

Risk Management in Strategic Decision Making: A Case Study of Culinary MSME's in Surabaya

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ABSTRACT

This research aims to get a better understanding of how small and medium-sized enterprises (SMEs) in Surabaya's food sector are incorporating risk management into their strategic decision-making processes. Even though they have already had a significant impact on Indonesia's economy, these culinary MSMEs face several financial, operational, and commercial challenges that might hinder their continued success in the future. Thus, a qualitative case study was conducted on five food-related MSMEs situated in Surabaya that had just undergone strategic changes. Based on in-depth interviews and participatory observation, the data was analyzed using theme coding and risk matrices according to ISO 31000 (2018). The analysis found that the two biggest operational risks are supply delays and being too reliant on vendors. Financial risk comes from fluctuations in prices, whereas market risk is characterized by variations in consumer preference. In response to these challenges, MSMEs have turned to digitalization, menu expansion, partnerships with local suppliers, and pre-order systems, among other strategies. Through enhancing corporate resilience, these strategies demonstrate a realistic and systematic application of risk management ideas. To bridge the gap between theory and practice regarding risk management implementation among MSMEs situated in urban regions, the study's results may be used by policymakers and business development programs to construct risk-aware support mechanisms. In the end, it proves that even tiny businesses with little resources can benefit greatly from organized risk analysis when making strategic choices.

1. INTRODUCTION

Culinary MSME's in Indonesia have long demonstrated their strategic role as the backbone in supporting the national economy. Based on data from the Central Bureau of Statistics (BPS, 2023), this sector contributes more than 60% of Brutto Domestic Product (GDP) and is a major labor absorber in large numbers in various layers of society. This large contribution emphasizes the position of culinary MSME's as an economic pillar that is not only important at the macro level, but also as a buffer for local economic resilience, especially in urban areas such as Surabaya. Several factors really endanger the sustainability of culinary MSMEs, including:

1. Operational risk such as delays in the supply of raw materials (supply disruptions).
2. Financial risk such as due to fluctuations in rent and raw material prices.
3. Market risk such as changes in consumer tastes and trends (consumer preferences), for example the increasing demand for healthy food.

These kinds of hazards are relevant to the present state of affairs and circumstances of Surabaya's culinary MSMEs, which are battling aggressively in a rapidly evolving market (Todericiu & St, 2015). There is a direct and substantial effect on the strategic decision-making of corporate players from these dangers, which are more than just technological hurdles. Thus, if not handled appropriately and systematically, these risks can thwart strategic decisions such as business expansion efforts or product diversification, to business model changes. Utami & Soeharto's (2020) study shows that many MSME's fail to survive because strategic decisions are taken without adequate risk mitigation. These problems indicate the importance of an adaptive and information-based risk management system. approach that is able to explore actual practices and strategies in the field.

Risk management is a systematic process for identifying, evaluating, and controlling risks that impact a business (ISO 31000, 2018). The resources and capabilities of the company are the primary focus of MSME risk management. Wulandari and Darmawan (2022) state that SMEs have the greatest challenges in risk management due to inexperience, a lack of resources, and a lack of data-driven decision-making. When it comes to supply chain and financial stability (Vikaliana et al., 2021), small and medium-sized firms (SMEs) aren't as prepared as larger corporations, according to research by Nair and Suresh (2018). Likewise, in a previous study by Setiawan & Fitriani (2020) emphasized that strategic decisions taken intuitively without risk consideration can lead to long-term losses, especially in MSME's that have limited resources.

Many SMEs rely on anecdotes, historical information, and a lack of market data when making strategic choices (Yunus & Sari, 2021). As stated by Setiawan and Fitriani (2020), this method of decision-making consists of weighing the chances and ramifications of possible outcomes before settling on a policy move. Financial data and consumer trends are replacing gut reactions when deciding on higher-risk MSMEs. The need of moving away from a reactive decision-making approach and toward one that is data- and risk-driven is recognized in this study (Hidayat and Pramudita, 2023).

