

FINANCIAL RISK MANAGEMENT (FRM) IN DUTCH SMALL AND MEDIUM-SIZED ENTERPRISES (SMES): FROM EMPIRICAL ANALYSIS AND A COMPREHENSIVE FRAMEWORK TOWARDS AN EXPLORATIVE STUDY TO TEST RATIONALITY IN SMES

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Published February 24, 2021

ABSTRACT

During the past decades, several risk management models have been developed and implemented. Merely, suitable for large firms. Despite the fact that FRM plays an important role in safeguarding the continuity of SMEs, there is still a lack of a comprehensive framework. In 2013, a research project, focusing on the management of credit-, exchange rate-, liquidity- and interest rate risks at Dutch SMEs, was set up. First, a study was conducted to describe the status of FRM. Outcomes of previous studies formed the base for our definitions and composition of all found important aspects. Our analysis implies Dutch SMEs focus on the risk management process rather than setting up an organizational structure to embed the process. Also, SMEs appear to have a correlated equal focus on risk identification, measurement, and evaluation. They mitigate risks separately. Furthermore, the level of education of the risk manager and the degree of decentralization seems to be determinants for the maturity of FRM.

Using data of 97 SMEs an appropriate new conceptual model is constructed. By adding weighting factors to the composition, FRM scores on each level are calculated. Principal Component Analysis is applied to calculate the weighting factors. By comparing these scores with other firms or previous scores SMEs are able to evaluate and approve their FRM. Again, now using our new model implies the educational level of the financial risk manager is a possible determinant for the maturity of FRM at SMEs.

The next step in our project is to investigate the rationality of SMEs' FRM. Since risk management in itself implies the effort, in time and money, firms put in managing risks should be related to the risk exposure of the total firm. To test this hypothesis a firm's total risk exposure are studied.

Keywords: Financial Risk Management, Small and Medium-sized Enterprises, Empirical analysis, Modelling, Principal Component Analysis, Risk Management Process, Risk Organization, Rationality.

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