

## ENTERPRISE RISK MANAGEMENT- A WAY FOR BUSINESS DEVELOPMENT

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### Abstract

Based in previous experiences and knowing the environments where the businesses are developing their activities, it is urgent to identify the risks of their activities in future. In this paper we will clarify the risk in businesses and their impact in the enterprises; this is applicable for small, medium and large enterprises. Every activity has to be rolled and every step in business management is exposed to the risks of every kind. This has to be identified and quantified by their role as threat, uncertainty, loss, that will bring the enterprises to the unlikely situation in the future. Critical challenges for enterprise managements is to determine how much risk the entity is prepared to and does accept as it strives to create value. This report will better enable them to meet this challenge. The target of this paper is to define enterprise risk management, their objective, list the risks and give the model for management of the risks in the business and in the conclusion to synthesize the results of research.

**Key words:** enterprises, risk, management, business, uncertainty.

### 1. Introduction

Wealth insurance of individuals and businesses from harmful consequences of the impact of natural powers, misfortunes or other risks, has always been of great significance for the individuals and businesses, but also for the entire society. This insurance was and is still done in the most efficient way and quality between individuals and enterprises based on concepts of solidarity and interconnection. Insurance is a concept which during its development has changed only in the way collection and distribution of funds from insurances where done. It is proved by the so far practice that only the collected funds with exclusive insurance destination can constantly cover for a long-term the damages and the negative effects of risks occurring. As a consequence Insurances in this society and in this level of economical development have become an important instrument in protecting the wealth of individuals and businesses, but also an insurance and society development concept in general. The paper explains the phenomenon of risk in enterprises through data available in the literature and survey data collected at the enterprise across Kosovo.

### 2. Nature of Risk

Insurance comes as a consequence of harmful occurrences for individuals or different enterprises. The probability of such harmful occurrences is referred as risk. The word risk comes from the Latin word 'riscio' meaning subject to harm. With risk we understand the presence of a harmful economical event [Bakraqi 2007]. The risk can be seen from different aspects, from the insured aspect and from the insuring aspect. Risks are mostly divided into two large groups: economical and uneconomical risks. Uneconomical risks are the risks occurred as a result of natural disasters, whereas economical risks occur for economical reasons such as material content of equipments in the work process or as a consequence of financial works in an enterprise, and for many other reasons. The risk can be identified also from financial reports of economical objects according to balance sheet positions, or from the profit and loss account. In order to evaluate a risk the basic elements are: damage frequency, damage intensity and value of insurance subjects [Hoti 2010].

**Table 1.** Number of registered businesses in the end of the 2009 year, structure of the enterprise as per size

Nr.	Classifications	Number of Employees	Number of Businesses	%
1	Micro Enterprises	1 - 9 employees	73138	98.26
2	Small Enterprises	10 - 49 employees	1096	1.47
3	Middle Enterprises	50 - 249 employees	159	0,21
4	Large Enterprise (Corporate)	250 - ... employees	43	0,06
	Total		74.436	100

**Source:** Kosovo Statistical Office- (KSO)

We mentioned that the wealth of enterprises and individuals could always be found into risk. The wealth of an enterprise can be protected directly and indirectly. Direct wealth protection is done with some measures which are divided into two groups: preventive and repressive. Preventive are called all the measures which stop or avoid the occurrence which would cause the wealth damage. The measures to oppose the created damage in order to save people or wealth are called repressive measures. In the society the protection measures aim at stopping or reducing harmful consequences of disasters in order to preserve gained wealth. Indirect wealth protection is done through the compensation of damage.

#### 2.1 Kinds of risks

Risks include the widest range of business matters of each enterprise, institution, or bank, and these risks can be much more dangerous and difficult in the respect of harmful consequences caused to one or more parties related or unrelated to each other. The risks of an enterprise could be identified:

- In property e.g. financial losses due to physical damage, destruction, theft of property, profit loss, etc.
- In the market: risks following from price change, competition, non-information, etc.
- In politics: as a consequence of political changes in the country, tax burdens, etc.

• In production: due to the use of out-of-date technology, exhaust of human resources, strikes, etc. Business risks are special in the respect of representative forms as well as in their insurance way. The business success of each businessman very much depends on their knowledge for different risks and also the knowledge for protection instruments and ways. The risk in business could be defined as a threatening possibility to have unpredictable time and space occurrences happening in subjective or objective circumstances [Klasiq & Andrijaniq, 2009]. The most frequent risks that investors face in capital market and effective exchanges are: financial risk, market liquidity risk, the purchasing power risk, and the price risk. There is the risk for the buyer or the importer whether they will

exactly get the goods of the quality or quantity that they have ordered or paid. It is to Emphasizes the international role of insurance as one of its important features [Šulejić 2005]. There is also the risk for anything to happen to those goods during transportation, or during the time of transportation the goods the prices would go lower, thus they will have a profit loss and not the profit foreseen. Whereas for the seller it is important to be paid for the goods sold which could be risked for various reasons. For particular risks the probability of occurrence could be proved and the level of their damage. The advantage of foreseeing the risk is the reduction or avoidance of their effects.

