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.

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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 said Fadun (2013) [6] and Sira & Radvanská (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 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;
- 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 organizations (see also Lavinia Lopez & Hielbl, 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 Sza- bo, Varcholova & Dubovicka (2005) [18].

Risk management may help SMEs managers to identify significant risks, says Falkner Martin & Hielbl (2015) [7]. Risk management is one of the tools that enable increase of safety various processes as large companies represent large complex of problems for busi-
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 above mentioned, 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 enterprises, 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 practises. Thus, it is very important to support and develop such approaches in order to minimize business failure as much as possible.

References


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