From Intuition to Insight: Risk Management for SMEs

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Abstract
This paper explores the disconnect between academic recommendations and risk management practices in small and medium-sized enterprises (SMEs), particularly in Eastern Europe. Despite their economic significance and exposure to operational, financial, and strategic risks, most organizations lack structured risk management processes. Drawing on a blend of academic literature, real-world consulting projects, and executive experience, the paper examines why SMEs underutilize tools such as risk registers, scenario planning, and key performance indicators (KPIs). It identifies cultural resistance, limited forecasting capabilities, and an overreliance on intuition as key barriers to implementation. This qualitative, exploratory study examines information extracted from semi-structured interviews conducted between 2021 and 2025 with SME managers and owners in Romania and the Republic of Moldova. The paper also presents two in-depth case studies and offers a set of practical, low-bureaucracy recommendations tailored to the SME environment. These include KPI-based early-warning systems, simplified documentation tools, and strategies to cultivate a risk-aware organizational culture. The findings identify three recurring structural gaps: reactive risk practices, underutilization of internal data, and informal decision-making cultures. The paper concludes with actionable guidance for both SME leaders and consultants seeking to embed strategic risk awareness in fast-paced, resource-constrained environments.

Keywords
Business Resilience; Change Management; Data-Driven Decision-Making; Risk Management; Key Performance Indicators (KPI); Small and Medium Enterprises (SME)

Introduction

Context and relevance of risk management for SMEs

Small and Medium-Sized enterprises (SMEs) account for 99% of all registered firms across the European Union and employ approximately 48% of the workforce (OECD, 2022). However, these businesses face a paradox: they are disproportionately exposed to operational, financial, strategic, and regulatory risks, while simultaneously lacking formal structures to manage, prevent, and minimize them. Unlike large corporations, which can allocate resources to well-defined, specialized units to assess and prevent the unwanted impacts of various types of Risks, SMEs have to rely on the intuition and experience of their founders or managers.

To add complexity to the matter, in the 21st century, the speed at which everything changes seems to accelerate as each year passes by, and rightfully so. Since the year 2000, the rate at which core-changing technologies, innovations, and developments have been delivered to the market has been overwhelming. Smartphones, social media, Big Data & Analytics, E-Commerce, AI, Cloud Computing, 3D Printers, and so many more are just a small fraction of the technological advancements that hit the market starting in 2001, and all of these created massive opportunities for all kinds of businesses, from the mom-and-pop shops to the large multinationals. As always, all the changes come with a degree of uncertainty, turbulence, and risk.

Risk Management is a challenging discipline that has the mission of preventing and minimizing risks. It also enables companies to learn quickly and recover more quickly from various turbulences.

Since failure to holistically manage risk in Small and Medium Enterprises (SMEs) is one of the major causes of small businesses' failure (Mthiyane, Huibrecht, & Makgopa, 2022) especially in developing countries, there is stringent need of understanding how Risk Management is done (or not done in many cases) and how does an effective, efficient and useful Risk Management look like for a SME. This paper's contribution is to bridge the formal ERM frameworks documented and described in academic research with viable, implementable, low-friction models suitable for SMEs.

Objectives of the paper

The objectives of this paper are to describe the current approaches to Risk Management as observed in the market, the recommended frameworks and principles as described in the academic literature, and to provide some guiding suggestions as to what are the core pillars of an effective Risk Management for SME might be. The focus will be on Eastern European and Romanian business environments. The paper will reflect on common patterns, behaviors, beliefs, and tropes among entrepreneurs, managers, and staff. Also, it will analyze the Tools, Systems and Data that are available but are underutilized. KPIs as an instrument for Risk Management is an area that will be examined in this paper. Actionable recommendations aimed at SMEs that can encourage and pave the way for a more empirical and structured approach to Risk Management, which in turn can help with strategic decision-making, will be presented in this paper.

This paper does not seek to overthrow the academic perspective on Risk Management, but rather to complete and adapt it to the harsh realities of day-to-day business for an SME entrepreneur or manager. The foundations set by the recommendations in this paper are intended to pave the way for a more stable, mature, and data-driven approach to business.

