

**RISK MANAGEMENT IN PUBLIC ENTERPRISES IN KOSOVO  
(CASE OF REGIONAL WASTE COMPANY RWC UNITETI MITROVICE)****Remzi Ahmeti**  
Raifeissen Bank  
KOSOVO**Mimoza Ahmeti**  
KRM Uniteti Mitrovice  
KOSOVO**ABSTRACT**

The risk basically is anything related to future events, occurrence or non-occurrence of who may directly or indirectly affects the achievement/non-achievement of organizational objectives. Risk management in the field of management is relatively consolidated discipline and the existing literature is quite rich. However, risk management as a managerial function in public sector has shown increasing only in recent years. This study provides an analysis in the context of risk management in the public sector in Kosovo, and as a concrete case for study is taken the Regional Waste Company (RWC) 'Uniteti Mitrovice'. Referring to the results of the study, the lack of a well-designed internal risk management system, it is a major problem faced by the company. In addition, the analysis shows that the company financial statements not always are clear and these show the company's real financial situation. In addition, the company faces with a number of other operational and financial challenges, exposing it to a variety of risks. The lack of a clear risk management model makes the company even more vulnerable to these risks. Overall, the risk management literature and existing standards have provided a good basis for developing a risk analysis in the context of a Kosovo company.

**Keywords:** Risk, Risk Assessment, Risk Management, Public Sector, ISO 31000.

**INTRODUCTION**

The relatively young state of Kosovo is facing with ongoing challenges at all levels of its governance. In addition to the contribution from international community, progress in the country's economic development is low. Kosovo faces with very high unemployment, lack of infrastructure, political de-stability, etc., which negatively affect development of the country. In addition, risk management as a necessity for achieving objectives and goals at the organization level or nationwide is almost non-existent or unknown in the public sector in Kosovo. Even if there is a specific approach to this process, the risk and need for its management are not considered as a specific system but as melted activity in other institutional and government functions. Greater and more serious engagement in risk management in public enterprises in Kosovo is required and the first step towards achieving this is to identify real need for risk management and to promote its relevance to the responsible authority.

As the youngest country in Europe and among the youngest in the world, Kosovo faces constant challenges at all levels of its governance. In addition to the contribution of the international community, the spheres of the public life where further intervention is to be considered, in order to achieve the most efficient allocation of funds of the public goods. The purpose of this work is to study risk management practices for public enterprises in Kosovo in order to recognize, classify the risk categories to which they are exposed and to build an appropriate model for risk management assessment in public enterprises in Kosovo. This

study is particularly helpful for central and local government in Kosovo, as well as for steering structures in public enterprises in the country. Also, this study could serve as a basis and motivation for in-depth study of public sector risk management in Kosovo.

There are several reasons why the study is focused only on the public enterprises in Kosovo. First, risk is a critical factor in achieving goals in an organization. Secondly, the public sector is the most important catalysis for a country's economy. Third, decision-making at the central and local government level has a broad impact on all interest groups also on long-term. The study also aims to highlight risk management at RWC "Uniteti" Mitrovice, by presenting current practices identifying possible alternatives for better risk management.

The objectives to be achieved through this study are:

- Analyzing the theoretical risk framework and designing a model for measuring and assessing the risk at the Regional Waste Company RWC 'Uniteti Mitrovice'.
- Evidence best practices and international standards accepted with regard to risk management, in particular public sector with focus on practices and state owned enterprises.
- Determine the role that should have main economical actors, in particular the government on risk management in state-owned enterprises.
- Evidence of the policies pursued in Kosovo regarding to the risk management and control and assessment of the level of knowledge of the principles through analysis.
- Analyze the results and giving suggestions for the necessity of understanding and importance of the implementation of risk management systems at the Regional Waste Company RWC 'Uniteti Mitrovice'.

Kosovo faces a number of issues such as corruption, bureaucracy, high unemployment (especially youth), political instability, infrastructure, etc. All these problems direct or indirect can be translated into a threat for the stability and progress of the country. Also, scientific research in Kosovo, in some areas is relatively limited; More precisely, within author's knowledge, there are no previous studies of this nature. Lack of historical data, limited funds, and low interest has made certain areas, such as risk management and its public sector applications, little or no explored. For this reason, this study requires a detailed analysis of risk theory and global practices in its management in the public sector, with a view to develop an adequate model for risk measurement and assessment at the Regional Waste Company RWC 'Uniteti Mitrovice'.

