RT&A, Special Issue № 4 (70)
Volume 17, November 2022

RISK MANAGEMENT ANALYSIS

Deshy Musostova[1], Valentina Dzobelova[2], Varvara Markaryan[3]

•

[1]Chechen State University, Grozny named after A.A. Kadyrov, Russia
goldzr@yandex.ru
[2]North-Ossetian State University named after K.L. Khetagurov, Russia
dzobelova@mail.ru
[3]Krasnodar Branch of Financial University under the Government of the Russia
markarianvr@gmail.com

Abstract

Risk as an integral part of the political, economic and social life of society invariably accompanies absolutely all spheres and activities of any corporation operating in market conditions. Risk management is especially relevant in the face of economic uncertainty, the volatility of the national currency, active technological development and tougher competition. In 2020, the Russian risk management standard for a commercial company based on ISO 31000 was developed, but the procedure for its application has not yet received a comprehensive study, which determines the relevance of the chosen research topic.

Keywords: risk, risk management, risk analysis, risk management, risk management standard

I. Introduction

Risk management (risk management) is an integral structural element of corporate management, implemented at all levels of the management system and contributing to the sustainability and efficiency of the organization. The principles, infrastructure and process of risk management are described in the new Russian standard GOST R ISO 31000-2019 [1], which is completely identical to the international standard ISO 31000:2009 Risk management - Principles and guidelines.

In accordance with the specified standard, the risk management system includes the following structural elements (Fig. 1).

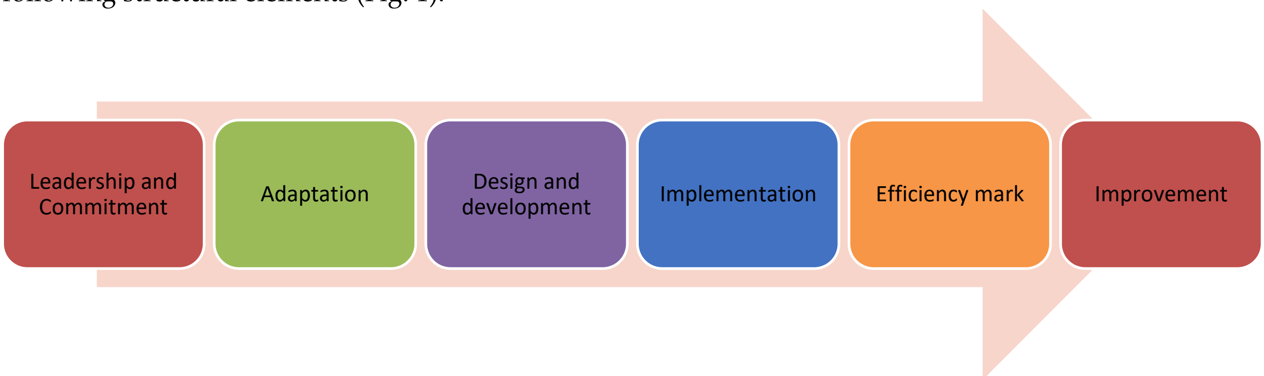

Figure 1: *Structural elements in the risk management system*

The Leadership and Commitment component is the basic structural element of risk management that influences all other aspects of risk management in the organization. Senior managers are responsible for implementing risk management in all areas of the company, while the main tasks are the following:

- integration of all components of the risk management structure;
- establishment of a clear procedure for the implementation of risk management;
- allocation of resources for the organization of risk management;
- distribution of powers and responsibilities at all levels of the company's functioning.

Carrying out these activities will allow the company to solve a number of issues, including: bring risk management in line with the goals and objectives facing the company, ensure the fulfillment of obligations assumed by the company, choose a risk level acceptable to the company and corresponding to the risk criteria used, implement systematic monitoring of risks, demonstrating its benefits to company employees and stakeholders.

Risk management activities are organized by senior managers, while the owners of the corporation may appoint supervisory authorities that may require the company to comply with the following points:

- consideration of risks in accordance with the goals and objectives of the company;
- assessment of risks arising in the course of the company's activities;
- ensuring the effectiveness of the implementation of risk management systems;
- timely exchange of up-to-date information on the state of risks and the effectiveness of their management.

Adaptation in the risk management system involves ensuring the comparability of the risk management system with industry specifics, organizational structure and the current state of the company. At this stage, it is supposed to determine the optimal management methods, the distribution of responsibility, and the development of an adequate system of control over risk management. Adaptation is a dynamic process that is implemented not only at the stage of risk management implementation, but also at all bifurcation points that cause a change in the standard state of the business system.