Although the topic of risk management has been widely discussed in various literatures including ISO 31000 (2018) and several national studies in general, there are still few studies how culinary MSME's in big cities like Surabaya apply risk management in the context of strategic decisions, so there is a void in the context of its practical application in culinary MSME's, especially those located in big cities like Surabaya. Most of the research is still normative, not yet providing an overview of real practices in the field. This void creates an urgent need to qualitatively explore the real practice of risk management by MSME players. The majority of studies are still theoretical and normative, without providing a contextual picture of how MSME actors actually identify, evaluate, and respond to risk in strategic decision-making. This raises the need for case study-based research, with a qualitative

Despite facing several operational and commercial risks, small and medium-sized firms (SMEs) are using digitalization strategies to make themselves more efficient and competitive. Being able to quickly react to digital changes is crucial in the event of a pandemic. Hastuti and Saputra (2022) include digital marketing, app-based delivery services, and pre-order systems as innovations that help firms be more resilient. When it comes to identifying, evaluating, and mitigating risks, the ISO 31000 (2018) framework is a great resource for micro, small, and medium-sized businesses (MSMEs). Organizations without a rigid management structure, such as smaller, still-growing businesses, employ ISO 31000 in a more adaptable way (Kassem and Higson, 2016). This study used a risk matrix in accordance with the criteria of ISO 31000, which includes the use of probability and impact mapping to prioritize methods to minimize risk.

Despite the significant contribution of culinary Micro, Small, and Medium Enterprises (MSMEs) to Indonesia's urban economy, their business sustainability remains highly vulnerable to operational, financial, and market uncertainties. In metropolitan cities such as Surabaya, culinary MSMEs operate in a dynamic environment characterized by fluctuating raw material prices, intense competition, changing consumer preferences, and increasing dependence on digital platforms. These conditions make strategic decision-making increasingly complex and risk-laden, thereby creating an urgent need for systematic risk management practices that are not only theoretically sound but also practically applicable.

The urgency of this research is further reinforced by empirical evidence showing that many culinary MSMEs still rely on intuition-based decision-making when responding to strategic challenges. While such approaches may offer short-term flexibility, they often expose businesses to unanticipated risks that threaten long-term resilience. Recent studies indicate that MSMEs lacking structured risk assessment mechanisms are more prone to business failure, particularly when facing market volatility and supply chain disruptions (Utami & Soeharto, 2020; Wulandari & Darmawan, 2022). Consequently, understanding how risk management is actually practiced at the MSME level becomes critical, especially in urban culinary sectors where competition and uncertainty are particularly intense.

From an academic perspective, a clear research gap can be identified in the existing literature. Although risk management frameworks such as ISO 31000 (2018) have been widely discussed, most

prior studies remain normative and conceptual, focusing on large enterprises or offering generalized prescriptions for MSMEs. There is limited empirical research that explores how culinary MSMEs in large cities operationalize risk management principles in real strategic decision-making contexts. In particular, few studies provide qualitative, case-based insights into how MSME actors identify risks, evaluate their impact and probability, and translate this understanding into concrete strategic actions.

Moreover, existing MSME risk management studies tend to emphasize financial or operational risks in isolation, without sufficiently integrating them into the broader process of strategic decision-making. This creates a gap in understanding the dynamic relationship between risk awareness, strategic choices, and business adaptation. As highlighted by Setiawan and Fitriani (2020), strategic decisions that ignore structured risk analysis often lead to suboptimal outcomes; however, empirical evidence demonstrating how risk-aware MSMEs actually behave in practice remains scarce, particularly in the culinary sector.

Therefore, this study addresses this gap by adopting a qualitative case study approach to examine five culinary MSMEs in Surabaya that have undergone strategic changes in recent years. By applying the ISO 31000 risk management framework in an empirical setting, this research moves beyond normative discussions and offers contextualized insights into real-world practices. In doing so, it contributes to the literature by bridging the gap between formal risk management theory and the lived strategic experiences of MSME actors, while simultaneously responding to the practical needs of policymakers and business development institutions seeking to strengthen MSME resilience in urban environments.

To answer this need, this research fills the gap by using a case study approach to five culinary MSME's in Surabaya that have undergone strategic transformation in the last two years. By analyzing through in-depth interviews and participatory observation, this research maps the types of risks faced and the mitigation strategies implemented by each business. The data analysis technique was carried out using a risk matrix based on ISO 31000 (2018) guidelines, which allows systematic identification of a combination of risk impact and probability levels.

By focusing on how culinary MSME's identify, evaluate, and respond to strategic risks, it shows that culinary MSME's have high risk awareness, so they trend to adopt more adaptive strategies, such as digitalization, pre-order systems, long-term cooperation with local suppliers, and menu diversification according to market trends are crucial steps in increasing business resilience. Thus, this research contributes to the development of a risk management framework that is contextual, applicable, and relevant for culinary MSME's in urban areas. In addition, the results of this study are also expected to serve as a foundation for local governments and the business community in developing risk-based training and mentoring programs to improve the resilience of MSME business in the face of market uncertainty.

