FINANCIAL MANAGEMENT OF THE SMALL ENTERPRISES IN THE LATVIAN FISHERIES SECTOR

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Abstract

Since Latvia's accession to the EU, the support of the EU funds and financial instruments has been available to it in order to advance the development and competitiveness of the fisheries sector. Competitiveness in today's global economy is set as one of the key conditions for economic recovery. In order for the sector to be competitive and viable in the long term, and to be able to succeed significantly in its activities, it has to be ensured sound financial management and risk assessment. The aim of the research is to assess the small enterprises' skills of financial management in the Latvian fisheries sector, at the same time providing recommendations for ensuring sustainable financial stability in the enterprises. On the grounds of the assessment methodology proposed by the author, the analysis includes the small enterprises' skills to create capital structure, distribute and return financial resources in fishery, aquaculture and fish processing, providing an insight in the need of structural reforms. The information reflected in the framework of the research can help the institutions, entrepreneurs and researchers involved in establishment and implementation of fisheries policy to better understand the need for successful financial management to ensure a sustainable operation of the sector and its companies.

Key words: fisheries sector, small enterprises, financial analysis, Latvia.

JEL Code: G32, O12, Q22.

Introduction

In Latvia, the fisheries sector consists of fishery, aquaculture and fish processing, which differ in terms of the specifics of their activities and have different development potential. The fisheries sector is closely related to the rational and sustainable use of the living natural resources in the country's economic zone and territorial waters, as well as in inland waters and conservation of biological diversity (Agriculture Ministry, 2014). Latvia has the

possibility to fish in its inland waters, the Baltic Sea and the Gulf of Riga, and in accordance with the concluded cross-border contracts – also in the economic zones of other countries and in the areas of operation of international conventions (Agriculture Ministry, 2014). The breeding of fish and crayfish takes place in Latvian ponds, basins and recirculation systems is aimed at commercial sales and artificial reproduction in order to reproduce inland water resources. The fish caught in the Baltic Sea, the Gulf of Riga and the oceans, as well as freshwater fish bred in aquaculture, are used as raw materials in fish processing. The fish processing sector specialises in the production of canned, smoked and salted fish, production of refrigerated and frozen fish, as well as production of mixed fish products. In 2018, there were 403 economically active enterprises in the fisheries sector, employing 4.46 thousand people with the average net salary of 569 EUR (Central Statistical Bureau, 2020). The largest proportion in the total structure of enterprises was formed by the micro enterprises (84%), and only then – small enterprises (12%). The remaining structure consisted of medium-sized (4%) and large (less than 1%) enterprises. Since 2005, the number of enterprises has increased per 21% (Central Statistical Bureau, 2020). Latvia, unlike the majority of EU member states, traditionally has a positive external trade balance of the fisheries products. In the recent years, the prevalence of export over import tends to decrease, which was largely determined by the embargo imposed by Russia, the decrease of catch quota and the necessity to import raw materials from abroad, as well as cessation of fishing in the waters of some third countries. In general, fish products and canned fish was exported to more than 60 countries; the main markets were Sweden, Lithuania, Germany, Denmark, Czech Republic, Poland and Estonia. The products were also exported to Hong Cong, Canada, Mexico, Mongolia, Norway, Taiwan, Japan, United Arab Emirates, USA, Australia, Egypt, Israel, China, Macedonia, Serbia, Switzerland, Turkey, and other countries. To acquire new markets, also the support provided by the European Maritime and Fisheries Fund for attendance of international exhibitions was used. The success at the international exhibitions such as 'Prodexpo', 'SEAFOOD EXPO GLOBAL', 'World of Private Label', 'Summer Fancy Food Show', 'WorldFood Moscow', 'SIAL', 'FHC China', 'Gulfood', 'Foodex', 'SEAFEX' and 'ANUGA' (Rural Support Service, 2020) indicate stabilization of export markets in the future. In order the fisheries sector to be competitive and viable in the long term, and to be able to succeed substantially in its activities, it has to be ensured sound financial management and risk assessment.

Research aim – to assess the small enterprises' skills of financial management in the Latvian fisheries sector, at the same time providing recommendations for ensuring sustainable financial stability in the enterprises. To reach the aim, the following work tasks were put forward: 1) to select the most relevant indicators for characterisation of financial management; 2) to assess the small enterprises' skills in creation of capital structure, distribution and return of financial resources.

