Part 1

Risk Management, Governance and Stakeholder Value Creation
1.1. Introduction

It is often argued that risk management does not exist in SMEs or that it is at the sole discretion of their manager. However, for some years now, it has had a strategic and global dimension: strategic, because it is crucial for companies’ development and sustainability [LIE 03, COS 04, HOY 11, FAR 15]; global, since it is now accepted that the risk management process must start upstream of the strictly understood risk treatment phase and continue downstream in order to learn from the experience gathered [MCC 00, AIC 08]. This global and strategic process is broken down into different phases, during which the manager must be able to do the following: (1) select the appropriate type and level of risk that the company is capable of supporting; (2) identify the risks incurred by their company and evaluate them in terms of likelihood of occurrence and severity in order to prioritize them; (3) plan and implement appropriate risk management mechanisms and (4) communicate about these different phases within the organization and with its external stakeholders. This set of tasks implies the implementation of both informational and policy processes: informational through the nature, quality and volume of information used and exchanged to identify risks and assess their impacts; policy through power relations between the groups of actors with different roles and interests that will intervene in the prioritization and implementation of the treatment mechanisms.

The strategic risk management process implies, therefore, that a large number of actors are involved and that the action or reflection that managers alone can have in this subject is overlooked. They must be able to take fully informed decisions while considering all the different types of constraints within their company and in accordance with the policy balances within it. Some studies have suggested the

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major role of management teams and governance bodies in the adoption of integrated risk management mechanisms [KLE 03, BEA 05, DES 07, IHB 09], as well as their interactions on risk management performance in the company [BRO 09], yet these studies mainly concern large companies and not medium-sized enterprises [VER 13]. The issue of strategic risk management in SMEs, and more precisely that of the link between risk management and the governance system [MAN 10], therefore remains. For this reason, we focus on understanding how the actors and governance bodies of SMEs are likely to facilitate or constrain strategic risk management. We assume in this regard (1) that if managers of SMEs alone can shape the risk management of their company, this may affect the company’s performance and (2) that risk management could be more effective when the managers rely on an extended system of governance involving, in particular, the members of their management team, a board of directors or an advisory committee.

The chapter is organized as follows: in section 1.2, we discuss the effects of governance arrangements on risk management in SMEs, adopting the dual logic proposed by Anthony [ANT 88], whereby two types of influence, enabling or constraining can act as regards risk management. In section 1.3, we compare the proposals established regarding the case of nine French SMEs in the Auvergne Rhône-Alpes region.

1.2. The role of managers and the governance system in risk management: enabling and constraining influences

Governance arrangements can have two types of influence, enabling or constraining [ANT 88], on risk management in SMEs. Governance systems can function as levers (enabling function) by enabling the accumulation of new information, knowledge and expertise essential to the identification and assessment of risks by offering the possibilities of individual actions or by improving the coherence and effectiveness of the collective decision-making process. On the contrary, they can limit procedures for the acquisition of new knowledge, reduce the variety of actions designed to better understand or manage risks, or constrain the effectiveness of collective decision-making processes (constraining function). It is from the perspective of these two types of influence (enabling and constraining) and the two types of process (informational and policy) that we discuss successively the role of managers (section 1.2.1), then the governance system extended to the management team of the company on the one hand and to the supervisory bodies on the other hand (section 1.2.2) in strategic management of risks in SMEs.

1.2.1. Managers of SMEs shape risk management in their company

In SMEs, managers aggregate most of the powers [HAM 87, FIN 92, CAR 04, LI 17]. They stand as real “key persons” and play a leading role in strategic
decision-making [LI 17] and, by extension, in their company performance [ADA 05]. Through their speeches and decisions, they also shape the control environment, that is, the culture and spirit of the organization [COS 04]. They therefore represent a powerful lever to disseminate the “culture of risk” in SMEs.

However, they may be required to impose, more or less involuntarily, “the” risk management approach that they consider most appropriate. They may underestimate the risks and/or their impacts, if they themselves are over-confident, or if they tend to overestimate the quality of the information available to them for understanding the risks incurred. On the contrary, they may overestimate the risks and, through overly prudent strategic choices, slow down the development potential of their company. The concentration of ownership and management powers and, as a corollary, the weakness of disciplinary governance mechanisms, also imply a reduction in the accountability of managers to internal and external stakeholders [BRU 07], making them less vigilant as regards the formalization of internal control and risk management procedures or, on the contrary, too cautious by increasing the number of preventive measures or by limiting investment projects, which they personally consider too risky for the sustainability of the company. We therefore suggest the below proposal 1:

PROPOSAL 1.– Managers of SMEs have an enabling influence on the informational and policy processes that underlie strategic and global risk management, but this influence may become constraining when they are in charge of this function in isolation.

