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RISK MANAGEMENT IN SMES

Abstract

Risk management is a process concerning not only large organizations, but also enterprises belonging to the SME sector. When this process is managed effectively, it is possible to eliminate the greatest and most frequent disturbances and also appropriately respond to the occurring changes and use the available opportunities. The activity of the SME sector and the impact of the risk management process on the competitive position of these enterprises increasingly gain significant importance. Therefore, it is worth considering how to help these enterprises to overcome the difficulties which they encounter. The article presents the results of the research conducted on enterprises from the SME sector and operating in the Silesian Voivodeship, using a research survey. The research concerned the application of risk management in these enterprises and the way of documenting it.

Keywords: SMEs, small and medium-sized enterprises, risk management

JEL: D81

Introduction

The contemporary market forces enterprises, especially those from the SME sector, rapidly and flexibly adapt to the changing demand conditions, and also to reduce the costs of manufacture (Saniuk, Saniuk, 2016). The SME sector is characterized by great flexibility in adapting to the market needs. For this reason, it is important to form the proper conditions for the operation and development of the SME sector. It should be remembered that the activity of SMEs is affected by many different macroeconomic and microeconomic factors, which may be both a stimulus and an inhibitor for their development (Fic, Jędrzejczak-Gas, 2005). The significance of this sector is emphasised in the literature, most of all in terms

of unemployment reduction. The SME sector is also expected to play a priority role in overcoming the economic slowdown (Soininen et al., 2012).

Risk management is a process concerning not only large organizations, but also enterprises belonging to the SME sector. When this process is managed effectively, it is possible to eliminate the greatest and most frequent disturbances and also appropriately respond to the occurring changes and to use the available opportunities. Both large and small enterprises often face similar problems, with the only difference that a large entrepreneur should develop and implement an entire system supporting the management of the organization, while a small entrepreneur may find it sufficient to adapt the basic elements of methodology and understand the basics of its operation (Spiżyk, 2015). Unfortunately, risk management is practically absent in the SME sector, and in most cases the managers/entrepreneurs do not manage it in a formalized and orderly manner, but usually on an *ad hoc* basis, depending on individual courage, knowledge or skills (Spiżyk, 2015). It is hard to make SME owners aware that risk management can be adapted, with some limitations, to their needs, as SME entrepreneurs benefit from various forms of support (training, consulting) to a limited extent and their activities in this respect are chiefly of an intuitive nature (Safin, 2003). Unfortunately, such situation is not favourable for SMEs, most of which already operate on the global market, competing (often unconsciously) on a daily basis with foreign companies which have been improving both their theoretical knowledge and practical risk management solutions for a long time to limit the negative effects (or use them as a chance that a specific risk will be faced by a competitor). Failing to see risk may result in the inability to carry out the planned actions, while on the other hand, exaggerating such risk or being ignorant as to the possibility of controlling it may discourage them from taking up pro-development actions (Stawasz, Ropęga, 2014).

Identification and risk assessment for planned investments is already a standard for many large enterprises, however, in the case of SMEs many decisions are still made on the basis of the owner's intuition or the so-called good practices. The overwhelming number of SME enterprises do not use risk management systems, they do not have clearly defined goals, strategies, structures, which means that these enterprises make decisions in an *ad hoc* and very flexible way, focusing on current operations and staying on the market (Łobejko, 2008). This applies to both the scope of activity and the quality of products and services offered. These companies perceive risk as a negative phenomenon, so they focus on defense and risk minimization. The company's risk management process should include a coherent strategy and a set of procedures tailored to specific recycling activities. It is important that risk is not treated as a threat only, but also as an opportunity, according to the theory of an active approach to risk.

Notwithstanding the wide-ranging international discussion, the issues related to risk management in the organization are discussed in Poland to an insufficient extent, which can be seen particularly in the business practice. Looking at the global practices we realize that risk management has currently become an integral component of business activities undertaken by enterprises (Gorzeń-Mitka, 2011).

The article presents the results of the research conducted in 593 SMEs operating in the Silesian Voivodeship. The research concerned the implementation of risk management in the SME sector and the way of documenting it in these enterprises.

