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IMPROVING SMALL BUSINESS RISK MANAGEMENT

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Abstract: *The article is based on the need to create an effective risk management system to ensure the economic stability of small businesses. The risks of small businesses are classified. Methods of risk analysis and management affecting entrepreneurial activity are described. The risks of the enterprise and the optimal methods of managing them are indicated. Proposals were made on a methodological approach to risk management in small businesses.*

Key words: *small business, risks, risk management, types of risks, risk assessment, risk analysis, risk prevention, hedging, diversification.*

In modern market conditions, any business entity faces risks with different risk levels. These situations and circumstances cause various failures in conducting business activities and managing the organization of production. In particular, it is possible to include transport incidents in cargo and passenger transportation, delivery delays, loans, debt obligations, labor disputes, etc. among the risks. Such situations and events threaten the successful operation of the business to one degree or another. As a result, it leads to the loss of profit, prevents the implementation of plans, and also puts the economic activity of the enterprise at risk. In order to ensure economic stability in business, it requires the implementation of an effective system of risk management. When creating a risk management system, the main goal of enterprises is to increase the efficiency of business activities, reduce any losses in conducting business, and increase income. Risk management begins with the identification and assessment of risks that are likely to occur. Then the search for alternatives is carried out, that is, less risky business options that provide the opportunity to earn income are considered. At the same time, the costs of implementing the transaction with the highest level of risk and the extent of risk that can be reduced are compared. [1] After the risks are identified and evaluated, the management system of the enterprise chooses the methods of risk management, that is, it seeks solutions to issues such as whether to accept the risks identified by the enterprise, try to minimize their consequences, or avoid them. Decisions to accept or avoid certain risks will largely depend on the strategy being pursued. Today, management algorithms and automated systems have been developed that allow identification and assessment of risks, modeling of situations to minimize their risk level. Consulting companies capable of identifying and evaluating risks in business activities of enterprises of any scale and type of activity offer their services in risk management. However, only enterprises with relatively large capital are able to use the services of risk-manager state unit or companies specializing in risk management and automated information systems. Small business entities do not always pay much attention to the issue of risk management due to limited funds. Naturally, as a result of this, they will suffer losses. Sometimes a seemingly successful enterprise ceases to exist. In order to effectively manage risks, managers must clearly understand what risks they are dealing with, that is, it is necessary to classify them. There are different ways of creating risks. Traditionally, one type of risk can be called by different terms. It is very difficult to distinguish different types of risk and classify them according to different criteria. For example: scope, source of origin, risk-related costs, level of exposure, vulnerability (susceptibility to risks), interactions with other risks, etc. Thus, risks are divided into external (political, socio-economic, ecological, scientific and technical) and internal (production, re-production activities of the enterprise, business sector, enterprise management) types, depending on the source of origin. Depending on the characteristics of each group of factors, they can be further divided into subgroups. The risk factors of production activity include the main production activity (stoppage of enterprise equipment due to the fault of non-core departments or interruption of the technological cycle, failure of main equipment, violation of technological discipline by employees), auxiliary activity (breakdown of auxiliary production equipment, equipment repair against regulatory deadlines delay, interruptions in electricity supply and fuel supply), risk factors of supply activities (overcapacity or breakdown of warehouse capacity, failure of the information processing system and the spread of confidential information, insufficient patent protection of the company's products and their production technology). Such a classification makes it convenient for the entrepreneur and allows to divide them into separate groups even without having special knowledge in the field of risk management. On the other hand, such a classification makes it difficult to choose risk management tools.

In 1996, Coopers & Lybrand developed a risk typology for financial institutions. According to him, the main risks in business are market, credit, production, liquidity and situational risks.

Market risk refers to the potential for loss as a result of changes in interest rates, exchange rates, stock prices, and commodity contracts. Types of market risk are, in particular, currency and interest rates. [2] Credit risk or counterparty risk is the possibility of losses resulting from the failure of counterparties (borrowers) to fulfill their obligations to pay interest and principal in accordance with the terms of the loan agreement. Credit risk includes the risk of default and the risk of loss from changes in credit spreads. [3]

Operational risk includes losses that may occur due to technical errors, intentional or unintentional actions of employees, emergency situations, equipment failure, unauthorized access to information systems, etc. Operational risks often include losses that occur due to insufficient justification of the methods and models used in risk assessment and management. Operational risks are also called day-to-day "earnings", reflecting their nature. Every day, in the process of creating value, the enterprise faces this group of risks. Liquidity risk is divided into market liquidity risk and balance sheet liquidity risk. Market liquidity risk - occurs in situations where it is not possible to buy or sell the required amount of assets at the average market price in a short period of time. Balance sheet liquidity risk occurs as a result of a lack of cash or other highly liquid assets to fulfill obligations to counterparties.