1.2.2. Extended governance system as support to managers of SMEs in the strategic management of risks

According to a concept of governance that goes beyond the purely disciplinary role of governance bodies, in favor of an advisory and resource-providing mission [ZAH 89, CHA 06, WIR 11], the governance system can be considered as a support to the management of the company and should thus constitute an aid to the strategic management of risks [MAN 10]. Two components of the extended governance system can more specifically play a role in risk management within SMEs: the management team and the board of directors.

1.2.2.1. The central role of SME management teams in risk management

Risk management initiatives within organizations appear to be successful only with strong support from the management team [BEA 08]. The often family-based nature of the team can influence the risk management process, as can its functional diversity or ability to extend to new members or functions.
According to Hambrick and Mason [HAM 87], there is a strong consensus on the strategies to pursue in a homogeneous management team that shares common values. In the case of a dominantly family management team, this consensus is based on the altruism, loyalty and commitment of the family members [ENS 05, GOM 07], who will be able to share private and consensual information with regard to risk. This suggests that in view of imminent risk, the family management team could take decisions regarding actions to be implemented faster than non-family management teams because agency conflicts would be limited [CHI 14]. Conversely, the coexistence of family and non-family managers in the management team could have a negative effect due to conflicts emerging in the strategic arena to prioritize risks. Too much family involvement [LEB 11] could result in new agency costs due to divergent objectives between the team members [GON 16]. We therefore adopt the following proposal:

**PROPOSAL 2a.**– The presence of family members in the management team would have an enabling influence on the informational and policy processes that underlie the global and strategic management of risks, but this influence could become constraining when family involvement becomes too strong.

Functional diversity within the management team, that is the range of skills of team members in a variety of areas of expertise, is often recognized as a source of growth [HAM 96] because it increases the number of alternatives considered within a team and enriches the assessment process. Heterogeneity would thus provide a cognitive diversity, a spectrum of values and multiple perspectives that can increase the wealth of information [SAH 16] and allow a more creative strategic design [AMA 97, FOR 99] in terms of solutions with regard to risks. However, diversity can sometimes slow down the production of a collective response and its implementation. Excessive heterogeneity [SAH 16] may, indeed, become an obstacle in view of imminent risks by making it difficult to reach a consensus on the acceptable risk threshold within the organization or on the corrective actions to be implemented. The diversity of the team would therefore be a double-edged sword: on the one hand, it would broaden perspectives on how to assess and prioritize risks as well as offer alternatives to manage them but, on the other hand, it would be a source of potential dissention and inefficiency if it exceeds a certain threshold.

**PROPOSAL 2b.**– The functional diversity of SMEs management team members would have an enabling influence on the informational and policy processes that underlie the global and strategic management of risks, but this influence could become constraining when this diversity becomes too strong.

The decision to assign responsibility for risk management to a risk manager, an internal auditor, or even simply to a management controller, influences the direction given to risk management within the organization [ARE 10]. It has thus been
shown that the recruitment of a risk management specialist in the company is positively associated with the implementation of an ERM (Enterprise Risk Management)-integrated risk management approach [ARE 10, PAG 11, PAA 12]. By promoting the dissemination of information, the risk management specialist plays the role of facilitator and coordinator within the company [ARE 10] and, in this sense, such a role differs from that of functional risk specialists (for example, in the financial area or IT systems) and may be complementary to them. The Director of Internal Audit can also be one of the major actors in risk management [ARE 10]. He/she most often is in charge of the risk assessment phase, but sometimes also of the entire process [FRA 07].

PROPOSAL 2c.– The expansion of the SMEs management team to new functions focused on risk management would have an enabling influence on the informational and policy processes that underlie strategic and global risk management.