1. The use of risk management in SMEs operating in the Silesian Voivodeship

The literature on the subject highlights the importance of the SME sector (Soininen et al., 2012), which currently plays an important role in developing the national economy. Its development is determined by numerous internal and external factors (Czerwińska-Lubszczyk, Michna, 2013). SMEs often operate in market niches and in markets with a fairly small potential of growth. They are characterized by greater flexibility than large enterprises wherefore they can respond much quicker to changes in the environment, e.g. changing the customer needs (Mikołajczyk, Krawczyk, 2007).

SME classifications are based on quantitative, qualitative and mixed criteria. The quantitative criteria are: the employment size, the balance sheet total, the annual sales, the value of fixed assets (Safin, 2003). Medium-sized enterprises employ fewer than 249 people on a yearly average, and the annual net sales of goods and services and income from financial operations do not exceed the Polish zloty equivalent of 50 million euros. Small enterprises employ fewer than 50 employees, their annual sales do not exceed 10 million euros. On the other hand, microenterprises employ fewer than 10 people, and their annual sales do not exceed 2 million euros (Act on the Freedom of Economic Activity of 2 July 2004).

In Poland, the vast majority, namely, as many as 99.8% of the SMEs are small and medium-sized businesses employing approximately 70.1% of all employees in the market sector and generating approximately 48.5% of the GDP. The smallest enterprises in this group generate almost every third zloty (29.7%). The share of medium-sized enterprises is three times smaller (11.0%) than microenterprises, and the share of small-sized enterprises is almost four times smaller (7.8%) (Zadura-Lichota, Tarnawa, 2014).

The Report on the conditions of the SME sector in Poland (2014) shows that there were over 212 000 active enterprises in 2014 in the Silesian Voivodeship, i.e. almost 5,000 more than in the preceding year. They account for almost 12% of the active business entities in the country compared to the preceding year. In 2014, both small, medium-sized and large companies in the Silesian Voivodeship had a comparable share on the nationwide scale, oscillating around 13%. On the other hand, the share of microenterprises was less than 12% nationwide.

According to the research conducted by the Gdańsk Institute for Market Economics in cooperation with Konrad Adenauer Stiftung (Tarkowski, 2015) the Silesian Voivodeship is the most attractive region for potential investors in Poland. In 2014 (Nowicki, 2014) the Silesian Voivodeship was assessed to be a leader in seven categories in terms of attractiveness understood as the ability to incite investments, in particular, by offering benefits resulting from the location

that can be achieved while conducting business activities. The categories included: the availability of transport, the cost of labour, the volume and quality of labour resources, the market sales capacity, the level of development of the economic and social infrastructure, the level of economic development, the level of general safety (Nowicki, 2014; Tarkowski, 2015). It should be highlighted at this point that the Silesian Voivodeship hip also takes the second place in Poland, following the Mazowieckie Voivodeship, in generating the gross domestic product accounting for approx. 2.5% thereof (GUS, 2015).

The presented deliberations prompted the author to research SMEs operating in the Silesian Voivodeship.

2. Scope, objectives, progress and results of quantitative research

Owing to an in-depth analysis of the literature it was possible to prepare a research questionnaire, which was divided into two parts: Part I – Respondent's Particulars and Part II – Risk Management in the Enterprise. The questionnaire contained closed-ended questions where the respondent could offer his/her own answers as well as semi-open-ended and open-ended questions.

The developed research tool was addressed to persons occupying various positions in the organizational hierarchy of the surveyed enterprises. Therefore, questionnaires were completed both by the management staff and employees who were not representatives of the organization's management.

The questionnaires were sent out to 950 small and medium-sized enterprises operating in the Silesian Voivodeship. 650 questionnaires were returned, of which 593 were taken into account.

Having in mind the EU definition of the SME sector categorization, 275, i.e. 46% of all of the surveyed enterprises were classified as medium-sized; 252, i.e. 43% as small enterprises, and 66%, i.e. 11% as microenterprises. The classification of the surveyed enterprises is presented in Table 1 and in Figure 1.

