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LOCAL CURRENCY AS A TOOL OF RISK MANAGEMENT IN THE SMALL AND MEDIUM ENTERPRISES SECTOR

WALUTA LOKALNA JAKO NARZĘDZIE ZARZĄDZANIA RYZYKIEM W SEKTORZE MAŁYCH I ŚREDNICH PRZEDSIĘBIORSTW

Key words: SME, local currency, risk and change management

Słowa kluczowe: MSP, waluta lokalna, ryzyko i zarządzanie zmianami

Abstract. The SME sector plays a significant role in every countries' economy. The European Union also realized its importance and hence tries to create such fiscal rules and administrative environment which enhances business activity and the level of entrepreneurs. At the same time the majority of enterprises faces emerging difficulties. Companies aiming to survive in the long run have to realize and continuously monitor the inside and outside environment which affects them. It is inevitable to use the tools of risk and change management which cannot be overlooked in today's economic environment. Last decades local currencies have appeared in order to reduce liquidity risks and its emergence is continuous and becoming more and more successful. The aim of the article is to introduce the difficulties of the Hungarian SME sector and shortly discuss the opportunities of local currency as a risk management tool which can positively affect the prosperity of the SME sector.

Introduction

The keeping alive, development and financing of the SME sector is a current and inexhaustible source of problems from many aspects. In order to boost the SME sector it is necessary to increase its performance and competitiveness which can only be reached if all the barriers and risks are eliminated and businesses will focus on risk management in favor of long term success.

The motive behind local currency has come from the recognition that the global monetary system is rather unstable, as well as it overshadows the interest of local businesses. The local business environment is represented by the SME sector, and with the use of local currency their competitiveness could be strengthened.

Beside the short introduction of the Hungarian SME sector's difficulties, the opportunities offered by local currency is also discussed in the study. The influence of local currency on the Hungarian SME sector is being discussed with the use of varying literature. Does it pay off for the businesses to use local currency and solve liquidity problems in the long run?

The Hungarian SME sector and the risks

In recent times the businesses operating in Hungary are characterized by intense creativity and rapid adaptability; however compared to the large companies and to the more developed countries of the EU, they perform significantly poorer as far as profitability and export are concerned. Moreover their competitiveness is also getting worse and worse.

These are estimates for 2012 produced by London Economics, based on 2008-2010 figures from the Structural Business Statistics Database (Eurostat). The data cover the ‚business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

Table 1. SMEs in Hungary and EU-27
Tabela 1. Sektor MSP na Węgrzech i w UE-27

Enterprises/ *Przedsiębiorstwa*	Enterprises/ *Przedsiębiorstwa*			Employees/ *Zatrudnienie*			Value added/ *Wartość dodana*		
	Hungary/*Węgry*		EU-27/ *UE-27*	Hungary/*Węgry*		EU-27/ *UE-27*	Hungary/*Węgry*		EU-27/ *UE-27*
	number/ *liczba*	share/ *udział* [%]	share/ *udział* [%]	number/ *liczba*	share/ *udział* [%]	share/ *udział* [%]	bln EUR/ *mld euro*	share/ *udział* [%]	share/ *udział* [%]
Micro/*Mikro*	521,981	94.6	92.1	885,167	35.5	28.7	9	18.7	21.1
Small/*Małe*	24,883	4.5	6.6	472,316	18.9	20.4	8	15.8	18.3
Medium-sized/*Średnie*	4,212	0.8	1.1	420,215	16.8	17.3	9	18.6	18.3
SME/*Małe i średnie*	551,076	99.9	99.8	1,777,698	71.2	66.5	26	53.2	57.6
Large/*Duże*	800	0.1	0.2	718,304	28.8	33.5	23	46.8	42.4
Total/*Ogółem*	551,876	100.0	100.0	2,496,001	100.0	100.0	49	100.0	100.0

Source/*Źródło*: [*Enterprise and industry...* 2013]

As for the risks of the SME sector, they have to face numerous risks which usually are out of their scope. For instance there is the last economic crisis or the continuously changing legal environment and political regulations. On the other hand there are risks which the enterprises had better calculate with and measure the potential threats.

One of the most crucial issues of the Hungarian SME sector is the lack of funding and the continuous liquidity problems. Liquidity affects the survivability of firms, which in case of Hungarian businesses is quite low. In case of limited funding sources, the biggest problem comes from the fact that the Hungarian SME sector is undercapitalized which is a barrier for development. In many cases they are struggling with purchasing issues, with outdated existing capacity and lack of funding, which they cannot finance from external capital. As far as the EU funds are concerned, they face difficulties here as well because of the complicated application process and such requirements which cannot be met in most of the cases (e.g. high level of own sources required) hence the SMEs cannot have their share from these sources neither. Besides the low level of profitability, the liability management between customers and suppliers, the high tax and social security contributions all contributes to the financial difficulties which leads to lack of capital. It also has to be mentioned, that Hungary lacks those alternative payment methods which are successfully used in other countries and helps businesses to prosper. Such opportunities are for example the risk capital, the business angel or the below detailed local currency system.