1.2.2.2. The presence and composition of the board of directors in risk management within SMEs

In France, public limited companies (Ltd) have an obligation to choose between a board of directors (within which the functions of general manager and president can be separated or not) or a dual system with a management board as well as supervisory board. Apart from this form of company, nothing obliges SMEs (including simplified joint stock companies) to set up a board of directors and to implement structured governance. This decision is therefore fundamentally the will of the managers. It is often the arrival of an institutional investor that causes managers to change their practices. Its establishment can be done gradually, by creating a relatively informal advisory committee, before introducing more formalized rules and structures. Therefore, all SMEs do not have a structured board, but when this is the case, it is often considered as an extension of managerial responsibilities [FOR 99], particularly in terms of risk management. The influence of the board in this area also depends on a number of factors, such as its composition (presence in the board of a family pool of shareholders, equity investors and independent directors) or the setting up of an audit committee under the authority of the board. These factors influence informational exchanges, interactions and decision-making and are all determinants of strategic risk management in SMEs.

Among the prerogatives of the board, the specific control of risk management is one of the least studied [BRO 09] whereas the support of the board seems to be a decisive factor in the implementation of integrated risk management [BEA 05, GOR 09]. The operational implementation of risk management may not be the responsibility of the board, internal or external auditors, but that of the company’s management. However, directors must assume some responsibility (“risk governance responsibility”) [VIS 16] in this area such as follows: provide general guidance, ensure the existence of risk management systems and the necessary
controls on the relevance and effectiveness of such systems (possibly via the audit committee) and make sure that risk management procedures implemented by the general management are in line with the defined strategy and level of appetite. In the event of deficiencies or inefficiencies in the implementation of the procedures, the collective civil liability of directors may be called into question [IFA 09]. The advantages obtained by setting up a board (including for SMEs not subject to it by law) are numerous, among which are the expansion of skills and networks, increase in rigor and rationality in the control of the strategy and results, the improvement of stakeholders’ confidence and reduction of the isolation of owner-managers. Through its dual role of monitoring and advising, the board ensures that the manager sets up a risk management process that is better informed and in respect of the balance of power, in particular with regard to shareholders, thanks to the wealth of cognitive resources (network and experience) that directors can provide.

PROPOSAL 3a.– The presence of a board (or dual system supervisory board) in SMEs would have an enabling influence on the informational and policy processes that underlie the strategic and global risk management.

When such a board exists, its composition (number of family members, presence of external investors or independent directors) could influence strategic risk management.

In SMEs, owners, board members and management teams are sometimes the same people, often belonging to the same family [COW 03, BRU 07]. However, family-run firms are generally considered to be resistant to change, sometimes paralyzed by family conflicts, anchored in a defensive attitude intended to promote longevity and efficiency [CAR 05, BRU 07] and marked above all by the search for a social and emotional well-being of the members of the family [GOM 07]. Any event likely to significantly degrade it could therefore be avoided. Yet, the more the family is involved in the system of governance, the more likely the risk of bankruptcy becomes a threat for the career, future and reputation of the family members [REV 16]. In this context, the latter, often constituting a dominant coalition, will tend to favor the financial well-being of the company. They will less likely tend to recruit or invest, even if this implies a lower level of economic performance [CHR 12]. Thus, in companies where the family is strongly and humanly committed, there would be a risk hierarchy: the risk of social and emotional loss as well as the financial risk would be at the top of concerns, before the company’s economic and strategic risk.

On the other hand, the presence of independent members of the family or external investors in the board (such as business angels or private equity funds) could lead to a “political” balance between the economic objectives and the objectives of the family, between strategic risks and financial risks [GON 16]. This diversity in the composition of the board would provide greater objectivity and expertise, by providing cognitive
resources that are favorable to strategic risk management [BRU 07]. The external members could then challenge the decisions of the family pool manager to prevent the family from focusing solely on social and emotional well-being at the expense of economic value over the long term or, on the contrary, from expropriating the wealth of the firm [GON 16]. Thus, the enabling role that the board can play in managing risks within SMEs is even more important because the board would contain a large number of independent directors of the family pool [FIE 05, BEA 05, BJO 16]. Authors also observe a positive relationship between the implementation of ERM-integrated systems in enterprises and the presence of institutional investors [HOY 11] in the business capital.

**PROPOSAL 3b.–** The opening of the board to external investors or independent directors would have an enabling role in the informational and policy processes that underlie strategic and global risk management.

