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**RISK Management in small and
medium sized enterprises in the
republic of kazakhstan**

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**Қазақстан республикасындағы
шағын және орта бизнестегі
тәуекелдерді басқару**

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**Управление рисками в малом и
среднем бизнесе в РК**

**Қазақстанның индустриалды-
инновациялы стратегиясын
іске қосу мәселелері**

In a small work environment where every activity is wholly involved, directly affects each other and the business, management of one issue should go along and closely with the rest of operational issues. Risk management in a small and medium sized business should not be an individual program but integrate with other management processes: business strategy planning, human resources management, financial management, and customer relationship management.

Risk management for a business of any sizes relates to systematically assessment and strategic response to threats. By their nature, small and medium sized business owners are frequently entrepreneurs, successful and optimistic entrepreneurs. They have the tendency to be confident based on their success in establishing and leading the business, and it might be common for small and medium sized business owners to put risk management plans down the list of priorities.

Key words: SME (Small and Medium sized enterprises), self-insurance, consulting firms, commercial banks.

Әрбір қызмет түрі процеске толық еңгізілген және бір-бірімен бизнеске әсерететін шағын жұмыс ортасында, жеке проблемаларды басқару басқа да жұмыс мәселелермен бірге болуы тиіс.

Шағын және орта бизнестің тәуекелдерін басқару тек жеке бағдарлама болмай келесі процесстермен интеграциялану қажет: бизнес стратегиясын жоспарлау, адам ресурстарын басқару, қаржыларды басқару, клиенттермен қарым-қатынастарды басқару.

Кез келген мөлшердегі бизнестегі тәуекелдерді басқару жүйелі бағалау және стратегиялық қауіп-қатерлерге жауап беруден жатады. Шағын және орта бизнес иелері өз сипаты бойынша табысты және оптимистік кәсіпкерлер. Олар өз бизнестерін құрып жүргізулерінен сенімді, бірақ сонымен қатар тәуекелдерді басқару жоспарларын жазуға елемейді.

Түйін сөздер: шағын және орта бизнес, өзін-өзі сақтандыру, ақыл-кеңес беру қызметтері, коммерциялық банк.

В небольшой рабочей среде, где каждый вид деятельности полностью вовлечен в процесс и непосредственно влияет друг на друга и на бизнес, управление отдельной проблемы должно находиться вместе с остальными рабочими вопросами. Управление рисками в малом и среднем бизнесе не должен быть индивидуальной программой, но должен быть интегрирован с другими процессами, такими как: планирование бизнес стратегии, управление человеческими ресурсами, управление финансами, и управление взаимоотношениями с клиентами.

Управление рисками для бизнеса любых размеров относится к систематической оценке и стратегическому ответу на угрозы. По своей природе, владельцы малого и среднего бизнеса чаще всего успешные и оптимистичные предприниматели. Они имеют тенденцию быть уверенными в создании и ведении своего бизнеса, и очень часто пренебрегают написаниями планов по управлению рисками.

Ключевые слова: МСБ (Малый и средний бизнес), самострахование, консалтинговые фирмы, коммерческие банки.

**RISK MANAGEMENT IN
SMALL AND MEDIUM
SIZED ENTERPRISES
IN THE REPUBLIC OF
KAZAKHSTAN**

In fact, Kazakhstan's small and medium business certainly associated with risk. In this segment of business risks both, owners and investors. Corporations often refuse to cooperate with the companies of small and medium-sized businesses, as they consider the level of risk acceptable to SME themselves. During their career, SME companies have to cope with all sorts of risks, both external and internal. And it plays a significant role in their financial stability. Here are just some of the risks, continuously affecting businesses:

- reduction in demand from major consumers;
- adverse changes in tax laws or procedures for licensing of economic activity;
- an increase in lending rates and the volatility of the national currency;
- the negligence of the contractual obligations of partners;
- the negative impact of local authorities;
- continuous competition and other.

The level of these risks higher than the allowable resistance to loss of business, or the willingness of entrepreneurs to risk, bringing the company into bankruptcy and entrepreneurs to large financial losses. This is due to a number of factors, which include:

- a more stable relationship of small and medium-sized businesses from the macrofactors, in comparison with large enterprises
- SMEs direction on a narrow range of consumers
- limited capital and, as a consequence, high dependence on credit and other borrowed capital
- a shortage of specialists and a small payroll reasons given an extremely negative impact on the profitability and attractiveness of the species of business, which leads to a small proportion of their turnover in the economy of Kazakhstan.