The novelty of the research – for the first time broadly reflected and analysed financial management of the small enterprises in the Latvian fisheries sector, simultaneously reflecting and comparing the formation of enterprise capital structure, distribution and return of financial resources in fishery, aquaculture and fish processing. The information reflected in the framework of the research can assist the institutions, entrepreneurs and researchers involved in establishment and implementation of fisheries policy to better understand the need for successful financial management to ensure a sustainable operation of the sector and its enterprises.

The general scientific research methods, statistical research methods and mathematical methods were used in the study. The author mostly applied analysis and synthesis methods in development of conclusions and proposals. Microsoft Excel, Microsoft PowerPoint and IrfanView program were used in processing and analysis of the research results.

1   Materials and methods

The distribution and return of financial resources, capital structure created by the small enterprises in the fishery, aquaculture and fish processing will be assessed using financial analysis. In its framework, the available information from the financial reports of the enterprises will be analysed. Financial management of the small enterprises was viewed from the aspect of use of production resources, liquidity, solvency, efficiency and profitability, using 8 indicators:

o   Fixed Assets Turnover Ratio – reflects the benefit obtained by the companies from the fixed assets involved in the economic activities (Springate, 1978).

o   Productivity of Labour – reflects the efficiency of use of the labour attracted by a company to the production and sales (Porter, 1990).

o   Total Liquidity Ratio – reflects the mobility of the available company's assets and the ability to pay its short-term obligations at any time (Gasior, 2013).

- o Total Assets Turnover Ratio – reflects the sufficiency of company's assets to generate turnover and enables a judgement whether investments in the assets are sufficient (Dimitric, et at., 2019).
- o Debt to Equity Ratio – reflects the ability of companies to pay their short-term and long-term obligations by the available equity (Bednarskis, et at., 1994).
- o Return on Sales Ratio (ROS) – reflects company's profitability from the performed economic activities (Bayaraa, 2017).
- o Return on Assets Ratio (ROA) – reflects the efficiency of the use of company's assets to make profits (Njotoprajitno, 2014).
- o Return on Equity Ratio (ROE) – reflects the efficiency of the use of company's invested capital (Branten & Alver, 2016).
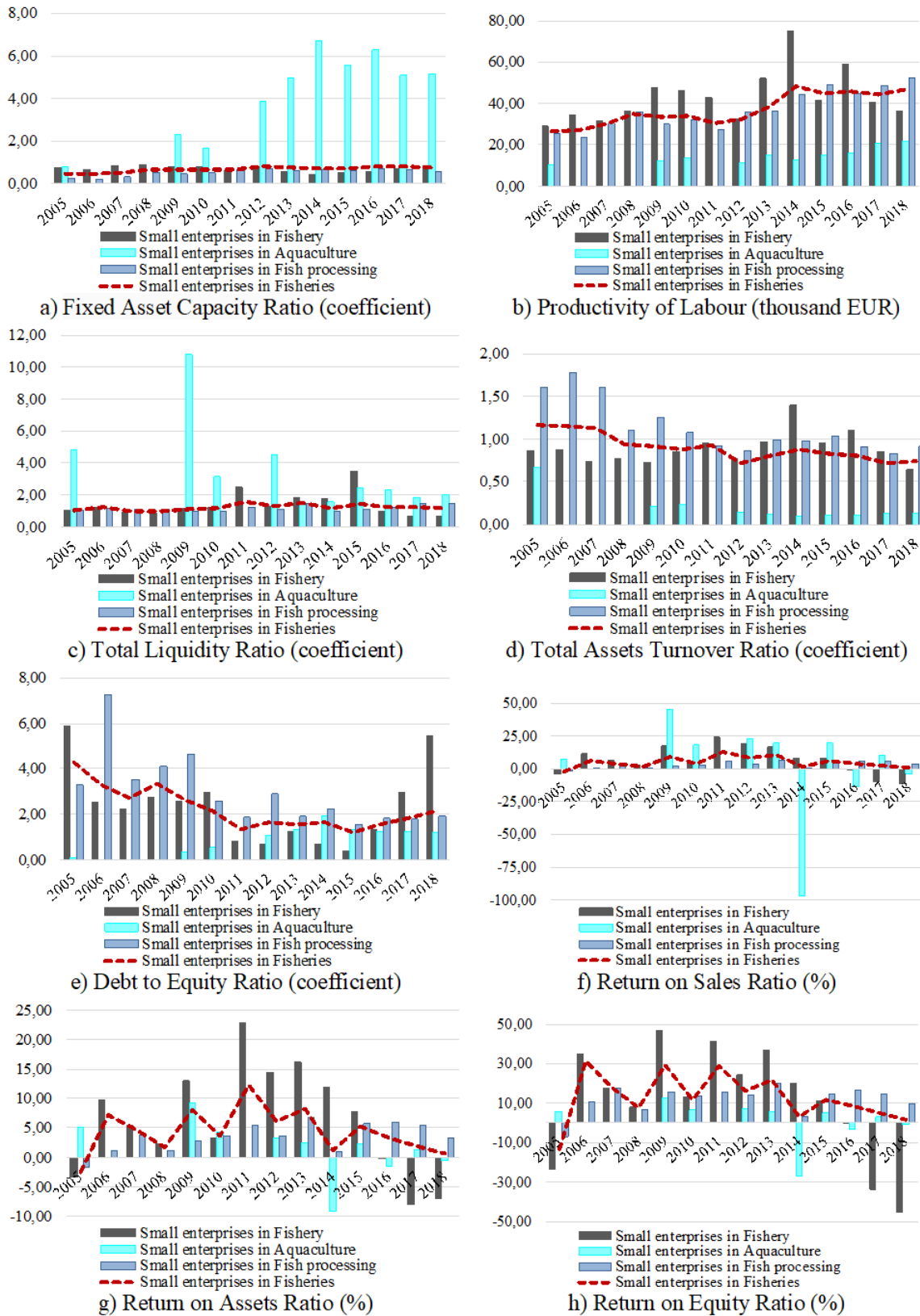
The analysis covered the period from 2005 – 2018. Considering confidentiality of data, the research does not include the information about the small enterprises in the Latvian aquaculture sector in the period of 2006-2008 and 2011.