In a company, the audit committee, which frequently emanates from the board, has often been considered as a forum for the discussion of management and risk assessment issues [VIS 16]. It should be noted that the existence of an audit committee, which was previously recommended by MEDEF, became mandatory for companies listed on the ordinance of December 8, 2008. Other companies may voluntarily use it. However, several studies have shown a positive relationship between the presence of an audit committee and risk management [BEA 05] [KLE 03, PAA 12]. The audit committee is a place of coordination between the directors, company’s management and external auditors. It can influence the board to ensure that the required attention is paid to risk management processes and that the necessary resources are allocated to them [PAA 12]. The existence of an audit committee in the company is therefore naturally favorable to the structuring and formalization of risk identification, assessment and treatment tools. Through its interactions with the board, management team and operational stakeholders, it is able to spread a real risk culture within the organization; it shall therefore play an enabling role in strategic risk management.

**PROPOSAL 3c.–** The presence of an audit committee at the service of the board would have an enabling influence on the informational and policy processes that underlie strategic and global risk management.

### 1.3. Comparison of proposals in nine SMEs cases

#### 1.3.1. Presentation of the sample

Nine company managers from the Auvergne Rhône-Alpes region were interviewed, face-to-face, on the basis of a semi-directive interview guide (duration
1 hour 30 minutes to 2 hours) that is entirely focused on risk management in their company. The interview guide provided the following four parts: (1) contextualized perception of the major risks that the company must encounter; (2) description of risk management practices and processes in the various phases of the overall process, stakeholders involved, organizational and performance impacts; (3) role of governance bodies, risk management influence on company management modalities, role of external stakeholders and (4) specific management of customer risks and reputational risks. The interview was accompanied by six close-ended questions on risk management impacts (on the composition of governance bodies, choice of partners, decision-making processes, etc.) and requiring a response on a scale of 1 to 5 depending on the degree of agreement. An identification sheet with close-ended questions concluded the interview, particularly to rate managers’ risk-taking level, their degree of optimism and their confidence in their skills relating to the various areas of company management.

The qualitative survey methodology based on semi-structured interviews is particularly adapted to our study because it requires a holistic and contextualized understanding of the individual, collective, informational and policy processes at work during risk management. Mindful of the fact that this subject is sensitive and even considered by many managers to be confidential, face-to-face interviewing was easier than administering a questionnaire by post or via the Internet.

The SMEs studied (see Table 1.1) belong to different areas of activity in industry and services. Our sample consists of seven SMEs and two medium-sized companies (MSC).

1 SMEs in the European Community employ less than 250 staff and either have a turnover below €50 million or a total balance sheet of less than €43 million. An MSC employs between 250 and 5000 people and realizes either a turnover less than 1500 million euros or a total balance sheet of less than 2000 million euros. The criteria for the number of employees and turnover (or total balance sheet) are cumulative. The definition of SME in the community sense is more restrictive than the definition accepted in the USA and in Canada for which SMEs may include up to 500 employees.
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* Staff in full-time equivalents

**Table 1.1. Characteristics of the nine SMEs studied**
1.3.2. Findings and discussion

1.3.2.1. Risk management, a strategic concern for SME managers, aware of their own biases

The managers interviewed consider risk-taking to be an integral part of their business, a priority and, for some, the driver for the development and performance of their business. Managers play a major role in the process of integrating risk culture into their company by encouraging employees to take risks in order to improve the performance of the company, without fear of a sanction in case of failure.

"I am paid to take risks, not for anything else! We have a policy: we say to our employees: “Take risks, you will not be sanctioned for taking the risk to innovate and increase the performance of the company. If you take initiatives to improve the performance of the company and you don’t succeed, you will never be sanctioned." (REDOTO)

Most managers do not wish to be surprised by the sudden occurrence of risk and consequently tend to implement a proactive information monitoring strategy, formulating pessimistic assumptions in order to better anticipate the potential risks incurred, or even slowing down the development of their business. This behavior is all the more marked if the company has undergone a major risk during the course of its existence that the manager had not anticipated and which had a strong impact on the company’s chances of survival.

