

# Features of Entrepreneurial Risk Management in RA Commercial Organizations

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**UDC:** 334.772; **EDN:** HFMGVQ; **JEL:** D81, G32, L26

**Keywords:** entrepreneurial risk, business and entrepreneurship, risk and uncertainty, risk assessment, neutralization of risks.

## Ձեռնարկատիրական ռիսկերի կառավարման առանձնահատկությունները ՀՀ առեվտրային կազմակերպություններում

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**Ամփոփագիր.** Ձեռնարկատերերն իրենց բիզնես գործունեությունն իրականացնում են աճող անորոշության և անընդհատ փոփոխվող տնտեսական միջավայրի պայմաններում: Այս փոփոխություններն, իրենց հերթին, որոշվում են թողարկվող ապրանքների, տրամադրվող ծառայությունների և իրականացվող աշխատանքների պահանջարկի առկայությամբ և վիճակով, սպառման շուկաներով, վաճառքի կապուղիներով և ծավալներով, տնտեսական ներուժով՝ ներառյալ արտադրական և այլ ոլորտները, օգտագործվող սարքավորումներով, անձնակազմով, ինչպես նաև ֆինանսավորման աղբյուրներով, մրցակցային միջավայրով (մասնաբաժինը ներքին և արտաքին շուկաներում), հաճախորդների վարքագծով, արտաքին միջավայրի ազդեցությունով: Վերջինս յուրաքանչյուր երկրի քաղաքական, ընդհանուր տնտեսական, իրավական և սոցիալ-մշակութային զարգացման գործոններ են:

Վերը նշվածների առաջացման հավանականությունը և ազդեցությունը կարելի է կանխատեսել: Կարևոր է մշտապես վերահսկել դրանք և հաշվի առնել ընկերության գործունեության մեջ: Հատկանշական է, որ կազմակերպության ֆինանսական վիճակի վերլուծությունն առանց ձեռնարկատիրական ռիսկերի վերլուծության մեթոդների օգտագործման անարդյունավետ կլինի ազատ շուկայական տնտեսության մեջ, քանի որ մրցակցային միջավայրում կազմակերպության ֆինանսական արդյունքները կապված են անորոշության և ռիսկի հետ, ինչը պետք է հաշվի առնել, և գնահատել:

**Հանգուցաբառեր՝** ձեռնարկատիրական ռիսկ, բիզնես և ձեռներեցություն, ռիսկ և անորոշություն, ռիսկերի գնահատում, ռիսկերի չեզոքացում:

## Особенности управления предпринимательским риском в коммерческих организациях РА

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**Аннотация.** Предприниматели ведут свою деятельность в условиях растущей неопределенности и постоянно меняющейся экономической среды. Эти изменения, в свою очередь, определяются наличием и состоянием спроса на выпускаемую продукцию, оказываемые услуги и выполняемые работы, рынки потребления, каналы и объемы сбыта, экономический потенциал, в том числе производственные и другие отрасли, бывшее в употреблении оборудование, персонал, а также источники финансирования, конкурентная среда (доля на внутреннем и внешнем рынках), поведение клиентов, влияние внешней среды. Последние являются факторами политического, общеэкономического, правового и социокультурного развития каждой страны.

Вероятность и влияние вышеизложенного можно предсказать. Важно постоянно отслеживать их и учитывать в деятельности компании. Примечательно, что анализ финансового состояния организации без применения методов анализа предпринимательских рисков будет малоэффективен в условиях свободной рыночной экономики, поскольку финансовые результаты организации в условиях конкуренции связаны с неопределенностью и риском, которые необходимо учитывать и оценить.

**Ключевые слова:** предпринимательский риск, бизнес и предпринимательство, риск и неопределенность, оценка риска, снижение риска

### *1. Introduction.*

In the current uncertain business environment, commercial organizations are constantly facing certain challenges that have a huge impact on business operations. The uncertainty of the environment forces organizations to take appropriate measures not only for business survival, but also for its development.

Uncertainty situations force any organization to pay priority attention to the problems of proper management of emerging business risks, to frequently review, improve the risk management system of business projects and programs, and increase the efficiency of the process of that system.

