

Small and Medium-Sized Enterprises Business Risks in Slovakia

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ABSTRACT

The aim of this contribution is to present the results of our research oriented on the business risks in Slovakia within SMEs, to analyze the results of this research and to propose the measures for the SMEs in Slovakia how to manage their risks. Within this research more than one hundred SMEs acting in Slovakia are participating. The survey is concentrated on finding the business risks in Slovakia considered by the managers to be the most important from the view of their future growth and existence. These risks will be analyzed with use of quantification methods and the most important risks of the Slovak SMEs will be evaluated. In conclusion we are going to propose measures for the SMEs how to apply the risk management to be able to identify their risks early, to prepare prevention measures for them and so to come near their prosperity and growth.

Keywords: enterprise, risks, analysis, evaluation, survey.

1. INTRODUCTION

At present the Slovak Republic belongs to the attractive business localities. It is a young country with strategic location in the heart of the Europe, member of the NATO and also member of the European Union as well as the Eurozone. In the last years the Slovak investment climate considerably increased. Slovakia is one of the most rapid reformists in the world that implements pretentious reforms almost in all spheres (taxation, monetary incomes, social and labor markets, management of public finance and decentralization, health care). The human capital of the Slovak labor power is high qualified [4].

2. DEFINING THE PROBLEM

2.1. Analysis and evaluation of the SMEs environment in Slovakia

In the actual report on global competitiveness elaborated by the World Economic Forum (Global Competitiveness Report 2013-2014) published in 2013, the Slovak Republic was ranked 78 on the list of 148 countries [12]. This competitiveness analysis is based on the Global Competitiveness Index (GCI) defined as a comprehensive tool that measures the microeconomic and macroeconomic foundations of national competitiveness. It

includes twelve pillars of competitiveness: evaluation of public and private institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication and innovations. The GCI score is based on the public accessible statistical data and results of the world wide executive opinion survey [13].

Small and medium-sized enterprises (SMEs) are in Europe as well as in the world considered as an important pillar and stabilization factor of country economy and its regions. Small and medium-sized enterprises contribute to the solution of economic, politic and social problems of the country. In the last years the rapid growth of the SMEs number is evident in Europe as well as in the world. This fact is confirmed by basic statistical data declaring that SMEs have become a basic pillar of the European economy [8].

Accession of the Slovak Republic to the European integration structures has opened new opportunities also for the SMEs. Establishment of the EU's single market, that adumbrated transformation of single national markets into one great international market with huge potential without internal borders and that involves now more than 500 million people, was one of the most important successes of the European integration. Within the EU's single market (sometimes also called the "internal market") people, goods, services and money can move around the EU as freely as they do within a single country instead of being obstructed by national borders and barriers and so there is an opportunity for the SMEs to establish themselves in this market and offer their products and services to the customers from the whole Europe [3].

Within the Program of the Small Business Act (SBA), for the purpose to gain view and understand the latest trends and internal policies concerning the SMEs, the surveys about basic economic facts are realized in each year. In the SBA 2012 analysis Slovakia is characterized as a country where [5, 6], see Fig. 1:

- Share of the SMEs sector in Slovakia amounts to 99, 2 %.
- Large enterprises represent 0, 8% of all SR business.
- Micro enterprises have the greatest share.
- Medium-sized enterprises produce the greatest contribution to the added value.

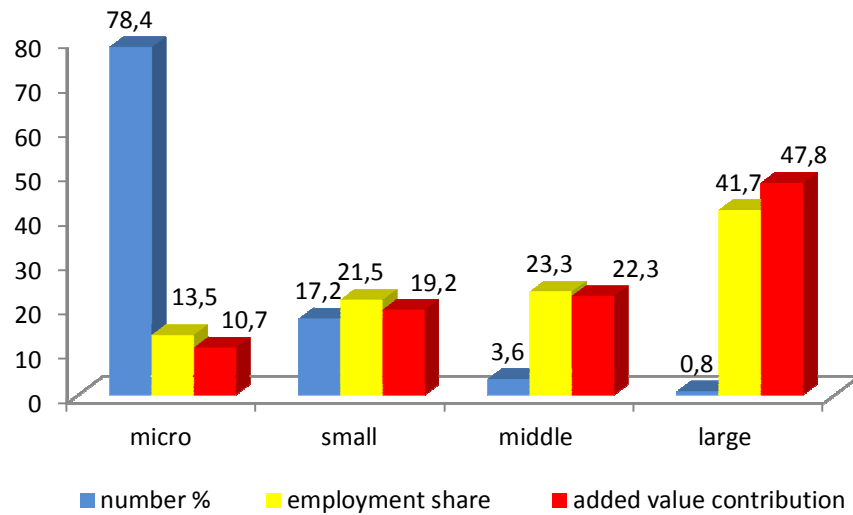


Fig. 1 Share of the SMEs and large enterprises in Slovakia from the view of number, employment and added value [6]