## **LITERATURE REVIEW: RISK MANAGEMENT IN PUBLIC SECTOR**

The earliest literature on risk theory begins sometime in the 1980s, and there is little literature of an earlier period (Rakow, 2010). However, initial risk literature has a tendency to focus only on two parameters of risk, security and financial risk. Modern risk considerations have evolved a lot and the range of this concept is more complex and inclusive than what is perceived as a risk to the organization. Referring to (Chelst & Bodily, 2000), risk management is no longer part of a standard paradigm of decision-making analysis.

(Kallman & Maric, 2004) consider risk management as a specialized discipline. However, according to Hansson (2005) there is little evidence that demonstrates the existence of a relationship between risk studies and more general studies on the social decision making process. One of the most valuable contributions on risk management identification as a specialized discipline is publication made by (Beck, 1992) "Risk Society: Towards a New Modernity" in which he declares that the risk is becoming more and more important in

modern societies and its study is of critical importance. According to Goldoff (2000) and (Spira&Page, 2003), identification of risk as a bad event characterized and helps in defining modern times. According to various scholars that link risk theory to other psychology and inter disciplines, individually and collectively we are not able to identify and understand all risks we are facing, so we cannot even accurately calculate them.

Referring to literature on risk, there is a clear approach that risk discipline is of critical importance to be studied and managed. According to (Althaus, 2005), the risk is something to be faced and which cannot be ignored. This approach to risk is explained in more detail by Corbett, 2004, according to which Murphy's law will continue to be the fundamental risk management law - the more complex the world becomes, the safer we will be more and more things will be wrong.

In an increasingly complex world, enterprises are facing a rising risk, in order to be successful they must manage these risks more effectively. According to Beck (1992), the more likely they are to identify and understand the risks, the more likely it will be their effective management. (Corbett, 2004) states that the main purpose of risk management is to ensure the survival of the organization. This is particularly evident in the private sector, as the chances of bankruptcy and closure are much higher than for enterprises operating in the public sector.

(Spira & Page, 2003) show that there is no significant difference between the public and private sectors in their approaches to risk management, especially when it is used as a tool by top-level managers to protect themselves from liability. According to (Osborne & Brown, 2011), avoidance of guilt should not be an important factor in determining the field and basic principles of Risk assessment. According to them, the risk assessment in public sector should consider more social value and should require less protection against persons responsible for the provision of public goods and services.

## **METHODOLOGY**

The main problem of this study is: What is the current level of risk management in the public sector in Kosovo? Specifically, what is the approach of management and management structures in the Regional Waste Company (RWC) Uniteti Mitrovice regarding risk management in the company? Regarding the general approach of the study, this research is based on a research done. As a result, we are more focused on exploring risk management in the public sector and more specifically in RWC "Uniteti" Mitrovice, rather than focusing in the detailed results derived from studies of this nature in different countries or comparison of these results with RWC "Uniteti" Mitrovice.

Content analysis, as a mix of qualitative and quantitative approaches, has been used to explore many important issues in the management field. This method examines documents, reports, plans, agreements, etc.

And it analyzes them critically, in order to understand more general aspects and specific aspects of how the organization involved in the study works.

The data related to the literature on risk theory are provided primarily by academic and scientific online sources. As we are living in a digitized world, digital material has made possible a detailed analysis of risk theory through scientific publications with impact in this

field of study. In-depth review of literature has helped the study to develop an appropriate model for hypothesis testing and answering research questions.

Some authors suggest that risk analysis and management in an organization should be made on the basis of certain criteria that will serve as a benchmark. In this case, the ISO 31000 standard is used. However, apart from comparing key components in relation to what the ISO standard presents, a more detailed analysis was developed to understand the approach to risk management in the company involved in the case study. The key components of the standard are broken down by some questions that are organized in a semi-structured questionnaire. Also, in certain cases these questionnaires were developed in the form of an interview.

The research questions and hypotheses that this study intends to address are as follows:

*Research question 1:* Is the private sector risk management theory applicable also in the public sector?

*Research question 2:* Does the Regional Waste Company RWC Uniteti Mitrovice have a clear strategy and policy for risk management in the company?

