

RISKS IN ENTREPRENEURIAL ACTIVITY OF ENTERPRISES

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Abstract

Undoubtedly, almost every entrepreneur in the process of doing business faces various risks, the severity of which depends on many factors. In particular, the entrepreneur's ability to predict and evaluate certain events on time, competently select business partners, calculate the financial return from the project, and, of course, respond to the current situation as quickly as possible and give a rational solution in the interests of business. At the same time, in our opinion, entrepreneurial activity, in any case, is still accompanied by a number of unexpected events that are almost impossible to predict accurately. In connection with it, there always exist risks of failure and partial or complete loss of profit. This and many other factors increase the relevance of the chosen topic of our research, in which we reveal the essence of risks, their main types, and also suggest ways to reduce them through the use of generally accepted methods to deal with them.

Keywords: entrepreneurship, entrepreneurial risks, economics, risk, hedging, diversification, insurance, limitation

I. Introduction

Undoubtedly, in the course of its entrepreneurial activity practically each organization faces a large number of different risks that require urgent solutions.

It is important to understand that risks have different origin, ranging from the factors of their occurrence to the scale of negative consequences. That is, risk situations can occur in absolutely any field of activity. As an example, we can consider a situation where a supplier violates the terms of delivery of goods, turning out to be a scammer, and leaves the customer both without money and an order. Another example is the incompetence of a new employee in solving standard issues related to his position. These and many other examples clearly illustrate and confirm the fact that entrepreneurs face risks at absolutely any stage of running business. Also, an important place in our lives is occupied by risks from the external environment, such as natural hazards, economic crises, natural disasters and many more. All of the above can play a decisive role in the activities of enterprises and lead the organization to bankruptcy. In this connection, the importance of such a phenomenon as risk management, is increasing as it is a certain system for managing risks and relationships that arise in the process of managing them.

That is why the task of all enterprises is to seriously focus on the quality of risk management and the search for effective anti-crisis ways to manage them.

So, what is a risk? Economists interpret this term from the point of view of probable damage, failure due to the fact that the result is very ambiguous.

As the world practice of many countries shows, underestimating economic risks when

developing business tactics and strategies has a very negative impact on the development of society, leading the country's economy to stagnation.

Unfortunately, many enterprises, even now, in the era of the 21st century, underestimate the importance of holding events that reduce the management risks of running business.

In our opinion, it is almost impossible to completely avoid risks, but it is always possible and necessary to try to find ways to reduce them.

Thus, it is very important to understand the margin between justified and unjustified risk in each situation.

II. Methods

Undoubtedly, the topic of our research is very relevant.

First of all, this is due to the fact that entrepreneurial activity is interpreted from the point of view of an independent direction, carried out at your own risk, and aimed at systematically making a profit from the activities performed.

In this connection, the relevance of the issue of entrepreneurial risk management is increasing every day.

The main aim of our research is to study the essence and role of entrepreneurial risks for the economic activity of enterprises.

The object of our research is entrepreneurial risks. And the subject is to find ways to reduce the risks under consideration.

In the course of writing this scientific paper, we studied the works of both domestic and foreign economists, periodical articles, textbooks, teaching aids, and Internet resources devoted to the topic of our research.

III. Results

As practice shows, even in leading industrial powers, risk management as a separate science has appeared quite recently. The term risk management was first mentioned in the American economic publication *Harvard Business Review* in 1956. It was then that the idea of hiring an employee as a risk manager to reduce production losses appeared. In addition, discussions about risks began since 1950, using mathematical research methods. A clear confirmation is the use of probability theory techniques to predict certain steps of organizations when faced with various situations. Thus, due to the increasing instability of the economic situation because of the oil crisis of 1973, the need for risk assessment measures has increased. After this, risk assessment became widespread in business, especially in the United States. That is, since the 1970s, the first consulting companies appeared, which, first of all, were engaged in assessing the risks of various foreign markets with studying the economic instability of certain countries in order to identify their influence on large Western corporations. It should be noted that the first qualification certificates in risk management were also issued in the USA back in 1973.