Globally the SMEs in Slovakia contribute to the added value and employment less than the European average. This can be caused by industrial structure of the Slovak economy. SMEs in Slovakia continue in their fight with small growth. Although the added value, produced by the SMEs indicates now very gentle growth curve, it is still markedly lower against the top in year 2008.

As results from Fig. 2, the only field, where Slovakia achieves better results than the EU average, is use of advantages offered by the single market. Slovakia proceeds more rapidly than other EU countries in acceptance of legal rules related to the single market and taking legal rules of the EU into domestic law. In other fields the results are worse than the EU average (see Fig. 2).

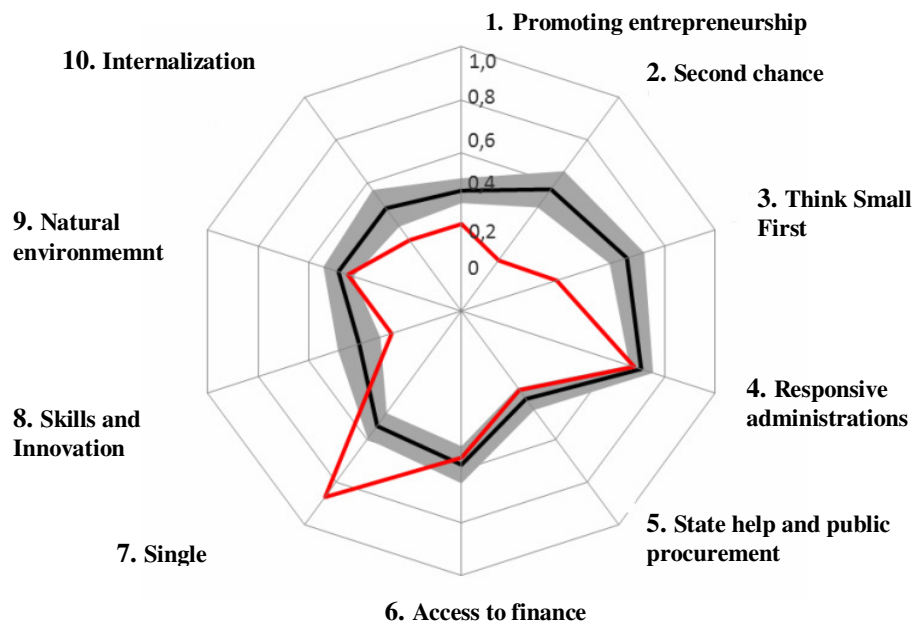


Fig. 2 SBA Profile in Slovakia [6]

Within the developed economies SMEs are considered the most flexible, effective and progressive part of economy. In comparison with large enterprises, SMEs are more sensitive to the changes in business environment that are always, with certain time interval, transferred to the qualitative

characteristics of this sector. According to the Global Entrepreneurship Monitor 2012 [14], Slovakia has the second highest degree of business termination in Europe due to non-profitability. That is why we would like to deal with risk management in the field of the SMEs. We want to assist the

enterprises to be able to know their weaknesses, to be able to eliminate them and so to become prosperous.

2.2. Analysis and assessment of SMEs business risks in Zilina region in Slovakia

The approach of the Slovak entrepreneurs to the risk management in comparison with developed countries is less systematic. In the Slovak conditions the business risk measure is perceived with different intensity but the business risk reality is considered by majority of the firms [10]. Although majority of the managers declare the need to assess and solve the risks, solutions are often limited only to the un-formal risk assessment. More sophisticated methods of risk assessment (often with support of special computer applications) are applied in firms acting in financing, energy and manufacturing enterprises (mechanical engineering, chemical industry). Firms of other business branches usually lag behind [1].

In year 2013 the statistical research of the SMEs business risks in Zilina region, within the project FaME/2013/MSPRISK: „Actual trends of SMEs business risks in selected regions of Czech Republic and Slovak Republic, was realized. The participants of this project are Tomas Bata University in Zlin in Czech Republic, Pan-Europen University in Bratislava, University of Zilina and University of Trencin in Slovakia.