*First hypothesis:* The practices of risk assessment, measurement and management in private enterprises can also be adapted to the public sector by making some adjustments according to the organization's characteristics.

*Second hypothesis:* A re-conceptualization of risk and its management in the public enterprise RWC Uniteti Mitrovice would help the company to better manage the risk and achieve a higher performance.

By testing hypotheses, through primary data, in order to determine the current state of this system, we will assess and record the level of risk management in RWC Uniteti Mitrovice and in general in the public sector in Kosovo.

## **RESULTS & DISCUSSION: CASE STUDY (RWC "Uniteti" Mitrovice)**

In order to identify and formulate answers to the above questions, case study was chosen as a practical and appropriate approach to this study. According to various authors, case study is a complex yet highly qualitative approach that offers researchers the opportunity to explore a wide variety of sources of data such as interviews, documents and surveys. In this case study, a comparison is made between the benchmark that is "best practice" according to the ISO 31000 standard and the risk management practices in the selected case study. This study explores the effectiveness and efficiency of current risk management practices in this company and aims to produce valuable recommendations that may be of assistance to various stakeholders in this study.

The study unit in this case study is RWC "Uniteti" Sh.A. Mitrovice. The reason for the selection of this company is the fact that the collection of the data and information necessary for this study is feasible. This is because the author of this study is at the same time part of the staff of this institution.

RWC "Uniteti" Sh.A. Mitrovice has been operating since the Second World War followed by the name "Standard". Like any institution or family that was destroyed during the Kosovo war, the same was with RWC "Uniteti" Sh.A. Mitrovice. However, right after the war on 27 June 1999, at the invitation of the Mayor of Mitrovice, the Company's management, staff was asked to reactivate the service of the enterprise and on the same day it was mobilization of former staff of this enterprise. Initially they started as a Public Municipality Enterprise, on the beginning there were altogether 47 employees of the former enterprise staff.

## RESULTS AND DISCUSSIONS: MAIN FINDINGS

In the analysis made to company's business plan, results that the plan is not clear enough and understandable format. Among the most important elements of this document, the presentation of the company's objectives simply makes a brief introduction to some of the company's goals without clarifying and concisely presenting them. Such a thing would help decision-making at every level. Failure to do or lack of clearly design of the company's objectives constitutes itself a potential threat to the company.

The mission presented in the business plan does not clearly and concisely explain what represents the mission of this company. The mission presented in the business plan is as follows:

*"Good waste management services in accordance with European practices which ensure the provision of sustainable quality services at economically affordable prices, taking into account environmental protection and public health protection."*

Another critical element in this business plan is SWOT analysis which is incomplete in identifying the four elements that make up it. Among the strong points mention is the fact that RWC "Uniteti" Mitrovica is the only company licensed to provide this service in the above mentioned region. Although seen as an advantage, it is actually a disadvantage in the sense that lack of competition creates the conviction for the company that there is no need for continuous improvement as the market operator is safe for them. Among the weak side of the company is also mentioned the relatively high age of staff employed in this company. This refers to field workers and poses a threat to a near future for the company. Regarding the opportunities identified, "Timely delivery of services" is presented as the only opportunity for the company, although it is not at all clear how providing timely services can be an opportunity for the company. Also, in the company's threats, "Lack of tools" is featured as the only threat to the company. Indeed, the liquidity problem is a real and not potential concern for the company, and therefore liquidity should be part of the company's weaknesses and not as a potential threat to it. In general, referring to the business plan provided by RWC "Uniteti" Mitrovica, we come to the conclusion that the company operates based on a mission and vision that are not formulated in a clear and understandable way. Also, the company fails to identify and consequently prioritize its business objectives. SWOT analysis also proves that the company does not have accurate information on the current environment in which it operates and fails to identify potential opportunities and threats that may impact the achievement of its business objectives and performance.

