

MEDIUM-SIZED ENTERPRISE ESTONIA

The risk story 3



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Medium-sized enterprise from Estonia

Context of the Company and the Supply Chain

Company Z was established in 1993, and its core business is the development of a wide scope of IT technology applications (e.g., IT-based payment, self-service, and security systems) for retailers. Occasionally, Company Z works with clients from HORECA sector.

Currently, Company Z employs 50 people.

Company Z's main client pool is located in various EU countries, mainly Poland and Italy, but in general it serves clients on a global level.

Company Z's supply chain consists of (mainly retailer) clients, with a focus in EU countries, and a relatively large number of suppliers of different size, which are mainly located in Asia (particularly China).

The COVID-19 pandemic creates multiple obstacles for business operations. These problems include delays in production associated with the shutdown of production plants in China, delayed deliveries, and has resulted in client projects that are postponed. Company Z started experiencing problems with manufacturing early, and in fulfilling its obligations to clients in Spring 2020.

Digitalization of SC

Company Z's supply chain is partially digitalized. Each order uses a different set of vendors, so managers link an order to different vendors, which are then processed digitally. Project logistics are managed manually.

Company Z was not an active player on the e-commerce market before the crisis, but since the crisis began has recognized its potential. Now Company Z is trying to catch up developments in the market.

Risk Management

Practice of Risk Management: company Z does not have a formalized risk management procedure and has no plans to develop it. This attitude is rooted in the belief that small companies are flexible and can easily adjust to new circumstances.

Risks: Currently, the company is exposed to various risks.

- Financial risk. All decisions about resources and financial risk are done by top management. Product-related risk is managed in cooperation with production managers.
- Regulatory risk. Company Z has acknowledged regulatory risk associated with COVID-19 situation (i.e., potential sanctions against Chinese producers involved with child labor) but does not see the need for mitigation steps. Management considers such risk as low probability.
- Personnel risk. Company Z has experienced internal risk associated with human resource management:
 - the frequency of conflicts has increased due to an increased level of stress;
 - remote management is problematic since online communication has resulted in misunderstanding;
 - daily interactions require special attention to ensure that employees develop a mutual understanding of ongoing activities.
- Risk of non-fulfilment of contract obligations also occurred partly for this company. In response to the COVID-19 situation, the delivery terms for clients were extended from 6 to 16 weeks, and the management more carefully considers the terms of new projects and tries to negotiate flexible terms for delivery.
- Supply chain risk: There is a risk of limitation of the pool of suppliers. Company Z experiences difficulties to find new suppliers since professional exhibitions were cancelled this year. Online events do not work as substitutes since there are no possibilities to see and touch materials/products and no opportunities to establish personal connections.
- Cyber risk: Company Z realizes risks associated with cyber security and data protection but refuses to see it as a threat to the business. Cyber risk is recognized as a short-term problem, which can be fixed quickly. Company Z also believes that due to its small size it is not a very probable target for any kind of cyber manipulation.