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EFFECTIVE MECHANISMS DEVELOPMENT FOR RISK MANAGEMENT IN BUSINESS ENTREPRENEURSHIP

This paper offers the summarized and systematized proposals on risk management, depending on the operating environment of an organization and certain restrictions. A model for risk management is suggested, qualitative analysis and project risks mapping are carried out.

Keywords: management mechanisms; risk management; business risks.

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РОЗРОБКА ЕФЕКТИВНИХ МЕХАНІЗМІВ УПРАВЛІННЯ РИЗИКАМИ В ПІДПРИЄМНИЦЬКІЙ ДІЯЛЬНОСТІ

У статті науково узагальнено та систематизовано пропозиції з управління ризиком у залежності від середовища функціонування організації та певних обмежень. Запропоновано модель ризик-менеджменту, проведено якісний аналіз та картографування проектних ризиків.

Ключові слова: механізм управління; ризик-менеджмент; підприємницькі ризики.

Рис. 2. Табл. 2. Літ. 10.

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РАЗРАБОТКА ЭФФЕКТИВНЫХ МЕХАНИЗМОВ УПРАВЛЕНИЯ РИСКАМИ В ПРЕДПРИНИМАТЕЛЬСКОЙ ДЕЯТЕЛЬНОСТИ

В статье научно обобщены и систематизированы предложения по управлению риском в зависимости от среды функционирования организации и определенных ограничений. Предложена модель риск-менеджмента, проведен качественный анализ и картографирование проектных рисков.

Ключевые слова: механизм управления; риск-менеджмент; предпринимательские риски.

Problem statement. Risks in business are an objective regularity, responsible for the processes of quantitative and qualitative changes in macro-, meso- and microsystems, perceived in the form of threats to one's interests. Lack of research in the field of risk management affects the competitiveness of economic entities of a country, and the state as a whole. Therefore, in terms of the objective existence of the risk and financial, moral, and other losses associated with it, there is a need to design specific mechanisms that would allow managing a risk to ensure the dynamic development in all spheres of the economy.

Latest research and publications analysis. Significant contribution to the theory and concepts of risk management was made by Western economists J. Keynes (1936), F. Knight (1921), A. Pigou (1920), J. Schumpeter (1911) and others. The works of I.T. Balabanov (1996), V.A. Borovkova (2004), G.V. Chernova (2000), V.M. Granaturov (2010), L.F. Dogil (2005), G.A. Taktarov and E.M. Grigorieva (2010) were dedicated to the problem of business risk in terms of its principles, criteria and sources.

At the same time, in economic literature risk management mechanisms ensuring sustainable development of enterprises based on real economic conditions in a country, are not specified. Complexity and diversity, as well as the lack of systematic

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explanation of risk issues in entrepreneurship in a country point to the lack of elaborations on the topic. All mentioned above determines the choice of the topic for this study, setting goals and objectives.

The main objective of the study is to provide a theoretical foundation of risk management in business and to develop models and tools to improve it.

The main results of the study. Currently, models of risk management comprehensively consider the risks in all departments and activities of an organization. There is a possibility to obtain comparable estimates for all types of risk due to the optimal approach between the methods and models to identify specific types of risk.

Criteria that guide top management in developing and implementing actions of risk management are determined, primarily, by a company strategy that provides financial stability through prudent risk management (Chernova, 2000).

Developed principles of risk management must be approved by a manager, consistent with the strategy of a company and its financial capabilities, which will contribute to the effective development of a company.

For effective development of the organization the following criteria of risk decision-making must be complied: *alignment of the company with the requirements of the environment*, which can be represented by legislative and regulatory acts, reflecting the methods of macro- and microeconomic regulations.

In addition to the obligations vertically linked to external risk management on the basis of macro- and microeconomic regulations, we must remember about the fulfillment of obligations of a company, arising vertically and horizontally in relation to other entities which the firm faces in the process of functioning. It could be business partners, employees, customers etc. The development of various risk situations in present and future have to be monitored and tracked, i.e. organization must implement risk management. In our opinion, strategic risk management better reflects new trends and developments in the current economy, because "it involves the art of risk management in an uncertain economic situation, based on the prediction of risk and methods to reduce it" (Balabanov, 1996).

Risk management should cover the entire house processes of decision-making, implementation of decisions and monitoring of execution. Risk management is a multistep process, intended to offset or reduce the damage to the company, upon the occurrence of adverse events (Taktarov and Grigorieva, 2010).

Risk management consists of *two subsystems: a controlled subsystem (the object of management) and controlling subsystem (the subject of management)*. The object of management is the risk, risk capital investment and economic relations between entities in the process of risk implementation. The control subsystem (the subject) is the organization of risk management based on the use of labor, information, material and financial resources. Its main objectives are the definition and formulation of recurring problems of risk at the appropriate level of management, collection, systematization and analysis of information about risks, the development of managerial decisions and ensuring feedback reliability.

The process of risk management at an enterprise should be based on a specific mechanism. The mechanism of risk management (Borovkova, 2004) is the system of methods, instruments, and forms of organization of risky relationships through which analysis, evaluation and risk management occur. Moreover, impact on the aggregate

level of emerging risks and, as a consequence, on socioeconomic development and the overall balance of the management system is achieved.