Through examination of last two recent audit reports, there are inaccuracies and shortcomings noted in the reporting by the company. Referring to citations in these reports:

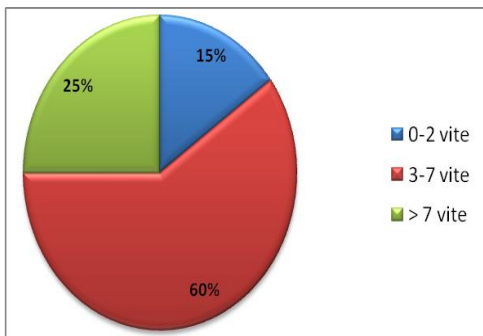
*"We were not able to use standard and alternative audit procedures to verify the carrying amount of the merchant's debtor status as at 31 December 2014 due to the lack of reliable evidence of the accuracy of management forecasts made regarding the debt situation Bad and suspicious, as well as their provision made without any specific policy either through specific or provisional provisioning. Therefore we were not able to obtain reliable assurance on the condition of provisions for bad and doubtful debts before and until 31 December 2014"*

Also in an official statement of the auditing group and the company, they stated that for the audit of the financial statements closed on 31 December 2014, no internal control issues or

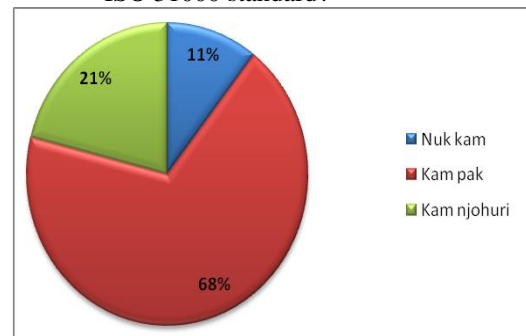
operations in the company were considered which would be material misstatements but were nevertheless noted other issues related to the internal control structure and some accounting or operational issues, which they have detailed in the quoted document.

Even in the audit report for the year ended 31 December 2015, the auditor has expressed reservations about how to prepare annual items, suspected of material misstatement and fraud. Also, the 2015 financial statements have not been inspected by the tax authority, which makes the company's current situation and its unpaid obligations to the state more unclear. As it can be clearly understood from the two auditing reports, the company is exposed to a high level of financial risk, which makes it difficult for the company to achieve its business objectives.

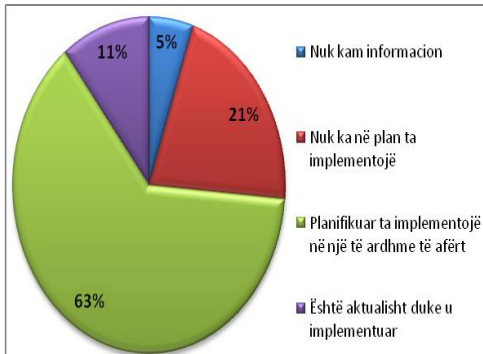
Graph 1: How long are you part of the company?



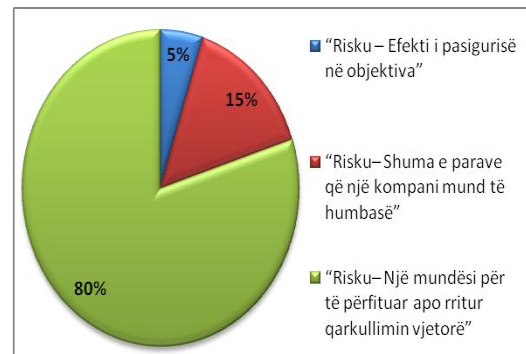
Graph 2: Do you have knowledge of the ISO 31000 standard?



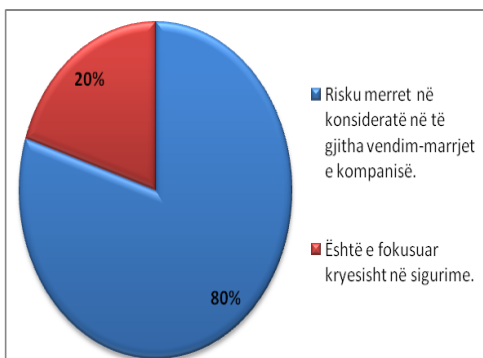
Graph 3: Is the ISO 31000 standard implemented in the company?



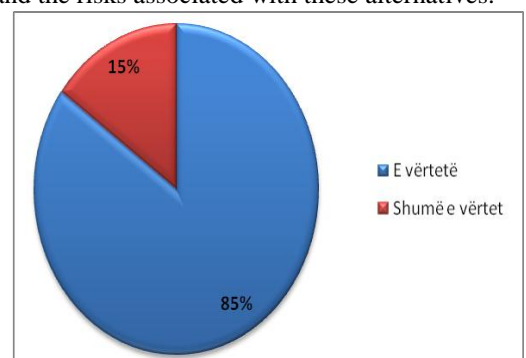
Graph 4: Which of the following expressions best Describes



Graph 5: How is risk management within the company?



