development of technology, the work system will certainly become irrelevant and effective again.	To prevent this risk, Blackforest Cakeshop SMEs must continue to evaluate and improve the work processes of the company.	Medium
Product	The risk of the company failing to develop new products that are attractive and popular with the public. This company's strategic mistakes can reduce company sales.	Innovations made by companies must be unique so that the uniqueness of a product can attract the attention of consumers.	Medium To High

As shown in table 1, product risk where the company fails in developing new products so that it is abandoned by its customers is a risk that is classified as medium to high risk in the strategic scope. The results of this analysis are contrary to research conducted by (Joycelin et al., 2022) which states that failure to innovate in a company can have an impact on business continuity but is only classified as a medium risk. The difference in this analysis is because the authors argue that the business world has very tight competition and dynamic changes where if a company fails to innovate in new products, the company can be abandoned by its loyal customers. The author's opinion is of course supported by real events where big companies like Nokia that fail to innovate and keep up with changing times have experienced significant setbacks.

### 3.3 Tactical Risk

Based on the results of the analysis, interviews, and observations that have been carried out, the following are the tactical risks found along with impacts, impacts, solutions, and risk matrices for Blackforest Cakeshop SMEs.

**Table 2.** Results of tactical risk analysis on SMEs Blackforest Cakeshop

Impact	Impact on MSMEs	Solutions for SMEs	Matrix
People	The risk of recruiting people who are not following their respective expertise/fields. These mistakes can reduce employee effectiveness and affect company productivity.	Companies must focus on selecting talent according to their expertise and field so that the company's operations can run productively.	Medium
Premises	The risk of placing operational areas that are not strategic, such as the unavailability of parking lots and less crowded places.	The MSMEs must survey the location and interesting market around the location, and see the location of vacant land so that it can be used as a parking lot.	Medium To High
Process	The risk of leakage of the company's work system. If employees are negligent or dishonest in the company's work system, then these actions can harm the company.	Companies must evaluate and revise the company work system to make it stronger and more structured.	Medium
Product	The risk of the company's products being bored by society because there is no innovation.	Companies must always innovate new products to attract consumers.	High

As shown in table 2, product risk where MSMEs fail to launch innovations so that customers feel bored is a risk that is classified as high risk in the tactical scope. The results of this analysis are in line with research conducted by (Joycelin et al., 2022) which states that every business requires innovation so that business can continue to grow. The same research also classifies failure to innovate as a risk that is classified as medium to high. In addition, the solutions provided are also similar, namely by innovating and being brave in spending research costs for companies so they can find innovations.

### 3.4 Operational Risk

Based on the results of the analysis, interviews, and observations that have been carried out, the following are the operational risks found along with impacts, impacts, solutions, and risk matrices for Blackforest Cakeshop SMEs.

**Table 3.**Results of tactical risk analysis on SMEs Blackforest Cakeshop

Impact	Impact on MSMEs	Solutions for SMEs	Matrix
People	There is a risk that HRD recruits dishonest people in the financial sector. This risk is the most common in large companies	Companies can tighten their hiring processes and conduct evaluation tests to assess the honesty of these prospective employees.	high
Premises	The risk of difficulty reaching MSME operational locations. If you choose the wrong place of business, then MSME will be hampered in terms of goods circulation.	Companies can prevent this risk by surveying the location of the right place of business and easy to reach by many people.	Medium To High
Process	There is a risk of an accident at work. If employees are negligent at work, this can cause accidents and damage to company machines.	Companies can prevent this risk by implementing strict occupational safety and health (K3) around the company's operational area.	high
Product	The risk is that employees are negligent in checking product quality so that if a product is sold that does not comply with the company's quality standards, the customer will complain/give a bad review	Companies can prevent this risk by tightening the quality control (QC) section so that all products sold comply with the company's quality standards.	Low

As shown in table 3, people and process risks are classified as high risks in the operational scope. The results of this analysis are in line with research conducted by (Joycelin et al., 2022) which states that the risk of work accidents can have a very dangerous impact because it can threaten the safety of workers and hinder the smooth running of company activities. The same research also provides a solution similar to the author's to reduce operational risk by applying strict Occupational Health and Safety (K3) in the company's operational areas.

### 3.5 Compliance Risk

Based on the results of the analysis, interviews, and observations that have been carried out, the following is the compliance risk found along with the impacts, impacts, solutions, and risk matrix for Blackforest Cakeshop SMEs.

**Table 4.** Results of compliance risk analysis on SMEs Blackforest Cakeshop

Impact	Impact on MSMEs	Solutions for SMEs	Matrix
People	The risk of being sued by the Manpower Office due to negligence by the workforce in terms of labor regulations. Of course, this can lead to new costs for the company, such as attorney fees and others.	To prevent this risk, companies are advised to make work contracts so that workers do not act negligently and arbitrarily.	Medium to high
Premises	Risk of expropriation of land rights to the government for the development of public infrastructure such as roads, parks, etc. If this happened, the company would no longer be able to operate, and would affect the company's financial condition.	Companies can prevent this risk by paying more attention to government development projects that have the potential to disrupt company operations.	Medium To high
Process	The risk of being accused of company work processes that do not comply with the government's Standard Operating Procedures. This of course can disrupt work processes and company activities.	To prevent this risk, companies are advised to have clear, legal, and safe Standard Operating Procedures following government regulations.	Medium To high
Product	Risk of being accused of materials used by the company. Materials obtained by the company's suppliers have the potential not to meet BPOM standards.	Companies can prevent this risk by using quality ingredients that have been officially registered by BPOM and have clear standards.	Medium To high

As shown in table 4, the risk of people where the company experiences a lawsuit due to company employees who are negligent at work is a risk that is classified as medium to high risk in the scope of compliance. The results of this analysis contradict the research conducted by (Joycelin et al., 2022) which states that employee negligence and unprofessionalism is a risk that is classified as medium and can still be corrected if there is an initiative to change accompanied by motivation. This difference in analysis arises because the authors argue that the culinary industry is an industry that is classified as a creative industry where each company is required to have high talent and creativity in developing the company's new products. If the

individual does not have strong talent and creativity, then the individual is not suitable to work in the culinary field.

#### 4. Conclusion

Black Forest Cakeshop is micro, small and medium businesses from Batam engaged in the culinary and food sector. The type of ownership owned by MSME Black Forest Cakeshop is a Limited Liability Company (PT). The MSME Black Forest Cakeshop is classified as a low risk where the MSME can still overcome future problems. In carrying out business operations, of course, the Black Forest Cakeshop MSME must be able to carry out the principles of business risk in the form of Strategic Risk, Tactical Risk, Operational Risk, and Compliance Risk financially. The research suggestions are (1) MSME parties must quickly disseminate information through social media so that customers can more quickly find out what products are being sold. (2) MSME parties can accept criticism and suggestions given by consumers, to advance the Black Forest Cakeshop MSME, and can be evaluated. The weakness of the research lies in the analysis that only looks at the impact of strategic, tactical, operational and compliance components on 1 MSME location. So that in further research, quantitative methods can be applied to determine the effect of each component variable that can have risks for several MSME businesses in the economic centers area of the city of Batam.

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