Based on the analysis of different models of risk management, the author proposes **a model of risk management** (Figure 1), which shows the 5 main phases of implementation of the risk management system of the enterprise.

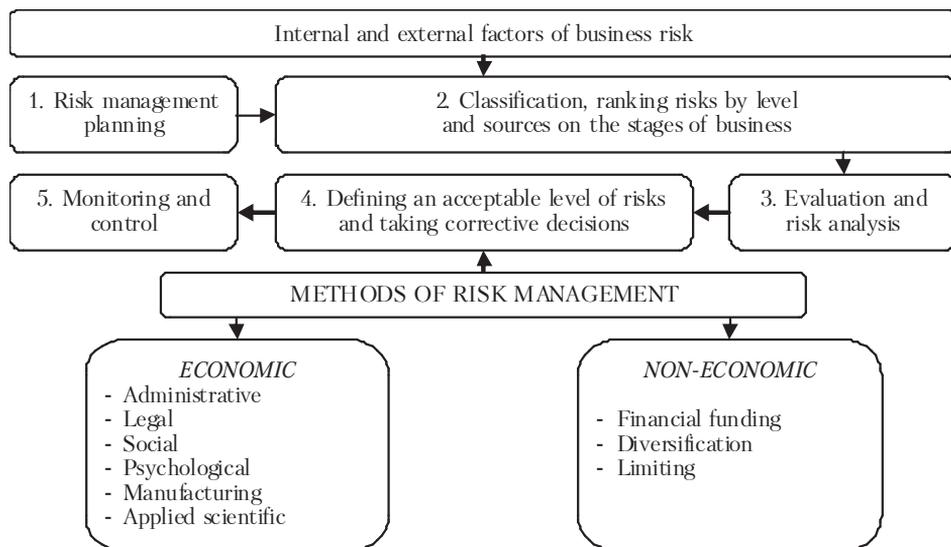


Figure 1. The model of risk management, developed by the authors

1. *Risk management planning* may include decisions on the organization, staff management procedures, the choice of the preferred methodology, and data sources for risks identification. It is important to plan risk management, appropriate to the level and type of risk and also to the importance for an organization.

2. *Classification, ranking risks by level and sources at the stages of business.* Internal and external factors of business risk are considered, and then based on the research a system of risks at an enterprise is built.

3. *Evaluation and risk analysis.* Method for quantitative assessment of identified risks is developing. Risk analysis is to identify high-risk areas.

4. *Defining an acceptable level of risks and taking corrective decisions,* in our view, should be carried out within the framework of Business Process Reengineering (BPR). The feature of BPR is its focus on business processes, it is carried out in two areas: organizational and functional, functional and technological.

Organizational and functional direction is represented by the Department of risk management, which describes the objectives, functions, as well as the procedure of cooperation of this department with other.

In any company regulations in the form of various instructions, descriptions of technological processes and business rules are always presented. All of this suggests a functional technological direction, which represents functions in the form of business processes. This direction can be described as a kind of peculiar conveyor – workflow, which groups the functions by processes – the sequences of operations, united by decision-making cycles.

In the unit of risk management, the choice of risk influencing methods takes place: economic and non-economic.

5. *The purpose of monitoring and control* is to determine whether:

- implementation of the system of risks response is in accordance with the plan;
- responding is effective enough or changes are required;
- take necessary actions.

Control may result in selection of alternative strategies, adoption of the corrective ones, reconfiguration of a project in order to achieve its baseline. Recommendations and findings obtained during the evaluation are used in implementing the follow-risk decisions.

After the implementation of risk management actions the actual results are compared with the planned results thus reflecting the effectiveness of the risk management system.

The developed model is tested on the materials of LLP "KazMetallinvest" (Atyrau city, Kazakhstan), which is engaged in wholesale and retail trade of spare parts for cars and special equipment (75%), equipment rental services (25%). The project involves: increasing the credit limit to the amount of 10 mln USD (+5.3 mln USD) to diversify business (0.3 mln USD), and construct an autocentre (5 mln USD).

To determine the effectiveness of the implemented project, to identify the impact of uncertainty and risk on the project, the department of risk management has been created, which conducted the risk evaluation of the investment project. The result of a qualitative analysis of risk is the description of the uncertainties inherent in a project, the reasons that cause them, and, as a result, risk management and risk factors (Table 1). For convenience, specially designed logical maps of the project should be used: a list of questions, which help to identify existing risks based on the authors' risk classification.

According to the results of qualitative analysis, suggestions were made to minimize the above risks: to make a partial early repayment of debt at the expense of the proceeds from the sale of special equipment made by a company; to reject the increase of the limit to 10 mln USD in the absence of the need for additional funding, increase of the credit load, exacerbated by the presence of a significant risk of declining sales for the whole in a company next year, the lack of concluded contracts for purchase and sale of goods (tires and oil).