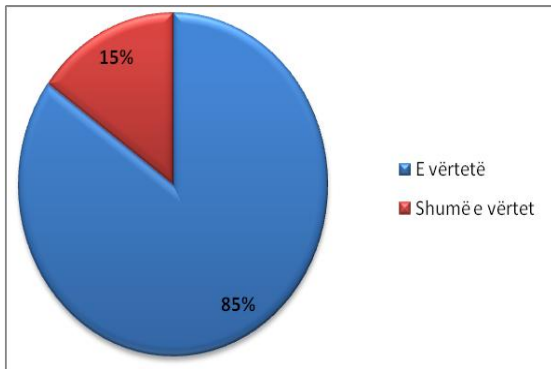
Graph 6: Decision-makers in the company can identify and evaluate different alternatives and the risks associated with these alternatives.



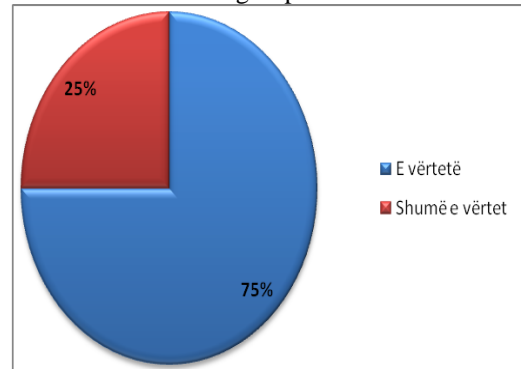
Graph 7: When assessing the risks, the consequences of these,

Graph 8: When assessing risk at

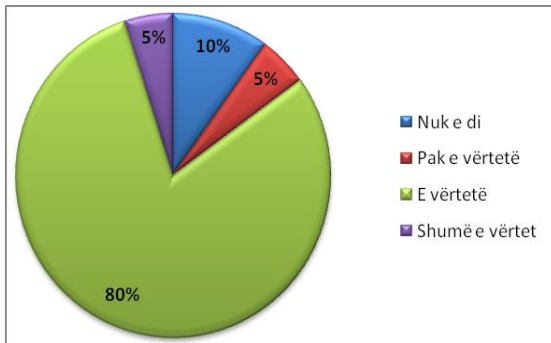
Risks are they taken into consideration.



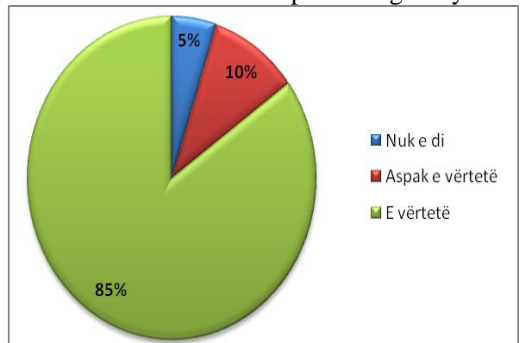
company, is it considerate the potential consequences of these risks to external interest groups.



Graph 9: Interest groups' description and their perception are these taken into account at various decision-making.



Graph 10: Techniques for measuring management Performance of the risks are updated regularly



In conclusion, in order to test the two main hypotheses of this research, three main techniques are used in this study. The first technique is content analysis. A series of company's internal documents have been analyzed in order to gather as much information as possible on the company's risk management risk. Numerous problems and irregularities have been identified in the analyzed documents that make the company exposed to a large number of risks. First, the company does not operate on the basis of well-designed and clear objectives. The company does not have a clearly formulated vision and mission that properly expresses the company's philosophy. Also, the company has significant problems as it hampers financial reporting and the recognition of items in the balance sheet and the statement of income and expense according to the accepted national and international accounting standards. Such a thing exposes the company to serious financial risks and seriously threatens its stability and continuity. The second technique used is the semi-structured questionnaires that in some cases have taken the form of an interview. The questionnaire is a very widespread technique in social and human sciences. The developed questionnaire is organized in ten non-discrete sections. Earlier in this chapter are specifically addressed each section. All sections are of equal importance (excluding the first section which is merely an information section in order to provide some general information about the company and the respondents) and consequently their importance to final conclusions on how the company manages the risk is the same.