The SME sector is also vulnerable from the perspective of late payments. All in all every fourth firms are struggling with daily financial issues, which is significant [Gém et al. 2013]. It has to be noticed, that the existence of funding issues means serious risks for the SME sector.

Besides more surveys [*A Kis- és középvállalkozások...* 2008, *A Kis- és középvállalkozások...* 2013] have confirmed, that the high common charge (taxes and social insurance contributions), the unpredictable economical regulations, the complicated administration processes, the unfair and intense competition, the lack of infrastructure and knowledge all lead
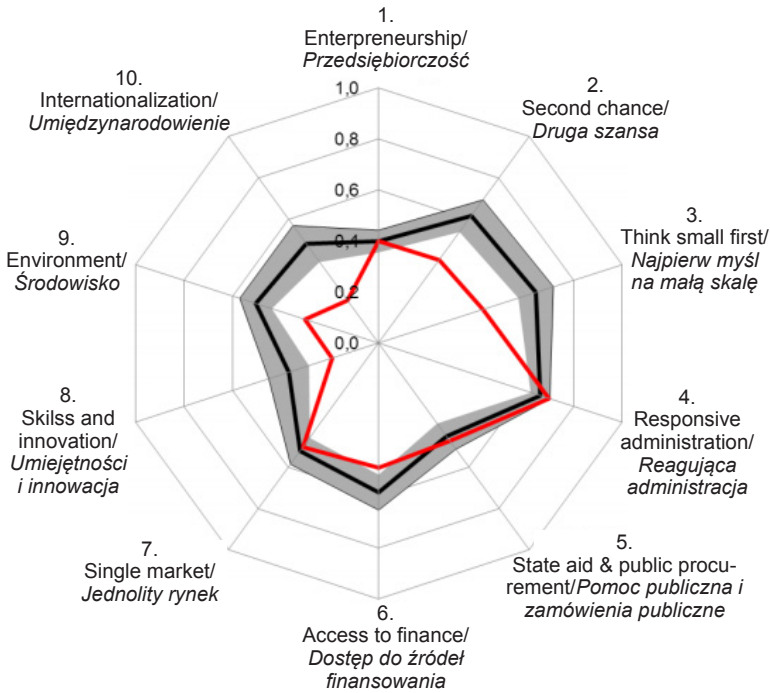
Figure 1. Hungary's SBA profile
Rysunek 1. Profil węgierskiej Karty Małych Przedsiębiorstw
Source/*Źródło*: [*Enterprise and industry...* 2013]

to further risks. A significant share of the Hungarian SME sector is reactive and only applies the strategy of following, furthermore many floating firms can be found as well [Szerb et al. 2008 a,b].

Risk management and the local currency in the SME sector

It is important for every business to realize and handle risks in time. "Every decision, choice has its own risk and individuals react differently" [Farkas et al. 2005]. The risks have to be realized in time in order to use the appropriate tools to handle them. It is important to reduce financing risks as one of the biggest issues of Hungarian businesses is the lack of liquidity sources. For instance the payment risks can be reduced by choosing the right payment methods, which safest form is pre-financing, and riskiest is open delivery. Additionally partner risk is also worthy to be looked at as well as the reliability of parties and whether they are insured. Exchange rate risk means further risk, which incorrect management could cause serious issues. The numerous bankrupt firms during the last crisis shows a perfect example of the consequences of such risks [Schváb 2011].

Last decades local currency has been becoming an important tool to overcome financial difficulties. Nowadays nearly 2500 local currency is known, and 5000 alternative currency is kept count [Martignoni 2012]. They have been successful in many countries due to the introduction of local currency system. We can think about the still prospering Swiss WIR system or the Austrian Wörgl, the German Wära and Chiemgauer, Ithaca dollar, FED-dollar just to name a few. The most well-known local currency in Hungary is the 'Soproni Kékfrank', but the 'Balatoni' and 'Bocskai Korona' also have been successful.

Why local currency is needed?

The feature of local currency is that it works locally or in a certain area thereby has significant effects on the financial and economic performance development of local firms. The existence of local currency assumes the sales of local products, which fully contributes to the local economic performance. The locally produced products and services helps to save workplaces, improve the profitability and development of local businesses, the catching up of handicapped, the revival of former traditions (maybe old 'hungaricums') and customs, which could increase the area's attractiveness in terms of tourism [www.rtop.hu/helyigazdasag.htm]. The biggest advantage of currency is that it does not only activates local businesses but it does not flow to other global markets either.

As today's global monetary system is in private ownership and works with such credit which generated by the interest rate mechanism, therefore as a consequence of a monetary breakdown the owners of the monetary system would withdraw their share from the production sector and hence disable the operation of the SME sector. That is why the promotion of local currency is needed as it could work as a shield against cyclical global crisis and uncontrolled speculations [Drábik 2011]. On the one hand the emergence of local currency issue protects from the negative effects of globalization, on the other hand it also protects the national currency from integrating to the unified global currency [Drábik 2005].