"I will automatically imagine all sorts of possibilities to avoid being surprised. It is risk management slightly carried to extremes, since I will imagine situations that will never happen, but for which I want to protect myself. Maybe I also slow down the business ... I feel like I’m loony. All this is because there is a situation that happened that I had not imagined." (SERVIMO)

However, SME managers are aware of the biases generated by the centralization of powers in terms of risk management. This is why they are aware that assuming risk management alone is not feasible. Eight out of nine managers either agree or strongly agree that risk management places a high number of requirements on their managerial function and that the sharing of this task within a team is paramount. However, in actual fact, risk managers belong to a restricted circle of a few members of the management team, including the administrative and financial director who often represents the first safeguard against the imprudence of the manager.
It is a company that I always carry to the end, almost a breakdown, I will look for the growth rates that bring in people, funding, organization, a breakdown, while trying to stop just before. And many times, it was really at the limit. (EPUB).

Most importantly ... let’s say for a company manager, when he has a Chief Financial Officer, it is to eventually ease his ardor. I could entrust him a number of things. He directed me on certain points, I was leaving ... I was not crazy but he brought me back to reasonable things. (SERVIMO)

In general, managers have an enabling influence on the informational and policy processes that underlie risk management. This influence may become constraining when the manager is looking for high growth rates and imposes extreme risk-taking strategies on the company, even if it leads the company to the borders of failure. In this case, the sharing of risk management within a management team is paramount. Proposal 1 can be corroborated.

1.3.2.2. A restricted circle of management team members around managers and the Chief Financial Officer, linked by ties of proximity

The managers of SMEs owned and managed by a family pool (three of the nine studied) did not spontaneously mention a specific influence that the family composition of the management team or board could have; it was therefore not possible to directly test proposal 2a with the empirical material used.

The functional diversity of the management team members and the regular reconfiguration of its perimeter are, on the other hand, clearly considered by the managers interviewed as a guarantee for the success of the strategic approach to risk management. This functional diversity does provide a broadening of the cognitive skills and capacities of the team, enriching the risk management informational processes. However, for the SMEs studied, the perimeter of the team concerned by risk management remains limited: risk management concerns only a few members and remains very clearly centered on the Chief Financial Officer (CFO). The Chief Financial Officer is indeed, by his/her function, the first to identify a major weakness, by monitoring the financial performance of the company, and the first to channel risk-taking.

In a small medium-sized company, unfortunately, we do not have the means to have a specialized service, so it falls under the finance department; in terms of risk mapping, that is, risks that are easily identifiable, it is the responsibility of the finance department and it is directly related to risk mapping (PLASTOC).
We are small, so the company manager makes his decisions alone. I receive a lot of assistance from my CFO and some members of the team who have important roles, whether IT or any other (SERVIMO).

Proposal 2b is corroborated: the functional diversity of the members of SMEs management team has an enabling influence on the informational and policy processes that underlie global and strategic management of risks. However, it is not actually the size of the management team that plays a positive role in risk management (a limited number of members around the manager and the CFO seems to work well), but the close relationships between the members. In the strategic management of risks in these SMEs, one of the specific characteristics of the latter is the role of “proxemics”, in the sense of the physical distance that is established between people involved in an interaction. Proxemics facilitates the mutual adjustments needed for risk management, which appears here as a daily task to be assumed collectively. Professional affinity between team members, promoting mutual knowledge and understanding, is also mentioned as having an enabling influence on informational and policy processes. Moreover, the informal dimension of risk managers is raised by management, even when risk management is no longer only centralized by the manager but extended to other members of the management team. Some managers even raise the idea of “subjectivity” in managing strategic risks.

The three people who talk about risk are in offices next to each other. It is obvious that there is a CFO, the business group IT manager and the boss. For me these are the two bodies on which proximity ... it is especially risk that makes me go to their office before anything else ...; I will immediately see them to look, to ask them ... Regarding this management team, its first job is risk management. (SERVIMO)

The four of us (3 managers and the CFO) cover everyone, all subjects ... each knows what the other is doing. We are three scientists, are all capable, and we have ideas on scientific subjects, with slightly different cultures, so this is rich enough to predict which are the risks, opportunities and uncertainties. In the financial area, V. has enough affinity with us for almost 15 years to know how to manage and how projects are handled. (ANTISUC)

Of the nine managers, seven responded that they agreed and fully agreed with the assertion that the management of major risks had led them to require new skills. Indeed, in view of the major risks they face, which vary greatly from one company to another (regulatory, technological, IT risks, etc.), SMEs equip themselves with new skills. However, these new skills are not necessarily synonymous with a systematic extension to cross-company functions focused on risk management. The managers do not have the means with regard to the size of their structure and do not
feel that it is necessary. It is indeed the major risks within the company that determine the type of new functions that will be created. Thus, new management positions focused on “quality”, “regulation” or “security of information systems” are responsible for managing the major strategic risks that concern them, while ensuring transversality within the structure. They will in fact act as a coordinator between the various functional managers. For example, in MONBUS Company, the CSR and safety manager is in charge of major risks related to vehicle regulation and non-conformity.