**Table 2.** Interpretation of the results of research with enterprises

Nr		Yes/sufficient	No/insufficiently	Partially/not at all	Total
1	Did you apply risk management in your company	70%	0%	30%	100%
2	How much it is important to you Risk Management	70%	20%	10%	100%
3	Is there a unit or department in the enterprise for the risk management	0%	90%	10%	100%
4	Does risk management helps you in promoting business	90%	0%	10%	100%

In a questionnaire sample done in enterprises in the cities Peja and in Prishtina, done as ad hoc selection, 30 enterprises were visited, 10 in Peja and 20 in Prishtina. For the question whether they apply the risk management in their enterprise 70% answered 'yes', whereas 30% answered with 'partially'. For the next question of how the management of risk is done in their enterprise 30% of them have the management of wealth and business insurance, 30% say that they manage the risk from financial losses (prices), 20% answer that they manage their risk from competition. The rest of 20% give 'all the risks' as their answer. For the question of how important it is for them the management of risk the answer for 20% is 'a little', for 70% 'more', and for 10% 'not at all'. For the question whether there is a department for risk management in their enterprise for 90% the answer is 'no', and for 10% there is a general answer of "partially". For the question whether the risk management helps them in advancing their business 90% answer 'yes', whereas 10% say generally "partially".

**Table 3.** Interpretation of the results of research with enterprises.

	The form of risk management	management and the security of property and business	manage the risk from financial loss (prices)	manage the risk from competition	manage all kinds of risks	Total
1	In which form is doing a risk management in enterprise-percentage	30%	30%	20%	20%	100 %

### 3. The current state of risk management in Kosovo enterprises

Risk is present daily in the business of each enterprise. Taking decisions for the management of risk is one of the actualities in the business of Kosovo enterprises with the purpose to create possibilities for the enterprises to do business with positive results. However, the failures present in enterprises of different activities give the indication that most of the enterprises do not manage risk quite well, or even do not understand the risk they take during the performance of their activity. It is significant that the problem of risk management is not only for large enterprises, but also for small enterprises at which mistakes were identified in their business which result with losses, or failure with projects. It is obvious that in a percentage of 50% managers do not acknowledge and do

not understand fully the risk. With the problem of enterprise risk the least informed are the high managers, whereas the department managers and the technical personnel are aware of it, but it doesn't happen very often to analyze the risk and to consider measures in order to avoid poor performance due to negative actions of different factors in the enterprise business. We believe that the improvement of ways for management supervision, mainly through boards, but also the insistence to integrate the risk management in the process of decision-taking would lead to the increase of performance in general, and not for the management to focus only on incomes, expenses, gross profit, profit tax, or change of prices in world markets, issues which for sure are important. However business is done every day and there are many more activities which should be given importance in the sense of avoiding the risk for the results of the enterprise, its image in the market

at for costumers, as well as its sustainability in the respective field. Nowadays, the enterprises which do not know or do not wish to improve and manage the risk process only face unforeseen risk which is often reflected with very serious financial losses. In Kosovo, enterprises could take the decision to pay attention and take care for the management of risk, being careful in business in order not to have losses, but it has to be pointed out that these businessmen, in most cases, with their own orientation to take risky steps has enabled them to gain profit and to increase their businesses. We would like for them to manage to take steps towards the maximum harmonization of the condition in which the enterprise would not face with the problem of financial losses, but at the same time there would be space to take courageous steps which distinguish Kosovo entrepreneurs. While creating the supervision mechanisms for the management, at the same time there should be left the possibility and freedom for the management to decide comparing the potential benefit from their decisions, which should be higher than the risk for the enterprise being subject to such decisions. This way it would be managed to protect the enterprise business from unforeseen risks in one hand, but to create a situation where risk is expected with maximum attention and with awareness for consequences of failure on the other hand. In Kosovo it was noticed lately that it was invested in the bank industry and in the insurance industry in the process of risk management, but even here there was a push from the work impact of different institutional regulatory offices, where the Central Bank of Kosovo (CBK) is listed.

#### 4. Conclusion

The risk enterprises and businesses face in Kosovo are of a wide range and it is defined as any occurrence which could have an impact in the level decrease of results and business under the expected rate. There are several risks which should be taken into account from the economical objects in Kosovo. The first one is the market risk, which has its reflection in price change due to changes in world market, exchange rate, interests, or even shares value. Second, they face with the operational risk which could lead to exposure to possible losses due to improper

processes and procedures in the enterprise itself, but also as an impact of external factors in these processes and procedures. Third, the risk of entrepreneur volume has to do with change in offer or demand, direct competition reflecting with changes in the profit level.

It is necessary for enterprises to understand risks they take over in order to be able to manage them properly. For this reason it is proper for the enterprises and their units to achieve to make known the identified risks, especially the bigger ones, for the wide management so that together they would decide the kind and volume of risk to be taken over by the enterprise. We are aware that to achieve this level of risk management Kosovo enterprises are in the first stages if we exclude a number of enterprises that have achieved a higher level of risk management where banks would be listed. We mention this as a recommendation for enterprises that except the existing formal controls in their entrepreneurship to achieve a culture increase for the managers who continually would analyze risk and profit for their decisions in the future. Moreover, it would be of benefit for the managers to be able to understand and identify risks and the way they impact in the enterprise entrepreneurship. Each enterprise has its own specifics and they face with special risk variations which makes it necessary for each enterprise to create a special way for risk management. We could mention here the example of Kosovo production enterprises in the dairy industry which always faces with the volume of their entrepreneurship if big quantities of milk and dairies are imported. In addition, they would also face with operational costs if any of their new products does not achieve the expected results. It is important that the enterprise decides how to categorize the identified risks. Based on this categorization, the management should decide which risks would be acceptable and how much would their cost be in money. It is necessary for an enterprise to understand how the risks of individual units or departments as one part impact in the risk level of an enterprise as an entirety. Thus, enterprises have to have a risk balance sheet which in fact would be composed of various risks as mosaic which would be under control and supervision continuously by the management.

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