

КЛАСИФІКАЦІЯ РИЗИКІВ ПІДПРИЄМНИЦЬКОЇ ДІЯЛЬНОСТІ ПРОМИСЛОВИХ ПІДПРИЄМСТВ

RISK CLASSIFICATION OF INDUSTRIAL ENTERPRISES' BUSINESS ACTIVITIES

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Problem definition and its relation to the important scientific and practical tasks: the law of Ukraine "On business activities" proves that the risk is an inherent property of business activity. Definition of business activity is described as "...direct own systematic manufacturing, operational and service activity at own risk for the sake of profit and performed by natural and legal entities registered as enterprises according to the law" [1].

The theory of business risks appeared simultaneously with classical economic theory and further on was studied by different economic schools representatives.

J. S. Mill, one of creators of classic business risk theory, equated the risk as mathematical expectation of losses due to taken decision. In such interpretation the risk is a loss which appears as the result of taken decision [7].

A. Marshall, one of creators of neoclassical theory of business risk supposed that the risk shows itself in income deficiency. Profit is an accidental variable and the businessman chooses the way of proceeding related to the minimization of income loss. Considering such approach the best way will be risk avoidance [6].

John Maynard Keynes developed his own theory of business risk the basis of which is provision that the risk is the cost of the effort to get more revenue. Thus, the efforts aimed at getting less income are less risky than those aimed at more revenue. There was a definition of "risk costs" implemented (as a difference of expected and actual revenue) [5].

Growing crisis events in economy of late XX and early XXI centuries became an additional stimulus for risks theory development. The reality of modern world created new types of risks hard to make quantitative estimation for. Business trans-nationalization is accompanied by creation of global alliances and operational connections. Dominoes effect occurs which increases the risk for the whole chain in case of risk danger to one link. IT penetration into society results in possibility of losses as a result of computer networks breakdown. Modern marketing environment creates additional elements of uncertainty and widens risk situations zones. In these conditions uncertainty and diffidence appear in receiving expected final result and thus the level of business risk is growing.

Number of loss-making companies is the touchstone of marketing environment riskiness and dynamics of such losses shows the tendency of riskiness level changes. Ignoring risks growth in business activity makes it impossible to get planned results so that is why the specialists keep developing business risks theory in classical framework considering modern technological practices and challenges.

Analysis of last publications: author's team headed by Y.S. Stoyanova interprets the term of "business risk"

as probability of losses occurrence or income deficiency compared to the forecast option [10].

P.G. Grabovy, S.M. Petrova, S.I. Poltavtsev and others suppose that business risk is a probability (danger) that the company loses part of their assets, receives less income or gets additional expences as a result of certain operational and financial activity [9].

M.S. Klapkiv interprets the risk as an occurrence of losses of expected economical (financial) benefit or direct losses due to occurrence of uncertain (accidental) event [2].

In general it can be stated that modern professional literature considers the business risk as probability (danger) of an event which may provoke losses or income decrease at expense of income deficiency or occurrence of additional costs. That is why the essence of risk management is the attempt to make the process safe by means of overriding uncertainty in a situation of unavoidable choice basing on evaluation of probability of planned result achievement.

Aim of the study: Improvement of industrial companies business risks classification.

Compilation of the main results and their explanation: The businessmen deliberately take the risk when taking decisions in uncertain conditions and choosing direction of activity having alternatives which implementation they foresee with certain probability. Uncontrollability of marketing environment factors creates uncertainty which cannot be assessed numerically but at the same time business risks can be. Uncertainty of marketing environment and business risk are standard norms of market economy.

In order to define the essence of the business risks they separate the terms of "uncertainty" and "risk": uncertainty reflects the state of marketing environment factors, and the risk respectively the state of business activity. The cause and effect link is the following. Uncertainty of marketing environment factors stipulates the riskiness of business.

The essence of the terms "business risk" may be also rreflected through the following interrelated characteristic:

- Possibility to achieve the planned result;
- Uncertainty in possibility to achieve the planned result;
- Probability of losses occurrence when trying to achieve the planned result.

As the risks are inherent companions of business activity, theoretically each businessman's effort is accompanied by a correspondent type of risk. The same number of risks exists correspondent to the numerous efforts of the businessmen. The businessman's efforts can be classified and thus the business risks can be classified too. Nevertheless the specialists are trying to arrange the risk factors. Development of reasonable business risks classification is not only of scientific importance but also very important from the action-oriented

The author suggests a conceptual approach, principles of construction and classification of business risks. It was proved that that meaning of effective functioning of marketing information system grows in circumstances of unfavorable business climate, which is the source of true information for management decision-taking, aimed at reduction of industrial company risks.