No, our company is too small to have a specific function, but we brought in the regulatory quality manager at COMEX, this was not available at the beginning. We have well-informed service managers. (DODROIT)

Regarding risk on the platform (intrusions, maliciousness, hackers), we have an IT security officer who has an absolutely specific action with respect to this, that is to train the employees, alert them about potential risks and what attitude to adopt in view of a dubious email. (EDILOG)

Some managers even go as far as justifying the absence of a specific function focused on risk management in terms of issues relating to decentralization of responsibility, as does the manager of BARAMUSI: In fact, each manages risks within its perimeter, decentralization of responsibility is practiced, or, as done by the manager of SERVIMO: No function focused on risk management, especially the CFO. From the moment we had a CFO, it changed radically.

Proposal 2c is therefore only partially corroborated: within SMEs, risk management is reflected by an expansion of the management team to new functions, but these are not necessarily focused on integrated and transversal risk management. They are rather functionally oriented on major risks faced by the company with regard to its activity. These new functions, however, have an actual enabling influence on the informational and policy processes that underlie strategic and global risk management.

1.3.2.3. The controversial role of the board in strategic risk management

SME managers have contrasting views on the role of governance bodies and that of the board in particular. What the managers discuss is not so much the impact of the composition of the board (proposal 3b cannot be directly tested) but rather the role of the board in risk management. Some managers perceive governance bodies as real opportunities to improve risk management, since they would provide
informational processes as well as policy processes related to decision-making. This is the case of the manager of SERVIMO who consults the members of his board of directors, during meetings that he wishes to be “informal”, in order to have their opinion on the creation of new products and associated risks.

In my capital, I have shareholders. They request a certain number of things: that we communicate at least 2 to 3 times a year, check whether the plan is respected, verify if the strategy is maintained, etc. They follow these up, which is quite normal. As a result, we take advantage of this, considering this business is new, it is a bit specific, imagine other possibilities. There is a great deal of creativity at that moment. What is interesting is seeing how they react to new products. I seize opportunities during these moments to talk about new products and see how they will react. (SERVIMO)

The board is also seen as a solution to the common problem related to the fact that there is no distinction between the management and governance in patrimonial SMEs in terms of strategic risk management.

Nowadays, companies of our size face a fairly common problem, distinction between governance and management, because we have a dual role to play. Today, some supervisors are also shareholders and sometimes, things are so mixed up. And what I am trying to organize is to create dissociation between governance and management. However, it has been said that subjects relating to strategy must be addressed in governance, and from the moment decisions are made, implementation must be carried out by management. But presently, it is more an issue related to management committee, risks. (BARAMUSI)

Furthermore, for some managers, the operational nature of risk management may not be compatible with the supervisory prerogatives of the board of directors. Since risk management is considered as part of the company’s daily life, it will not have a place in the board of directors or supervisory board. Thus, there has been no board of directors within MONBUS for more than a year, since the company is an SAS (simplified joint stock company), it has no obligation in this regard. The manager asserts that if a greater formalization of risk management is required within the company, it does not have to be done within the framework of a specific board of directors, a management committee dedicated to this effect shall be sufficient. Specifically, risk management is a daily routine in our company. (MONBUS)
Proposal 3a is thus partially corroborated: the presence of a board of directors or supervisory board could have an enabling influence on the informational and policy processes that underlie risk management by dissociating what belongs to management from that which belongs to governance. For the time being, however, the SMEs studied prefer to rely on their management team, apparently not only for proxemics but also for power and control. Losing control of risk management for a manager or team is probably accepting the loss of some of their prerogatives on the running of the company.