Table 1. Classification of enterprises by employment, annual income and total assets

Description	Number	Aggregate number	Percentage	Aggregate percentage
Categorization of enterprises of the number of employees				
Enterprises with up to 9 employees	66	66	11	11
Enterprises with 10 to 50 employees	252	318	43	54
Enterprises with 51 to 250 employees	275	593	46	100
Categorization of enterprises by annual income				
Enterprises with annual income of up to EUR 2M	66	66	11	11
Enterprises with annual income of EUR 2M to 10M	252	318	43	54
Enterprises with annual income of EUR 10M to 50M	275	593	46	100

Description	Number	Aggregate number	Percentage	Aggregate percentage
Categorization of enterprises by total assets				
Enterprises with total assets of up to EUR 2M	66	66	11	11
Enterprises with total assets of EUR 2M to 10M	252	318	43	54
Enterprises with total assets of EUR 10M to 50M	275	593	46	100

Source: (own elaboration)

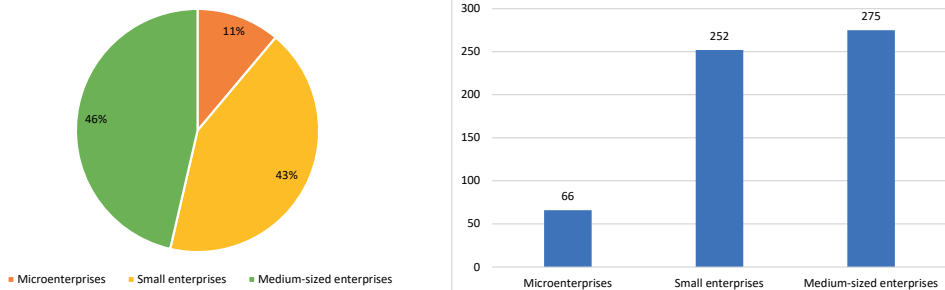


Figure 1. Classification of enterprises by the number of employees and sales
Source: (own elaboration)

550 (93%) of the surveyed enterprises conducted manufacturing activities, 22 (4%) provided services, 13 (2%) were involved with trading activities, and 8 (1%) conducted other business, including, but not limited to manufacturing, commercial activities, services, training, as illustrated in Figure 2.

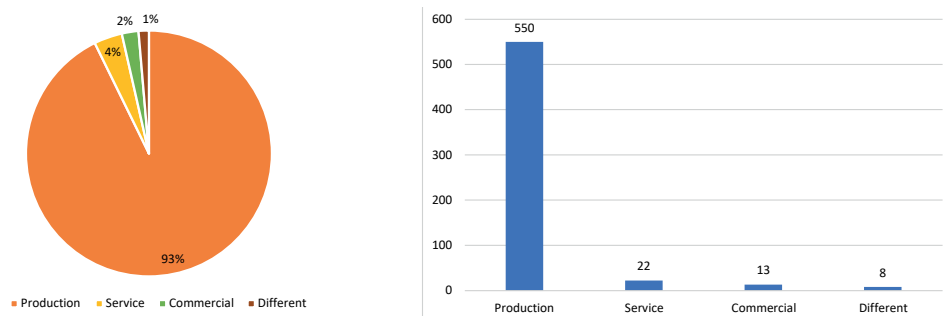


Figure 2. Classification of enterprises by type of business
Source: (own elaboration)

The question whether a risk management system was in place in the enterprise was answered in the negative by the majority, i.e. 419 (71%). 73 (12%) of the surveyed enterprises had an opinion on the subject, 57 (10%) declared that risk management was in place. The results are presented in Figure 3 and in Table 2.

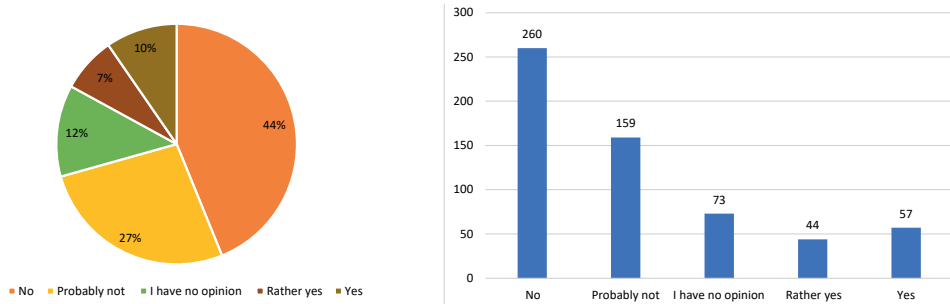


Figure 3. Application of risk management in the surveyed enterprises
Source: (own elaboration)