2   Results and discussion

In 2005, the fisheries sector had 87 small enterprises, the number of which decreased per 46% by 2018, reaching 47 enterprises. Decrease in the number of enterprises was observed also in the groups of medium-sized and large enterprises. In turn, in the group of micro enterprises the number or enterprises has increased since 2005, suggesting that a part of the small enterprises could not comply with the category of small enterprises and changed their status to micro enterprise status. The category of small enterprises includes the enterprises with fewer than 50 employees and the annual turnover or balance sheet total not exceeding 10 million EUR (European Commission, 2014).

In general, the small enterprises in the Latvian fisheries sector cannot be considered as capital-intensive enterprises (Fixed Asset Capacity Ratio - 0.68) (Figure 1a). The small enterprises in the fish processing sector (Fixed Asset Capacity Ratio - 0.54) and fishery sector (Fixed Asset Capacity Ratio - 0,70) were less capital-intensive. The small enterprises in the aquaculture sector can be evaluated as fixed asset intensive sector (Fixed Asset Capacity Ratio - 4.23), where production requires significant capital investments. Since 2005, the fixed asset intensity increased in all the small enterprises of the sector, but especially rapidly – in the aquaculture enterprises.

Fig. 1: The indicators characterising the financial management of the small companies in the Latvian fisheries sector in 2005-2018 (%, EUR, coefficient)

a) Fixed Asset Capacity Ratio (coefficient)

b) Productivity of Labour (thousand EUR)

c) Total Liquidity Ratio (coefficient)

d) Total Assets Turnover Ratio (coefficient)

e) Debt to Equity Ratio (coefficient)

f) Return on Sales Ratio (%)

g) Return on Assets Ratio (%)

h) Return on Equity Ratio (%)

Source: calculated and created by the author according to Central Statistical Bureau, 2020.

Since 2005, the number of employees in the small enterprises of the Latvian fisheries sector has decreased per 36%: from 2 thousand employees in 2005 to 1.27 thousand employees in 2018. During this period, labour productivity in the enterprises if the sector cannot be evaluated as high (Productivity of Labour - 37.03 thousand EUR) (Figure 1b). In the enterprises of fishery, the employees worked much more productively (Productivity of Labour - 43.23 thousand EUR) than the employees in the fish processing (Productivity of Labour - 36.97 thousand EUR) and aquaculture (Productivity of Labour - 15.05 thousand EUR) enterprises. The high productivity of labour in the fishery enterprises to a great extent was influenced by the measures of balancing the capacity of the Latvian fishing fleet, whereas in the fish processing sector – knowledge- and experience-based production, having ancient traditions and history. The low productivity of labour in the aquaculture can be explained by the lack of knowledge and experience in the field of aquaculture. The productivity of labour improved in all the small enterprises of the sector (especially rapidly in the aquaculture enterprises).