Analytical work as a basic tool of risks minimization allows reducing the degree of uncertainty that always accompanies decision-making within the market environment. Following the initial evaluation of risks, a risk map can be prepared and submitted. Here is an example of mapping risks of the project of the Autocentre. The size of the planned profit in accordance with the business plan of the project is 5 mln USD. The data is presented in Table 2.

Then we construct the risks map, on which 3 boundaries of tolerance to risk are highlighted (Figure 2), where the probability of exposure to risk and the magnitude of losses from exposure to risk are:

1. In the zone of a "minimal risk" (— — — —) from 0–30%.
2. In the zone of a "high risk" (.....) from 31–50%.
3. In the area of an unacceptable risk" (————) of more than 51%.

Table 1. Qualitative analysis of project risks of LLP "KazMetallinvest", developed by the authors

The type of risk	Level	Types of risks	Information for the logical risk map
Internal (systemic) risks	Microlevel	1. Project risks (associated with the implementation of the project submitted for funding)	1. Lack of own funds for participation in the project. 2. Sales plan for the project is not justified by an appropriate market research. 3. The risk of under-financing of the project.
		2. Industrial and technological risks	1. Depreciation of fixed assets. 2. Lack of qualified personnel. 3. Capital intensity of production.
		3. Business risk (associated with the terms of relationships with partners)	1. Lack of experience of the company in this direction; business reputation. 2. Level of management competency. 3. Lack of strategy and development plans. 4. Dependence on suppliers or customers. 5. Opacity of the company.
		4. Financial risks (related to financial regulation)	1. Problems in the service of the loan. 2. Missing or incorrect financial information for full analysis. 3. Lack of cash flow and net income to service existing obligations. 4. Presence of unacceptable values of performance indicators.
External (non-systematic) risks	Mesolevel	1. Conjunctural and industry risks (related to conjuncture of a market, industry characteristics)	1. High level of competition at the market. 2. Uncompetitive products by price, quality etc. 3. Exposure to industry changes taking place at global markets. 4. The existence of signs of stagnation or decline in the industry.
	Macrolevel	2. Political risks (related to government policy, changes in legislation etc.)	1. Politicization of the industry and business. 2. Restrictions on the activities by public authorities. 3. Expected or occurred changes in regulatory legislation, with a negative effect. 4. Industry is regulated by state antitrust authorities.

Table 2. Data to map risks of LLP "KazMetallinvest", developed by the authors

#	The type of risk	A chance of risk impact, %	Losses due to exposure of risks, mln USD	Losses, in % to planned profit
R1	The risk of stopping production due to raw materials lack	20	0.4	8
R2	Failure to comply with technology	10	1	20
R3	The risk of outside investment delay	50	0.7	14
R4	The risk of changes of ground conditions	10	2.4	48
R5	The risk of an accident	10	0.3	6
R6	The risk of errors in the implementation of architectural and planning decisions	5	1.1	22
R7	The risk of disrupting plans of the project due to errors in the financial plan	40	0.8	16
R8	Risk of violating the terms of materials supply	35	0.35	7

The map shows there is a need to pay special attention to the risks of R3 and R4, with the borderline significance in relation to the area of unacceptable risk. Clearly seen can be the relationship of risks between each other and the limits of tolerance,

on the map. As a result, a plan to transfer risks to the area of a "minimal risk" can be developed, which will contribute to the effective performance of a company.

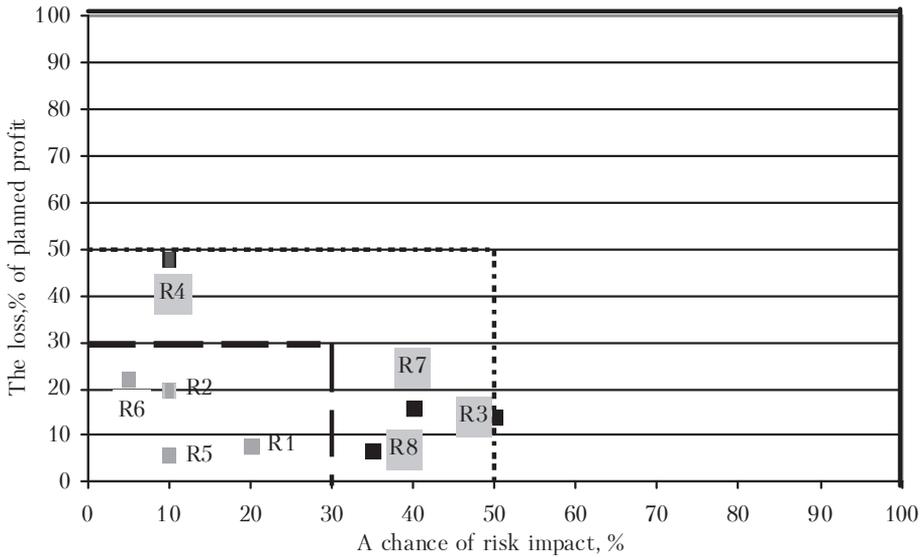


Figure 2. Map of risks, developed by the authors

So, the risk management system involves the development and implementation of economically justified recommendations and interventions aimed at reducing risks. Depending on the operating environment of an organization or certain restrictions, we can determine the strategy, methods and tools for risk management.

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