It is obvious that any entrepreneurial activity contains risk, which implies possible deviations from expected profits or expected results under conditions of uncertainty. Entrepreneurial risks can reveal the possibility of an unfavorable situation or an unsuccessful outcome. An unfavorable situation or an unsuccessful outcome can be the loss of one's own funds, the absence of the desired result, the receipt of income less than predicted, bankruptcy, etc. Not taking risks or avoiding risks leads to the fact that the organization begins not to fully use its resources, operates within the framework of a small market, and misses the receipt of possible income. Therefore, it is very important for organizations to develop and adequately operate an enterprise risk management system.

For the risk to be beneficial, it is necessary to manage it: analyze the causes of risk and its reduction factors, consider the consequences, study the indicators characterizing the impact of risk on the results of the organization's activities, as well as find ways and sources of risk compensation.

So, risk management is a broad concept. It refers to how the organization uses its own capabilities to achieve its goal and solve the problems that arise along the way. Risk management involves the recognition, analysis and response to risk factors that are part of business life. Effective risk management involves controlling future outcomes as quickly as possible by acting proactively and effectively. Therefore, effective risk management makes it possible to reduce both the probability of risk occurrence and its potential impact on the organization. [9].

The process of effective management of the business risk system is extremely important because

it provides the tools of the business, through which the entrepreneur will be able to adequately identify and overcome possible problems, to solve them in a timely and efficient manner. For a long time, risk management has become the most important strategic planning tool that can solve such important problems as managing the value of the organization, increasing business performance and continuous and proper implementation of business processes. Today, commercial organizations must follow the events of the global market and move along with them.

Business risk management and assessment is the best way to prepare for the events that can hinder the progress and growth of the organization. When an entrepreneur evaluates his plan for dealing with potential threats and then develops structures to deal with them, he increases his chances of having a successful organization.

It should be noted that the greater the uncertainty of the economic situation, the higher the level of risk, but at the same time, as a rule, the higher the level of entrepreneurial risk, the greater the probability of obtaining high profits for the organization. On the one hand, the organization tries to minimize the degree of risk and from several alternative solutions always chooses the solution in which the level of risk is minimal. On the other hand, it is necessary to choose the optimal ratio of risk level and degree of business activity, profitability.

It is very important for organizations to develop strategic plans, implement cost optimization measures, ensure high product quality, use a control system, and organize fast and quality service. All that implies the occurrence of certain risky events. Without effective management of the business risk system, the organization will not be able to be competitive, resist and quickly respond to changes in the business environment and strengthen its position in the market, fulfill its mission and obtain appropriate profits.

The management of the business risk system process significantly affects the internal environment of the organization, employees, the position of the organization in the market, production and sale of products.

### *2. Literature review*

Many scientists-researchers have been engaged in the study of issues related to the essence, types of

entrepreneurial risks, their impact on the organization and management efficiency. A. Badalova's book "Enterprise Risk Management, (2016)" refers to the discussion of such categories related to the enterprise risk management of the organization, such as the concepts of risk and uncertainty, the relationship between risk and crisis, different approaches to risk classification, methods of risk identification, assessment, analysis, forecasting. A great place is given to the organization's risk management system and the mathematical apparatus that is used to make effective decisions in that area. This work offers a series of self-study scenarios that facilitate understanding of the use of existing and proposed risk management tools [1, p. 48]. I. Batova studies the nature of risk management, their classification, main characteristics, functions, causes and possible consequences in the scientific work "Classification of risks and their causes, (2015)". The most important features of risk classification are presented here: the time of their occurrence, factors, place, scope, nature and extent of possible consequences and losses. The author notes that because of the emergence of entrepreneurial risks

