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Using of risk management at small and medium-sized companies in the Slovak Republic

Abstract. The aim of the article is to identify whether the risk management is implemented in the practice of small and medium-sized companies (SMEs) in Slovakia, and whether financial factors are the most important sources of the risk occurrence. We analysed risk management at small and medium-sized companies in the Slovak Republic in February-March, 2015 on a sample of 80 firms. The risk management is very important for these companies as its knowledge can help companies to perform their business successfully. Our important finding from the survey was that 40% of small businesses have a system of risk management. Hypothesis 1 foreseeing that at least 40% of risks at small and medium-sized enterprises are caused by difficult access to financial resources can be rejected. Hypothesis 2 assuming that the risk assessment as a way of risk management dominates in more than 50% of small enterprises in Slovakia can be rejected, too. It is concluded that introduction of wider usage of risk management at SMEs will decrease business failure and support better management practices.

Keywords: Risk; Risk Management; Small and Medium-sized Companies

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Управління ризиками на малих і середніх підприємствах Словаччини

Анотація. Метою статті є визначити, якою мірою застосовується управління ризиками в практиці малих і середніх підприємств (МСП) у Словаччині, а також чи є фінансові чинники найбільш важливими джерелами виникнення ризику. Ми проаналізували управління ризиками на малих і середніх підприємствах у Словацькій Республіці в лютому-березні 2015 року на вибірці з 80 фірм. В результаті нами було виявлено, що 40% досліджених малих підприємств мають систему управління ризиками. Гіпотеза 1 передбачала, що щонайменше 40% ризиків для малих і середніх підприємств обумовлені ускладненим доступом до фінансових ресурсів. Гіпотеза 2 передбачала, що оцінка ризику як спосіб управління ризиками домінує на більш ніж 50% малих підприємств у Словаччині. Обидві гіпотези було спростовано. Зроблено висновок про те, що більш широке використання управління ризиками на малих і середніх підприємствах буде підтримувати кращі практики управління.

Ключові слова: ризик; управління ризиками; малі та середні підприємства.

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Управление рисками на малых и средних предприятиях Словакии

Аннотация. Целью статьи является определить, насколько применяется управление рисками в практике малых и средних предприятий (МСП) в Словакии, а также являются ли финансовые факторы наиболее важными источниками возникновения риска. Мы проанализировали управление рисками на малых и средних предприятиях в Словацкой Республике в феврале-марте 2015 года на выборке из 80 фирм. В результате нами было выявлено, что 40% исследованных малых предприятий имеют систему управления рисками. Гипотеза 1 предусматривала, что минимум 40% рисков для малых и средних предприятий обусловлены осложненным доступом к финансовым ресурсам. Гипотеза 2 предусматривала, что оценка риска как способ управления рисками доминирует на более чем 50% малых предприятий в Словакии. Обе гипотезы были опровергнуты. Сделан вывод о том, что более широкое использование управления рисками на малых и средних предприятиях будет поддерживать лучшие практики управления.

Ключевые слова: риск; управление рисками; малые и средние предприятия.

1. Introduction and Brief literature review

Risk

Risk is an integral part of entrepreneurship. The risk is considered as a state of imperfect knowledge, while there are a number of possible consequences of decisions, and the degree of probability of any of the consequences can be to some extent estimated according to Buganova, Hudakova et al. (2012) [3].

The literature reports a variety of definitions of risk. Therefore, the risk can be defined as the uncertainty time's undesirable consequence according to Simak (2006) [19]. Risk is commonly associated with uncertainty, as the event may or may not occur as say Fadun (2013) [6] and Sira & Radvanska (2014) [21]. According to the authors Rybarova & Grisakova (2010) [16], the risk is qualitative and quantitative expression of threat, the level and degree of threat, and probability of its occurrence as a specified phenomenon and its consequences. The risk arises as an uncertainty in the fulfilment of objectives.