II. Methods

Designing and developing a risk management system at the corporate level involves a comprehensive analysis of its external and internal environment. The study of the external environment can be carried out using the PEST-analysis method, which involves an assessment of the political, macroeconomic, social and technological aspects of the functioning of the organization. Also at this stage, an industry analysis is carried out to compare the potential risks of the organization with the closest competitors in the industry and region. Analysis of the internal environment involves a detailed study of the production, financial and marketing subsystem of an economic entity using methods such as SNW analysis, SWOT analysis and others. Model 7S McKinsey allows you to identify the risks emanating from the seven basic organizational components of the company.

III. Results

Top managers of the company must ensure that the necessary resources are available to provide the system, which include appropriate technology, staffing and an information system that provides automation of risk management. At the design stage of the risk management system, mechanisms for data exchange and consultative interaction between departments should also be developed and approved, ensuring the generation and neutralization of risks.

Corporations implement a risk management system by developing a plan indicating the necessary resource and time costs, allocating responsibility in the field of risk management, as

RT&A, Special Issue № 4 (70)
Volume 17, November 2022

well as ensuring a clear understanding of the methods and risk management mechanisms that can be used within a particular organization. An adequate risk management system should be integrated into the corporate governance system and have a high degree of efficiency in terms of the ratio of returns and costs incurred.

To assess the effectiveness of the risk management system, the following is carried out:

- regular comparison of plans and actual indicators of the functioning of the economic system;
- analysis of the relationship between the functioning of the risk management system and the achievement of specific goals of the corporation.

Based on the results of monitoring the effectiveness of the risk management system, directions for its improvement are developed. In accordance with GOST R ISO 31000-2019management should continuously improve the applicability, adequacy and effectiveness of the risk management framework, as well as the tools for integrating the risk management process within the corporation.

The project risk management process is based on four basic principles. The first principle is the awareness of making a risky decision. This principle means accepting the existence of risks, working on their analysis and developing measures to reduce and neutralize risks. The second principle is the correlation of the level of risks of economic activity with the size of the expected profitability. This principle means that decisions should not be made, the costs of implementation of which may be higher than the expected profit. The third principle is reasonable economy. The cost of activities should not exceed the potential adverse effects. The fourth principle is taking into account the time factor and its influence on the nature of financial and business operations.

Risk management is carried out on the basis of their classification by time, place of occurrence, form of manifestation and impact on the activities of the economic entity. The negative results of the impact of risks are the occurrence of a direct loss, lost profit or lack of the desired result of the committed economic actions (for example, the inefficiency of an investment project). Within the framework of risk management, typical varieties of risk can be differentiated according to the source of occurrence (internal or external environment), as well as the priority of analysis and management impact.

So, the category of financial risks includes market, credit and investment risks. Market risk is the risk of financial losses of the organization associated with the transformation of product prices due to changes in the interest rate, volatility of the national currency, various fluctuations in the commodity and stock markets. Credit risk is associated with the possibility of a borrower's refusal to repay obligations, as well as a decrease in the cost of debt security due to various external circumstances.

Investment risk is determined by the possibility of not obtaining the expected effect from investing resources in a specific investment project for upgrading equipment, expanding production, diversifying activities or opening a new business. The probability of negative consequences of investing in proven goods and services is much lower than the risks associated with the introduction of fundamentally new products to the market, therefore, innovative risks are often distinguished in the structure of investment risks.

Operational risk is determined by the possibility of losses due to the poor quality of the organizational structure, errors or fraudulent actions of employees, problems in interaction with counterparties. Production risks are associated with equipment breakdowns, technology violations, software failures and other similar factors.

The risks of the external environment are associated with changes in the situation in the industry, country or region, the transformation of the political course, the increase in tax burden and changes in legislation, including those regulating licensing and standardization in the field in which the company operates.

The listed categories of risks are subject to further detailing. According to the Aon global risk management study, the most serious risks threatening modern enterprises are the following categories of risks (Fig. 2).

Figure 2: *The most serious risks of modern enterprises according to Aon [3]*

Risk management in business systems involves the choice of one of the four basic models to counteract the negative consequences of decisions (Fig. 3).