Let's also note, that in 1975 the name of the organization, previously known as the American Society of Insurance Management, was changed to the Risk and Insurance Management Society, which has the abbreviation RIMS. Many industrial corporations began actively buying futures contracts in foreign currencies, using them as a kind of risk management tool. Many economists believe that the desire of companies to protect themselves from financial market instability has been an auxiliary tool that has served the development of investment capital since the 1970s.

At the same time, it should be noted that in those days industrial corporations did not open special risk management departments. A clear proof of the above idea is a survey of relevant corporations conducted in 1973, in which only 25% of respondents announced the presence of their own risk assessment units, and only 10% of respondents reported the use of consulting agencies. A similar survey was also conducted in 1975, which again confirmed the

unpreparedness of transnational corporations to develop full-fledged approaches to assess the political stability of their foreign markets.

At the same time, banks pursued a more active policy. In particular, in 1975 in the USA, Chase Manhattan Bank created a special country risk committee. Furthermore, we'd like to note that by 1970 the term risk management hadn't been commonly used yet. That is, to solve certain problems and assess risks, top managers turned to various organizations, government officials, scientists, etc. It is important to note that all this had a chaotic origin, since there was no clearly formed scheme for fighting risks. As world practice shows, risk management methods in industrial companies began to develop rapidly in the last decades of the twentieth century.

Risk management methods were used more actively in certain complex industries, in particular in transport, energy, oil production, etc. It was connected with the fact that these areas required more detailed analysis due to technological difficulties and safety requirements.

This is how the rapid development of risk management begins.

Thus, the process of risk management in a simplified form includes 4 main stages:

1. The process of risk identification, the essence of which is to identify and predict certain risks in a particular sphere of activity;
2. Carrying-out risk analysis, the essence of which is to determine the probability of a particular event occurrence, as well as to assess the possible amount of potential damage;
3. Risk mitigation through the development of certain measures aimed at preventing possible risk events, and in case they occur then the measures to eliminate the consequences are developed;
4. Carrying-out control measures aimed at managing and resolving issues related to existing risks, with the development of preventive maintenance work, the main purpose of which is to eliminate certain risks in the future, or to minimize their impact in the future.

IV. Discussion

Now we would like to consider the main types of entrepreneurial risks, which are classified into three types according to their consequences:

- ✓ Acceptable risks;
- ✓ Critical risks;
- ✓ Catastrophe risks.

Let's consider each type in detail.

Let's start with the acceptable risks. The essence of such risks lies in the fact that in this case, the losses of enterprises are much less than the projected profit.

For example, let's consider the following situation: the owner of a car repair shop ordered a certain lot of spare parts, which did not reach the customer intact, and therefore the owner suffered losses because he had to reorder it.

But despite this fact, the situation is revealed in the context of acceptable risks, since the losses of the enterprise turned out to be less than its monthly profit.

As for critical risks, they occur in the case of significant expenses that exceed the expected profit.

This may be accompanied by the fact that the money invested in the business may not be repayable.

An example is a faulty lot of all goods, which was supposed to bring a monthly profit.

And finally, the last type of risk, known as catastrophe risk, is characterized by the fact that it can lead the enterprise to a complete loss of property or capital –closure or bankruptcy.

For example, an entrepreneur decided to open a takeaway business and invested about two million rubles in this area, expecting cover its cost within the first six months.

But, unfortunately, the circumstances were not the best, as there was a fire in the organization, which led to the loss of all property.

Accordingly, for the full restoring of all losses, considerable financial investments are needed again, but the entrepreneur no longer has them.

Therefore, the enterprise is heading towards bankruptcy. This is interpreted as a catastrophe.

Thus, having considered the classification of risks according to the scale of their consequences, we would also like to highlight two generally accepted reasons for their occurrence:

- ✓ External;
- ✓ Internal.

External risks, as a rule, cover all factors of the external environment, in particular, economic instability in the country, various natural disasters, emergencies, changes in the legislative framework, etc.

Internal risks are associated with changes in the internal environment of the enterprise. In particular, faulty calculations, selection of personnel, violation of delivery time, problems with product quality, shortage of raw materials, etc.

