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**Survey on Risk Management Practices in Turkish
and German SMEs**

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Survey on Risk Management Practices in Turkish and German SMEs

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Abstract

The literature on risk management agrees on the fact that risk is a culturally defined, multi-dimensional and context dependent concept. There are many studies related to risk perception, risk preference and risk taking behaviors; however, investigations into the influences of national culture on risk management are limited. This paper aims to find out in which respect and to what extent national culture impacts a company's risk management. It analyzes cross-cultural differences in dealing with risk in the workplace, according to Hofstede's cultural dimensions theory. Based on a survey of 271 Turkish and German SMEs and the results of cross-tabulation and Chi-square tests, it highlights several significant differences in terms of the influence of national culture on risk management practice of SMEs of the two countries. However, it seems that Hofstede's theory is not sufficient to explain all aspects of risk handling in SMEs because of the effects of concurrent individual and institutional factors.

Keywords: Risk, risk management, Hofstede's cultural dimensions theory, national culture, small and medium-sized enterprises (SMEs).

Introduction

The concept of risk management emerged in the highly developed economies of the northern hemisphere. Shaped by European and Northern American cultures, it reflects analytical thinking and rationality (Bakker, 2006). Its main driver was the corporate governance movement at the end of the 1990s, primarily addressing larger companies which follow an internationally established management practice. The concept of risk management displays a uniform management standard irrespective of a firm's location.

Although psychology, sociology, political science and philosophy follow different approaches, they agree that risk is a culturally defined, multi-dimensional and context dependent concept (Rohrmann, 2000). Douglas and Wildavsky (1982) pronounce that risk is cultural, because our perception of risk is cultural. Accordingly, a number of studies substantiate that culture shapes risk perception and risk tolerance (Weber and Hsee, 1998; Palmer, 1996; Makhija and Steward, 2002; Rohrmann, 2000; Bontempo *et al.*, 1997; Mihet, 2012; Kreiser *et al.*, 2010), both being important factors for risk management.

The impact of national culture on management in general is one of the crucial issues in organization science. Tse *et al.* (1988) argue that national culture explains differences in managerial decision-making. Because culture works as a frame of reference for decision-making, the behavior of a manager is likely to differ according to the country in which he has been socialized (Westwood and Posner, 1997). Hence, Hofstede (1983) questions the "convergence hypothesis," according to which local practice tends to follow universal principles of sound management.

The influence of culture on risk management has been investigated only to a limited extent. Relevant studies mostly address risk perception, risk preference and risk taking (Mihet, 2012; Li *et al.*, 2012; Weber, 2013; Bakker, 2006). Research has identified three main factors influencing such risk behavior: individual, situational and cultural, the latter embracing, *inter alia*, national culture and organizational culture. Li *et al.* (2012) point out that managerial risk-behavior is influenced by culture in two ways: directly, through its impact on individual decision-making, and indirectly, by shaping the national formal institutions and a firm's managerial practices. Accordingly, cross-cultural studies confirm that risk management practices differ depending on country and industry (Zwikael and Ahn, 2011; Zsidisin *et al.*, 2008; Tse *et al.*, 1988). However, they do not give an explanation in which respect national culture impacts the way a company deals with risk.

This knowledge gap gives rise to the research questions of this survey: In which respect and to which extent does national culture impact risk management? In order to investigate these questions, three conceptual decisions have been taken:

First of all, the survey is targeted towards small and medium sized-enterprises (SMEs) because it can be assumed that they are more under the

influence of national culture than larger entities (Anil and Çakir, 2015) that must follow international management standards.

Secondly, Turkey and Germany were chosen as two environments that show considerable cultural differences.

Finally, the findings on risk management practice in Turkish and German SMEs are to be analyzed on a model. From the various concepts being used in international business research (Reis *et al.*, 2011), Hofstede's cultural dimensions theory (Hofstede *et al.*, 2010) has been chosen because it is the most commonly employed construct explaining the impact of national culture on organization and management (Kraiser *et al.*, 2010).