This paper addresses the following research questions:

- → How can a structured form of Risk Management be adapted to the realities that SMEs in Eastern Europe and Romania face?
- → To answer this question, the study uses qualitative field observations, semi-structured interviews, and case studies conducted between 2021 and 2025.

Literature review

Risk management frameworks for SMEs in academic literature

There is widespread acknowledgment in the academic literature that Risk Management is a crucial element for ensuring SME competitiveness, survival, and profitability; however, its implementation is often fragmented, incomplete, and inconsistent due to constraints. According to Dvorsky et al. (2021), SMEs face exposure to a diverse set of risks - financial, operational, market, legal, and personnel-related - yet formal risk management practices remain limited. The authors stress that while SMEs acknowledge the importance of risk management, their adoption of structured frameworks is often ad hoc or reactive rather than strategic. A strong positive correlation was observed between an entrepreneur's attitude toward managing specific types of risks and their perceived business resilience and future growth prospects (Dvorsky et al., 2021).

Ciocoiu et al. (2024) conducted a bibliometric review of 531 peer-reviewed articles and observed that while risk management positively impacts firm performance, the relationship remains ambiguous in SMEs due to inconsistent definitions, varying scopes of "performance," and a lack of methodological uniformity across studies. The study notes that despite increasing interest since 2010, MSMEs tend to adopt a “passive” approach, often ignoring strategic risk identification and mitigation unless prompted by external shocks. Additionally, the relationship between risk management and performance may be moderated by other factors, such as entrepreneurs’ experience with Risk Management, CEO tenure and family involvement, intellectual capital, financial literacy, supplier integration, and other factors (Ciocoiu et al., 2024)

The literature highlights several frameworks that could guide SMEs, including:

a. **ISO 31000:2018** – Risk Management Guidelines, offering a structured approach to risk identification, assessment, treatment, and review- though its implementation can be bureaucratic, time-consuming, and follows a top-down approach rather than a bottom-up one.
b. **Enterprise Risk Management (ERM)** frameworks, such as COSO, are frequently recommended but rarely adopted in full by SMEs due to complexity and perceived irrelevance.

Another comprehensive contribution to the academic understanding of SME-specific risk management frameworks comes from Mthiyane et al. (2022), who developed the Small and Medium Enterprises Risk Management Framework **(SMERMF)**. This conceptual model was created through a systematic literature review of 78 peer-reviewed studies and aims to address the gap between existing Enterprise Risk Management (ERM) practices and the limited applicability of such models to SMEs in developing contexts.

The SMERMF identifies 14 variables, structured into fundamentals and pillars, that form the backbone of risk governance in SMEs. Key fundamentals include risk appetite determination, risk assessment, strategic planning, financial processes, and performance monitoring. These are supported by pillars such as internal control, oversight, and enterprise culture. The framework positions information governance—particularly financial and management accounting—as central to risk-related decision-making. The authors argue that even with constrained resources, SMEs can implement holistic ERM practices by streamlining business processes and leveraging appropriate information systems.

Notably, the framework is sector-agnostic, meaning it can be tailored to various industries and SME sizes. The study also highlights that successful ERM in SMEs is not necessarily dependent on complex tools, but on aligning risk practices with organizational objectives, enhancing internal communication, and cultivating a risk-aware culture. The SMERMF's strength lies in its adaptability and simplicity, making it a useful guide for practitioners operating without extensive technical infrastructure (Mthiyane et al., 2022).

Data and KPIs for SME Risk Management

A growing body of research underlines the role of data and key performance indicators (KPIs) in effective SME risk governance. However, actual implementation in the field remains underdeveloped.

Zaitsev (2023) argues that KPI systems help SMEs move from intuitive decision-making to evidence-based strategic planning, increasing both performance and resilience. Despite this, many SMEs fail to adopt even basic data practices such as financial forecasting, operational monitoring, or customer churn analytics.

