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RISK MANAGEMENT – A MODERN SYSTEM OF EFFECTIVE RISK MANAGEMENT AT ENTERPRISES

РИЗИК-МЕНЕДЖМЕНТ – СУЧАСНА СИСТЕМА ЕФЕКТИВНОГО УПРАВЛІННЯ РИЗИКАМИ НА ПІДПРИЄМСТВАХ

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The article considers the essence of the concept of "risk management", compares the old paradigm of risk management with the new paradigm. Their main differences are studied. The risk management system is analysed on the example of a successful Ukrainian company DTEK. The current approaches to risk management in the company are investigated. Recommendations for risk management managers are developed.

Key words: *risk management, risk management system, new paradigm, management culture, risk managers, risk assessment.*

У статті розглядається сутність поняття «ризик-менеджмент», зрівняна стара парадигма ризик-менеджменту з новою парадигмою, вивчені їх головні відмінності. Аналізується система управління ризик-менеджментом на прикладі успішної української компанії ДТЕК. Досліджуються діючі підходи до управління ризиками в компанії. Розроблено рекомендації для менеджерів з управління ризиками.

Ключові слова: *ризик-менеджмент, система управління ризиками, нова парадигма, культура управління, ризик-менеджери, оцінка ризиків.*

В статье рассматривается сущность понятия «риск-менеджмент», сравнена старая парадигма риск-менеджмента с новой парадигмой, изучены их главные отличия. Анализируется система управления риск-менеджментом на примере успешной украинской компании ДТЭК. Исследуются действующие подходы к управлению рисками в компании. Разработаны рекомендации для менеджеров по управлению рисками.

Ключевые слова: *риск-менеджмент, система управления рисками, новая парадигма, культура управления, риск-менеджеры, оценка рисков.*

Problem statement. Today, the majority of enterprises face the problem of the critical impact of business risks on the efficiency of business, the possibility of modernization and expansion. The relevance of this topic is due to the fact that modern practice shows that there is a grounded reason for the emergence of risks in business, for the inability to calculate the result and take into account the influence of various factors, in particular, for the reason that the factors themselves can change in the process of project implementation and achievement of production tasks. Lack of experience in effective management of the enterprise leads to mistakes in decision-making and reduces the efficiency of its activities. "He who seeks only the right to profit is unlikely to become very rich; and who invests all property in risky enterprises, often goes bankrupt and falls into poverty; therefore, it is necessary to combine risk with known security in case of loss." This phrase belongs to Francis Bacon. He concluded this reasoning at a time when there was no such thing as risk management, and people used single measures to reduce the risk of commercial operations, but even then there was an understanding of the essence of risk. There are three persistent misconceptions about the understanding of risk:

1. The risk is always a bad thing. The risk is not "good" or "bad", it simply exists, and there is no escape from it. No need to hide your head in the sand and avoid it in every way. It still won't work. It is necessary to accept this as an integral feature of modern economic conditions, in which it is necessary to learn how to make decisions taking into account the risk factor.

2. Some risks are so dangerous that they should be excluded. Sometimes in order to eliminate a risk, one needs to spend more money than on the possible consequences of its implementation. For example, huge amounts of money will be needed to prevent the devastating effects of the

tsunami. It is much cheaper to eliminate its consequences than to eliminate the risk itself.

3. Going the safest way is always the safest way. The problems of risk management have recently been attracting the attention of domestic business, which, like Western entrepreneurs, faces numerous risks associated with market fluctuations in the rates of shares, currencies, raw materials, as well as with an increase in the degree of openness of the national economy and increased international competition [2, p. 3].