Two examples studied confirm that the creation of an audit committee can play an enabling role in risk management. However, it turns out that the role of the latter is often limited to risks related to compliance with accounts and accounting regulations. The manager of EDILOG asserts that the audit committee’s influence on risk management is very low, except for risks related to accounting, accounts; for example, sales and expenses that are not real. The audit committee which is assisted by two auditors addresses the risks of accounts which may be false or not sincere (EDILOG). The committee’s stake in strategic risk management would therefore be reduced to certain types of specific risks (compliance with accounting and financial regulations). This finding is confirmed by the manager of ANTISUC, which is characteristic of highly innovative biotechnology companies requiring significant financial resources. The establishment of the audit committee favored the management of risks associated with the company listing on Alternext by providing the necessary expertise to meet the requirements of the financial markets. Proposal 3c is partially corroborated: audit committees have an enabling role, but they seem to be more focused on the management of particular risks related to accounting or financial aspects.

Audit committee. That is the reason why we recruited this director because she had made a number of quotations at the stock exchange. She is, among other things, on the board of directors of large companies. She had a good mastery of the business regarding the risk of listing at the stock exchange. She was recruited prior to our quotation at the stock exchange. The issue of audit and account are unavoidable issues where one was not sure to have the best practices and considerable expertise. From this point of view V. (CFO) was somehow alone with us. (ANTISUC)

The case of REDOTO is specific, since in this “small” MSC, the composition and role of governance bodies are much more developed and in direct contact with risk management. The board of directors is made up of the two key executives (sons of the founder) and a daughter of the CEO representing the family. However, the board is balanced, since it is open to six external members who give advice on various topics, such as governance/transmission, human resources, distribution, etc.
Moreover, a strategic committee constituted at the level of governance, made up of external managers, has the duty to advise and challenge managers on the development of the company. REDOTO is typical of the transition experienced by SMEs which become MSCs and must reconstitute their governance mode in order to be more in line with the requirements related to their size.

*We cannot talk about pressure, instead, we must to be able to exchange and practice transparency. The work that is being carried at the level of the board of directors on the evolution of the management and control of these risks is important. The board of directors keeps us informed on this issue twice a year.*

*This strategic committee is managed by external managers who monitor the company and draw our attention to various subjects, on how to improve and on how to organize differently, especially with regard to security. I chose them for their performances. For example, they told us during the last committee that perhaps we should have an internal control officer. We meet every 3 months, 4 times a year. In the strategic committee, the rule is an emotional discussion for the wellbeing of the company. We are facing challenges. The influence of these bodies on the implementation of risk culture or management within the organization is direct.*

*We have moved from governance by father and two sons with 100% of the directors’ fee allocated to the grandmother as retirement benefits; this might be a caricature but it is actually what happened 20 years ago. Today, we have moved to governance that is relatively rare compared to the size of our company: we have a strategic committee, board of directors, real COMEX with independent managers of the company and a real audit committee under their responsibilities. We went from the artisanal mode to a mode with external directors. We are up to standards with regard to the feminization of the board and we are equally beyond the minimum in terms of the number of independent administrators. (REDOTO)*

**1.4. Conclusion**

To conclude, and without claiming to be exhaustive or general, the study presented in this chapter prompts SME managers to be aware of the role that extended governance plays in strategic risk management. First, managers must take
up their major role in disseminating awareness on risk culture and risk management within the company. It provides the necessary impetus for the implementation of mechanisms, with not all necessarily being formalized, which are essential for risk identification, assessment, prevention, management and internal and external communication.

However, managers should not underestimate the role of the different governance bodies because of their enabling influence on the informational and policy processes that underlie risk management. On the one hand, they must form a functionally diversified management team, structured around a financial director in charge of monitoring financial performance and availability of financial resources to seize development opportunities. The integration of new functions into the team, with skills that are specifically geared towards major risks that could endanger the company, seems to be a major asset. These new functions, like the dedicated and cross-company functions of risk management that can be found in the largest companies, must play a coordinating role among the various functional managers. On the other hand, the role of the supervisory bodies (board of directors or supervisory board) should not be neglected. The presence of a board, the opening of this board to external and professional members and the creation of a strategic committee or an audit committee are all assets in SMEs in terms of accumulation of new essential expertise, risk identification and assessment, as well as effectiveness of the collective decision-making process. However, there is a need for further clarification of the division of work and missions among these different risk management bodies on the one hand and between them and managers to avoid the costs of possible redundancy or dispute on the other hand.

1.5. Bibliography