Building on this, David Parmenter's book "Key Performance Indicators: Developing, Implementing, and Using Winning KPIs" (2020) reinforces the importance of distinguishing between:

→ Result Indicators **(RIs)** – reflecting past performance (e.g., total sales)

→ Result Indicators **(KRIs)** – reflecting past performance but targeted for board level (e.g., Net Profit)

→ Performance Indicators **(PIs)** – showing what to improve (e.g., sales per customer)

→ Key Performance Indicators **(KPIs)** – actionable and forward-looking (e.g., sales calls per week per rep)

Parmenter (2020) advocates for integrating KPIs into weekly management routines, supported by visual dashboards and predictive metrics. However, such practices are rarely found in SMEs unless driven by external advisors or grant-funding mechanisms.

Barriers to adoption in small and medium enterprises

From an academic standpoint, there are several barriers that SMEs face that prevent them from adopting Risk Management practices. Even though such practices are available and in great numbers, the level of their adoption is still lagging.

Ciocoiu et al. (2025) identify the following 4 categories of determinants of behavior towards Risk Management Implementation (Figure 1): SME Characteristics; Knowledge about Risk Management; Organizational Culture (internal); External factors.

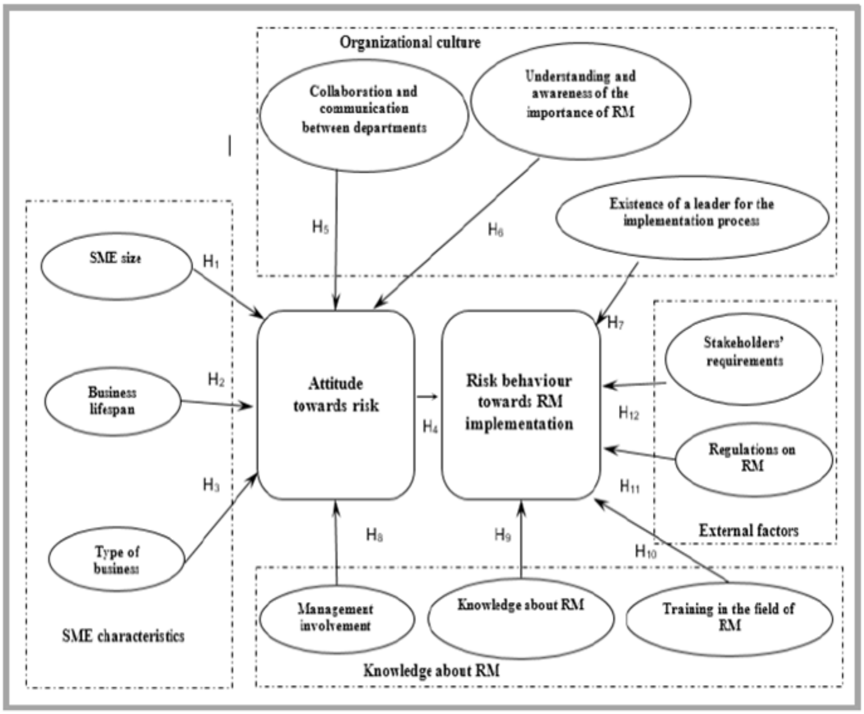

Figure 1. The model of determinants of behavior towards RM implementation
Source: Ciocoiu, Prioteasa, & Colesca, 2020.

It is important to note that some of the most significant barriers to adopting Risk Management frameworks from an academic standpoint are:

→ **Lack of awareness or knowledge** about structured risk management.

→ **Cost-benefit skepticism**—the perception that risk systems are expensive and unnecessary.

→ **Resource constraints**, both financial and human, limit the ability to assign responsibility for risk.

→ **Cultural resistance**, where owners prioritize agility over structure, seeing formal systems as “corporate” or “bureaucratic.”

→ **Absence of regulatory pressure**, as many SMEs fall outside mandatory audit or compliance scopes

Brustbauer (2016) describes SME risk management as “passive, sporadic, and intuition-based,” driven mostly by crisis rather than strategy. Dvorsky et al. (2021) further reveal that attitudes toward specific risks (e.g., legal vs. personnel risk) vary significantly with the entrepreneur's background, experience, and even personality traits.