Analysis of recent research and publications. Theoretical and practical aspects of risk management at the enterprise were investigated by well-known scientists. A significant contribution to the development of the economic theory of risk was made by V. Apopii, I. Balabanova, H. Bashnianyn, O. Bila, I. Blank, H. Velykoivanenko, E. Velychko, V. Vitlinskyi, L. Donets, V.V. Zahorskyi, A. Mazaraki, N. Mashyna, B.M. Miziuk, S. Nakonechnyi, V. Tochylin, and A. Yastremska, etc. In most of the works named, scientists have studied certain aspects of the entity's economic risks, their analysis, identification and control. At the same time, it should be noted that recently the attention to the problem of risks on the part of representatives of the domestic economic theory is not enough. In recent years, it is difficult to identify fundamental economic and theoretical studies in the framework of risk theory and its adaptation to the conditions of the modern Ukrainian economy. As a result – today there is no integral theory of risks, its separate aspects and mechanisms of application for the solution of problems of real management at the enterprise remain uninvestigated. Therefore, the implementation of an effective policy for the formation of a risk management mechanism requires further research and development.

Setting the task. The purpose of this article is to determine the essence of the concept of "risk management", analysis of the risk management system in DTEK, as well as the development of new risk management options for managers in any organization.

Presentation of the main material of the study. In the conventional sense, the risk is the possibility of any adverse event that entails various kinds of losses. An example of such losses can be a loss of property, receipt of income below the expected level, etc. The existence of the risk phenomenon is connected with the inability to predict the future with 100% accuracy. Often, the company's managers do not understand the current state of the business, its place in a competitive environment. The risk arises only in relation to the future and is inextricably linked with forecasting and planning, and therefore, with making decisions about the further development of the company. This is a pragmatic risk philosophy. The following three factors form the concept of risk.

Factor 1. The uncertainty of the event. The risk exists only in case there is no single possible moving event. For example, the interest rate may rise and fall, and remain the same, the share price may rise or fall, the price of a particular product may fall or rise. And no one knows which of these events will happen. Each of these events can occur with a certain probability.

Factor 2. Loss. The loss is the unintended reduction in value resulting from the realization of a hazard. At least one result should be undesirable. For example, when the shares fall, their holders suffer losses, when the demand falls, the net revenue of producers decreases, the interest rate increases, the cost of loans to financial and credit institutions increases, etc.

Factor 3. There is no indifference. The risk should affect a particular subject of activity (person or organization), which would strive for prevention of undesirable for him pace of developments. Otherwise, the risk would cease to be a risk, since it does not have negative consequences for a particular entity. The risk with universal positions suggests that the normal businessman, and generally a normal person, inclined to avoid risks. However, we should not forget that the risk cannot be completely avoided (it's just the law of nature), and excessive caution leads to an increase in the number of unjustified losses [3, p. 4].

The essence of risk management is not to eliminate risk but to manage it. Otherwise, the reward disappears. It is necessary to determine when it is possible to risk, and when it should not be done at all. New technologies force businessmen to adopt new models of company management within a few months, not years. Derivative financial instruments, which were originally created to facilitate risk management, have become a source of new risks. Enterprises with well-established management have particular risk management success.

An organization that cannot effectively manage risk will simply disappear over time. However, from the very beginning, risk management, even in the most successful enterprises, showed a desire for isolation. The management of insurance, technological, financial, and environmental risks was independent and concentrated in different departments. This led to the fact that the organization was not, as a rule, the coordination of risk management.

The set of methodological techniques, theories, and practices that the business community adheres to in risk management is called the risk management paradigm. Currently, the business community is going through a process of changing risk management paradigms. Traditionally, risk management is considered a specialized activity. This may concern both insurance and currency risks. The new approach is to focus employees and managers at all levels on risk management (Table 1) [1, p. 5].

The risk management approaches for some organizations are moving from a fragmented, episodic, limited model to an integrated, continuous,

Table 1

Old paradigm	New paradigm
Fragmented risk management: each Department independently manages risks (in accordance with its functions). First of all, it concerns accounting, financial, and audit departments. Episodic risk management: risk management is carried out when managers deem it necessary. Limited risk management: primarily concerns insurance and financial risks.	Integrated joint risk management: risk management is coordinated by senior management. Each employee of the organization considers risk management as a part of their work. Continuous risk management: the risk management process is continuous. Advanced risk management: all risks and opportunities of their organization are considered.

and expanded one. The main question is whether senior management will make changes in advance or after the failures that have already occurred. Risks are considered both internal and external, which can prevent the organization from achieving its goals. Equivalent terms are often used to describe this new risk management model: integrated risk management, strategic risk management, enterprise-wide risk management, enterprise risk management. The term "risk" refers to any event or action that may adversely affect an organization's achievement of its business objectives and prevent it from successful implementing of its strategy. Thus, the purpose of risk management is to create, protect, and improve the welfare of shareholders by managing uncertainties that can both negatively and positively affect the achievement of the organization's goals.