Literature Review

Although the importance of risk management for SMEs is widely acknowledged, sciences largely neglect the topic (Henschel, 2008; Smit *et al.*, 2012; Verbano and Venturini, 2013). Only a few studies address it explicitly (Kraiser *et al.*, 2010; Henschel, 2010; Henschel, 2008; Smit *et al.*, 2012; Falkner and Hiebl, 2015; Neneh and van Zyl, 2012; Verbano and Venturini, 2013), stating *inter alia* that risk management in SMEs is practiced only on a basic level; that the reasons for this are insufficient financial and human resources, inadequate management competencies, and the owner-manager creating a bottle-neck; that risk management often is perceived as being too complicated for SMEs; that SMEs prefer reactive risk management techniques; and that there is a strong linkage between a firm's size and the maturity of its risk management system. However, almost all sources refer to a single national context.

Hofstede's cultural dimensions theory (Hofstede *et al.*, 2010) meanwhile encompasses six dimensions. Only four of them will be considered here because long-term orientation and indulgence were not found to be relevant for the present study. Hofstede rated 100 countries' culture according to these dimensions, the score ranging from 1(weak) to 120 (high). Initially, he introduced four dimensions:

Power distance indicates the degree to which members of a culture accept inequalities in power distribution, which *inter alia* refers to the extent to which they accept authority and a paternalistic management style.

Individualism stands for the attitude of people caring for themselves and for their close family rather than feeling connected to a group which provides protection in exchange against loyalty.

Masculinity is an indicator for a society being driven by competition, achievement and success, as opposed to femininity, which stands for caring for others and life quality.

Uncertainty avoidance designates the propensity of a member of a culture to feel threatened by open, unclear situations and its inclination to avoid

such situations through control instruments like planning, written rules, standardized procedures, etc.

Empirical studies on risk perception and risk decision-making based on Hofstede's model show somewhat contradictory results. Mihet (2012), however, suggests that firms in societies with a high uncertainty avoidance, low individualism and high power distance will take less risk. Relating to SMEs, only a small number of studies give more than just a general statement that there is such correlation. Kreiser *et al.* (2010) have been investigating the impact of national culture on risk taking and proactiveness. They offer empirical support, that uncertainty avoidance and power distance have a significant negative relationship with risk-taking levels, but not individualism and masculinity. Zwikael and Ahn (2011) suggest a correlation between perceived risk and uncertainty avoidance, as well as between an industry's level of maturity and the frequency of risk management processes.

Berkman and Özen (2008) are dealing with the influence of national culture on managerial behavior in Turkey, based on Hofstede's cultural dimensions. They conclude that management practice in Turkey responds, *inter alia*, to the cultural imprint of the managers. Pellegrini *et al.* (2006) investigated the effects of delegation on employee's job satisfaction. They suggest that even if the degree of delegation in Turkish companies does not differ from the practice in the western world, it may not be an effective management instrument in the Middle East. Bozbura (2007), assessing knowledge management practice in Turkish SMEs, states that senior managers do not like to share knowledge even within the company because they are afraid of losing control of that knowledge.

Different surveys are dealing with risk management in Turkish enterprises. Risk perception in Turkey is explored by Candemir *et al.* (2011). They provide evidence that size of the company and export orientation affect risk perception but not age or experience of the exporters. Although the companies were aware of the risks, they displayed a fatalistic approach and did not use risk minimization tools.

Only a few studies address risk management in Turkish SMEs. Most noteworthy is the survey of Acar and Gök (2011), giving evidence that in SMEs, risk perception depends largely on the personality of the owner. They provide support that decision makers in smaller companies have lower risk tolerance and that risk propensity declines with age and increases with experience. Zoghi (2016) has been evaluating risk management processes in Turkish SMEs. Her findings suggest that Turkish SMEs practice risk management on a very basic level.

Although there is a considerable amount of recent research on risk management practice in German SMEs (Henschel, 2010; Bömelburg *et al.*, 2012; Ergün *et al.*, 2015), to the best knowledge of the authors the cultural impact on risk management practices in Germany has not been under consideration yet. Anil and Çakir (2015), however, have been investigating the effects of culture on risk management practice in Turkish and German SMEs.

They show significant differences in risk perception and risk related decision-making between German and Turkish SMEs. For both countries, they suggest a dependency on the age of the executive.