**CONCLUSIONS**

The company needs a re-formulation of its vision and mission in order to make it clearer why this company exists and what is the main purpose of its existence. If the company's internal staff is not able to do so, it is recommended delegating this responsibility to external experts

in the field of management. Having a clear and understandable vision and mission for all interest groups (internal and external) enables a more accurate formulation of business objectives and facilitates the coordination of all staff efforts in order to achieve these objectives.

The company has significant problems in reporting leaving many items of unclear financial items. This is a double indicator in terms of financial management of the company. The Finance Department does not have the skills and knowledge needed to compile financial statements according to national and international accounting standards, and Internal Audit does not help improve the company's financial management by not identifying and seeking to improve these problems. Although the external audit was conducted according to legal claims, due to the continuity of the same comments and problems in the audit reports, this indicates that the independent auditor's reports are not sufficiently considered by the relevant bodies and responsible for the way the company is managed. Authorities such as State Control, Tax and Tax Offices and other relevant authorities should be more careful in handling audit reports and taking precautionary measures, but also shrinking should, if necessary, help the company to better manage finance. This is possible through re-designing and re-designing the legal framework that covers the scope of the company's business.

Referring to the results of the study, the company has problems in clear communication of the company's objectives and policies. The main reason is that the company has not identified and formulated understandably and concisely these objectives and policies and consequently their communication becomes difficult among employees with different backgrounds.

Such a problem to be minimized and to ensure that the company's objectives and policies are clear and fair to all, it is necessary to re-formulate these objectives and policies first so that they are clear to everyone. This can be done by management staff and steering board, but can also be delegated to an external expert in the field of management.

The results of the analysis showed that the company did not have a proper approach to risk management, and in most cases management is spontaneous or dealing with the consequences of the occurrence of the event. In order to consolidate the risk management architecture in companies, firstly the management and management staff awareness on the importance of risk management to ensure that the company achieves its objectives, avoids possible losses, benefits from the opportunity offered by the market As well as ensure successful success in the market.

The company has little knowledge of what meant by risk management and knowledge on the ISO standard 31000: 2009 and the latest publications in this area. This does not make the company aware of the importance of risk management and the lack of information makes this process even more difficult and impossible by the company, more precisely by its management and management structures. This can be improved by raising awareness and informing managers of the risk management processes and its importance. This can be accomplished through training, seminars, and other professional training that can be developed in the company's internal and external environments. The implementation of the ISO standard 31000: 2009 would help the company to effectively manage risk.



**REFERENCES**

- Althaus, C. (2005). A Disciplinary Perspective on the Epistemological Status of Risk. *Risk Analysis Journal*, 25(3), 567-588.
- Beck, U. (1992). *Risk society : towards a new modernity*. London: Sage.
- Chelst, K., & Bodily, S. (2000). Structured risk management: filling a gap in decision analysis education. *Journal of the Operational Research Society*, 51(12), 1420–1432. doi:10.1057/palgrave.jors.2601034
- Corbett, R. (2004). A View of the Future of Risk Management. *Risk Management Journal*, 6(3), 51-56. Gjetur në <http://www.jstor.org/stable/3867778>
- Hansson, S. (2005). Seven Myths of Risk. *Risk Management Journal*, 7(2), 7-17. Gjetur në <http://www.jstor.org/stable/3867684>
- Kallman, J., & Maric, R. (2004). A Refined Risk Management Paradigm. *Risk Management Journal*, 6(3), 57-68. Gjetur në <http://www.jstor.org/stable/3867779>
- Osborne, S., & Brown, L. (2011). Innovation in public services: engaging with risk. *Public Money & Management*, 31(1), 4-6. doi:<http://dx.doi.org/10.1080/09540962.2011.545532>
- Rakow, T. (2010). Risk, uncertainty and prophet: The psychological insights of Frank H. Knight. *Judgment and Decision Making*, 5(6), 458–466.
- Spira, L., & Page, M. (2003). Risk management: The reinvention of internal control and the changing role of internal audit. *Accounting, Auditing & Accountability Journal*, 14(4), 640 - 661.