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## RISK MANAGEMENT AS A FOUNDATION FOR DEVELOPMENT OF FINANCIAL POTENTIAL OF BUSINESS ENTITIES

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**Abstract.** The activities of enterprises are characterized primarily by a certain level of economic freedom of economic entities. Regardless of their own will, the participants of economic relations during their activity are dealing with a certain level of uncertainty and, consequently, affect the types of risks inherent in the economy of the country as a whole, and directly in the industry in which the company operates. The level of economic security of an enterprise depends on how efficiently its management and managers will be able to avoid possible risks and eliminate the harmful effects of certain negative components of the internal and external environment. Determined that the main goal of sustainable development of the financial potential, for agricultural enterprises is to achieve strategic targets, which directly influences on maximization of the enterprise profit. The purpose of the article is to recognize the risks of functioning and development of financial potential in the circle of agricultural sector and agricultural subjects of economy. According to risk management, we find out specifics, which are used for identification of risks. Described types of risks inherent in agricultural subjects of Ukraine.

Emphasized the failure to take into account the impact of business risk in developing the strategy of financial potential development of the enterprise and making management decisions, not only develops business entities, but also damages the stagnation of the economic system as a whole. The stages of the risk management process at the enterprise have been identified. Systematized methods of risk management of agricultural enterprises.

**Keywords:** *risk, business entity, financial potential, development, financial result.*

**JEL classification:** *D81, G30*

**Introduction.** The relevance of the making effective management decisions regarding to the functioning of enterprises in the conditions of increasing risk, which is an integral characteristic of the present market relations, is rapidly growing. The basis of rational management actions is the presence of the fullest and reliable information on sources of potential danger and possible consequences of its realization.

Uncertainty, as an integral component of any financial and economic activity, is a precondition for a whole range of economic phenomena, the direct interaction of which leads to certain reactions of society as a whole and of individual economic units – economic entities.

Obtaining maximum profits at optimal cost of resource and capital in a competitive environment, as the main goal of business activity for each economic entities, requires comparison of funds amount advanced into such activity with the financial result amount. At the same time, there is a risk of pre-determined losses when any kind of economic activity is carried out objectively.

Trying to adapt to the conditions of uncertainty, to achieve a balanced state and to neutralize destabilizing factors, economic entities consciously, and in some cases – and unconsciously, manage risks. Leaving mainly to the intuitive balancing of alternative solutions, enterprises prefer scientifically grounded, practically tried and strategically adequate risk-influencing levers – the mechanism of managing the latter.

**Analysis of the latest research and publications.** The issue of risk management and prevention has become quite widely covered in scientific works. The following scientists made a

significant contribution to the study of risks of economic entities: V. Vitlinsky, G. Velikvanenko, T. Kovalova, V. Kozik, V. Oluyanova, N. Podolchak and others. The problems of formalization of financial risk management are researched with I. Syetova. Some risk management researchers focus on risk management tools. A certain structure of preventive measures aimed at prevention of financial risks, provides in its scientific researches V. Plisa, but he does not consider risk management at different stages of its realization [12]. Therefore, the problem of formation of the system of financial risks management at the enterprise still remains uncertain and needs further elaboration.

V. Vitlinsky and G. Velikvanenko notes that the preconditions of economic risks are uncertainty, conflict and alternativity of economic situations [4, p. 56]. The definition analysis given by these scientists opens reason to assert that risk arises in cases of management, decision-making, evaluation in conditions of uncertainty, conflict, thus, such actions may cause threats to the enterprise or, as a result of such actions, all available opportunities will not be used.

T. Vasylytsiv in the monograph "Economic security of entrepreneurship of Ukraine: strategy and strengthening mechanisms" [3, p. 26] emphasizes that "the possibility of the emergence of economic threats and dangers for entrepreneurship arises, first of all, due to the conflict of interests of the subjects of the entrepreneurial environment (as well as means of their achievement) and the effects of factors of the external and internal environment of its functioning". The scientist believes that a conflict of interests can cause a threat and danger to the development of the enterprise.