Causes of risk occurrence

Based on environmental factors and individual entities operating on the market, we may identify according to Simak (2006) [19] the causes of the risks as the following:

- changes in supply and demand manifested, for example, as an entry of new producers on the market, purchasing power of consumers reducing, introduction of new technology in production, etc.;
- changes in the prices of inputs and raw materials;
- changes in the macroeconomic environment, for example, entry of foreign capital, changes in tax legislation, currency risks (see also Frenakova, 2007 [8]);
- failure to meet planned targets as a failure to comply with deadline, a reduction in product quality, increasing input costs;
- changes in the international environment, for example, political conflicts, instability;
- occurrence of an emergency, for example, natural disasters, breakdowns of machinery and equipment (see also Sira, 2011 [20]).

Small and medium-sized enterprises play an important role in most economies worldwide (Ayyagari et al., 2007 [1] and Burgstaller & Wagner, 2015 [4]). SMEs are very sensitive to the economic downturn, but on the other hand, they are much more flexible in order to survive than larger companies, as they can more quickly adapt to changes in the market environment (Frenakova, 2007 [8]). Compared to larger firms, SMEs are usually seen as having simpler internal organization, mentioned Lavia Lopez & Hiebl (2014) [14]. Since they can save money in other ways than larger companies, they do not often carry out redundancies or dismantling operations as larger companies do. Disadvantages of SMEs are mainly connected with low availability of state aid, because it is intended mostly to substantially much larger businesses (Euractiv, 2010) [5].

Corporate risk management

The concept of risk management is not so new. The most commonly applied risk management techniques to single out are:

- risk reduction through safety, quality control and hazard education, as, according to R. Pukala (2014), «Insurance became the one option, how can SME reduce the risk» [15];
- alternative risk financing;
- insurance including self-insurance and captive insurance (Doherty, 2000 In: Gupta, 2011) [10].

Nowadays, risk management becomes an integral part of strategic management. Risk Management Department has given priority at the top level of corporate management. Risk managers identify the risks, opportunities, analyze, evaluate risks and control the course of its management, mention Szabo, Varcholova & Dubovicka (2005) [18].

Risk management may help SMEs managers to identify significant risks, says Falkner Martin & Hiebl (2015) [7]. Risk management is one of the tools that enable increase of security by various processes and specific activities. Risk management represents large complex of problems for busi-

nesses, says Brustbauer (2016) [2]. An important role is played by prevention which reduces the consequences of wrong decisions and represents a planned and targeted action, set by rules that aim to minimize the possibility of erroneous decision.

To achieve effective risk management, the authors Smejkal and Rais (2010) [17] describe the basic conditions as precisely defined strategy of business entity against its main objectives, including risk strategy, further functioning comprehensive process of risk management supported by appropriate information system, a sufficient emphasis on risk management and those responsible for risk management. An important condition is also functioning of internal corporate culture and ability to advance and adapt to new risk challenges.

The risk management according to Krulis (2011) [13] involves:

- identification of risk, risk processes and factors (see also in Varcholova & Dubovicka 2008 [23]);
- ensuring staff resources;
- use of communication on purposes and the results of the measures implemented (see also in Gallo & Gonos, 2014) [9];
- constant search for opportunities and improvement of processes (see also in Kotulic & Marchevska, 2014 [12]);
- focus on the real causes of process failures;
- providing information to interested parties about the risk;
- planning of preventive and corrective measures;
- focusing of prevention on the reliability of the human factor;
- focus on prevention of systemic changes;
- reduce the incidence and consequences of failures, misfits, reducing quality defects etc.;
- continuous and comprehensive evaluation of the effectiveness of risk prevention in terms of the effectiveness of corrective and preventive measures – their overall impact;
- application of the principles of project management and change management (see also in Heckova & Chapcakova, 2012 [11]);
- using the knowledge and experience of the past (see also in Tej, Zivcak, Ali Taha & Sirkova, 2014 [22] and Krulis, 2011 [13]).

