

THE IMPORTANCE OF RISK MANAGEMENT IN KOSOVO BUSINESSES

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-Abstract-

Even that corporative governance in Kosovo is evident after the 1998-99 war in a restricted number of enterprises, besides the fact that the majority of businesses are small and just a few of them are middle and big, it does not mean that risk management is less important than in other countries of the world. Therefore in this study work it will be shortly explained theoretical aspects in Risk Management and an analysis based on a concrete research regarding to Risk Management in Kosovo businesses in order to evaluate consequences, to increase the awareness of businesses for Risk Management and to give professional and scientific recommendations for successful corporative governance.

Key Words: Risk, Management, Kosovo businesses, Corporative governance, Auditing

JEL Classification: M10.

1. INTRODUCTION

All activities of organization are accompanied by insecurity and the possibility of risk phenomenon manifestation which prevents realization of objectives. Preparation to face with the risk helps the organization to avoid, reduce, transfer, or to accept and manage it. Experience of successful businesses has proved that risk management enables protection of property, increasing of property and reputation. All this is based on the fact that risk is not just a threat, but when it is treated on time, it can be also a chance.

Considering the importance of risk management, there are international standards for enterprises Risk Management. These standards describe the importance and responsibility that management and staff have, not just for actions to be taken but

also for failures in achievement of business goals, as well as role and responsibility of supervision, internal control, audit commission, risk director, and other institutions within the business. All this happens in order to have a successful corporative governance to provide safeguard and continual growth of business property.

Corporative governance in Kosovo is evident after the 1999 war, in a restricted number of enterprises. This is because of the fact that the majority of businesses are small, and just a few of them are middle and big, having into consideration their equity or number of employees. However it does not mean that risk management is less important than in other countries. Therefore in this study work shall be shortly explained theoretical aspects which have to do with risk management. Then, we are going to present an analysis based on a concrete research regarding risk management in Kosovo businesses. This research includes evaluations and conclusions based on importance of corporative governance for successful management of Kosovo businesses. Based on the results, this research pretends to determine the current rate of risk management in Kosovo businesses, to evaluate consequences, to give professional and scientific recommendations.

2. RISK MANAGEMENT-TEORICAL APSECTS

Risk Management as a concept appeared as a need of time, in order to face internal and external factors which determined the activity of the organization, but which was seen always in perspective of damaging the organization. Facing these problems made these factors (internal and external ones) to be named specifically, risks. Than it was a precondition to create a science which will study these risks, so now we do have Risk Management, a new concept in the field of general Management.

We mentioned above that risks are factors that usually do have a negative influence in organization. As the time went by, these factors that before “were considered negative factors” started to be used as opportunities. By treating them, attempts were made to increase organization’s performance. It is not correct to say that, risks express potential loss, while the last breath of organizations is based on the fact that taking risks brings positive results. That is why Risk Management is described as “to be clever in using chances” (Hubbard, 2009).

There are many chances which are bound to bring danger for people and for organizations during their life cycle. To survive in this situation there is in need a critical thinking, a considerable knowledge, and a good experience in taking these chances, always by making an analyses and by concluding how this chances

determine person's or an organization's life. So in order to avoid all confusions, before taking this "dangerous chances", it must be made a deep analysis.

A business faces risk every day. Since confrontation is frequent, than it is required to study risks according to the situation when they appear. This classification helps to prevent from these "bed risks". Risks in general are separated into four groups (Collier, 2009); Operational risks or risks which refer to internal activities of the organization; Financial risks which are related with financial activities of the organization; Environmental risks which are related with changes in political area, economical area, social problems, and financial issues.

2.1 Risk Management as a process

Risk definition describes the act during which risk can be identified. After this act follows, whole process of Risk Management which includes: risk identification, analyzing the probability of the risk happening and the potential influence that a kind of risk causes, decision of avoiding risk or decreasing the level of risk or defining contingency plans, and monitoring and managing of situation. According to the case, or moment of risk appearance, we must organize the adequate ways of approaching to it, in order to figure out benefits that we intend to achieve. That is why risk must be evaluated (identified and described), treated (avoided or distributed), always according to the certain situation. Since risk taking has its financial consequences, than as a result, the fact of calculating of each risk consequences is unavoidable. There must be compares of their financial value and another analysis in the aspect of general consequences.