Methodology

This paper employs a practice-based and qualitative approach, with data extracted from semi-structured interviews with SME managers and owners. Insights from interviews are combined with selected Academic Literature on Risk Management, Change Management, KPI Implementation & Financial Forecasting, and Internal Case Observations, including anonymized client situations and observed best practices.

This study uses a qualitative research methodology that consists of Semi-structured interviews with SME managers and owners operating in Romania and the Republic of Moldova; two anonymized case studies included in the paper; and secondary data analysis based on document analysis, on-the-spot observations, and performance indicators.

The interviews were conducted between 2021 and 2025 and centered on Risk perception of managers and owners; current use of Risk Management tools and methodologies; forecasting practices (where applicable); KPI logic and utilization; and decision-making processes. The interview included open-ended questions aimed at uncovering operational, financial, and strategic details. Recurring patterns across interviews and case studies were analyzed.

The case studies were selected based on the interviewer's active involvement in risk-related activities, access to target data, prolonged access to data, and organization.

Limitations include: a sample limited to Romania and the Republic of Moldova; a limited number of cases; and the interpretative nature of qualitative research.

This approach mixes the academic theory and the realities of business life, explaining the limitations whilst explaining approaches that actually can work in an SME setting.

The reality of risk management in SMEs

Insights from field experience

Despite the availability of structured risk management frameworks, cloud-based solutions, available information (such as courses and trainings), and past examples of the importance of RM practices, most SMEs approach the implementation of Risk Management as part of doing business with a high degree of doubt, hesitancy, and "we do not need this because we are a small business" mindset. For many SME's, risk is something external, uncontrollable, and reactive - currency fluctuations, changing tax legislation, or market instability - rather than an internal process that can be anticipated, measured, and integrated into everyday decisions. Therefore, Risk Management is perceived as something done after an event, not before, and Risk Management practices are implemented (if at all) after an internal or external stress event (e.g., the only employee who knew how to use the billing software left the company without a handover in place).

Proactive Risk Management is often based on intuition, gut feeling, discussions in management meetings, or generally established market practices.

Results and discussion

Throughout the interviews and case analysis, several recurring patterns were observed across Romanian and Moldovan SME's. These organizations were characterized by a reactive risk management approach, underutilized data, and an informal decision-making culture.

Observable risk practices in Romanian and European SMEs

In the Central and Eastern European (CEE) region, including Romania, SMEs often operate in a low-trust, volatile, and changing environment, driven by political, economic, social, and cultural changes the region is undergoing. The business sector is directly affected by regulatory changes, political stability in the country and the region, consumer behavior, and economic fragmentation. These external factors shape many of the perceptions that SMEs have of risk in general.

Based on the project work performed in the CEE region in sectors ranging from health & wellness, logistics, and retail, several patterns emerge:

a. Structured forms of Risk Management, such as risk registers or risk assessment sessions, are rare.
b. Financial Risk is partially monitored, however, mostly from a statistical standpoint rather than a forecasting one.
c. Operational Risks (supply chain disruptions, quality incidents, HR turnover) are dealt with reactively.
d. Strategic Risks (market, digital, and sector changes) are mostly ignored, either because of an inability to prepare for such events or because of a focus on day-to-day business.

These observations are consistent with the literature, and most SMEs treat risk as something that the business has to survive. Even companies that pursue some form of standardization and certification (ISO, for example) treat it like a documentation exercise, to be done and then forgotten about. Another observable trend is that many SMEs have rich access to statistical data of their business, specifically due to the digitalization of many activities (ERP, CRM, etc.). However, this data is used in the best-case scenario as a statistical tool and is overlooked as a way to implement Risk Management techniques and procedures.