Table 2. Application of risk management in the surveyed enterprises

Type of enterprise	Is there a risk management system in place in the enterprise?					Total
	No	Probably not	I have no opinion	Rather yes	Yes	
Micro	36	18	8	2	2	66
	55%	27%	12%	3%	3%	100%
Small	110	70	31	17	24	252
	44%	28%	12%	7%	10%	100%
Medium-sized	114	71	34	25	31	275
	41%	26%	12%	9%	11%	100%

Source: (own elaboration)

The majority of the enterprises declaring to use risk management are medium-sized business – 56. These are followed by 41 (17%) of small enterprises and 4 (6%) of microenterprises that have such a system in place.

Bearing in mind the foregoing it can be observed that risk management in the SMEs operating in the Silesian Voivodeship is relatively rare. Risk management is much more often used by medium-sized enterprises than by small and micro businesses. Hence, the reason why risk management in this sector is applied to such a small extent is not the lack of knowledge about this process, but the specificity of such businesses and their limited resources.

In 72 (71%) out of the 101 enterprises declaring to have a risk management system in place it was the managerial staff that was indicated as responsible for this process. In 22 (22%) cases, a dedicated business unit was indicated, and in 7 (7%) cases designated individuals from specific business units were named. The results in this respect are presented in Table 3.

Table 3. Division of responsibility for risk management in SMEs

Type of enterprise	Who is responsible for the risk management process?					
	Managers	Designated business unit	Designated individuals from specific business units	I do not know	Another person	Total
Micro	4	0	0	0	0	4
	100%	0%	0%	0%	0%	100%
Small	29	12	0	0	0	41
	71%	29%	0%	0%	0%	100%
Medium-sized	36	15	5	0	0	56
	64%	27%	9%	0%	0%	100%

Source: (own elaboration)

Moreover, in enterprises declaring to have risk management in place, in answer to the question how the risk management process in an enterprise was documented, 62 (61%) persons said that it was not documented, 22 (22%) persons mentioned a risk analysis sheet, and 17 (17%) persons pointed out to the risk map. The results are presented Table 4.

Table 4. Manner of documenting the risk management process

Type of enterprise	How is the risk management process documented in the enterprise?					
	Not documented	Risk analysis sheet	Risk map	Computer program for risk analysis	Other	Total
Micro	4	0	0	0	0	4
	100%	0%	0%	0%	0%	100%
Small	35	0	6	0	0	41
	85%	0%	15%	0%	0%	100%
Medium-sized	23	22	11	0	0	56
	41%	39%	20%	0%	0%	100%

Source: (own elaboration)

It is hard not to see that the risk management process is documented mostly in medium-sized enterprises, then in small businesses. However, no documentation of the risk management process is prepared in microenterprises. The reason for this may be the usually low financial (or organizational) capacities or too much reliance on one's own intuition (the decision making process is not supported by industry or specialist reports).

On the basis of the obtained results, four basic conclusions can be drawn:

- risk management is not commonly used in the SMEs operating in the Silesian Voivodeship;
- the use of risk management increases with the size of the enterprise;
- it is the managers who are mostly responsible for risk management;

- the risk management process is documented to a greater extent with the increasing size of the enterprise.

It seems that the reason for the scarce use of risk management by SMEs may be the lack of an appropriate practical model. This would constitute a basis for further research in this area.

Conclusions

The importance of the SME sector and the impact of the risk management process on the competitive position of these enterprises increasingly gain significant importance. Therefore, it is worth considering how to help these enterprises to overcome the difficulties which they encounter.

In the economic reality of today, risk management becomes a prerequisite for effective operation of enterprises on the market. Risk management is focused on the entire enterprise and on efficient and effective support of the implementation of the developed strategy and on capturing these signals which indicate the need to modify objectives, financial flows, programmes and results.

The conducted research shows that risk management in SMEs based in the Silesian Voivodeship is relatively rare. Risk management is much more often used by medium-sized enterprises than by small and micro businesses. It can be said that the reason why risk management in this sector is used to such a small extent is not the lack of knowledge about this process, but the specificity of such businesses and their limited resources. The business practice shows that small and medium-sized enterprises have difficulties in implementing and maintaining the risk management process in place.

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