Business event risk represents losses that may occur as a result of force majeure, changes in legislation, actions of state authorities, etc. Event risk typically includes legal, accounting, and tax risks, the risk of regulatory actions, and more.

Eventual risk refers to losses that may occur due to force majeure, changes in legislation, actions of government agencies, etc. Incidental risks generally include legal, accounting and tax risks, as well as risks related to the activities of regulatory bodies, among others.

Among the incidental risks, the risk of reputation can be singled out. This risk is related to the possibility of loss of trust from partners and consumers. In a highly competitive environment, trust is becoming increasingly important. There are many sources of such risks: improper activity, statement of the company's management to the mass media; participation in poorly controlled alliances and partnerships, unfair competition practices, labor disputes, etc. Such risks require special management. In order to minimize them, company leaders should change their approach to management, that is, they should consider the management of the company's reputation as the main task, and revise the priorities of the company in relation to stakeholders. [4] Due to its specificity, this classification applies not only to financial institutions, but also to manufacturing enterprises.

The goal of any commercial enterprise is to make a profit. Therefore, the goal of management is to develop business according to the developed plan, eliminate uncertainty and reduce possible risks. In general, the risk management process includes the following stages: risk analysis (identification and assessment), selection of risk exposure methods, decision-making, exposure to risks, control of results.

The first stage is the most important and complicated process. The task of the risk manager is to identify possible risks, evaluate their probability of occurrence and its consequences. Risk analysis is carried out qualitatively and quantitatively. In qualitative risk analysis, experts rely on assertions such as "probable" and "less likely", "risky" and "extremely harmful". In the quantitative analysis of risks, they evaluate the probability of their occurrence and the extent of their consequences.

One of the most common methods of risk analysis is Monte Carlo modeling. The initial unknown parameters of the model are expressed as a range of values known as a probability distribution. Variables can have different consequences. [5]

A characteristic feature of the Monte Carlo method is the use of random numbers (numerical values of some random variables). There are several automated risk management information systems that implement algorithms using this method (Risk Professional for Project, Dekker TRAKKER, Open Plan). [6] Such systems provide accurate forecasting that allows for the development of management decisions needed for the future. However, such systems can only be purchased by large enterprises.

The main methods of risk management include: 1) risk avoidance; 2) acceptance of risk; 3) risk diversification; 4) limiting risks; 5) transfer of risks to third parties; 6) risk insurance.

Risk avoidance. There are many types of risks that affect business operations, and there is no way to limit them. Although they are partially reduced, but this does not reduce the risk of the consequences they cause. Therefore, the enterprise should refrain from risky operations that may pose a serious risk, that is, they should not engage in them.

Acceptance of risk means determining the ratio between the expected profit (rate of profitability) and the risk (the amount of potential losses) associated with a certain operation. In this case, it is a management measure, comparing all the pros and cons of the deal and giving up the amount of capital that is ready for certain losses to protect the enterprise from default in the event of a loss due to exposure to risks and to keep the business of its owners. For the enterprise, this requires self-insurance, that is, the creation of funds or reserves in case of a risky event.

Diversification of risks is an approach aimed at reducing possible losses by distributing investments among different activities that are not directly related to economic results, and means that the loss suffered by an enterprise from one type of activity is covered by another type. Diversification makes it possible to increase the tolerance of the enterprise to changes in the business environment.

Limitation of risks, as a rule, is accompanied by the acceptance of risks and implies complex administrative measures to strictly define (restrict) the powers between individual officials, structural

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units of the organization and management bodies. That is, the right to spend funds allocated by individual persons (departments) in the specified amount, period and for certain purposes. In the banking environment, such restrictions are usually called limits.

Insurance of risks. The essence of this approach is that the risk management person is given an absolute and unconditional right to cover potential losses based on a predetermined source, that is, collateral. Types of collateral can be divided into the following categories: 1) guarantees (guarantees) of third parties; 2) collateral based on valuables; 3) collateral based on material property; 4) collateral based on the claim. [7]

Hedging is a method of protection against possible losses (damages) based on the conclusion of transactions that equalize the liability (transferring the risk associated with price changes from one person to another). This method requires the allocation of additional resources (for example, paying option premiums or entering margins).

Transfer of risks to third parties. Third parties are responsible for the occurrence of risky events. The transfer of responsibility is carried out on the basis of the contract.

Insurance of risks - partial participation of the enterprise in the processes, and in some cases, the transfer of risks to the insurance company in exchange for a certain fee (insurance premium).