У статті запропонований концептуальний підхід, принципи побудови та авторський варіант класифікації ризиків підприємницької діяльності. Обґрунтовано, що в умовах несприятливого бізнес-клімату зростає значення ефективної роботи маркетингової інформаційної системи, яка є джерелом достовірної інформації для прийняття управлінських рішень, що спрямовані на зниження ризиків промислового підприємства.

point of view in respect of risk management processes. Risks types identification correspondent to the business logic lets calculate the risk stage and losses level correctly and choose methods of risks decrease.

Classification of business activity risks means differentiation of variety of risks of similar characteristics. Many famous economists of early XX century were seeking their most important features.

J. A. Schumpeter, a representative of the institutional direction of economic theory defined two ways of business activity risks [8].

- risks related to possible technical failure of production, this is also the danger of losing goods caused by natural disaster;

- risks related to deficiency of commercial success.

F. Knight, a representative of neoclassic Chicago school thought that risks are intrinsic and expectable. He proposed to distinguish two types of risks, depending on the possibilities of their quantitative assessment [11]. :

- the risks intrinsic probability of which can be calculated and which can be insured (such risks become the company expenditure item to be deducted from the revenue);

- risks intrinsic probability of which can not be calculated (such risks explain existence of company specific revenue).

J. M. Keynes studied the risks in context of investment activity, as riskiness appears most clearly in this very direction of business activity. He distinguished three types of risks [5]:

- business risk, an uncertainty of expected revenue from funds investment;

- creditor's risk, the risk of repayment which also includes the legal risk (avoidance of repayment) and credit risk (security deficiency to repay the loan);

- change of monetary unit value, probability of funds loss due to the change of national monetary unit value (market risk).

The problem of business risks classification hasn't been completely solved yet; there was no general approach created to choose characteristic features of such classification. Modern foreign economists researching scientific foundations of the business risks use different approaches to classification.

Basel Committee on Banking Supervision distinguishes following business risks types [12]:

- operational risk;

- market risk;

- credit risk.

Experts of J.P. Morgan Bank offer the following types [14]:

- business risk;

- liquidity risk;

- legal risk;

- regulatory risk.

Developers of "Basic provisions of derivative risk management" distinguish:

- credit risk (including repayment risk), the risk that the business partner does not fulfill the obligations;

- market risk, the risk of market parameters change (interest rates, exchange rates, shares prices, prices of goods);

- liquidity risk, the risk that the company would not be able to secure the liabilities with available capital;

- operational risk, the risk related to the management system faults;

- legal risk, the risk that the partner violates the agreement.

It is clear that the risks can be specified as each business function consists of many sequential operations the risks can also appear for: operational risk is the risk of deceit, breakdowns, natural disasters etc.

Specificity of foreign business risks classifications is first of all their connection to the financial institutions and authorities regulating their activity.

Ukrainian scientists are working hard to solve the problem of appropriate business risks classification. Many options of such classifications have been developed. Generally they are of the same type; similar features are used but still there is no agreed version the majority of scientists could share.

The following signs of business risks are most frequently used [3]:

- the sphere of origin. According to this sign there can be distinguished: external risks (not related to the company activity, i.e. change of legislation, political instability, natural disasters); internal risks (related to the company activity, i.e. inefficient management, marketing and financial activity);

- level of threat. According to this sign there can be distinguished acceptable (threat of total revenue loss), critical (threat of expenses incurred loss) and irretrievable risks (threat of losses equal or exceeding businessman's property position);

- level of universality (specificity). According to this sign there can be distinguished universal risks (proper for the business structures of all economic activity types); specific risks (proper for peculiar economic activity types);

- sphere of company activity. According to this sign there can be distinguished bank, insurance, trade, industrial, tourist, construction, agricultural, transport risks;

- time duration. According to this sign there can be distinguished short time risks (they can be a danger within certain period, i.e. transport risk, risk of non-payment); constant risks (they pose a threat constantly, i.e. risk of buildings destruction in a seismic activity area);

- level of legitimacy. According to this sign depending on acceptable probability of losses or threats there can be distinguished justified and unjustified risks;

- insurance possibility. According to this sign there can be distinguished insurable and not insurable risks;

- foreseeability by result. According to this sign there can be distinguished: statistic risks (they definitely involve losses); dynamic risks (may involve either losses or revenue).