Considering the topic of risks, the following questions arise: "How to minimize risks"? "What methods are practiced at the present stage of economic development"? Let's try to answer these questions.

In our opinion, it is quite possible to avoid the negative consequences of risks through timely making the most effective and rational decisions on identification and assessment of risks.

This requires a continuous analysis of the companies' activities, examining all transactions and their conditions, external factors, and, in general, the entire financial condition of the company.

In the economic environment, it is common to distinguish four main methods aimed at minimizing risks, including:

- ✓ Insurance;
- ✓ Hedging;
- ✓ Diversification;
- ✓ Limitation.

Let's consider the essence of each tool in detail.

As for the insurance method, it is necessary to understand the possibility and desire of an entrepreneur to insure his property, equipment, loss of income, expenses due to failures of obligations of suppliers of goods, bankruptcy, liability to third parties etc.

This is done in order to obtain compensation or full coverage of all expenses of the organization from the insurance company.

As for hedging, its essence is to protect enterprises from price risks.

As an example, we can consider the situation of an individual entrepreneur signing a contract for the supply of certain spare parts at a fixed price throughout the year.

An important place is also given to diversification, the main task of which is to increase the efficiency of entrepreneurial activity by redistributing risks.

At the same time, diversification pursues the following most important goals:

- ✓ Finding a competitive advantage;
- ✓ Increasing the profitability of production;
- ✓ Reducing the probability of enterprise bankruptcy.

An example of diversification is the opening of a new business by an entrepreneur with minimal investment, since the current business does not yet have a wide possibility, which does not exempt the entrepreneur from paying salaries to employees and rent.

Therefore, the entrepreneur decides to open another source of income in the same premises.

And finally, limiting, which is responsible for setting limits and restrictions on the amount of expenses, loans or investments.

In addition, we would like to focus on the state of risk management in foreign infrastructure companies.

Let's look at the Table below.

Table 1: *The state of risk management in foreign infrastructure companies*

Criterion	BC Hydro, Canada	Chubu Electric Power, Japan	Nothern powergrid, United Kingdom	Pacific Gas and Electric Company, USA	National grid, United Kingdom and USA
Having a risk manager position or a corresponding organization department	The responsibilities of the company's CEO include identifying risks, informing the board of directors and managing risks.	The functions of the corporate planning and strategy department include identifying the most important risks and formulating a risk management plan for functional units	-	Vice President responsible for risk and audit	A special risk management team has been created. In addition, the responsibility of the board of directors includes the risk management and internal control system
Availability and completeness of information on risks in reporting to shareholders	+	+	+	+	+
Availability of a corporate risk management system	+	+	+	+	+
Operational risk management within the risk management system	+	-	+	+	+
Comment	The functions of all committees created by the board of directors (audit and finance, capital projects, safety, human resources and environment, etc.) include identifying and managing relevant risks in the area of activity	The functions of all committees created by the board of directors (audit and finance, capital projects, safety, human resources and environment, etc.) include identifying and managing relevant risks in the area of activity	Every year, the effectiveness of the risk management system is reviewed at the level of the company's president and CEO and is confirmed by a corporate certificate	The functions of committees created by the board of directors include: – control over risk management (finance committee); – control over the practices used on risk management (committee on nuclear energy,	The functions of all committees created under the auspices of the board of directors (audit, finance, safety, environment and health, executive committee) include risk management. The effectiveness of the risk management system is reviewed annually by the board of

				operations and safety)	directors
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V. Conclusions

Thus, as world practice shows, risk management is gradually becoming an independent type of professional activity, the importance of which is increasing daily. As it was mentioned above, risk acts as an integral part of the entrepreneurial activity of any economic entity. In this regard, the knowledge of risks, factors that influence its significance, ways to fight them, most of which are foreign in origin, serve as the very tool that increases the efficiency of entrepreneurial activity. A very important place is given to the ability to respond quickly and promptly to force majeure circumstances, and search for the most effective method for a particular case to protect against risk situations. Thus, we can conclude that risk management issues play a very important role for all entrepreneurs.

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