Common gaps: Documentation, Financial Literacy, Informal Decision-Making

Three core gaps were found among the SMEs:

a. Lack of effective documentation

Most SMEs lack a documented structure that would cover formalized processes within the Risk Management activities. Rarely are risks registered in defined documents that allow risk identification, classification, or tracking. If there are any documents, they are usually stored somewhere and not checked/updated for a long time (until the next ISO review). Mostly, these documents exist for audit purposes or for companies that have applied for specific types of funding or European Grants. Risk practices common in the corporate world, such as assigning a Risk owner, creating a mitigation plan, or holding lessons learned sessions, are either vague or nonexistent.

b. Lack of financial forecasting

Financial Forecasting is often confused with budgeting. Companies may have some form of revenue and cost projections, but rarely conduct scenario analysis, cash flow simulations, stress testing, project profitability analysis, or product profitability analysis. Most decision-making is short-terminist, intuitive, and reactive, which in turn leads to missing growth opportunities or failing to prevent adverse scenarios in time.

c. Lack of data-driven decision-making

Small companies have access to a vast array of internal data, mostly due to various digital tools that were adopted in the past 20 years, either due to market pressure or cost efficiencies. A retail company, for example, can easily extract sales data for the last 3 years and analyze the seasonality of its products if it wishes to do so. The issue arises when data is viewed as a statistic rather than a tool that can aid strategic decision-making and risk assessment.

Even in companies with 20-100 employees, decisions are often made based on the founder’s intuition, preferences, or past experience. This includes pricing, hiring, supplier selection, or even entry into new markets. The absence of structured risk assessments or KPI-driven reporting results in reactive management and limited visibility into the decision-making process.

Case example 1: Import & Distribution, managing risk whilst remaining relevant

Context

One client, an importer of health, wellness, and personal care products, experienced significant shocks due to its inability to anticipate market shifts, aggravated by the COVID-19 pandemic properly. Being a family enterprise with a very face-to-face approach, the need to expand into e-commerce or at least establish an e-commerce presence was seen as a low priority during the 2015-2019 period, as most of their customer base did business face-to-face. During the pandemic, even though the health & wellness sector was among the few sectors in the economy that were booming, the company experienced an inability to do business as it was used to, and it lost approximately 50% of its business, which did not recover after 2022, since customer behavior shifted dramatically towards online shopping. With limited working capital and fluctuating currency rates, they needed to mitigate exposure without losing market relevance.

Intervention & Implications

While there was no formal risk management plan put in place, a set of measures was adopted together with key staff (to increase adoption rate), with the dual scope of: a. correcting past mistakes; b. setting the right strategic course for the future:

- → Shifted from a one-brand shop to a multi-brand shop, adding seasonal products and limited-edition products in order to maintain the level of engagement of the customers
- → Consolidated the online presence and created dedicated marketing, content creation, and customer service functions
- → Analyzed historical sales data to determine the seasonality of the products in order to limit the dead stock quantity and to ensure popular products were available at the time they were needed
- → Established scenario testing in order to ensure the financial liquidity and accommodate any unforeseen shocks
- → Created an own brand of products in order to have higher control over the margins and product selection
- → Took active steps in becoming a primarily e-commerce business rather than a brick-and-mortar shop.

Risk Management implications

This mix of reactive and proactive measures highlights a recurring pattern in SMEs: risk tools are adopted when they become survival tools, not as part of strategic planning. Nevertheless, having adopted Risk Management techniques, even in a limited way, ensured the survival of the business and the turnaround from a near-bankruptcy situation to an average 25% growth rate over 2 consecutive years.

Case Example 2: Logistics Company, data richness does not equate to visibility

Context

Another client, a mid-size logistics company operating in Southeastern Europe with approximately 60 employees and a strong commercial presence, had historically invested in its digital infrastructure primarily for the cost-saving benefits it provided. The client was able to reach a high degree of granularity and data richness within its system and implemented various levels of controls within its core system. Despite the data richness, the client failed to fully utilize the data to perform Risk Management activities and to optimize its business, resulting in high costs that would have otherwise been avoided.

Observed patterns

The core issue was not the lack of data but the inability to read it, structure it, and derive decision-making decisions out of it. Although they tracked over 50 different types of metrics, there was a missing connection between the metrics and management decisions, mostly due to a lack of understanding of the differences between RI, KRI, PI, and KPI (Parmenter, 2020).