Current approaches to the management of risks and opportunities are standardized for all processes of DTEK. All the key decisions in the company are made taking into consideration risks and opportunities in order to develop and maintain the risk management system within the organizational structure of the company, the Internal Control and Risk Management Department, as well as the Risk Committee under the Management Board functions. DTEK systematically identifies and assesses risks and opportunities that affect the achievement of strategic and operational objectives. The assessment of risks and opportunities is also carried out in cases of significant changes in the external environment. The procedure for identifying and minimizing each group of risks to an acceptable level:

– establishment of working groups with experts in all relevant fields;

– identification of risks based on goals and actual processes;

– vulnerability assessment and risk ranking by significance;

– development and testing of the effectiveness of design control, integration of elements in internal control processes to prevent the occurrence of risk events, as well as the selection and implementation of the most effective and cost-effective measures to reduce risks;

– monitoring of the company's performance and general profile of risks and opportunities.

DTEK pays special attention to the operational risk. The company has implemented the process of identification, assessment, management, and monitoring of risks within the framework of annual planning, the corresponding reporting system for all risk groups. Programs to reduce operating costs and improve the efficiency of production processes are being implemented; emergency and emergency response plans have been developed. The audit of business processes with the analysis of necessity and sufficiency of built-in control procedures is systematically carried out. Effective and cost-effective control measures based on risk assessment are implemented jointly with process' owners. In order to reduce the impact of operational risks, insurance is actively used. The company has developed the concept of insurance protection, the implementation of which centrally for the whole of the business carried out by the Department for internal control and risk management to ensure a unified methodological approach in the interaction with the insurance market, which allows optimizing the amount of insurance contributions. The insurance system protects the interests of DTEK and includes voluntary insurance, as well as compliance with the requirements for compulsory types of insurance. Organizing insurance protection, DTEK takes into account the completeness of coverage, optimal insurance conditions, and reliability of risk placement. Within the framework of operating activities, measures are taken to maintain a predetermined level of absolute liquidity. The company has introduced a mechanism for planning and managing cash flows, which allows you to respond quickly to changes in the external and internal environment.

Risk managers will find the following recommendations useful while implementing risk management in key processes of the organization:

1. The development of a culture of risk management.

– assess how the company's strategy is "at risk"

The essence of risk management is primarily to create a culture within the Organization that would facilitate risk analysis in making any management, investment or project decisions. The assessment of the company's strategic goals "at risk" can be considered a logical beginning of the process.

Your action:

1. Define general and industry risk management standards relevant to your organization;

2. Take a risk management methodology that matches your organization's current maturity;

3. Break down strategic objectives into tactical and operational objectives/factors;

4. Identify the key underlying assumptions associated with high uncertainty;
5. Select factors for further risk analysis;
6. Define ranges and distributions for key factors;
7. In parallel, carry out the classical identification of risks;
8. Identify interdependencies between key factors;
9. Use scenario analysis and modelling to assess the impact of risks and strategic indicators on risks;
10. Determine the probability of achieving the target values set by management, taking into account the risks;
11. Determine whether the level of risk is acceptable to the organization;
12. Determine the necessary measures to reduce the risk or changes in assumptions/policies;
13. Ensure that risks are well controlled by business process owners;
14. Share your success in risk management inside and outside the company;
15. Find a common language with the managers responsible for the relevant management systems.
– definition of risk management roles and responsibilities
1. Identify the risk management model that is most appropriate for the current maturity level of the organization;
2. Risk management functions risk management competence centre;
3. Description of risk management roles and responsibilities in job descriptions, regulations, and charters;
4. Update existing risk policies and procedures instead of creating new risk documents;
5. Periodic inspections of the risk awareness culture;
6. Include information about the risks in the templates of documents for the Board of Directors;
7. Include a discussion of risks in the agenda of the Board of Directors;
8. Continuous monitoring of the quality of risk information provided to the Board of Directors;
9. Identification of key Directors of the company's front and back offices;
10. Assess their willingness and willingness to participate in the work of the Risk Committee;
11. Develop a position on the Committee's agenda and annual meeting plan;
12. Make your contact information available to all employees and communicate with them more often;
13. Develop a "no-fault" policy;
14. Share your success in risk management inside and outside the company;
15. Find a common language with the managers responsible for the relevant management systems.
– establish roles and responsibilities for risk management
1. Determine the risk management model that is most appropriate for the current maturity level of the organization;
2. Make the function of risk management the centre of competence for risk management;
3. Describe the roles and responsibilities of risk management in job descriptions, regulations, and charters;
4. Update your existing risk policies and procedures, rather than creating new risk documents;
5. Conduct periodic examinations of the culture of risk awareness;
6. Develop a set of key risk management performance indicators for each level in accordance with the company's risk management model;
7. Enable the assessment of competencies on risk management and specific KPIs to personnel assessment. This should be done together with the Human Resources Department and supported by training for employees if necessary;
8. Conduct a staff assessment of key risk management indicators for the first year as a test;
9. Reward positive signs of developing a risk management culture and consolidate the right risk management experience from year two onwards. Signs of poor risk management should be identified and documented.
– do not complicate
This is the golden rule of risk management: the simpler, the more transparent and clear! As a risk manager, your goal is to help the organization to become more risk-oriented. Risk management initiatives should be understood by everyone and easily integrated into normal business activities; otherwise, you are likely to meet a lot of resistance or be ignored by management, which is much worse. Speak the language of business; do not use professional risk management terminology in dealing with business.
2. Make risk management a part of your daily work.
– help employees take risks into account in their work
– risk-based strategic planning budgeting and performance evaluation
– create a network of risk champions across the company
– conduct risk management training
– take a direct part in the risk assessment of projects or strategic initiatives
– promote open discussion of risks
3. Become a trusted Advisor.
– do not forget to regularly test the assumptions made by management
– inform the user about imminent threats
– carry out risk analysis at the request of management
– create a network of contacts risk managers from your company and related industries
– constantly improve your own risk management skills.

Conclusion. As a result of the study, the essence of the concept of "risk management", the main directions of development of risk management are studied. This includes a focus on an integrated, systematic approach to risk management, as well as ensuring an increase in the value of the share capital of companies. Therefore, enterprises and organizations need to recognize risk management as one of the components of strategic management and create a mechanism for effective risk management in the company.

DTEK forms and implements the company's development strategy taking into account the risk-oriented approach. Risks and additional opportunities of the company are systematically assessed for different strategic horizons. Action plans are being developed to reduce risks to an acceptable level. The financial model of the company's development strategy is modelled on the basis of various scenarios of the external environment. Risk profiles and opportunities to achieve the strategic objectives are formed, which include action plans with clearly defined deadlines and responsibilities.

Risk management is not only about tools and methods, but it also changes in the culture and the way of thinking of employees. To strengthen the risk management culture, risk managers can start by incorporating risk analysis elements into key business decision-making processes, helping to set the tone for top management and identify roles and responsibilities for managing these risks. It is necessary to start with small steps but it is important to gradually expand the scope of risk management. At the same time, it should be borne in mind that over-complication of procedures and methods may not only be of no benefit but also it can harm the risk management culture. It is necessary to avoid positioning risk management as a separate and independent activity, the so-called risk management system. First of all, risk managers have to integrate risk management into the business. This can be achieved by integrating risk analysis elements into decision-making, assisting management in evaluating projects and strategic initiatives based on the risk analysis, integrating strategic planning, budgeting and management, by incorporating risk management responsibilities into job descriptions, training, and so on. Risk managers should strive for becoming sought-after advisers, who are trusted and whose recommendations are listened to, for top management and the Board of Directors.

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