To reduce exposure to risks such companies need to develop a culture of risk management. However, small businesses usually have a small staff and limited to a few managers of managers. In their organizations no specialized managers, including in the area of strategic, financial, operational or personnel risks. Only a few among small businesses have money for services of consulting firms. Under these conditions, the problem of effective risk management is fully borne by the head of the company, as well as the control group. Typically, the managers are not experts on the risks and cannot spend to this question sufficient amount of time. As a consequence, these companies do not have sufficient reserves to deal with all kinds of risks, as well

as limited financial resources. In addition, large enterprises in crisis situations can count on financial support from the state, while SMEs are deprived of such support. Despite all the difficulties, the markets existed and continue to exist, small and medium-sized companies that have been successful in managing their risks. The small size of the enterprises and the lack of bureaucracy, allow managers of small companies more quickly predict, detect and respond to threats. System of risk management in small and medium business is characterized by maximum simplification. The new risk management system should be intuitive, accessible not only to the head of the firm and should not require large amounts of financial and time resources as well. The primary task during the implementation of risk management in small and medium-sized enterprises involves identifying the most significant risks and threats that may subsequently adversely affect the activities of the enterprise. The second task is to allocate priorities among the identified risks on the basis of probability and damage caused by their implementation. Third, and perhaps most important task is to implement measures that can prevent or reduce the negative effects of threats. At the same time should be determined responsible persons responsible for the introduction of both the risk management system, as well as for the reduction of specific risks. Some Kazakhstan companies to small and medium-sized businesses are in the process of introducing elements of risk management, which allows them to not only reduce operating losses and protect the company's reputation, but also to effectively run their products in new markets, quickly respond to competitive pressures and become more attractive to investors.

In the area of corporate credit risk management 2008 year was a good test of the strength of models used by the bank both individual and portfolio credit risk management. The past year has adjusted the bank's risk appetite and accelerates the process of improving the existing and introduction of new modern tools of the credit risk management, including the anti-crisis. Bank worked on the accumulation of data to go on quantitative (statistical) models of credit risk assessment. Consolidation produces statistical data on defaults, data were collected on the causes of delinquency in order to improve mechanisms for identifying potential problems in the early stages of the credit process (under the credit analysis of borrowers). Special attention has been paid to the processes to ensure the completeness and correctness of the information stored in the bank's accounting systems required for a portfolio approach to risk management. Was

finalized models assigning internal credit ratings to corporate borrowers with a certain probability of default. Calibrate these models with the results obtained ratings of existing corporate clients. Statistics collected by the bank arrears by industry allowed making recommendations for a shift in emphasis in lending based on the borrower's industry sector. This will also correct the approaches to portfolio credit risk management. In the course of these investigations, the Bank developed criteria for assessing the risk of the industry and introduced the method of assigning the rating industry.

With the intensification of the crisis on a daily basis the bank began to conduct detailed monitoring of the loan portfolio in order to identify at an early stage signs of impaired debts. Detailed analysis of the dynamics of revenue due to customers on the bank account, credit portfolios to ensure transactions are revalued value of collateral, including taking into account the changes in its liquidity.

A special role in the bank is to the organization of work with trouble assets, even more relevant in times of crisis. The main tasks of the bank to work with troubled assets are to prevent the loss of property of the bank and minimizing losses when a distressed assets.

During 2008 have been significantly improved procedures for assessing the credit risk of small and medium-sized enterprises and a range of measures that minimize the risks:

set limits on concentrations of credit risk, product limits, limits on the competence of the employees of the financial analysis;

- changes in the assignment of internal credit ratings of borrowers;

- branches and bank credit facilities entered of officer risk managers, which are functionally subordinate unit on risk assessment in the head office and are responsible for compliance with the bank credit departments of technology and SME credit risk assessment in setting limits; besides designate staff to monitor who is functionally subordinate unit to support lending operations;

- To define the SME credit committees for setting limits, working with problem debts, monitoring, allowing qualitatively optimize the decisions;

- organized system of regular site inspections of the credit quality of the work in the units of small and medium-sized businesses;

- updated management reporting system used to assess the chamber - operation of the loan portfolio. The Bank shall promptly respond to changing market conditions in the IV quarter of 2008, adjusting the credit policy for small and medium busi-

nesses. Were tightened conditions for the issuance of credit products to customer requirements, the financial situation of enterprises, takes collateral, identifies priority customer groups and relative industries that are particularly susceptible to market factors. Changed policy building a portfolio toward more profitable products, reducing the average length of the loan, unsecured products.

Risk compensation refers to the methods that need to create mechanisms for the prevention of risk situations, to eliminate the appearance of causes and risk factors. Payment methods are self-insurance risk, strategic planning, forecasting economic environment, active targeted marketing, monitoring of socio-economic and regulatory environment, outsourcing, attracting additional information. These methods consider the risk compensation from the perspective of their application in the activities of a small business and identify how to allocate their management practices. Self-insurance (redundancy) involves the creation of an entrepreneur's special reserve fund for the account of profit amounts to cover unforeseen expenses upon the occurrence of risk events. The main problem in creating a reserve for unforeseen expenses is to assess the potential consequences of risk. In the process of self-insurance creates reserve and insurance funds. Such funds, depending on the purpose of the appointment can be created in-kind and cash. For example, the subjects of agriculture produce natural reserve funds: fodder, seed, and others. This is due to the possibility of adverse environmental conditions. The creation of the reserve fund is mandatory for joint stock company, cooperative enterprises with foreign investment.

Self-insurance - it's too expensive for most small-business entrepreneurs, the practical implementation is difficult limited financial capacity of small enterprises. Self-insurance is advisable in the case where the value of the insured property in comparison with the property and financial criteria of the business is small, and when the probability of loss is extremely small. Self-insurance is an economic lever, reception, helps neutralize the risk situation and therefore relates to economic methods of management. Strategic planning relating to the methods of risk compensation reflects the totality of the main goals of the company and ways to achieve them.