2. METHOD

Using a qualitative approach and an exploratory case study technique (Neuman, 2014), this research delves into the ways in which Surabaya's culinary MSMEs incorporate risk management into their strategic decision-making process. This approach is ideal for clarifying complex and contextual phenomena in their native environments as the researcher has little control over the events being studied (Yin, 2018).

The population in this inquiry consists of all culinary MSMEs in Surabaya. A purposive selection method was used to choose the sample, which included case units, by using specific and pertinent criteria. To begin, the culinary MSMEs need to have been around for at least three years. Second, they had to have made two improvements to their business plan, such as diversifying their products, digitizing their services, or changing their operational model, in the previous two years. Based on these criteria, the five culinary MSMEs selected reflected the diversity of location contexts, business models, and adaptive capacity. This was done to maximize variation in responses to strategic risks.

The primary data were in-depth semi-structured interviews with business owners and participant observation of operational activities at their businesses. The interview guide is based on the ISO 31000

(2018) risk management framework, so that there are aspects of risk identification, risk evaluation, and mitigation strategies for business actors.

Regarding data validity, this research employed several verification techniques, namely:

1. Source triangulation: comparing data from interviews and direct observations, plus supporting documents such as sales reports or purchase records.
2. Member checking: confirming findings to ensure the researcher's interpretation aligns with the informant's intent.
3. Audit trail: recording the entire analysis and decision-making process to ensure transparency and traceability.
4. Peer debriefing: discussing findings with peers to gain additional perspectives and reduce interpretation bias.

Data analysis was conducted through a combination of thematic analysis and risk mapping approaches using a risk matrix based on ISO 31000 guidelines. The analysis steps included: (1) transcription of interview data, (2) open coding to identify units of meaning, (3) categorization into themes such as a risk types, risk perceptions, and mitigation strategies, and (4) visual mapping of risk in the form of a risk matrix based on a combination of impact and probability levels. This analytical technique not only generates an in-depth understanding of decision-making patterns, but also provides a systematic classification of risk to support evidence-based policy-making. With this approach, this research is expected to be able to answer the problem formulation comprehensively, especially in understanding how culinary MSME's identify, evaluate, and respond to risks in the context of strategic decision-making.

3. RESULT AND DISCUSSION

Results

Types of Risk Faced

The results of the study of five culinary MSME's in Surabaya show that all businesses face operational risk, financial risk, and market risk, with different emphases and responses depending on their business strategies and market characteristics.

Table 1. Risk Matrix Based on Field Findings of 5 Culinary MSME's

Name of MSME	Operational Risk	Financial Risk	Market Risk
Ketan Duren ala XXX	Delay in durian supply during unstable season	Fluctuation in local durian price	Healthy food trend shifts interest in sweets
Bakso SS	Limited stock of quality beef	Increase in staple food prices (onion, chili, shop rental)	Consumers switch to modern & less sodium meatballs
Soto MP	Inconsistent seasonal labor	High fixed cost during sales decline	Consumer appetite for typical soto is declining
Tahu Walik NYK	Frequent shortage of fillers (meat & vegetables)	Increase in gas and cooking oil costs	Increased competition from healthy snacks and frozen food
Ayam Bakar PDJ	Disrupted delivery of charcoal and spices	Dependence on one main vendor	Preference to convenience food via online apps

The findings show that raw material delays and supply disruptions are the dominant operational risks, mainly due to seasonal factors and dependence on a single supplier. Financial risk arises from rising raw material prices and fixed costs that are out of balance with sales volumes, while market risks are strongly influenced by changing consumer preferences towards healthy and digitally-based food.

Decision-Making Strategy

Each MSME shows different mitigation strategies but leads to a consistent pattern: digitization-based adaptation, local collaboration, and product innovation.

1. Ketan Duren ala XXX developed a pre-order system based on WhatsApp and ShopeeFood, and started looking for alternatives to frozen durian to avoid depending on the season.
2. Bakso SS reduced the meat portion without lowering the price, and introduced a healthy vegetable meatball menu.
3. Soto MP strengthened its promotion on Instagram, offered weekday discounts, and changed its labor supplier to a fixed daily system.
4. Tahu Walik NYK switched to alternative ingredients for tofu fillers, and sold through TikTok Shop and home culinart resellers.
5. Ayam Bakar PDJ started selling frozen grilled chicken packages via e-commerce and collaborated with a cloud kitchen for logistical efficiency.

These step shows that although some strategies are reactive, MSME players have been able to apply the basic principles of ISO 31000, especially in the stages of risk identification, impact and probability evaluation, and control through diversification and digitalization.