Table 1

Enterprise risks and optimal methods of their management

Risks	**Risk management methods**
Market risk	Hedging, hedging, insurance, diversification, risk avoidance
Credit risk	Hedging, securing, insuring, offloading, diversifying, hedging, hedging
Operational risk	Acceptance of risks, assignment to third parties, insurance
Liquidity risk	Risk avoidance
Event risk	Hedging, insurance, risk acceptance, risk avoidance

The approach presented in the article is aimed at small businesses and is based on the following assumptions:

1. Limited funds of the enterprise. As a rule, small business entities do not have financial reserves that allow them to attract qualified experts in risk management, use the services of consulting companies and use software for automating risk management processes. The limited funds of the enterprise force to look for simple and cheap methods. Sometimes, he completely ignores the risks that endanger the enterprise. An entrepreneur knows the amount of money he is willing to spend on risk management.

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2. Small business entities are distinguished by the small number of property objects owned (or rented). However, each of them is very important for the normal functioning of the enterprise.

3. Limited range of risks. A small business entity clearly knows the main risks that threaten business activity and their consequences, and receives a quantitative assessment. The insurance company calculates the maximum amount of damage caused by risk when insuring an object.

A methodical approach to risk management includes:

1. Analysis of risks (identification and evaluation of the damage caused by them).
2. Classification of risks based on their importance in maintaining business activity.
3. Selection of risk management methods and assessment of available costs.
4. Selection of risks to be taken for management and methods of their minimization, taking into account the established limits of funds.

Let's take a closer look at the presented actions.

At the first stage, the entrepreneur determines the risks that may threaten the business and the damage they cause. Risk analysis is carried out taking into account external and internal factors, as well as relationships between individuals. Risk is a threat to any business activity, but the level of probability of its occurrence is much higher in production. This situation is related to the fact that, in addition to external factors, production activity is affected by internal factors related to production and social processes. However, the number of risks in small business is limited. [8]

In the second stage, the identified risks are classified according to the degree of risk to business activity. Among the identified risks, risks that prevent the implementation of enterprise plans or cause a decrease in profit are distinguished. However, among the risks there will also be extremely dangerous risks that threaten the existence of the enterprise. Such risks occur as a result of disasters, fires, environmental disasters, etc. In this case, risk management requires the use of financing, insurance or self-insurance methods before they occur.

Risks can be classified according to the level of danger, based on the point system. For example, 10 points are given to risks that have a strong impact on the safe and normal operation of the enterprise, and 1 point to risks that lead to an insignificant decrease in profit. Here, the entrepreneur approaches risk management as a specialist (expert). [9]

At the third stage, optimal risk management methods are selected and costs are assessed (Table 2).

Table 2

Methods of enterprise risk analysis and management

Risk	Loss from implementation	Acceptable management method	Management cost
$Risk_1$	$Loss_1$	$Method_{11}$	$Cost_{11}$
		...	...
		$Method_{1j}$	$Cost_{1j}$
		…	…
		$Method_{1m}$	$Cost_{1m}$
…	…	…	…
$Risk_i$	$Loss_i$	$Method_{i1}$	$Cost_{i1}$
		...	...

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		$Method_{ij}$	$Cost_{ij}$
		…	…
		$Method_{im}$	$Cost_{im}$
		…	…
$Risk_n$	$Loss_n$	$Method_{n1}$	$Cost_{n1}$
		...	...
		$Method_{nj}$	$Cost_{nj}$
		…	…
		$Method_{nm}$	$Cost_{nm}$

For example, fire, natural disasters, floods, etc. pose a risk of loss or damage to property. This situation requires the business entity to choose the optimal methods of insurance and self-insurance. The insurance company helps to assess the value of the insurance based on the determination of the sum insured (the amount of damage that the risk may cause) and the amount of the insurance premium (the value of risk management for insurance). To accept the risk, the entrepreneur must have a reserve fund equal to the insurance amount. Of course, the decision to take the risk or insure it is made by the head of the enterprise after evaluating its advantages and disadvantages. Thus, the insurance allows to attract insurance capital in compensation of enterprise losses, to reduce uncertainty in financial planning, to use the experience of insurance consultants in risk assessment and management. [10]

From the point of view of cost savings, self-insurance is a very effective method, because in the event that a risky event does not occur, the funds of the reserve fund remain completely at the disposal of the enterprise. However, in such a situation, the enterprise has two types: first, expected losses in case of occurrence of risks; second, it faces losses related to attracting financial resources to form a reserve fund. It can be said that the formation of a reserve fund does not guarantee the stable economic activity of the enterprise. In addition, it has a negative effect on increasing profits by limiting the investment of the company's funds.

In the fourth stage, the manager has the resources necessary to manage each risk and selects the most important risks for the enterprise based on the methods that require the least cost of their management. Thus, the entrepreneur gets a list of the most serious risks for his business and ways to manage them.

Therefore, risk management is a task of special importance for small business. This is due to the security of each object for the normal operation of the enterprise and limited funds of economic entities. The development of a small business directly depends on the manager's ability to professionally assess risks, choose the most optimal methods of their management, and search for effective forms of risk prevention or mitigation. The presented methodical approach helps the managers of small enterprises to take into account the most important risks and make effective decisions on their management.

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