In Zilina region 164 SMEs through empirical research were addressed through surveys and talks with competent representatives of SMEs.

From the SMEs addressed in Zilina region, 38% have carried business more than 10 years, 32% have carried business from 5 to 10 years and 30% have carried business from 1 to 5 years. From the view of the structure, the great deal presented enterprises carrying their business in other fields 38 % (consulting, distribution, etc.), 20,73 % have carried business in commerce, 17,07 % in manufacturing, 16,46 % in building industry, 6,10 % in transport and 1,22 % in agriculture. According to the number of employees, in the survey participated:

- 66% micro enterprises,
- 20% small enterprises,
- 14% middle enterprises.

From the total number of 164 addressed SMEs, 30% (132) businessmen identified market risk as the greatest risk, followed by financial risk 22% (96) businessmen, personal risk 14% (63) businessmen, legal risk 14% (61) businessmen, safety and security risk 12% (54) businessmen and 8% (37) businessmen consider operational risk as the least important. The percentage indication of SMEs identified risks is given in Fig.3.

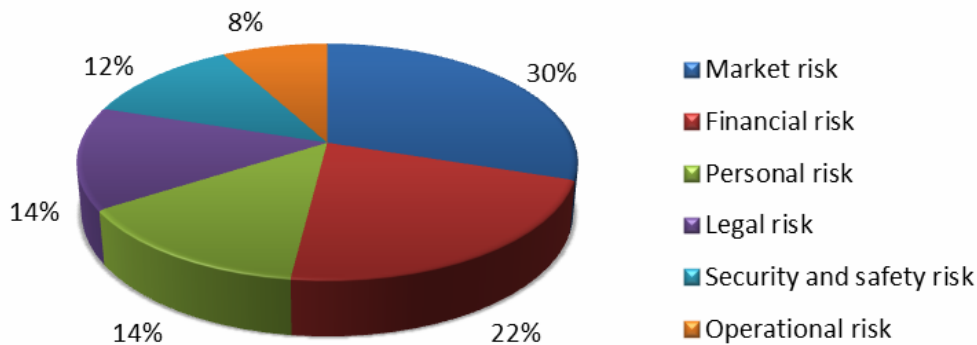


Fig. 3 Percentage indication of SMEs identified key risks in Zilina region

In Zilina region 80,49% of businessmen specified market risk as the key business risk of the present time. Business risks of SMEs in Zilina region are analysed at Fig. 4:

- Blue column indicates importance or key signification of business risk of addressed SMEs (calculated as the share of respondents who indicated respective answer from the total number of addressed enterprises).
- Red column indicates average value of identified SMEs risks (calculated as arithmetic average of values specified by businessmen in Zilina region).

The survey have brought also these results:

- 67,68% of enterprises are able to manage financial risks in a high degree,
- 23,17% of enterprises claim that they are able to manage financial risks properly,
- only 1,83% think that are not able to manage financial risks,
- 49,39% of enterprises think that their enterprise will survive the next five years,
- 40,85% of enterprises think that they certainly survive another period,
- 9,76% of enterprises think that they will survive the next five years with great doubts or they do not survive at all.