From 2005 to 2018, the liquidity of the Latvian fisheries sector can be evaluated as optimal (Total Liquidity Ratio on average 1.23), suggesting that the enterprises have no problem to pay their short-term obligations by its available current assets (Figure 1c). Fish processing enterprises were more liquid (Total Liquidity Ratio - average 1.17) than the enterprises of the fishery (Total Liquidity Ratio - 1.40) and aquaculture (Total Liquidity Ratio - 3.49). The aquaculture enterprises in general demonstrated high liquidity (especially in 2005, 2009, 2010, 2012, 2015, 2016 and 2018), indicating irrational use of current assets (too much free current assets, which are not used). Currently the enterprises of the sector show no tendency for the liquidity to get worse.

From 2005 to 2018, the small enterprises in the Latvian fisheries sector failed to use the available assets efficiently enough to generate net turnover (Total Assets Turnover Ratio - 0.90) (Figure 1d). Especially it was observed in aquaculture enterprises (Total Assets Turnover Ratio - 0.20) suggesting that the specific enterprises have made excessive investments in assets and have not achieved sufficient turnover in the markets. The most effectively the assets were used by the small enterprises in the fish processing sector (Total Assets Turnover Ratio - 1.13). In order to be able to increase the efficiency of the asset use, the small enterprises of the sector have to find an opportunity to increase turnover or to dispose a part of their assets, which are unfit for production.

From 2005 to 2018, the small enterprises of the Latvian fisheries sector created unbalanced capital structure, suggesting that the enterprises used a lot of debenture capital, failing to balance it with the equity (Debt to Equity Ratio - 2,25) (Figure 1e). In this period especially unbalanced capital structure was observed in the enterprises of the fish processing (Debt to Equity Ratio - 2.97), the total obligations of which exceeded the equity, thereby being subject to large financial risks. Disproportionate capital structure was observed also in the fishery enterprises (Debt to Equity Ratio - 2.33). Only the aquaculture enterprises showed balanced capital structure (Debt to Equity Ratio - 1.04), suggesting that the enterprises have thought-out financial management. The small enterprises of the fisheries sector can improve their financial balance by establishing a well-considered and balanced structure of equity and debenture capital.

From 2005 to 2018, all in all the small enterprises of the Latvian fisheries sector can be evaluated as profitable enterprises (the exception was 2005, when there were losses) (Figure 1 f, g, h). The fishery enterprises can be considered as the most profitable enterprises. Whereas aquaculture enterprises are less profitable; and only then follow the fish processing enterprises. During the recent years, the profitability of the small enterprises faced the influence of the political decisions in the export markets.

The financial stability of the Latvian fish processing sector can be enhanced by creating a well thought-out and balanced capital structure and distribution of financial means. In its framework, it is desirable for the enterprises to cover their long-term investments not only from the equity but also from the long-term obligations. In turn, it is desirable to finance current assets from short-term obligations. It is not mandatory to follow the financing conditions, but it is desirable from the aspect of enhancement of financial stability.

Conclusion

The financial management of the small enterprises in the Latvian fisheries sector was viewed from the aspect of use of production resources, liquidity, solvency, efficiency and profitability. The evaluation covered the skills of fishery, aquaculture and fish processing enterprises in creation of capital structure, distribution and return of financial resources. The information reflected in the framework of the analysis allows understanding the role of financing in management of an enterprise and acquire techniques how to make the right decisions analysing financial management of enterprises to ensure their successful operation, at the same time understanding the need in structural reforms.

The small enterprises in the Latvian fisheries sector cannot be considered to be capital-intensive enterprises (except aquaculture enterprises), suggesting that production in the enterprises did not require considerable assets. Moreover, the enterprises operating in the fisheries sector did not stand out with high labour productivity, especially aquaculture enterprises, which can be explained by the lack of knowledge and experience in this field. The liquidity of the enterprises operating in the Latvian fisheries sector overall can be evaluated as optimal, indicating that the enterprises have no problem to pay their short-term obligations by its available current assets. Too high liquidity was observed in aquaculture enterprises, suggesting that the current assets are used irrationally. These enterprises failed to use the available assets efficiently enough to generate net turnover, suggesting that there are excessive investments in assets and insufficient turnover in the markets. The fish processing enterprises used their assets the most efficiently. In the Latvian fisheries sector the enterprises used a lot of debenture capital failing to balance it with equity. The exception were the aquaculture enterprises, which created sufficiently balanced capital structure. The small enterprises of the sector in general can be evaluated as financially profitable, especially fishery enterprises. Overall, the financial management of the small enterprises in the Latvian fisheries sector can be assessed as good, which can be additionally improved by observing several financing conditions.

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