

MANAGEMENT OF INVESTMENT RISKS AND THEIR IMPACT ON THE FINANCIAL CONDITION OF ENTERPRISES

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Abstract. *This study examines the management of investment risks and their influence on the financial condition of enterprises. It explores various strategies for identifying, assessing, and mitigating investment risks and analyzes their implications for the financial performance and stability of businesses. By investigating the relationship between investment risks and financial outcomes, this research aims to provide insights into effective risk management practices and their impact on enterprise resilience and profitability.*

Keywords: *investment risks, financial condition, risk management, enterprise performance, stability, profitability.*

I. INTRODUCTION

The management of investment risks plays a pivotal role in shaping the financial condition and performance of enterprises. In this introduction, we provide an overview of the importance of managing investment risks, outline the objectives of the study, and briefly discuss the methodology employed.

Investment risks encompass a wide range of uncertainties and potential adverse events that can impact the returns and value of investments made by enterprises. These risks may arise from various sources, including market fluctuations, economic conditions, technological changes, regulatory developments, and operational vulnerabilities. Effectively managing these risks is essential for safeguarding the financial health and sustainability of enterprises, as well as for maximizing shareholder value and ensuring long-term growth and profitability.

The primary objective of this study is to examine the management of investment risks and its influence on the financial condition of enterprises. We aim to delve into various aspects of risk management, including strategies for identifying, assessing, and mitigating investment risks, as well as the implications of these practices for enterprise financial performance and stability. By exploring the relationship between investment risks and financial outcomes, we seek to provide insights that can inform effective risk management practices and enhance the resilience and competitiveness of enterprises in dynamic business environments.

Methodologically, this study employs a combination of literature review, empirical analysis, and case studies to achieve its objectives. We draw upon theoretical frameworks from the fields of finance, economics, and management to conceptualize investment risks and risk management practices. Additionally, we analyze empirical data and real-world examples to illustrate the impact of investment risks on enterprise financial condition and to identify factors influencing the effectiveness of risk management efforts.

In summary, this study contributes to the existing body of knowledge on investment risk management by examining its implications for enterprise financial condition. By shedding light on the dynamics of risk management practices and their outcomes, we aim to provide valuable insights for practitioners, policymakers, and researchers seeking to enhance the resilience and sustainability of enterprises in an increasingly uncertain and competitive business landscape.

II. THEORETICAL PERSPECTIVES ON RISK MANAGEMENT IN ENTERPRISES

Risk management is one of the key tools aimed at enhancing the efficiency of enterprise management programs, which they can use to reduce the cost of the product life cycle and mitigate or avoid potential problems that may hinder the success of enterprise operations.

Achieving enterprise goals requires specific understanding of the main activities, production technologies, as well as studying the main types of risks. Risk prevention and loss reduction resulting from their impact lead to sustainable enterprise development. The process by which enterprise activities are directed and coordinated in terms of risk management efficiency is called risk management. Risk management is the process of identifying losses that an organization faces in the course of its main activities and the degree of their impact, and selecting the most suitable method for managing each individual risk.

In another view, risk management is a systematic process whereby risks are assessed and analyzed to reduce or eliminate their consequences, as well as to achieve goals.

Based on the foregoing, it can be concluded that risk management to ensure the viability and efficiency of enterprise operations is a cyclical and continuous process that coordinates and directs main activities. This is expedient to carry out through the identification, control, and reduction of the impact of all types of risks, including monitoring, contacts, and consultations aimed at meeting the needs of the population without harming the ability of future generations to meet their own needs. Risk assessment leads to the stability of enterprise operations, contributing to its sustainable development. Risk management is a contribution to sustainable development, it is an essential factor in maintaining and increasing the stable operation of the enterprise. Active risk management is crucial for the management process, in the direction of confirming that risks are handled at the appropriate level.

Planning and implementing risk management include the following stages:

Risk management;

Identification of risks and their impact on business processes;

Application of qualitative and quantitative risk analysis;

Development and execution of risk response plans and their implementation;

Conducting risk monitoring and management processes;

The relationship between risk management and business results;

Evaluation of the overall risk management process.

Continuous Risk Management Methodology (CRMM) is a vital tool aimed at fostering effective risk management practices within an enterprise. CRMM represents a theoretically significant program geared towards developing mechanisms for project management with advanced practices of risk management processes, methods, and tools.

The objective of CRMM is to create conditions for proactive decision-making, continuous risk assessment, determination of risk significance, and impact levels on managerial decisions, as well as the development of strategies to address them. This methodology provides the enterprise with tools for effective risk management at all stages of the project, thereby contributing to progress in achieving project scale, enterprise budget, project completion timelines, and so forth.

Key aspects of CRMM include:

Risk Analysis and Identification: CRMM entails a systematic analysis of all potential risks that the enterprise may encounter during its operations, and their identification for subsequent management.