Intervention & Implications

By introducing a Risk Management Structure based around a well-defined KPI structure, the company was able to move from a passive data culture to an actionable insight culture.

This allowed the company to:

→ Reduce costs by focusing on what matters and anticipate variations in their monthly cash flow.

→ Focus on real KPIs, which are tied to their Critical Success Factors, allowing the company to maintain a focused vector of development

→ Reduce data overcrowding, which could mask potential risks and threats

→ Define who covers what and who is responsible for specific RIs and PIs

This case illustrates a key reality in many tech-enabled SMEs: digitization without interpretation and a clear scope leads to noise rather than clarity.

The analysis of interview material and case observations revealed three dominant patterns:
Pattern 1: Reactive risk orientation
Pattern 2: Underutilized operational data
Pattern 3: Informal decision making

Missed opportunities: what tools exist but are not used

Even though the economic landscape post-COVID-19 is ever uncertain and market pressures are constantly rising, SMEs continue to underutilize available risk management tools that are both easy to use and cost-effective. This phenomenon is not always due to financial or resource limitations, but often due to a lack of a Risk Management culture, refusal to change set work practices, and a disconnect between understanding the issue and translating it into actionable steps.

There are tools and methodologies which implemented even to a limited extent could substantially improve a company’s ability to threats, monitor vulnerabilities, and adjust the strategy in due time. This section outlines three critical categories of such tools.

Risk registers, scenario planning, and data dashboards

One of the most basic but effective tools is the Risk Register, which is rarely used among SMEs. If it exists, it is mostly unused, not updated, not incorporated into the daily management framework, and was created in the first place as a prerequisite for ISO certification of Grant Applications.

A simple but well-organized **risk register**, which would contain vital fields such as description of the risk, person responsible (Risk Owner), the status (Identified, In Progress, Monitored & Closed), and a simple Probability * Impact score for prioritization, can serve as a basic document that keeps track of the existing and potential risks. The benefit of this simple tool is that it assigns responsibility as well as provides traceability and clarity on the situation.

Scenario Planning is usually associated with large corporations and governmental institutions, but it can be adjusted for an SME scope. Even by adding the best-case, base-case, and worst-case perspectives to investment analysis, budget planning, opportunity assessment & contingency planning, this is a simple but effective thought exercise that can foster a Risk Management mentality in an SME.

Data Dashboards, though increasingly available through various digital systems that SMEs adopted in the last 20 years, are rarely used beyond a statistical tool or a fancy trinket. Usually, dashboards are used retroactively, and mostly to analyze Result Indicators (RIs). Furthermore, because software vendors wish to show the capabilities of their system, the opposite might happen: an overflow of data, dashboards, graphs, and statistics without a clear scope and business aim might overload the manager and distract them from the real picture, rather than becoming a Risk Management Warning System.

Cost-effective tools for monitoring and early warning

In reality, an SME might not need a complex risk modeling approach, 4 tools are simple enough and still efficient, which could tell the founder or the manager enough in order to make the appropriate decisions

Simple liquidity stress tests: By running cash flow projections with +/- 20% revenue variations over set periods of 3 / 6 / 9 months, this can reveal structural weaknesses and encourage action ahead of time.
Supplier dependency tracking: Identifying the percentage of procurement tied to single suppliers helps SMEs diversify risk without overcomplicating procurement.
Customer concentration analysis: The strategic review of revenue breakdown by customer is rarely conducted. Losing a top client can trigger existential risks, yet early signals of overdependence are often ignored.
Break-even simulations: Using fixed and variable cost structures to simulate the sales volume needed to remain profitable under different pricing or demand scenarios.

These tools do not require advanced software, specific statistical knowledge, or time-consuming training. What it does require is the manager's willingness to incorporate them into the way of working and make it the new norm in a Risk-Managed SME.

KPIs as a method of Risk Management – David Parmenter approach

Even though the term KPI is believed to be understood widely from small to large companies, there is little understanding of what KPIs actually are. Parmenter (2020) argues that KPIs are associated with the Critical Success Factors of an organization and are the only things that truly link the day-to-day performance to an organization's strategy.