- relation to the production factors. According to this sign there can be distinguished the risks related to the business activity (material factor of production); risks related to the businessman person (human factor of production); the risks related to the communication (information factor of production).

There was a scientific school created, the representatives of which think that the most important sign of such classification should be the reason of risks origin.

To our opinion the criterion "reason of risks origin" is counterproductive as the attempt to take into account maximum number of danger origin reasons is utopian; after all it is an attempt to take into account and to find the types of the infinite series of reasons. If humanity a priori knew and could take into account all the danger sources, social life in general and economic life in particular would be risk free. Unfortunately it is an illusion.

Feasibility of macrolevel human factors implementation into classification is doubtful (natural and climate, criminal and legal risks). The business activity is one of professional forms of human existence and study of its specific risks should relate to the factors of production only, whereby the revenue is received and probability (threat) of revenue loss or reduction appears. We think it is not reasonable to include human civilization existence risks in business risks though they are affecting business, because they are the risks of all forms of public life.

Thus, study of existing classification provides an opportunity to conclude on disputing of scientific attitudes to their development.

Our scientific position is based on the following conceptual approach:

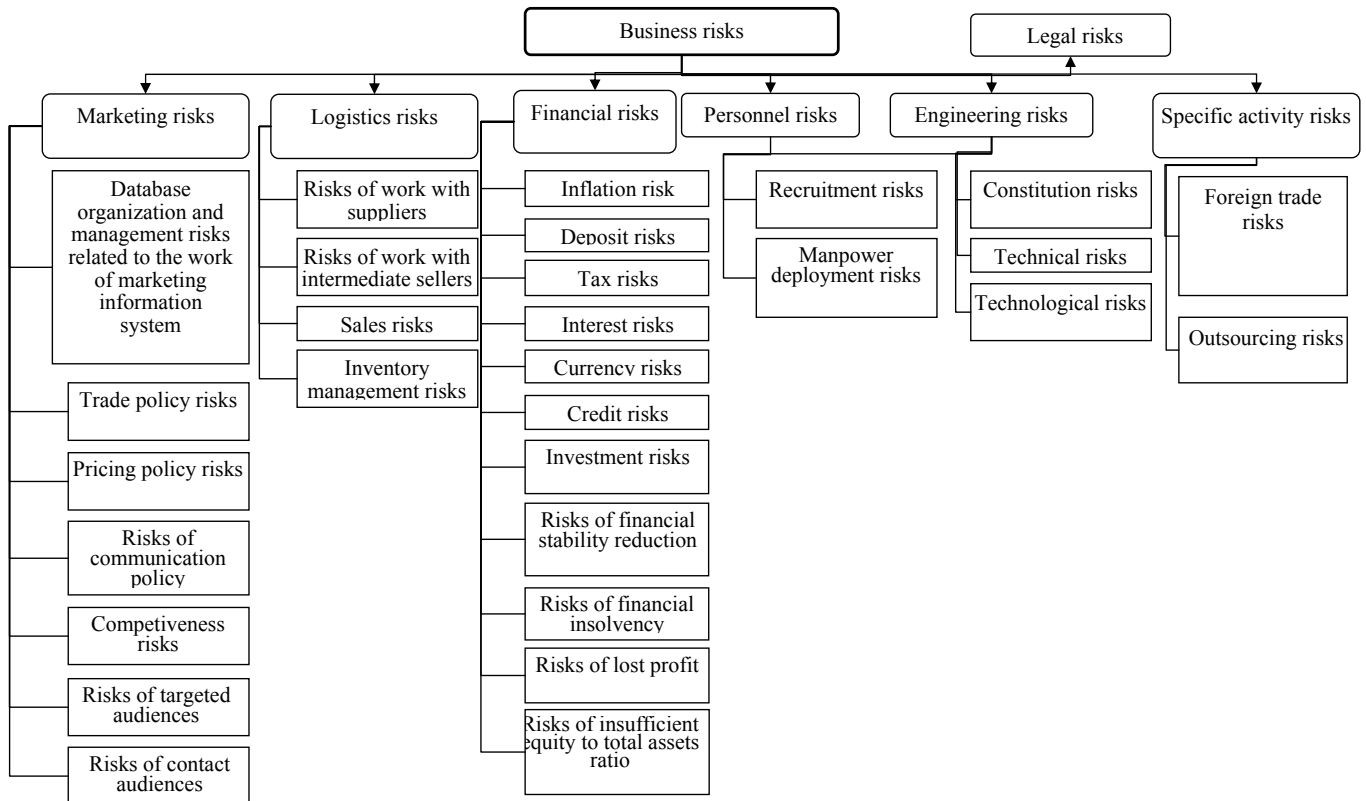
- classification is a scientific abstraction which makes sense only when it is able to image the diversity of the world comprehensively;