Having into hierarchy of governing the department of Risk Management, it is for sure that the organization will not deal with fortuitousness. For this reason, risk management can exist as a department or as a committee in every kind of organization. Even that this department is useful, it is not necessary to be part in organizations which are easy to be self-controlled. Organizations that can control themselves easily are small ones, so that is why a new department like this mentioned above can cause troubles in their financial issues because of their obligations. However Risk Management is a basic element of corporative governing. Management is responsible for constitution and function of risk administration in frame of director's board (Picket, 2004). Risk management identifies, evaluate and control internal and external risks with the purposes of surviving the organization in the field of achieving objectives (Blokdiijk, 2008).

2.2 Decision making (risky decisions) and creativity

Every day, we take decisions for our future. These can be personal decisions, or business decisions. Before the act of decision making, there are always problems that need to be solved. The process of decision making is the act which describes problem definition, identification of alternatives, evaluating of these alternatives, and selecting of the best alternative. In order to take the best solution, there is a way full of risks.

Decisions that are accompanied with risk in different situations are these: the need to extend in new products, investments in new technology or software systems, investment in human resources which can abandon organization after some time, etc. In this way, there is always an insecurity which makes us not to take risk, so this unknown path sometimes let the organization stand in the same scale of development.

That is the reason why taking risks seems to be one of the most critical steps toward a successful management in the modern life of an organization. But, an efficient management is completed with other complementary elements which are also important for the organization, like: stimulation of employees for creativity thinking, cultivating of innovation, management of capacity, etc. Indeed “Creativity is a process which brings something new...it looks for passion and dedication. It makes us aware for things that were hidden,...” (Morris, 2008). There is no doubt that each individual who is considered to have creative spirit, needs to have some characteristics which have to do with independence, self-discipline, orientation in risk taking, etc. These are conditions that a creative person should fulfill. In this way we notice that risk is unavoidable in the field of innovation and creativity. It is a stamp of entrepreneurship in general.

3. RISK MANAGEMENT IN KOSOVO BUSINESSES

Kosovo is the youngest state of south-eastern Europe, with a surface of 10.887² and with a population of 1.8 million inhabitants. Kosovo is bordered on east with Serbia, on south-east with Republic of Macedonia, in southwest with Albania and in Westside with Montenegro.

Now, Kosovo is a four year internationally recognized state. Since the time it became independent its economic status started to improve. Its fundament is transformed in a new liberal economy and a dynamic one. Economic sectors of Kosovo are developing slowly due to the damages caused during ‘90s and the damages of the war of 1998-99.

Kosovo has a considerable number of small and middle and just a few big businesses.¹ In the following table no.1 is presented the number of employees in each type of businesses, number of companies operating in Kosovo and percentage of each group. It is interesting to say that from 98.37% of all companies that operate in Kosovo actually; 50% are concentrated in retail trade, transport, testimony and distribution; 14% on food, drinks and cigarette industry and (9%) in the field of hotels, restaurants (internet resource: gapmonitor.org).

In order to apply standards and the best practices on risk management in Kosovo, in this paper work are presented results of a research which include 100 respondents, which means that from 280 medium and big business which operate in Kosovo, we realized the questionnaire with almost half of them. We didn't take into consideration where are these businesses located because we oriented this paper in giving results if Kosovo businesses do manage risk or not. The reason why we decided to focus in medium and big businesses was that these types of businesses often face risks and they can lose a lot if they do not manage risk because of the big number of employees, capital investment and especially because they are financed by bank loans.

Classification according to quantity	Number of employees	Number of companies operating in Kosovo	Total percentage
Micro businesses	1-9	102,070	98.73%
Small businesses	10-49	1,406	1.35%
Middle businesses	50-249	221	0.22%
Big businesses	250 and more	58	0.06%
Total		102,755	100%

Table 1. Source: (ARBK), www.arbk.org

Our research shows that 99% of medium and almost 100% of big Kosovo businesses are aware about the risk management approach.

They have been informed for risk management concept by the sources like media (58%), professional literature (23%), experience (10%) and different sources (10%).

¹ Law no. 02/L-5 on Supplementation of the Small and Medium Enterprises, and Law No.03/L-031 on Amendment and Supplementation of the Small and Medium Enterprises, Republic of Kosovo.

Out of 88 service businesses, 86 declare that they face risks, and only 2 out of 88 declare that there are no threats (risks) during their business activity (Table no.2).