For most SMEs, even when some data is analyzed, there is no clear distinction between the indicators. A simple understanding of the difference between:

→ Result Indicators **(RI's)** – track outcomes and reflect actions from the past (Sales Last Month)

→ Performance Indicators **(PI's)** – offer insights on the current situation that can still be addressed and are tied to a specific person or unit in a company (calls sales calls made today by Sales Rep)

→ Key Performance Indicators **(KPI's)** - which are frequent, non-financial, and actionable, and are linked to the performance of the whole company (late packages sent from the warehouse)

By adopting this understanding, selecting several RIs, PIs, and KPIs that are important and relevant to the business, a company can shift from analyzing past results to a proactive approach. For example, in a distribution business, a decline in delivery punctuality (a KPI) may precede customer dissatisfaction and lost accounts. In a wellness retail business, stagnation in new customer acquisition (another KPI) could signal declining relevance before sales actually fall.

There is no need to approach this by adding dedicated software to monitor KPI's, only by being disciplined enough to define and monitor the KPI in any tools that are available and suitable for the business can provide a cost-effective, real-time mechanism to detect early signs of disruption—without requiring a formal risk management department.

Bridging the gap: recommendations for practical risk management

The ecosystem in which SMEs usually operate is indeed defined by turbulence and various time and resource constraints. However, they also benefit from structural advantages such as agility, fast time-to-market, and direct leadership involvement – key factors that, when combined with a consistent approach to Risk Management, can provide a solid foundation for both resilience and market agility.

This section details 3 approaches and considerations for any founder-manager who wants to add a Risk Management dimension to their SME.

How SMEs can implement risk tools without bureaucracy

An usual objection to implementing any form of structured documentation and traceability models within an SME is that any layers of documentation would make the organization more bureaucratic, would require extra work, and that it only works for large corporations. To some extent, this is true, as in corporate environments, many of the risk frameworks created and used are primarily for compliance rather than functionality.

However, SME would benefit from implementing a basic, functional, and purpose-driven form of Risk Management, which, if integrated into the way of working, can add the necessary dimension of RM thinking.

For Example:
A simple reduced version of the **risk register**, which would be updated periodically in recurrent meetings, has a risk owner and a mitigation status.
A **"red-flag"** moment that can be raised either ad hoc or in a recurring meeting, where issues such as potential risks or missed deadlines can be flagged.
A **stoplight dashboard (red-yellow-green)** attached to the metrics and indicators, which would focus attention on the risk level rather than performance.

If speed and flexibility are to be maintained, the Risk Management tools have to be adapted to accommodate them. It is important that leadership for implementing, monitoring, and enforcing such a mindset and way of working lies always with the leader-manager, and it cannot be outsourced or delegated.

Forecasting and decision-making with key data

Due to the increased use of digital solutions (ERPs, CRMs, Accounting systems, etc.), SMEs now have access to a vast array of raw data. What is missing is the translation of this raw data into understandable, actionable, and meaningful Indicators. This is where David Parmenter's framework (2020) offers practical, non-bureaucratic guidance.

Parmenter (2020) distinguishes between 3 types of Indicators (*KPIs as a method of Risk Management – David Parmenter approach*)

For SMEs, it would be important to focus on:

→ Result Indicators **(RI's)** – a maximum of 20 split across specific functions, individuals, or teams in order to track the past performance and set a benchmark for future forecasting

→ Performance Indicators **(PI's)** - a maximum of 20 split across specific functions, individuals, or teams in order to ensure that function-specific objectives are met on a daily/weekly basis

→ Key Performance Indicators **(KPI's)** – 5-7 high-impact KPI's that are updated weekly, visually tracked, and tied to operational goals.

This would allow SMEs to transform how decisions are made and how they are enforced. If correctly applied, KPIs can become a forecasting and risk-mitigation tool agile enough for SMEs to use. For example, if customer acquisition KPIs stall while results indicators (such as monthly revenue) remain stable, a looming cash flow issue may be on the horizon. That early warning is often what makes the difference in an SME's ability to adapt quickly.