Methodology

Data Collection Procedure

The present project is carried out jointly by SRH Hochschule Berlin, Berlin and Marmara University, Istanbul. Its goal is to compare risk management practice in Turkish and German SMEs and to identify the influence of national culture on risk management practice. Data collection was done by means of an opinion survey of managers and employees in Turkish and German SMEs. The interviews were conducted via phone, Internet or face-to-face meetings and supported by the Internet. The average interview duration was roughly 25 minutes.

As little research has been done in the field of this survey, the questionnaire takes an exploratory approach, using categorical and multiple response questions with nominal and ordinal scales. It was intuitively phrased, so that it can be answered without much previous knowledge in the field of the study. The questionnaire takes into account differences in the national management environment and in the cultural imprint of the interviewees. It has been designed to allow for basic statistical analysis, like correlation and regression analysis, and for advanced statistical analysis like factor analysis. Chi-square was used as a test method.

Sample

Turkish and German samples were developed from roughly 2000 addresses of SMEs in each country. The goal was to make both samples as similar as possible by considering addresses of companies from comparable regions, industries and company sizes. The response rate was roughly 10%. After re-checking the data and the performance of an outlier test, 191 responses from Turkish SMEs and 81 from German SMEs were found qualified for statistical analysis.

The survey has been conducted among 272 companies from Germany (29.2%) and Turkey (70.8%). 74.7% of German and 78.6% of Turkish respondents are male while 19% of German and 17.7% of Turkish respondents are female. Generally speaking, 77.5% of respondents of both countries are men and 18.1% female, while 4.4% of gender data are missing.

62.2% of the German and 20.3% of the Turkish respondents were found to be in a senior management position, while 29.7% of the German and 36.4% of the Turkish respondents held a junior management or a subordinate position. 8.1% of the German group and 43.2% of the Turkish group were not managers.

63.3% of the German respondents are 46 years and older, while for the Turkish respondents the percentage is 17.7%. The majority of Turkish respondents (62.5%) are 30 to 45 years old, and 19.8% of them range between 18 and 29 years. However, from the German group, 27.8% of respondents are 30 to 45, and 8.9 % are 18 to 29 years old. Overall, the Turkish respondents are significantly younger and in more junior management or subordinate positions than the German respondents.

From the Turkish sample, 58.3% of companies are micro, 30.7% are small, 6.8% are medium and 4.2% are large. From the German sample, 48.1% are micro, 32.9% are small, 12.7% are medium and 6.3% are large. It has to be underlined that these compositions do not represent the actual situation. In reality, 87 % of German SMEs are micro, 5.6% small and 5.4% medium-sized (KfW, 2015); In Turkey, 98.5% of all SMEs are micro, 0.9% small and 0.5% medium-sized (Karadag, 2015).

Results and Discussion

Background Information

In order to provide a basis for the interpretation of data, some general findings will be provided first.

Table 1. *Cross-tabulation “Country” and “Frequency of Monitoring of Enterprise Risk”*

Country	In your company all risks jeopardizing the company are identified and assessed.			
	Every 3 months	Every 6 months	Annually	Sporadically
DE	34.2%	16.5%	13.9%	35.4%
TR	26.6%	4.7%	16.1%	52.6%

“Table 1” reveals that 49.3% of German and 68.7% of Turkish SMEs monitor enterprise risk either annually or sporadically. Thus, they do not practice systematic risk management. As opposed to that, 50.7% of German and 31.3% of Turkish SMEs execute risk management at least every three months. We expected to see a higher rate of systematic risk management in larger companies; however, Chi-square tests do not show any significant evidence of a relationship between “Frequency of monitoring of enterprise risk” and “Company size”.