Service and manufacturer businesses facing with risk				
Type of business	Expressed in numerical value		Expressed in percentage	
	Yes	No	Yes	No
Service businesses	86	2	98 %	2%
Manufacturers	12	0	100%	0%

In the question, “what kind of risks are their businesses more exposed to”, they answered as shows the from 88 service businesses and 12 manufacturing businesses 32% think that risk comes from competition, 19% from fluctuation of professional staff, 14% from increases of taxes, 6% from change of price, 5% from natural disasters, 3% from exchange rates. It is interesting to say that 10% of businesses don’t have strategic plan against the risk and almost 9% neglect in general the risk as phenomenon.

In the question “in which level of risk”, are their businesses, respondents declared that big businesses are much faced with risk, it does not matter the type of activity they exercise. According to medium businesses 12 % of medium businesses tell that the risk of their operation in the market is low, while 88% agree that the risk of their activities is high.

In the question “can risk be managed or not”, 87 % of businesses has answer that they can manage risk, 3% has answered that they cannot manage risk and 10% think that risk can be managed in some cases.

Since project compiling in general is part of each business no matter the size of business activity it exercises, each phase of the project is directly exposed to risk while compiling and implementing. Kosovo businesses say that phase which brings more risk is implementation of project and the experience of project team. Implementation activity cost is considered as a risky activity, which is not the same as in the project compiling.

Financial problems are too much common in establishing new departments in any kind of organization especially in small and medium businesses. Even that almost 90% of businesses declare that they are able to finance risk management department, and they do have experts in this field. There are only 6.2% of them

who are able to finance this department in an average while 3.8% are not able at all. The results of the question, if Kosovo businesses have risk management departments are contradictory with opinions presented above as shows following table no.3.

Number of business	Is a special Risk Management department in your business?		
	Yes	No	In another form
Medium businesses (82)	2	62	18
Big businesses (18)	7	9	2

If Risk Management in Kosovo businesses brings positive results in an organization or not, 89% of answers were “yes”, 3% were “no” and 8% thought that it gave “neutral results”. The approximate results are received also in the question “if risk taking is crucial to succeed”. Almost 70% has answered “yes”. 14% “no” and 16% think that taking the risk gives neutral results.

Businesses in Kosovo are not enough aware about importance of strategy for risk managing. Only 24.39% of medium businesses have strategy for managing of the risk and almost 75.61% don’t have. In contrast 88.88% of big businesses have answered that they have strategy for risk managing and just 11.11% don’t have. This is good indicator that shows that as businesses became bigger they show the need for strategy as mean to manage the risk.

Another important factor in risk management is internal communication of information. Results of research shows that in Kosovo businesses, it exist a high level of internal communication of information about the risks during working process. Even though just 20% of businesses organize trainings and almost 80% do not organize any training about risk management. Also is very important to conclude that the indicator of the importance of internal control and monitoring shows that 84.15 of service businesses and 69.24 of manufacturer businesses don’t have internal auditor. Even though, all businesses that possessed internal auditor (that means 15.85% of service and 30.77% of manufacturer businesses) were satisfied with the contribution of the audit department. They agreed that without this department they could not have a good performance in their activities.

4. CONCLUSION

There is no doubt that risk management is one of the most important processes with which a successful business is closely related. Experiences of developed countries show that successful risk management can transform risk to opportunity for profit, and the opportunity to reality.

Risk management in Kosovo as a concept and as an approach in business managing is relatively new, so it is not a surprise the fact that most of businesses do not have a strategy for risk management.

Results tell that there are just a few businesses that have organized risk management department, audit committee or internal auditor. This shows that Kosovo businesses operate in an environment which is not enough competitive and accompanied with informal economy which many times pass over rules of ethic in business.

Lack of knowing modern concepts about corporative governance surely shows a clear indicator for the need of changing business philosophy of Kosovo businesses if they want to compete in regional and international market. Even retention of actual market can be on risk if the businesses are not aware about the need to accept modern concepts of business.

Taking into account that Kosovo promotes opened trade economy, small businesses can be supervised or monitored by their owners directly and it is not the same for medium and big businesses. Establishing of internal auditor, risk management department as well as audit committee (big businesses) is a predisposition, to achieve objectives of strategy plan, but also for avoiding all hazards that competition market can bring.

Results of this research paper show the need of increasing the awareness of Kosovo businesses for risk management which can be done in different ways. An attempt to do so is the goal of this research which can be used as fundament that different associations undertake steps in order to increase awareness of businesses, through seminars, conferences, and even through trainings of staff, visits and cooperation with different regional and international associations in order to change experience especially about risk management.

A good contribution in this aspect must give pertinent state institution as it is Ministry for Trade and Industry, or different independent associations as Chamber of Commerce, Kosovo Business Alliance, Association of Kosovo businesses, including professional and scientific entities.

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