Building a risk-aware culture within small teams

The third pillar of effective risk management in SMEs lies not in tools, but in culture. In small teams, culture is set primarily by the founder or manager, whose behavior and values are observed, mimicked, and amplified across the organization. A leader who avoids difficult conversations, ignores weak signals, or dismisses risks unconsciously creates a culture of avoidance or denial.

Conversely, leaders who model open discussions about failure and uncertainty, encourage team members to raise operational concerns without blame, and celebrate "early warnings" even when they do not materialize, build what can be described as a **risk-aware culture**—where teams are psychologically safe to speak up and feel responsible for shared resilience.

To support this, Roberts (2020) in The Economist Guide to Change and Project Management outlines several techniques relevant for SMEs undergoing cultural change:

→ **Quick Wins**: implement small, visible changes that demonstrate the benefits of new practices (e.g., using a simple dashboard or risk flag in weekly meetings).

→ **Change Anchors**: appoint informal leaders or respected team members to reinforce new behaviors and signal endorsement.

→ **Consistent Messaging**: ensure that the founder's message about "why we manage risk" is repeated in hiring, performance reviews, and team discussions.

→ **Feedback Loops**: encourage feedback on new tools or processes, so that the system evolves organically and team ownership grows.

→ Crucially, culture-building in SMEs does not require HR departments or consultants. It requires **intentional leadership, consistency, and repetition**—elements already within the control of most SME managers.

Conclusions

Summary of key findings

This paper has examined the persistent gap between the recommended approaches to risk management and the actual practices adopted by SMEs, particularly within the Romanian and Eastern European context. While SMEs face a wide array of financial, operational, and strategic risks, their management strategies remain largely reactive, undocumented, and informal.

The literature review revealed that established frameworks, such as ISO 31000 and Enterprise Risk Management (ERM) models, are often perceived by SME leaders as inaccessible or misaligned with their operational realities. However, practical tools - such as **risk registers**, **basic forecasting methods**, and **KPI-driven dashboards** - are available and applicable if adapted to the SME environment.

Field observations confirmed that most SMEs lack structured risk-tracking documentation, do not leverage the data they already have for early warning or forecasting, and rely on intuitive decision-making with limited strategic alignment.

However, the paper also illustrated through case examples that **agility**, **leadership involvement**, and **data visibility** can compensate for the absence of complex systems. When SMEs integrate even simple risk tools into their decision-making process, the result is a more proactive, resilient business model.

Strategic call-to-action for SME leaders

For SME founders, directors, and operational managers, this paper presents a clear call to action: risk management need not be a bureaucratic burden. Instead, it can be a source of strategic clarity and operational focus. Leaders are encouraged to embed lightweight tools such as one-page risk registers or red flag dashboards into existing meetings, limit indicators to what matters most, using David Parmenter's framework to identify 5–7 KPIs that reflect both performance and risk exposure, model a culture of transparency and readiness, where early warnings are seen as assets, not threats.

Most importantly, SME leaders must accept that in a volatile market, **ignoring risk is itself the biggest risk**. A deliberate shift from survival-mode thinking to strategic risk awareness can be a defining differentiator for long-term competitiveness.

Implications for consultants

For consultants working with SMEs, the findings suggest a shift in approach is needed. Rather than recommending complex ERM models, consultants should focus on adaptation, simplification, and behavior change. This involves:

→ Helping SMEs select and tailor tools that match their size, structure, and strategic maturity,

→ Coaching leaders on how to integrate risk thinking into daily operations,

→ Supporting cultural transformation through small, high-impact interventions rather than system overhauls,

→ Acting as translators between frameworks and business reality, bridging the gap between academic models and day-to-day decisions.

Consultants who succeed in positioning risk management as a business enabler—not a compliance exercise—will create lasting value for their SME clients and contribute to a more resilient entrepreneurial ecosystem.

Limitations and future research

This research is exploratory and limited to Romanian and Moldovan SMEs. Future research could involve comparative cross-country analysis and quantitative validation of KPI-based risk early warning systems.

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