Risk Matrix Visualization (ISO 31000 Framework)

Culinary MSME's respond to risks with various strategies. Some business decided to develop a pre-order system via WhatsApp and ShopeeFood to avoid the risk of wasted ingredients

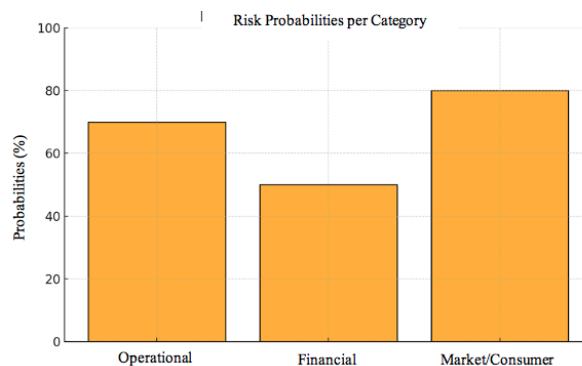


Fig. 1 Risk Probability per Category

This study shows that digitalization and local supply chain management are the most effective mitigation strategies (Hastuti & Saputra, 2022). In addition, small businesses tend to choose menu diversification as a reactive strategy when demand for one type of product decreases. The visualization in Figure 2 shows the combination of the level of impact and probability of risk from the five MSME's based on the results of interviews and observations:

1. Operational Risk (Red): High probably and impact, e.g. disruption in the supply of key ingredients.
2. Market Risk (Yellow): High impact but medium probability, e.g. changes in healthy food preferences.
3. Financial Risk (Light Yellow): Medium probability and medium impact, such as rent increases.

This matrix allows businesses to prioritize mitigation strategies in the red (high-high) risk quadrant, which have the potential to threaten business sustainability if not addressed immediately.

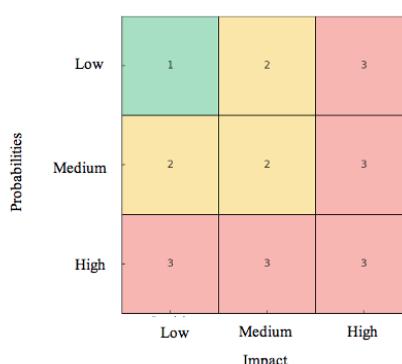


Fig. 2 Level Of Impact and Risk Probability of Five MSME's

The findings of this study support the risk-based decision-making model as proposed by Setiawan & Fitriani (2020), that MSME actors who evaluate risk before making strategic decisions tend to be more sustainable in their operations. In fact, these results reinforce the findings of Hidayat & Pramudita (2023) that risk-aware business actors tend to use financial data and market signals in decision making, not just intuition.

Furthermore, these results extend the findings of Pratama & Lestari (2019) who emphasized the importance of proactive strategies in culinary MSEM's. this research shows that practices such as the use of digital services, trend monitoring, and restructuring supplier relationship are not only responsive to crises, but become a form of sustainable adaptive capability.

In addition, strategies such as digitalization and menu diversification show alignment with international findings by Soomro et al. (2020) who mentioned that MSME's that have an innovation and technology orientation perform better in the face of market uncertainty. Similarly, the practice of risk mapping through the matrix used in this study shows that the ISO 31000 framework can be functionally implemented at the micro and small enterprise scale, as suggested by Kassem & Higson (2016).

Thus, the main contribution of this research lies in the contextualization of risk management in a small-scale enterprise in a large city, as well as the merging of formal ISO 31000 principles with adaptive strategies based on field realities. This provides empirical evidence that a flexible and intuitive risk management approach can support strategic decision-making, even in the informal sector.

5. CONCLUSION

This study aims to understand how culinary MSME's in Surabaya identify, evaluate and respond to risk in making strategic decision. Through a qualitative case study approach with five MSME players, it was found that the most dominant risk faced were operational risks, such as raw material delays and dependence on a single supplier; financial risks such as a raw material price fluctuations and high fixed cost; and market risk such as changing consumer trends towards healthy food and digital services.

In facing these risks, MSME players have clearly demonstrated high risk awareness and implemented adaptive strategies, including through service digitization (ShopeeFood, WhatsApp, TikTok Shop), product diversification according to trends (healthy meatballs, frozen food), as well as collaboration with local suppliers and shared kitchens. This approach is not only responsive, but reflects the application of the basic principles of risk management as stated in ISO 31000, including a systematic process of identifying, evaluating, and controlling risks.

The findings strengthen the argument that risk management is not the exclusive domain of large enterprises, but can be contextually applied by MSME's in a practical and intuitive way. This research also confirms that strategic decision-making that takes risk analysis into account is likely to result in better business resilience, while expanding the empirical literature on risk management practices in the microenterprise sector in urban areas.

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