First, the strategic plan sets the long-term direction of the company, identifies the main activities of the organization, allows to coordinate a unified system of marketing, design, manufacturing and financial activities, as well as to better understand the structure of needs, planning, promotion and marketing, formation mechanism market prices.

Second, the plan defines the organization of alternative actions for the long term, provides the basis for the allocation of scarce financial resources. As part of the strategic planning process implemented four main types of management activities:

- 1) allocation of resources;
- 2) Adaptation to the environment;
- 3) internal coordination;
- 4) organizational strategic vision.

Strategic planning at the enterprise it is advisable to consider not as a method of risk management, as well as a process, effected by means of actions and decisions taken by the head of a small business that lead to the development of specific strategies to achieve the goals. Event on strategic planning, which is usually preceded by exploring the potential of the enterprise, help to remove much of the uncertainty, allow to predict the emergence of bottleneck in the production cycle, to pre-empt the weakening of the company in its market sector, to identify in advance the specific profile of the risk factors of the enterprise. Forecasting economic environment is the development of the periodic forecasts, development and evaluation of the future state of the environment management for the enterprise, in predicting the behavior of potential partners or competitors' actions, changes in the market segments in which small business advocates seller or buyer. Forecasting and planning are considered as functions of management. Substantially between prediction (knowledge of the future), and planning no clearly defined boundaries. We can say that the forecast is an insufficiently definite plan, and the plan is a revised forecast. The most significant difference from the forecast plan is the presence of elements in terms of choice, decision-making and actions for the implementation of these decisions. Forecasting economic conditions should be understood as a process designed to assess the prospects of the enterprise on the basis of an analysis of market, changes in market conditions in the coming period.

How to minimize the risks of reception is used to provide further information and suggests improving the reliability and validity of the initial information that will reduce the likelihood of inefficient decision making. Methods for more information suggest purchasing it from other organizations (consulting firms, research organizations). Some authors consider an active targeted marketing as a method for risk management, we also defined as an activity, intercompany management system that aims to study, taking into account demand and market requirements for a sound orientation of enterprises to produce competitive products.

Implementation of marketing activities is espe-

cially important for small businesses for the following reasons. As a rule, they lose large companies the costs (as the latter effects are relationship involved "economies of scale") and the volume of available financial resources. Therefore, often the main competitive advantages in the possession of small and medium-sized businesses - it is their flexibility and proximity to customers, the ability to pay attention to every client, changing, adapting to its requirements. Close cooperation with the customer and prompt response to his wishes is the main competitive advantage of small businesses. And in order to take full advantage of this benefit, you must constantly monitor changes in consumer preferences (through market research) and design modifications of the goods in accordance with the wishes of the customers identified (by implementing the marketing functions). Active targeted marketing assumes that the company begins to rapidly generate demand for its products. For this purpose, a variety of marketing methods: market segmentation and estimation of its capacity; Advertising campaigns, including fully informed of potential consumers and investors the most favorable properties of the products and the company as a whole; analysis of the behavior of competitors, the development of competitive strategy, policy and measures of cost management etc. Monitoring the socio-economic and regulatory environment is operational monitoring current information on the socio-economic processes. To use this method requires computer regulatory background information, connect to networks of business information, carrying out their own forecasting and analytical research, contract research, the use of the services of consulting firms and independent consultants.

The resulting data allow us to catch new trends in relations between economic entities in advance to prepare for regulatory innovations, the necessary measures to compensate for losses from changes in

the rules of business, quickly adjust the strategic and tactical plans. Outsourcing is realized when a small business is notable to cover all the losses of domestic resources. Some of them can be covered using credit. Difficulties in raising capital are not only in input, but also a permanent barrier, which puts small businesses often on the brink of survival. In certain situations, it is unprofitable for banks to take on more risk. Important recent trend - the increased attention of banks to small and medium businesses. The need for small businesses to credit resources is estimated at \$ 30 billion annually, and yet it is satisfied by 10-15%. Commercial banks increased mortgage interest rate to compensate for possible losses on loans of no return. So one of the main conditions for the expansion of credit activity of banks in the small business is risk reduction. Consequently, the expansion of the time horizon of small business lending can be viewed as an impetus for all small business sectors. Commercial banks in this process objectively can play a major role. Financing and loans to small businesses are among the instruments and the implementation of economic levers of risk management practices. The result showed that the considered methods of evasion, transfer, dissipation, compensation, localization of entrepreneurial risk to a greater extent have organizational nature and are therefore organizational methods of risk management, as well as in the framework of risk compensation self-insurance isolated techniques, outsourcing (lending financing) relating to economic methods of risk management.

We have considered the totality of risk management methods allows you to select the most appropriate optimal method depending on the goals and objectives set by the small enterprise, as well as on the prevailing market situation. If the risk of serious and poorly understood, it should refuse to accept the risk, if this is not possible, you should refer risk to another person, to distribute among partners, to compensate for more information, outsourcing, self-insurance.

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