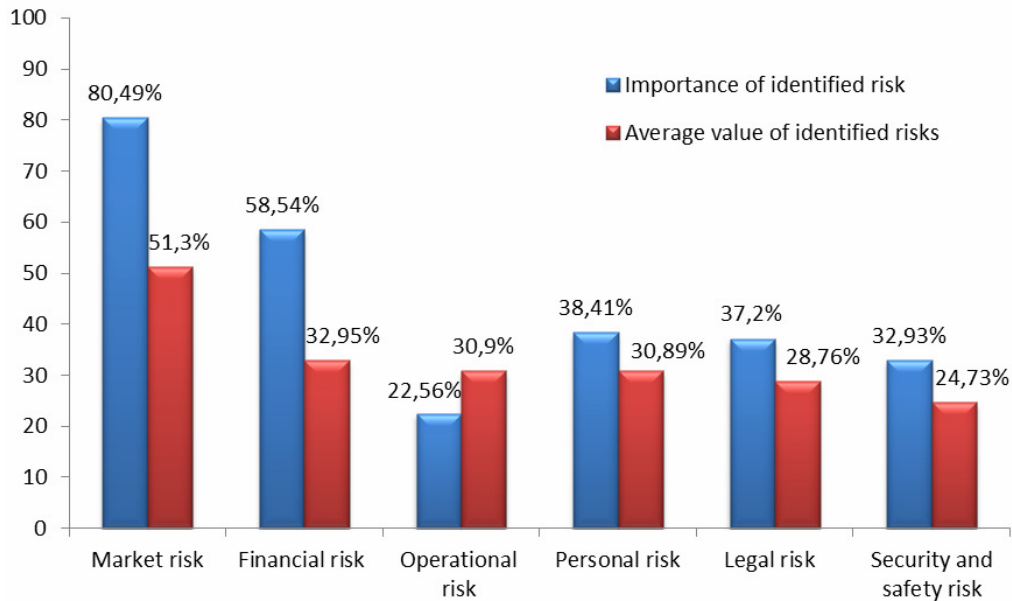


Fig. 4 Percentage indication of importance and average value of identified risks of SMEs in Zilina region

The Fig. 5 indicates 70,12% of SMEs in Zilina region reduced their performances up to 50% in comparison with pre-crisis period and 29,88% of SMEs reduced their performances above 50% in comparison with pre-crisis period.

The survey also paid attention to the change of profitability of SMEs in comparison with pre-crisis period:

- 26,22% of enterprises mentioned that their profitability markedly decreased (more than 20%),
- 37,20% of enterprises mentioned only slow decrease (0-20%),
- 21,34% of enterprises think that their situation is stabilized,
- 12,08% of enterprises claim that their profitability easily increased (0-20%)
- 2,44% of enterprises of addresses enterprises think that

their profitability markedly increased (more than 20%).

The results found out from the research of business risks in Zilina region in Slovakia underline the need to prepare for the snares of present business environment. It is necessary to enhance the knowledge level of enterprise owners (especially in micro-enterprises) about possible causes and consequences of a risk as well as about adequate measures for their reducing. Therefore enhancing the level of risks management in the SMEs requires also to obtain theoretical knowledge about specific activities of the risk management process, methods and tools usable in risk management. Absence of risk management can be one of the basic reasons of business failure and loss of competitive advantages in variable business environment in Slovakia.

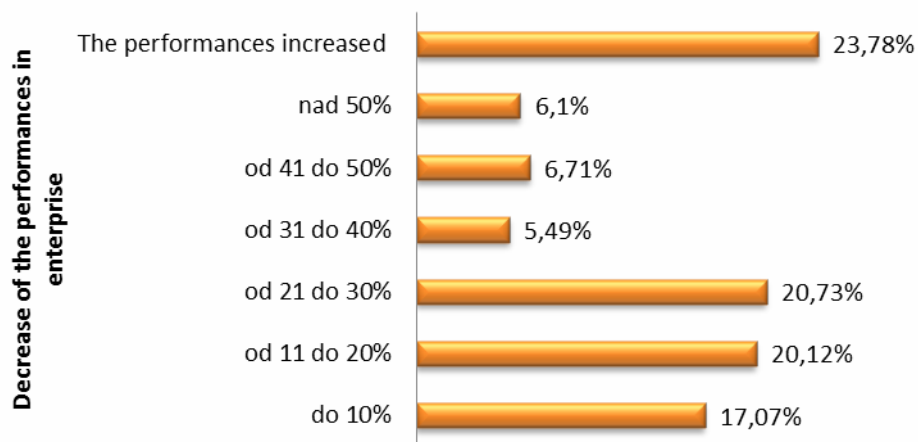


Fig. 5 Percentage indication of SMEs actual performance degradation in comparison with pre-crisis period

3. PROPOSAL OF THE RISK MANAGEMENT PROCESS FOR THE SMEs IN SLOVAKIA

Although the risk management is not able to ensure the prosperity and successful enterprise functioning completely, it essentially decreases danger of business failure, allows to understand risks and take into consideration not only threats but also opportunities coming with risks. For the SMEs it is necessary to be able to apply risk management process as a factor of increasing enterprise value. We propose the risk management process adjusted to the needs of small enterprises owners and top managers of middle-sized enterprises based on the standard ISO 31000:2009 [7] and comprising the activities as follows:

1. Establishing the context

Except analysis of internal and external environment just in this stage the SMEs should define strategic and organizational relations with risk management where the process will run [2]. Further the criteria, necessary for considered risks assessment, should be defined. For analysis of current situation can be used analyses of macro environment (PESTLE, STEEP, analyses of competitive environment and others). Summarization of these analyses results can be realized through SWOT or SPACE analysis.