2. Purpose and Methodology

The purpose of the article is to identify whether the risk management is implemented in small and medium-sized companies in Slovakia, and whether financial possibilities are the most important sources of the risk occurrence.

The research was conducted in February and March, 2015 on a sample of 80 SMEs in Slovakia. Companies were operating in different fields of business, the number of small-sized enterprises was 40 as well as the number of medium-sized enterprises. The situation of small and medium enterprises in Slovakia was investigated via questionnaire survey. The selection of companies was random. Also, two hypothesis were set in the beginning of the research.

Hypothesis

Hypothesis 1: We assume that at least 40% of risks at small and medium-sized enterprises are caused by difficult access to finance.

Hypothesis 2: We assume that the risk assessment as a way of risk management dominates in more than 50% of small enterprises in Slovakia.

3. Results and Discussion

Hypothesis 1 foreseeing that at least 40% of risks at small and medium-sized enterprises are caused by difficult access to finance was rejected. The survey results showed that difficult access to finance is one of the main reasons of risk situations in 25% of small businesses and 22.5% of medium enterprises.

Our survey was focused more on the causes of risk situations in macro-environment. In the case of small enterprises, 45% of respondents inclined to the fact that the most common causes are changes in supply and demand posed, for example, by decreased purchasing power, entry of new producers and the like. 22.5% of respondents presented as the most common cause the failure of the planned objectives, further 17.5% of respondents reported changes in prices of inputs and raw materials, 7.5% of respondents told about changes in the macroeconomic environment as well as 7.5% of respondents – about an occurrence of emergency.

From the survey we can evaluate the most frequent causes of risk situations in external environment of medium-sized enterprises, namely: in 62.5% of the cases changes in supply and demand were mentioned, in 17.5% of the cases – changes in prices of inputs and raw materials. 15% of the respondents felt that the cause was the failure to meet planned targets, and 5% of the respondents marked a change in the macroeconomic environment (Table 1).

With this finding the **hypothesis 2** assuming that the risk assessment as a way of risk management dominates in more than 50% of small enterprises in Slovakia can be rejected.

Monitoring as a method of risk management at medium-sized firms is the most commonly used method of risk management confirmed by 38.5% of respondents. 30.8% of respondents are inclined to risk assessment, 19.2% reported communication and 11.5% - a method of determining internal context.

Tab. 1: Occurance of risk situations at SMEs

Small-sized enterprises		Medium-sized enterprises	
Risk situation	%	Risk situation	%
changes in supply and demand	45	changes in supply and demand	62.5
failure of the planned objectives	22.5	changes in prices of inputs and raw materials	17.5
changes in prices of inputs	17.5	failure to meet planned targets	15
changes in the macroeconomic environment	7.5	change in the macroeconomic environment	5
an occurrence of emergency	7,5		

Source: Own research

An Enterprise fulfills its goals in the environment that in addition to providing a number of opportunities is also a source of threats and risks. Although factors of external business environment have mostly to be respected by the entrepreneurs as they do not have many options to influence them, they must protect themselves. Chances of success in such an environment, which often varies significantly, have only such entrepreneurs who implement some measures to reduce the potential risk situations in their companies.

In relation to the abovementioned, another important finding from the survey was that 40% of small businesses have a system of risk management. 5% of respondents said they are considering its introduction and up to 55% of small businesses do not use any risk management system in their operation.

4. Conclusion

The risk presents any uncertainty to any business entity that may have negative or positive impact on the achievement of goals. As mentioned earlier, good knowledge of managing risk is one of the keys to the success of the company. In terms of risk, the quality of risk management is irreplaceable. For the enterprise, therefore, it constitutes to be one of the most vital prerequisites for successful business. SMEs are considered as the most effective, flexible, progressive and important part of the market economy.

The findings of the undertaken research show that 55% of SMEs still do not use any risk management practices. Thus, it is very important to support and develop such approaches in order to minimize business failure as much as possible.

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