- difficulty in classification of business risks arises from their diversity as risks reasons are as many as business functions and operations;

- classification should reflect the basic business functions by means of which and as a result of producing factors counteraction the revenue is received as a resumptive business result;

- a combination of functions and operations of economic activity designates the basic content and main types of business risks.

Figure 1. The scheme of the offered classification of industrial companies' business risks, author's development



Based on this conceptual approach principles of business risk classifications can be offered:

- the basic classification feature should be the main functions of economic activity whereby the production factors counteract for the sake of revenue;
- main functions of economic activity potentially have generic maternal risks making the first level of classification;
- each function consists of a set of operations potentially bearing the corresponding generic associated risks making the second level of classification;
- two-level classification character is sufficient to reflect the main types of business activity risks sufficiently.

Fig. 1 shows the scheme of business activities risks classification based on the above scientific principles.

The basic feature of proposed classification is the "main economic functions of business activity of the industrial enterprises".

According to this characteristic the generic maternal risks constituting the first level of classification are marketing, logistics, finance, personnel, and engineering, legal and specific activities' risks.

Each function consists of a set of operations generating specific associated risks forming the second classification level:

- marketing risks are the risks of database organization and management work-related to the marketing information system; the risks of commercial policy; risks of pricing policy; risk of communication policy; competitive risks; target audiences risks; contact audiences risks;
- logistics risks are the risks of work with suppliers; risks of working with intermediate sellers; marketing risks; inventory management risks;
- financial risks are the risks of inflation; deposit risks; tax risks; interest rate risk; currency risks; credit risk; investment risks; the risks of financial stability reduction; risks of financial insolvency; risks of lost profit;
- personnel risks are the risks of recruitment; risks of manpower deployment;
- engineering risks are the construction risks; technical risks; technological risks;

□ legal risks;

□ specific activities risks is foreign economic activity risks, risks of outsourcing.

The two-level nature of this classification is sufficient, as most business activity risks of industrial organization have been shown (Doing Business 2015).

To avoid double counting of specific generic risks (second level risks), they shall be recorded in the classification one time. For example, as the function of sales is both marketing and logistics one, the sales risks can be attributed both to marketing and logistics. They fall into the logistics. The risks of working with suppliers and intermediate sellers can similarly fall into marketing and logistics. But they also fall into logistics risks. Deposit and credit risks were referred to financial risks. Although at the same time they are contact audiences risks.

Author's variant of classification does not include the so-called external risks reasoned by environmental macromarketing factors. Environmental makromarketing factors form either favourable or unfavourable conditions for the social life. For example, the probability of a tsunami or destabilization of political situation threatens life and health of all society members, not just the existence of the business community.

Conclusions and prospects of further research: We believe that the objective changes of the state of uncontrollable factors of the makromarketing environment form conditions of social life and are not just specific business risks. International expert community uses the concept of "business climate" to characterize the conditions of doing business; it is evaluated by means of Ease of Doing Business index.

The world experts clearly identify the business climate in Ukraine as unfriendly. According to the opinion of Swiss IMD institute the most unattractive parts of Ukrainian economy are business climate, infrastructure and managerial skills of the regulative structures in the government. Ukraine ranks 49 of 60 in the competitiveness rating (International activity of scfm of Ukraine). According to the rating of analytical department of the British "The Economist" Ukraine leads the world in speed of economic contraction (drop of gross domestic product is 20%).

Ukraine has now the most unfavourable business environment the country ever had throughout the entire independency period. Fiscal, banking and foreign trade policy of the Government does not contribute to the short-term positive forecast of macroeconomic indicators improvement. There is a danger of demand recession because of the political uncertainty and negative expectations in respect of financial and economic situation and high volatility of the national currency against the foreign currencies. The risks of business activity are growing and the target audiences risks become determinative which means drop of consumer purchasing power.

Importance of information support and effective work of marketing information system becomes more important in unfavorable business climate. Market monitoring and research are the sources of necessary and true information to take reasonable management decisions aimed at reduction of industrial enterprise risks, increase of its competitiveness and improvement of financial results.

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