the prerequisites, causes of possible uncertainty and the occurrence of possible losses because of them and their prevention. [2]. In the book "Entrepreneurial Risk Management, (2016)", Vasin presents the development trends of economic entities in the context of the transformation of the socio-economic system of the state. This work reveals the nature of risks emerging in business, their classification, and determines the features of risk management in the structure of the strategy implemented by the organization. [3]. In the book "Risk Management, (2016)", Worentzovsky outlines the basics of the theory of making risky decisions for business in the real economy. Various approaches to the analysis of risk factors, risk measurement is presented, a description of risk calculation methods in the process of investment evaluation is given. Risk management opportunities are considered based on the impact of business cash flows on the organization's operations. The possibilities of implementing business risk management methods are also presented, as well as the recommendations for performing calculations on their validity. [4]. Kiseleva in her book "Entrepreneurial risks. psychological features of risk assessment in business, (2019)" states that the analysis of business risks allows avoiding not only significant material losses, but also makes it possible to prevent bankruptcy. This work aims to present the characteristics of entrepreneurial risks so that every entrepreneur can effectively organize and implement the analysis and management of risks

arising during the organization's activities. For this, it is necessary to identify the essence, types of risks, the operational and financial levers to influence them, to assess the impact of risks on business activities. [5].

J. Hamton's popular book *Fundamentals of Enterprise Risk Management* (2015) outlines how the best companies assess risk, manage its impact and size opportunities. The latest risk management technologies such as Riskconnect and High-Tech Electronic Platform (HTEP) are introduced here. The author helps the reader recognize both internal and external influences, understand important concepts such as risk mapping, identification, and adapting risk capabilities to the organization's business model. Risk management studies of such organizations as Apple, Sony, IBM, Microsoft, etc. are also presented. The book provides the reader with the information and tools that 21st century organizations need in the risk management process. [7]. Douglas W. Hubbard's "Risk Management Failure. "Why It's Broken and How to Fix It, (2020)" book is very popular among entrepreneurs. Here, the author, who is one of the founders of Applied Information Economics (AIE), addresses how organizations can perform accurate risk management analysis., what steps can be taken to improve risk management techniques. This book describes statistical methods and includes updated research on risk management. Using decades of risk management experience as well as real-world case studies, the author identifies key weaknesses that hinder by applying the techniques in the book, organizations will be able to effectively manage risk and make decisions. [8].

### **3. Research Methodology**

The purpose of the article is to study the organization's business risk system and the implemented process, to evaluate its effectiveness to achieve the overall goal of the organization, by using the least possible resources to obtain maximum profit. In this context, it is important to choose a research methodology, which represents a set of methods, approaches and techniques that need to be applied to carry out a study in a systematic way.

The methods used during the entrepreneurial risk analysis are:

- Analysis based on existing information.
- Method of gathering new information.

It should be noted that among the common methods of studying the risks of business activity are also the methods of statistical, cost appropriateness determination and expert evaluation. With the help of the statistical method, the losses of the given industrial and economic

sectors, the expected incomes are studied, and forecasts are made based on them. When using this method, some indicators of variation are calculated: dispersion, mean square deviation and coefficient of variation. Dispersion characterizes the quantitative change of factors affecting risk when a transition is made from one state to another.

The grouping method is widely used in the risk analysis of economic activity. It combines combination and analysis and allows to combine uniform phenomena and facts in a certain group. Using this method, the whole can be divided into parts according to the most essential features. It is advisable to use this method in case of studying different types and sectors of economic risk of the organization.

When studying the organization's risk system and process, the grouping method can be used in the presence of the following conditions:

1. existence of various types of risk,
2. the existence of many reasons, risk factors of economic activity,
3. the ability to separate the grouping feature for combining different risks into uniform groupings,
4. the possibility of separating the characteristics of grouping into uniform groups for the unification of various factors and causes of the origin of the risk of economic activity.

#### **4. Analyze**

Sometimes the terms "risk" and "uncertainty" are taken as synonyms, although they are fundamentally different from each other.

The point is that the word "risk" literally means making a decision, the outcome of which is unknown in advance. This term means the possibility (probability) of the occurrence of an event with certain consequences, and it is not only about the negative effect of the event. In other words, risk characterizes a situation where an unknown event is likely to occur, and which can be quantified. From a management perspective, risk has two important properties: probability and damage.

The concept of uncertainty characterizes a situation where the origin of an unknown event is impossible to estimate in advance. Sources of uncertainty in business activities are:

- Market structure (demands and desires of buyers, size of the target audience).
- External factors (changes in laws, social conditions, etc.).
- Performance of suppliers.
- Behavior of competitors.
- The working atmosphere within the organization.