Misbeliefs concerning local currency

In the previous section the positive effects of local currencies are being discussed. The aim of this part is to introduce the misbeliefs concerning local currencies.

As for the pros and cons of local currency, one of the most discussed advantage is that the local purchasing power spends its money locally, uses local services and thereby helps the local economy to prosper. At the same time the study of Helmeczi et al. [2011] highlights that people spend their money locally even without local currency. "The money flow map of Hungary by MNB [Helmeczi 2010] shows that 40 percent of money transfers stays within the given location and 50 percent goes to addresses within a 50 kilometer circle [Helmeczi et al. 2011]. Another study has the same conclusion [Helmeczi et al. 2011, Brockmann 2006], which uses the data from an American banknote following website [http://www.wheresgeorge.com]. According to the results of the study, 50-70 percent of banknotes does not leave a 10 kilometer circle within 2 weeks, meaning that people spend money locally [Helmeczi et al. 2011].

Another mentionable experiment is that nearly no country or cities are able to satisfy all the local demand on its own hence some commodities have to be purchased from outside of the community. It proves as well, that even if we want to spend our money locally, in many cases it is unavoidable to involve external sources. The only opportunity for local patriots to show their commitment towards their direct environment is to choose the locally produced products form the shelves in the supermarkets rather than others, however local currency has nothing to do with it, it only depends on the conscious decision of the customers [Helmeczi et al. 2011]. According to Jacsó [2013] one of the burden for the emergence of local currency is mistrust. This mistrust can be noticed:

– on the one hand from the perspective of national banks because they have the monopoly of money issue. Local currency is a threat for the Hungarian Forint in terms of its flow [Perkovátz 2011, Jacsó 2013],
– on the other hand from the perspective of media, which gives quite little information on new economic initiatives and have rather negative orientation.
– thirdly from the perspective of people, who are rather skeptic about innovations, they think about it as an MLM [Jacsó 2013].

The study on innovative payment systems by MNB shows [Divéki et al. 2010], that most of the new payment solutions faces the problem of low number of participating businesses which leads to low number of customers using local currency. At the same time it is hard to involve more businesses while there is few users of the new payment method.

Conclusions

Local currency is aimed to boost enterprises' financial stability. It has already appeared in Hungary but due to its young age results cannot be derived concerning its success. At the same time it can be stated that there is asymmetric information on local currency. It would be important that more and more people get to know the significance of local currency system and its advantages. Experiences show that enterprises can hardly be convinced to join the system because they are missing the advantages of it. Even though they are aware of the fact that the introduction of local currency is aiming to feed their success, they are not keen on joining the system. They are afraid of the arising costs and the failure of the unknown system. That is why it is hard to find the businesses which would join the system at the phase of introduction. Like every other payment methods, the introduction of local currency has its own costs which could significantly burden the businesses and the operation of such low intensity payment methods could be uneconomical as well [Helmeczi et al. 2011]. This fact does also have a significant effect on the introduction of local currency. It is hard to make SMEs to cooperate in such a system, furthermore it is hard to motivate them and ensure the communication channel in such a diversified system. The effective spending of local currency requires conscious decision in many cases [Tóth 2011].

The success of local currency requires environment conscious and local patriot customers and sales too [Jacsó 2013]. To achieve further success, the local currency system should be supplemented with credit function – e.g. the Swiss WIR, which could offer loans at lower interest ates than banks.

All in all it can be stated that this type of initiative is quite rudimentary in Hungary so its success has not come yet. As far as our opinions are concerned, on the short-run local currency may boost domestic consumption and economy, however businesses and customers have to cooperate in order to be successful in the long run.

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Streszczenie

Celem artykułu było przedstawienie problemów sektora MSP na Węgrzech oraz określenie możliwości zastosowania lokalnych walut jako narzędzi zarządzania ryzykiem, które mogą pozytywnie wpłynąć na dobrobyt sektora MSP. Sektor MSP odgrywa ważną rolę w ekonomii każdego państwa. Unia Europejska również zdała sobie sprawę z jego wagi i dlatego stara się stworzyć takie reguły fiskalne oraz otoczenie administracyjne, które sprzyjałyby zwiększeniu aktywności firm oraz poziomu przedsiębiorców. W tym samym czasie większość przedsiębiorstw musi stawić czoła pojawiającym się trudnościom. Przedsiębiorstwa, które chcą przetrwać muszą być świadome wewnętrznego i zewnętrznego otoczenia mającego na nie wpływ i bez przerwy je monitorować. Konieczne jest stosowanie narzędzi ryzyka oraz zmiany zarządzania, które nie mogą być przeoczone w aktualnym otoczeniu ekonomicznym. W ostatnich dekadach lokalne waluty pojawiły się w celu zredukowania ryzyka płynności, a ich obecność jest stała i odnosi coraz lepsze rezultaty.

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