

Risks in the operation of micro and small enterprises in Latvia

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Abstract

Improper attitude of the company's management to risks can lead to serious consequences, such as financial losses and even bankruptcy. The object of the research is the risks that are most significant in terms of possible losses. The aim of the research is to identify and quantify the most important high risks. The following main risks have been identified and analysed: financial risks, production risks, risks of innovative projects, risks of legislative changes. The results of the analysis are presented as a risk matrix. The majority of risks for micro and small enterprises in Latvia belong to low, medium and high groups. In terms of the extent of possible damage, risks more often have low or high extent of damage. The level of risk tolerance and decisions on their optimisation are made by the management of each company depending on specific conditions.

Keywords: micro and small enterprises, risks

1 Introduction

Risks arise in business due to uncertainties [1]. At the beginning of the 21st century, the uncertainties in the world increased significantly. In addition to economic crises, political crises and epidemics among people and animals arise, the economy has become global and competition has increased significantly. Any organisation, including micro and small enterprises, constantly faces risks. The number of personnel at these enterprises is as follows: in case of micro firms, there are 1–9 staff members; at small enterprises, there are 10–49 people employed. Improper attitude of the company's management to risks can lead to serious consequences, such as financial losses, deterioration of reputation and even bankruptcy. When deciding whether to invest in a project, the company's management always has the task of choosing the optimal option, the best one under the given conditions. Each option has its two main characteristics: average expected income and average expected risk. Senior management always strives to ensure that incomes are greater, while risks are less. Consideration of significant potential risks is especially important when implementing innovative projects [2].

2 Main part

Each small business in Latvia has its own risks. The company's management should identify and consider primarily the risks that are the largest in magnitude and can lead to significant damage to the company. *The object of the research* is the risks that are most significant in terms of possible losses for most micro and small enterprises, which have the greatest likelihood of undesirable results. In highly developed countries of the world (the USA, Germany, etc.), small businesses often cooperate with large world companies, fulfilling their orders to test any technical and

organisational innovations, innovative projects, which are then introduced into production at large enterprises [3]. In modern conditions, given the increasing competition in the markets, innovation processes should be constant in any enterprise [4]. *The aim of the research* is to identify and quantify the most important high risks arising from the functioning of micro and small enterprises in Latvia, which can lead to undesirable consequences.

The paper has identified and analysed the most significant risks in small enterprises in Latvia for the first time. The methods of examination and scenario analysis of the development of situations with risks and their negative impact have been used, taking into account changes both in the Latvian markets and in international markets. The following *main* risks have been identified and analysed.

- Financial risks (0.5 – 0.6): partial or complete refusal of customers to pay for the completed stages of work on time for various reasons; currency risks due to changes in exchange rates.
- Production risks (0.2 – 0.3): the inability to fulfill orders on time for various reasons (failure to obtain raw materials, materials, equipment breakdowns, lack of necessary specialists, etc.).
- Risks of innovative projects (0.3 – 0.4): refusal to carry out the initiated projects for various reasons (lack of financial resources, failure on the part of suppliers, identification of errors in projects, etc.). It should be taken into account that innovations are almost always associated with increased risks [5].
- Risks of legislative changes (0.4 – 0.6): in Latvia the taxation system changes quite often, which negatively affects small enterprises and their competitiveness.

To analyse the main risks, they have been ranked depending on the extent of possible damage. Responsible executives and specialists of several micro and small

enterprises of Latvia have been involved in the examination. The results of the analysis are presented as a risk matrix in Table 1.

TABLE 1 Assessment of the most significant risks in micro and small enterprises in Latvia

No	Risk grading	Magnitude of risk	Possible damage		
			Low (a)	Medium (b)	High (c)
1	Low	> 0.1 – 0.3			2
2	Medium	> 0.3 – 0.4	3		
3	High	> 0.4 – 0.6			1; 4

The zone of risk *tolerance* is the diagonal of the risk matrix going from cell “a3” to cell “c1”. Production risks (2) are in the tolerance zone. It means that risks (2) are the most acceptable for the enterprises under consideration, whose management is able to accept these risks and successfully optimise them. Profit will be maximum possible for these conditions. If the management of enterprises, in order to obtain greater profit, allows an increase in risks (2) – a transition to medium or high risks, then such actions can lead to greater damage with a higher probability. It has been established that the extent of possible damage to micro and small enterprises in Latvia is mainly low or high. Medium sizes of possible damage are rare.

Risks of innovative projects (3) can lead to small losses and belong to the medium-sized group. They are located above the tolerance zone in the risk matrix. This is due to the fact that, as surveys have shown, the company’s management is wary of introducing innovations, having no guarantees of the return of financial resources invested in projects, even small ones. Having such guarantees, for example, from the state or any funds, the enterprises of this

cluster would be able to more actively engage in innovations in their fields, even when moving into a group of high risks, but being in the zone of tolerance. This would allow enterprises to increase their competitiveness and survival in difficult conditions.

In the most dangerous zone with the greatest risks and greatest possible losses, there are financial risks (1) and risks of legislative changes (4): matrix cell c3. The best way to improve this situation would be to shift this risk group along the second diagonal of the matrix (a1 – c3) to the tolerance zone (a3 – c1). Financial risks (1) can be reduced by improving the quality of marketing in enterprises: it is a more accurate assessment of the reliability of enterprise’s clients, their solvency. However, in general, it is not possible to change the situation for the better, for example, in the field of risks of legislative changes (4).

3 Conclusion

It has been established that the majority of risks for micro and small enterprises in Latvia belong to low, medium and high groups. There are practically no risks greater than 0.6. In terms of the extent of possible damage, risks more often have low or high extent of damage, medium-sized damage is rare. The level of risk tolerance and decisions on their optimisation are made by the management of each company depending on specific conditions. Particular attention should be paid to marketing activities, since they affect financial risks and lead to possible high extent of damage in many respects. It is necessary to constantly monitor changes in the legislation of Latvia, since here both the risks and the magnitude of possible damage are significant.

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