Risk Assessment and Prioritization: Following risk identification, there is a need for their assessment in terms of likelihood of occurrence and potential impact on the enterprise, as well as prioritization to determine the most significant and influential risks.

Development of Risk Management Strategies: Based on risk assessment, it is necessary to develop strategies for risk management, including measures for risk reduction, transfer, avoidance, or acceptance, as well as monitoring and control of their implementation.

Integration of CRMM into Project Management: CRMM should be integrated into the enterprise's project management processes to ensure continuous and systematic risk management at all stages of the project life cycle.

Continuous Improvement and Updates: CRMM should be regularly updated and improved in line with changing conditions and business environment requirements to maintain its relevance and effectiveness.

Overall, CRMM is a key tool for effective risk management in an enterprise, ensuring its resilience and successful achievement of set goals.

The performance management process serves as an auxiliary tool for obtaining information necessary for the developed risk management mechanism. Adverse trends should be analyzed, and an assessment of their impact on this mechanism should be provided. Corresponding management actions should be taken for those areas of activity identified as fundamental in the enterprise's business processes. Corrective actions may include resource reallocation (funds, personnel, and production schedule changes) or activation of planned strategies to mitigate the consequences of risk impact. Severe cases, adverse trends, and key indicators may also be considered when using this mechanism.

Importantly, this mechanism underscores the need for reassessment of identified risks systematically impacting enterprise activities. As the system progresses through its developmental life cycle, a significant portion of information becomes available for risk assessment. If the risk magnitude changes significantly, approaches to its handling should be adjusted.

Overall, such a progressive approach to risk management is crucial for a comprehensive management process and ensures that risk indicators are effectively addressed and at the appropriate level.