Entrepreneurs, as a rule, must choose one of the options of predictable events, which nevertheless contains some risk. In other words, entrepreneurial decisions are almost always associated with risk, which depends on several unpredictable factors of uncertainty. Risk is an objective and integral element of any economic decision-making. Therefore, to make a profit, entrepreneurs must consciously take risky decisions.

If entrepreneurship were not risky, all entrepreneurs would be successful. Meanwhile, some entrepreneurs survive, some thrive, and some go out of business. The reasons are many, starting from the incompatibility of the chosen business idea and the requirements of the target audience to the unfair competition of competitors and their unethical practices. All these can be defined as business risks, which include:

- qualitative decrease of competitiveness,
- decline in sales volumes,
- bankruptcy of the organization,
- seizure of the organization,
- the impossibility of repurchasing investments during the calculation period,
- damages incurred because of wrong decisions, etc.

Entrepreneurial risk is considered a multi-component category, the need for research is related to large-scale socio-economic transformations that take place in parallel with the process of transition to a qualitatively new state of society.

Entrepreneurs, as a rule, carry out business activities in the conditions of growing uncertainties and constantly changing economic environment. These changes, in turn, are determined by the availability and state of demand for outputs, consumption markets, sales channels and volumes, economic potential, as well as sources of financing, the competitive environment, consumer behavior and the influence of the external environment. The probability of occurrence and impact of the mentioned factors can be predicted. It is only important to constantly monitor them and take them into account in the company's activities.

Analysis of the financial condition of the organization without the use of risk analysis methods will be ineffective in a free market economy.

Entrepreneurial risks arise from the uncertainty of the business environment, which is determined by 4 main groups of factors. The first group reflects factors of lack of information. Second, it presents the actions or counter-effects of competitors, the analysis of which is also essential to ensure the effective operation of the organization. The third distinguishes the occurrence of certain factors by chance. The fourth represents the unknown factors

that may appear in the future at the time of decision making.

Two types of uncertainty are distinguished. The first type includes "one-off" uncertainties that are surmountable. The second includes the inevitable uncertainties, the existence of which is revealed either by the accidental appearance of already known factors, or it is due to the emergence of new factors and events that could not be predicted before. In both cases, it is understood that during entrepreneurial activity, decisions must be made when future results are unknown.

Emerging business risks are manifold. They can be presented in the following main groups:

- Risks associated with the loss of resources, failure to fully receive income, or the occurrence of additional costs during business activities.
- Risks associated with the emergence of uncertainty, adverse situations, consequences.
- Risks that exist as a hazard. It refers to not reaching the set goal, losing positions in the market. It is presented as a risk of possible losses of resources, which relates to the realization of products, organization of production, provision of services, commodity money and financial operations.

• Risks associated with overcoming uncertainty. They are events that may or may not happen. In case of such events, 3 economic results are possible: negative, zero or positive.

Risk-taking in dealing with uncertainty is the creation of risk to achieve a beneficial outcome that could not be obtained under risk-free conditions.

Risk management is carried out according to stages.

1. Identifying the risk and determining the degree of its impact on the company.
2. Use of quantitative and qualitative analysis methods.
3. Organization and control of risk management activities.
4. Identifying patterns between the risk management system and current financial results.
5. Determining the effectiveness of the risk management system.

The process of risk assessment consists of systematic identification of hazards and determination of magnitude of risks. During the risk assessment, not only the adverse events that happened earlier, but also the events that may cause negative consequences are considered.

The process of risk assessment and management is carried out considering previously identified risks and their impact on the organization's activities. It is a systematic process and takes place in certain stages.

The basis of risk assessment is the identification of hazards during work. If it is not possible to completely exclude these dangers, then the extent of their impact should be assessed.

Based on the assessment, decisions are made to mitigate their impact. For the risk assessment to be effective, the proposed measures must be specific and feasible.

Sustainability of risk assessment implies continuous monitoring of implemented measures. [6, p. 7].