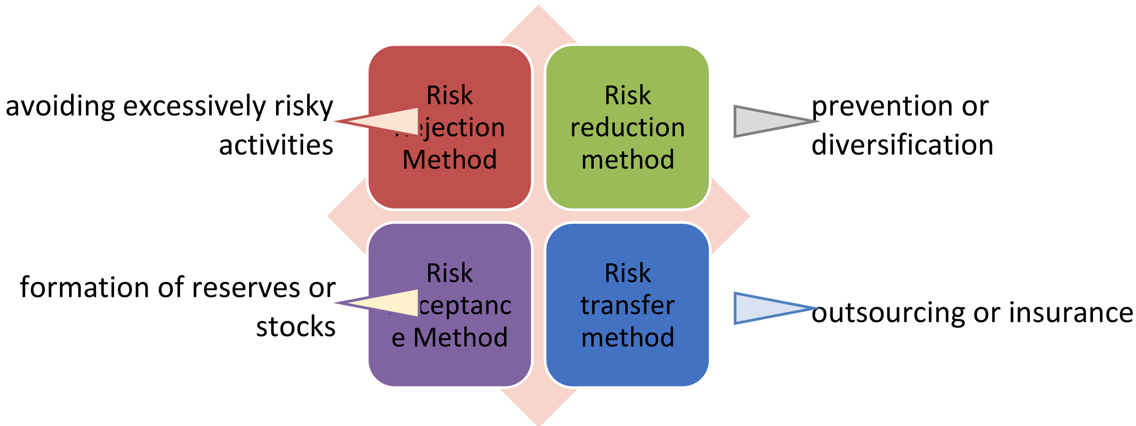

Figure 3: *Methods of risk management in modern business systems [2]*

IV. Discussion

The risk rejection method is a universal management tool in risk management, which consists in rejecting unreasonable investment in high-risk assets, cooperation with an unreliable counterparty, and the use of borrowed capital in an economic downturn. The presented method allows you to fully eliminate financial losses, while its use does not allow you to acquire additional income. The rejection of all categories of risks leads to the loss of efficiency in the use of equity capital and, ultimately, to the bankruptcy of the company.

The risk reduction method is provided through such tools as cost limits, careful analysis and control of ongoing projects, diversification of activities and the formation of an optimal portfolio of projects in order to reduce the likelihood of a complete loss of funds invested in their implementation. The company can diversify its products, investments, securities, portfolio of loans and deposits. Diversification can be carried out both on the scale of all activities and individual projects, which allows you to neutralize the consequences of management errors and underestimation of the negative consequences of individual management decisions. This tool is of the greatest importance for neutralizing technical, technological, marketing, financial and complex risks, while diversification is completely ineffective against political, legal, inflation and tax risks affecting all areas of the organization. Risk reduction can be achieved through hedging - "opening transactions in one market to compensate for the impact of price risks of an equal but opposite position in another market" [2].

Minimization of risks in the financial and economic activities of the company can be ensured by their partial transfer to a third party - an insurance company or partner. So, for example, in exchange for appropriate financing, partners are transferred part of the risks, for which they have the appropriate tools to neutralize. In particular, to reduce the risks of settlements with debtors, such a tool as factoring is used - a type of trade and commission operation, combined with financing of the client's working capital against the assignment of a monetary claim.

Currently, it is customary to differentiate factoring with the right and without the right of recourse. The first option implies that the factoring company (usually a bank) acquires the right to the full amount of debt obligations from the creditor, but if it is completely impossible to collect it, the bank will demand it from the client. In the second case, the risk of non-payment is fully borne by the bank, therefore the price of this service increases significantly. Insurance allows you to avoid the risks associated with various force majeure circumstances - loss of property as a result of theft, fire, traffic accidents. Risk outsourcing involves the transfer of risk assessment and management functions to a specialized organization (for example, a broker).

The risk acceptance method involves independent management of existing risks by creating additional reserves to compensate for the negative consequences of uncertainty. In accordance with the current legislation, the organization has the right to create and reflect the following types of reserves in accounting:

- allowance for doubtful debts (clause 70 of the Order of the Ministry of Finance of July 29, 1998 No. 34n);
- reserve for depreciation of inventories (clause 30 of FSBU 5/2019);
- provision for depreciation of financial investments (clause 38 PBU 19/02).

Other types of reserves and stocks can also be formed to maintain the company's stability in the face of risk.

This category also includes the method of localization, which is most applicable to project risks. So, for example, to manage innovation risks, independent venture companies can be established that accumulate project resources received from the parent company and investors. Venture companies assume all the risks associated with the implementation of a particular project, while the founders are liable in case of project failure only within the amount spent on its financing.

Thus, risk management of financial and economic activities is a complexly organized system that uses certain principles, methods and technologies that ensure the sustainability and efficiency of the company in the long term.

References

[1] GOST R ISO 31000-2019 Risk management. Principles and Guidance: Official publication. – M.: Standartinform, 2021.

[2] Vyatkin, V. N. Risk management: textbook / V. N. Vyatkin, V. A. Gamza, F. V. Maevsky. - 2nd ed., revised. and additional - Moscow: Yurayt Publishing House, 2021. - 365 p.

[3] Global Risk Management Solutions 2021. - URL: https://www.aon.com/ (Accessed: 07/10/2022).