Table 2. *Cross-tabulation “Country” and “I am often Facing Decisions Involving Risk”*

Country	In my job I am often faced with decisions involving risk.			
	Completely Agree	Agree Somewhat	Disagree Somewhat	Completely Disagree
DE	30.4%	40.5%	26.6%	2.5%
TR	21.4%	49.5%	27%	2.1%

According to “Table 2”, 70.9% of both German and Turkish respondents agree on facing decisions which involve risk often. Interpretation of these findings, however, has to take into account that the Turkish respondents are much younger and in more junior positions than the German respondents. As shown above, several studies suggest that risk appetite is decreasing with higher age and higher management positions. This is confirmed by the results of the Chi-square test. They give significant evidence of a relationship between “Age” and “I am often facing decisions involving risk” (Chi-square value 17.592 and Sig. 0.040) and between “Management position” and “I am often facing decisions involving risk” (Chi-square value 17.819 and Sig. 0.007).

Data Analysis

Power Distance

For Hofstede’s dimension of power distance, Germany scores 35 and Turkey 66. Hence, it can be expected that in Turkish SMEs, decision-making power and information are concentrated on a higher management level than in German SMEs.

Table 3. *Cross-tabulation “Country” and “Risk Definition Power within Company”*

Country	Who defines risk and risk limits in your company?						
	Managing Director	Financing Department	Controlling Department	Internal Auditing	Risk Man. Dep.	External Consulting	Nobody
DE	98.7%	11.8%	21.1%	7.9%	2.6%	10.5%	2.6%
TR	90.5%	31.7%	6.3%	6.9%	2.6%	4.8%	2.6%

“Table 3” suggests that risk definition power in both Turkish and in German SMEs is highly concentrated in the managing director. In this respect, the German group scores 98.7% and shows an even higher degree of centralization than the Turkish group with 90.5%. Delegation of risk definition power seems to be done to a similar extent in both groups but with differences in distribution: In 11.8% of the German SMEs, risk definition power is vested in the financing department, in 21.1% in the controlling department and 10.5% use consultants. These findings reflect the general recommendations given for SMEs (Haubold *et al.*, 2014). In 31.7% of the Turkish SMEs, this competency is with the financial department, 6.3% within the controlling department, and 4.8% are relying on consultants. Chi-square tests revealed a significant evidence of relation between the variable and “Company size” (Chi-square value 31.889 and Sig. 0.023).

Table 4. *Cross-tabulation “Country” and “Internal Distribution of Information on Business Partners”*

Country	Does your company make experience with certain clients or businesses available for colleagues in any of the following way?						
	Not at all	Informal exchange	Teamwork	Workshops	Internal Training	Checklists/ Samples	Data collection/ Database
DE	6.4%	75.6%	38.5%	16.7%	20.5%	20.5%	44.9%
TR	3.1%	55.2%	43.8%	12%	31.8%	3.1%	9.4%

According to “Table 4”, both groups show no significant differences in internal information distribution. Both favor informal exchange and teamwork as methods for the internal distribution of information. German SMEs, however, are more open to perpetuate data in checklists and data collections (20.5% and 44.9% for Germany as to 3.1% and 9.4% for Turkey). Further, the larger total number of multiple answers of German respondents may indicate a higher awareness towards the topic. Cross-tabulation with the variable “Company size” does not provide any substantial findings.

Individualism

For Hofstede’s dimension of individualism, Germany scores 65 and Turkey 37. This may lead to the expectation that German SMEs follow a more rational approach towards risk and display a self-centered decision-making culture focusing on the interests of the manager and his close environment. Whereas for collectivistic cultures such as the Turkish, the respondents can be expected to display a more emotional approach towards risk management and a stronger consideration of the interests of the wider environment when making risk related decisions.

Table 5. *Cross-tabulation “Country and “Personal Concept of Risk”*

Country	What do you think of first when you hear the word “Risk”?			
	Loss	Uncertainty	Opportunity	Thrill
DE	15.2%	41.8%	35.4%	7.6%
TR	30.2%	31.8%	22.4%	15.6%

It can be seen from “Table 5” that the two “emotional” responses (“Loss” and “Thrill”) were chosen twice as frequently by the Turkish group than by the German group. Thus, a stronger inclination of the Turkish respondents to emotional aspects of risk perception can be stated. However, Chi-square tests revealed significant evidence of a relationship between “Age” and “Risk attitudes” (Chi-square value 18.900 and Sig. 0.026).