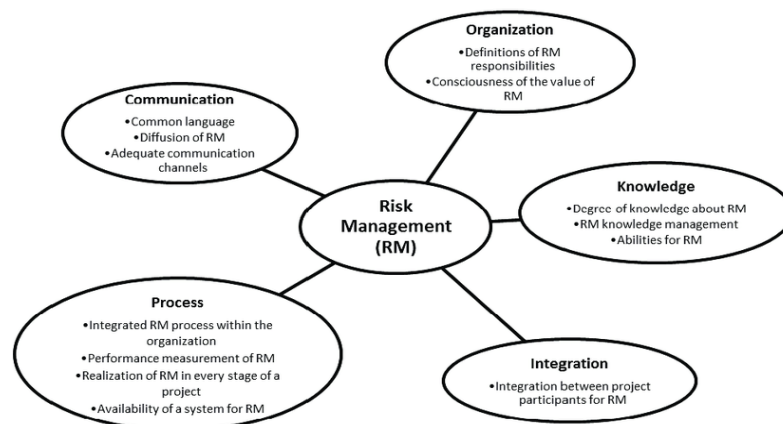


Fig. 1. Risk management model

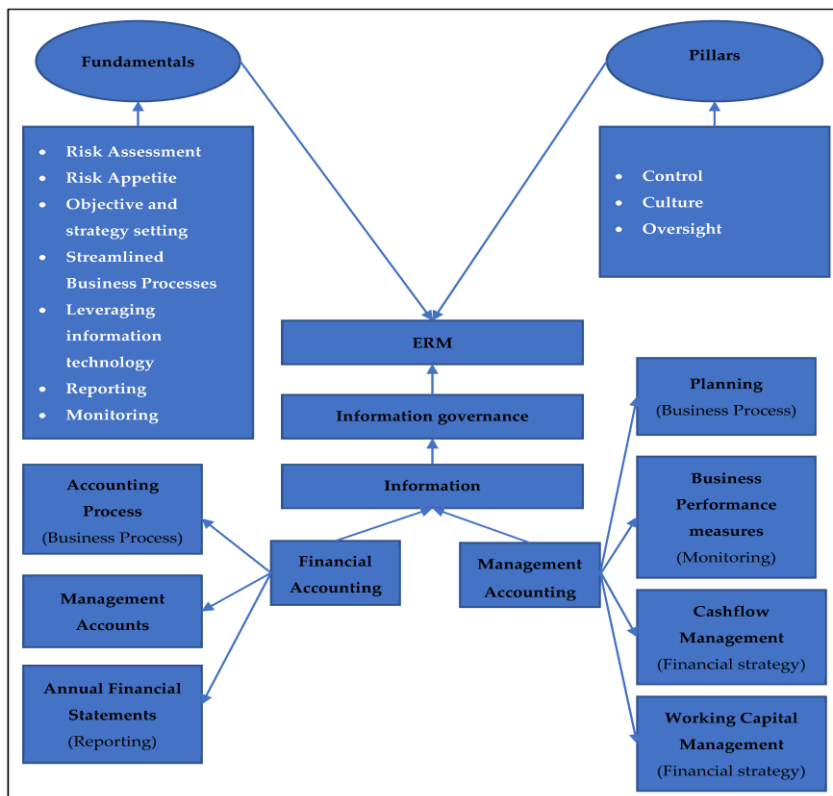


Fig. 2. Conceptual SMERMF

III. DEVELOPMENT OF RISK MANAGEMENT PROGRAM AT AN ENTERPRISE

Let's consider the risk management policy that should be applied at an enterprise. The developed mechanism (program) should be aimed at effective and continuous risk management. Thus, early, accurate, and continuous identification and assessment of risks are encouraged, and the creation of transparent risk reporting, planning measures to reduce and prevent changes in external and internal conditions will positively impact the program.

This mechanism, including relationships with counterparties and contractors, should perform functions of risk identification and monitoring. To implement it, there should be a certain plan in the form of a set of guiding documents developed for specific areas of activity. This plan establishes guiding principles for implementing the Continuous Risk Management Methodology (CRMM) within a specific time interval. It does not affect the implementation of other types of enterprise activities but rather can provide leadership in risk management.

The risk management process must meet several requirements: it must be flexible, proactive, and work towards enabling conditions for effective decision-making. Risk management will influence risks by:

- Encouraging risk identification;
- Decriminalizing;
- Determining active risks (constantly assessing what could go wrong);
- Identifying opportunities (constantly assessing the likelihood of favorable or timely occurrences);
- Assessing the likelihood of occurrence and severity of impact of each identified risk;
- Determining appropriate courses of action to reduce the potential significant impact of risks on the enterprise;

Developing action plans or steps to neutralize the impact of any risk that requires mitigation;

Continuously monitoring the occurrence of risks with a low degree of impact at present, which may change over time;

Producing and disseminating accurate and timely information;

Facilitating communication between all stakeholders of the program.

The risk management process will be carried out on a flexible basis, taking into account the circumstances of the occurrence of each risk. The primary risk management strategy aims to identify the most significant areas of risk events, both technical and non-technical, and take necessary measures to address them before they significantly impact the enterprise, resulting in significant costs, decreased product quality, or productivity.

Let's take a closer look at the functional elements that constitute the risk management process: identification, analysis, planning and response, as well as monitoring and management. Each functional element is discussed below.

Identification

Data review (i.e., scope of work, critical path analysis, comprehensive scheduling, Monte Carlo analysis, budgeting, failure analysis, trend analysis, etc.);

Review of risk identification forms presented;

Conducting and evaluating risk using brainstorming, individual or group expert assessment

Conducting an independent assessment of identified risks

Enter risk in risk register

Risk identification/analysis tools and methods to be used include:

Interview methods for risk identification

Fault tree analysis

Historical data

Extracted lessons

Risk checklist

Expert judgment, individual or group

Detailed analysis of work breakdown structure, resource examination, and scheduling

Analysis

Conducting probability assessment - each risk will be assigned a high, medium, or low probability level of occurrence

Creating risk categories - identified risks should be associated with one or more of the following risk categories (e.g., costs, schedules, technical, programmatic, process-related, etc.)

Assessing risk impact - evaluate the impact of each risk depending on the identified risk category

Determining risk severity - assign probabilities and impacts to a rating in each of the risk categories

Determining when the risk event is likely to occur

Planning and response

Prioritizing risks

Risk analysis

Assigning responsibility for the occurrence of the risk

Determining the appropriate risk management strategy

Developing the appropriate risk response plan
Creating an overview of priorities and determining its reporting level
Observation and management
Determining reporting formats
Determining the review format and frequency of occurrence for all classes of risks
Risk reporting based on triggers and categories
Conducting risk assessment
Providing monthly risk reports

V. CONCLUSION

In conclusion, the development of a risk management program is essential for enterprises to effectively identify, analyze, plan, and respond to risks. Such a program should aim for continuous improvement and adaptability to changing circumstances, fostering early, accurate, and ongoing risk identification and assessment. By promoting transparency through risk reporting and implementing measures to mitigate and prevent adverse conditions, the risk management program can positively impact the enterprise.

Moreover, the risk management mechanism, including interactions with counterparties and contractors, should play a key role in risk identification and monitoring. To achieve this, a comprehensive plan comprising guiding documents tailored to specific areas of activity is necessary. This plan establishes guiding principles for implementing continuous risk management within defined timeframes, providing leadership in risk management to the enterprise.

The risk management process should meet several requirements, including flexibility, proactivity, and facilitating conditions for effective decision-making. By encouraging risk identification, decriminalizing actions, and assessing active risks, the process can effectively influence risks. Additionally, it's crucial to continuously monitor risk emergence, develop action plans, and disseminate accurate and timely information to all stakeholders involved.

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