In the product market, every entrepreneur must effectively combine market demands with the results of their own activities to achieve success and maintain their positions in the market. In this regard, the company in question gives great importance to the usefulness, suitability, and ability of its products to meet the needs of a certain segment of consumers.

In the conditions of a transitional economy, including in the Armenian market, the sale of released products is the most important stage of every organization's activity. Companies operating in the market understand they cannot attract the attention of all buyers at once. Therefore, one should focus on the specific groups of consumers that are able to satisfy the most.

It should be noted that the larger the organization, the higher the level of management, so more factors can be considered manageable. For example, with the help of advertising and pricing policies, quite large companies can generate consumer demand in the market, thereby influencing factors that are considered uncontrollable for other companies.

It is noteworthy that the influence of risk factors caused by the political situation in RA on the level of economic activity continues to be quite high. Political instability, as a factor that increases the level of business risk, is mostly manifested.

1. On the eve of major socio-political events (elections, referenda).

2. In the conditions of the continuously maintained state of war in the region.

The point is that political instability activates the capital outflow process, reduces capital investments in long-term projects and programs.

Another factor that increases the level of risk in the activities of RA companies is the lack of state regulation and support of entrepreneurship. This is largely due to the deficit of the RA state budget and the lack of funding for programs supporting entrepreneurship.

According to the observations, the level of risk is also increased due to the low contractual discipline of the consumers of the manufactured product and the suppliers of the initial resources. Deviations from the schedule of creditor, state and other payments and the resulting liabilities negatively affect the level of risk arising in the business activities of manufacturing companies in the Republic of Armenia.

The conducted study allows us to state that the full formation of the risk management system of the

company under consideration can provide for the latter:

- A reliable forecast of the origin of possible risks at any stage of the company's business activity.
- Analysis of the origin of business risks and the causes of their impact.
- Developing a strategy for preventing the negative consequences of entrepreneurial risk factors.
- Favorable conditions for the implementation of business risk prevention plans.
- Systematic monitoring of business risks.
- Analysis and control of results to increase the effectiveness of the business risk system process.

### 5. Conclusion

In the conditions of modern geopolitical radical changes, organizations, more than ever, face multiple and multifaceted challenges related to the problems of diagnosing, identifying, evaluating and mitigating business risks. Entrepreneurship itself implies taking risks, without which it is impossible to achieve the desired result and ensure the desired level of profit. It is well known that entrepreneurial activity is based on the expectation of making a profit that exceeds the established normal or average level of profit. Those expectations are vague. They may or may not materialize. Anticipating and mitigating the negative effects of uncertainty in expectations is the essence of risk management. For this reason, entrepreneurship is associated with business risk. It is extremely difficult to do business when various risks may arise due to uncertainties at every moment.

Risk management processes include risk identification and assessment, risk regulation and documentation, as well as its control.

Each of the above questions can have a decisive impact on the financial stability of any company, because unmanageable business risks can be the basis for an unprecedented decline in the financial situation, leading up to bankruptcy.

As a result of the analysis of business risk management, several conclusions were made.

- Sources of uncertainty in business are the structure of the market (demands and desires of buyers, size of the target audience), external factors (changes in laws, social conditions), work of suppliers, behavior of competitors, work atmosphere within the organization.
- When making managerial decisions about investments in the organization, it is necessary to take into account possible losses of financial stability and liquidity.
- During the organization and coordination of the activities of the individual units of the organization, it is necessary to implement a

monitoring process, ensuring control over the level of perceived and accepted risk.

- The implementation of the enterprise risk management system and the corresponding process in the organization is of key importance to ensure effective business activity.
- Exposure to permissible business risk may result in additional inefficient costs, loss of time, etc. to the company.
- Each production project is characterized by certain risks, and therefore, for each project, it is necessary to develop a unique management strategy according to the characteristics of the considered risk.
- Comprehensive risk regulation measures should be implemented in the organization.
- Risk management and strategic plan development have a significant impact on the long-term development of the organization.

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Сдана/Հանձնվել է՝ 21.08.2023

Рецензирована/Պրիլիցվել է՝ 28.08.2023

Принята/Ընդունվել է՝ 01.09.2023