Table 6. *Cross-tabulation “Country” and “Risk Decision as a Matter of Instinct”*

Country	When I make a decision involving risk, I often use my intuition.			
	Completely agree	Agree somewhat	Disagree somewhat	Completely disagree
DE	20.3%	36.7%	36.7%	6.3%
TR	20.3%	49.5%	26.6%	3.6%

“Table 6” suggests that respondents from Germany and Turkey differ in their responses to the question whether they use intuition when making a decision involving risk. While 43% of the German group disagreed completely or somewhat (6.3% and 36.7% respectively), 30.2% of the Turkish group disagreed completely or somewhat (3.6% and 26.6% respectively). Chi-square tests revealed a significant evidence of relation between the variable and the variable “Age” (Chi-square value 22.559 and Sig. 0.007).

Table 7. *Cross-tabulation “Country” and “Risk Decisions after Consulting with Team”*

Country	I make important risk decisions after consulting with a team.			
	Completely agree	Agree somewhat	Disagree somewhat	Completely disagree
DE	46.8%	34.2%	12.7%	6.3%
TR	39.6%	49.0 %	8.9%	2.6%

“Table 7” shows the extent to which respondents consult with a team before taking important risk decisions. For both groups, respondents mostly agree (completely or somewhat) that they discuss with a team before taking risk decisions. In the first instance, these findings contradict the expectation that less individualistic cultures prefer a more autocratic decision-making process. It must be taken into consideration, however, that a stronger involvement of employees in the decision-making process can also be attributed to a lesser degree of power distance. Thus, a more individualistic culture like that of the Germans and a culture with a high degree of power distance like that of the Turkish may produce similar effects in team involvement for making risk decisions.

Masculinity

For Hofstede’s masculinity dimension, the German culture scores higher (66 out of 120) than the Turkish culture (37 out of 120). Thus, risk management processes in German SMEs can be expected to display a more competitive orientation, while Turkish organizations should give more consideration to the interests of others.

Table 8. *Cross-tabulation “Country” and “Decisions based Primarily on Economic Consequences”*

Country	I make risk decisions primarily based on the economic consequences for my company and less on other consequences such as those involving colleagues, clients, suppliers, government, society, etc.			
	Completely agree	Agree somewhat	Completely disagree	Disagree somewhat
DE	25.3%	51.9%	17.7%	5.1%
TR	25.5%	35.4%	33.9%	5.2%

“Table 8” shows that 77.2% of the German respondents agree completely or somewhat that they make risk decisions primarily based on the economic consequences for their company. From the Turkish group, only 60.9% agree with that statement. However, roughly 39.1% of Turkish participants indicated that they consider the consequences of risk decisions on their colleagues, clients, suppliers, government, society etc. as compared to 22.8% of the German group.

The results of Chi-square tests give significant evidence of a relationship between the two variables (Chi-square value 6.491 and Sig. 0.032). The findings, thus, match the expectations deducted from Hofstede’s masculinity scores for Turkey and Germany and suggest that social considerations have a stronger impact on risk and risk decision-making in Turkish than in German SMEs. As we did not find any relationship between the variables “Age” and “Company size” on the one hand and “Country” and “Decisions based primarily on economic consequences” on the other hand, it may be concluded that the variable is impacted by national culture.

Uncertainty Avoidance

Turkish and German cultures show high uncertainty avoidance, although Turkey scores considerably higher (score of 85) than Germany (score of 65). This suggests that the Turkish respondents are more prone to planning and control processes because the Turkish culture scores high in uncertainty avoidance and in power distance, while the German culture scores high in uncertainty avoidance but low in power distance. However, “Table 1” displays a higher percentage of German SMEs practicing risk management systematically, as compared to Turkish SMEs. As explained above for “Table 1”, these findings cannot be attributed to the higher number of medium-sized and large SMEs in the German sample because the Chi-square test does not give any significant evidence of a relationship between “Frequency of monitoring enterprise risk” and “Company size”.