2. Risk assessment

Risk assessment in SMES is very important because if the enterprise does not know or is not able to designate and evaluate the risks then it exposes itself, the employees, customers and partners to danger of failure or losses of various forms. Within this stage the SMEs should identify, analyze and assess.

- **Risk identification** – this stage is focused on identification of all risks sources that influence small and middle-sized enterprise and provides them initial assumptions for risk analysis. It is based on the results of previous stage where all negatives, weaknesses and threats can be risks sources. In this stage the owners or the top managers can use e.g. brainstorming, Delphi Technique, structural talks and discussions with experts, questionnaires, internal audit, check list, etc. They can create so-called catalogues (registers) of risks that provide survey about possible risk factors or enterprises risks.
- **Risk analysis** – the core of this stage is analysis of identified risks through the couple of criterions - probability of risk occurrence and risk consequence. Mutual multiplying of criterions represents risk level. The first step includes elaboration of preliminary analysis to eliminate similar risks or risks of very small impact from the list of identified risks. But the eliminated risks have to be recorded to prove completeness of risk analysis. The second step includes elaboration of detailed risk analysis with use of specific methods. For SMEs is suitable especially qualitative analysis that enables to obtain general estimation of risk level. For selected risks SMEs can realize more specific quantitative analysis. For SMEs we recommend these methods, e.g.: expert risk assessment, crisis scenarios, sensibility analysis, FMEA, cause and effect analysis [12].
- **Risk assessment** – the basic assumption of this stage is comparison of risk occurrence probability and risk impact

with defined criterions. Based on this comparison the risks are categorized in accordance with management priorities and the limit between acceptable and non-acceptable risks is defined. For easier categorization the risks can be indicated in risk matrix that increase visibility of risks and assist management decision making [11].

3. Risk treatment

The basis of this stage is proposal of measures only for non-acceptable risks that require developing special managerial plan together with financing of the respective proposal. Acceptable risks can be monitored for the reason of eventual future change of the level of identified risks. SMEs can non-acceptable risks:

- retain (risk retention), so to accept them in case of their low importance,
- reduce in two ways. Offensive approach says about reducing the probability of negative risks occurrence and is based on implementation of preventive measures. The measures should be specified for specific risks where it is possible to influence the events or factors having impact on the enterprise objectives. Defensive approach consists in reducing the importance of risks consequences and measures ex post. There are applied measures influencing risk impact that cannot be influenced by enterprise but also this risk cannot influence the enterprise objectives, e.g. increasing the prices of material or energies [9].
- use the form of transfer, e.g. insurance, concluding long-term sales agreement, leasing, factoring, etc.
- avoid (risk avoidance), this way is directly related to readiness of the owner to take a risk. We recommend it only in that case if the probability and importance of risk consequences are so high that they are not acceptable, e.g. business plan with high risk of failure, security and criminal risks, etc.

4. Monitoring and review

Monitoring and review is based on risks evidence. Each risk considered as critical should be recorded and related information passed to competent persons. As a tool of this evidence can be used, e.g. actualized risk catalogue, risk card containing file of standardly monitored data, report about risk that should be elaborated by responsible person always for specified date, etc.

5. Communication and consultation

Effective communication is important to ensure that persons responsible for implementation and carrying out risk management in the SMEs as well as aggrieved persons understood the decisions nature and reasons of need and importance of specific measures. Communication plan should be elaborated at the beginning of the risk management process.

4. CONCLUSIONS

SMEs represent in developed countries very important part of their economies and the same situation is also in Slovakia. Small and middle entrepreneur has very good conditions for risk management because he is closely connected with all aspects of the particular operations and knows a lot of strengths as well as weaknesses of his enterprise. Although the owners of the SMEs are intuitively aware of the common risk sources that influence their everyday life, it is a little probable that they will be aware such risk sources that they have no experience with.

This fact implies the need of active and systematic work with risk that is included in the risk management process. For the SMEs it is necessary to know their risks especially due to their importance within the economic system of the Slovak Republic. They provide a large deal in number of working positions as well as in VAT.

Publication of this paper was supported by the European Union within the project No. 26110230079 Innovation and internationalization of education – tools of quality enhancement of the Zilina University in the European Education Area.

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