Table 9. *Cross-tabulation “Country” and “Risk Management Procedure established in writing”*

Country	Are there documents that establish risk management procedure in your company?			
	Risk management handbook	Organization rules	Other written documents	None
DE	12.8%	26.9%	32.1%	41%
TR	7.8%	28.1%	31.8%	48.4%

It can be seen from “Table 9” that a significant percentage of German and Turkish SMEs has no written documents establishing risk management procedures (41% for German and 48.4% for Turkish SMEs). While 39.7% of German SMEs have documents which specifically address risk management procedure, the corresponding percentage of Turkish SMEs is 35.9. The result of a Chi-Square test shows significant evidence of a relationship between the variables “Risk management procedure established in writing” and “Company size” (Chi-Square 34.616, Sig. 0.001). More than half of micro-sized SMEs have no written documents relevant in this respect. Small SMEs prefer organization rules and other written documents, although the percentage of companies which do not have any such document is considerable, too. Medium-sized and large SMEs have organization rules, other written documents and a risk management handbook. It can be stated, therefore, that there are strong indicators that the risk management systems of Turkish and German SMEs depend more on the size of the organization than on national culture.

Table 10. *Cross-tabulation “Country” and “Always written contract”*

Country	Does your company have a written contract available at the start of processing contract?			
	Always	Most of the time	Rarely	Never
DE	34.2%	54.4%	6.3%	5.1%
TR	34.9%	17.2%	18.2%	29.7%

“Table 10” shows that 88.6% of German companies have (always or most of the time) a written contract available at the start of processing a transaction contract while for Turkish SMEs it is 52.1%. 18.2% of Turkish companies “Rarely” and 29.7% of them “Never” use any written contract before starting transaction processing.

Chi-square tests do not give any significant evidence of a relationship between either “Always written contract” and “Sector” or “Always written contract” and “Company size”. This suggests that the use of a contract is impacted by national (legal) culture. However, our findings do not support the hypothesis that a higher uncertainty avoidance score may result in more frequent use of a written contract.

Conclusions

Although the German culture scores lower in power distance than the Turkish culture, the findings regarding delegation of risk definition power and distribution of information do not differ significantly for the Turkish and German groups. The survey does not give evidence for a dominating cultural impact on these aspects of risk management.

The survey outcome concerning individualism is ambivalent. On the one hand, it suggests that Turkish interviewees respond to risk and risk decision-making in a more emotional way, while Germans prefer a rational approach. However, the results show a relationship with the age of the respondents and cannot clearly be attributed to national culture. It also has to be taken into account that, in the absence of an established risk management system, intuitive approaches may prevail. The percentage of Turkish SMEs without a systematic risk management, however, is higher as compared to the German group. Concerning the risk decision-making process, there is evidence that the Turkish respondents show a higher propensity to consult with a team. This matches the expectation raised by Hofstede's theory.

Masculinity has been tested through one question. The findings suggest that risk decision-making in German SMEs tends to be more oriented towards the interests of the organization and less towards social implications than in Turkish SMEs. This supports the statement of Berkman and Özen (2008) that Turkish decision making culture is consideration oriented rather than task oriented. It also meets expectations according to Hofstede's masculinity dimension.

The survey does not produce evidence for a relationship between the cultural dimension of uncertainty avoidance and the extent to which risk management is practiced. This may be attributed to at least two reasons. First, the relation of the variables "Risk management procedure established in writing" and "Company size" suggests that the practice of risk management in so far is also depending on institutional factors. Secondly, planning processes are related to a person's belief that the environment, at least to some extent, can be controlled (Bakker, 2006). Berkman and Özen (2006), however, characterize the Turkish culture as being fatalistic. The use of a written contract, in contrast, in both countries seems to be a matter of national (legal) culture.

Thus, Hofstede's cultural dimensions theory seems to be insufficient for explaining risk management practices in Turkish and German SMEs. It may produce indicators in some respects, but in others the impact of national culture apparently is superimposed by the effects of individual and institutional factors. Hence, further research is required for deeper insights into such interrelationships. Besides the individual attributes of the respondents addressed in our study like age, gender, managerial position and corporate function, further aspects may be of interest, in particular religious affiliation and educational background. For the institutional factors, the company's culture, affiliation to a corporate group, outside/owner-management or export orientation deserve a closer examination. Such multi-factor research will produce a more differentiated

understanding of the contributions of national culture to risk management in SMEs.

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