N. Poida-Nosyk understands financial risk as "the probability of an enterprise losing part of its resources, not receiving income, or the appearance of additional costs as a result of certain production or financial activities" [13].

The monograph [6, p.57] states that risks are present at every enterprise, whether its activities comply with current legislation, and threats involve non-compliance with certain rules and laws.

**The research results.** The level of total risk is determined in the process of complex diagnostics of risks, which allows to trace their development and distribution spheres, negative consequences of accumulation, their mutual influence and accumulation on the basis of wide sources of information and various methods of analysis and estimation [9, c. 101].

The impact of risks on financial potential is contradictory: Apart from slowing down processes that provide financial potential development, they also create positive synergies. For example, decentralization reform is accompanied by the risks of increasing the contradictions between budget managers who are in different areas of the budget system, but it leads to increasing the financial potential of local budgets. Approaches to determining the essence of risks are considerably differentiated, many unresolved issues remain, many aspects of assessment of the impact of risks on the financial potential of agricultural enterprises remain controversial and require scientific substantiation and implementation of effective management mechanisms at the level of economic entities, their counteragents, industry, and the state as a whole. Lack of applied research on risks of loss of financial potential of economic entities. Risks are defined as a potential possibility of loss of assets, resources, underincome or additional expenses in case of unfavorable situations and consequences for the company, which is quantitatively measured [7, c. 117]. The synonym for risk is uncertainty, threat, probability of loss, danger.

Risks of financial potential development are divided into non-financial and financial. The main non-financial risks are: strategic, operational (including legal), compliance risk (including risk of business reputation). Under the risk we understand "probability of occurrence of losses or additional losses or underincome, or failure of the party to fulfill contractual obligations due to influence of negative internal and external factors" [11]. Financial risks include: Market (currency, stock, commodity), credit, interest, liquidity risk.

Mentioned types of financial risks have different significance for certain economic entities of the agricultural sector: Stock risk – for large agricultural holdings, securities of which are in circulation trading stock area, including foreign ones; currency risk – for enterprises that actively conduct foreign economic activity (export-import operations); the commodity risk is inherent to almost all entities of the agricultural sector of the economy. It arises because of price volatility on

agricultural exchanges, unfavorable changes in the market value of agricultural products, ready-made food products, other commodity stocks kept on the balance sheets of enterprises.

The source of currency risk is unfavorable fluctuations of foreign exchange rates, which affect assets and liabilities of economic entities.

The stock risk arises from unfavorable changes in the market value of shares and other securities with non-profit, issued by economic entities, as well as corporate securities, which are the object of investment. In domestic conditions, the stock risk of economic entities is systemic because of the deformed nature of the financial market infrastructure, which from the initial stages to the present is its integral sign of development. These distortions are manifested in the low effectiveness of functioning of the securities market, excessive banking policy, and inability to resist external economic shocks.

The credit risk and its variety (the risk of the counterparty) are inherent to all economic entities that use bank loans. For subjects of foreign economic activity the following types of credit risk, such as the risk of the country and transfer risk, connected with the necessity of receipts transfer in the national currency to foreign currency for servicing currency loans, are important. For large agricultural holdings, there is a risk of investing in subsidiaries.

Liquidity risk is inherent to all economic entities of the agricultural sector, interest risk – to those who attract credits from bank institutions, refinance them, issue bonds, conclude agreements of interest swaps, options, etc.

Over the last period, new financial instruments and financial technologies have been involved in the management of financial activities of agricultural economic entities, leading to new sources of risk. The typology of financial potential risks according to loss is a dynamic system and serves as the basis for classification of their insurance [1, c. 355].

Non-financial risks are subject to insurance protection to a greater extent than financial risks. This applies to operational and compliance risk. Strategic risk is difficult to measure and diversify, but it is possible and necessary to manage. The strategic map is an instrument of financial potential management of the enterprise, which allows to transform the strategy into a set of mutually balanced indicators, which are characterized by critical factors of current and future development [15, c. 10]. Risk management should be carried out on the basis of a strategic chart of financial potential development, which allows to communicate to individual departments and employees of the organization their role in realization of the strategy.

Strategic maps of financial potential define causal links between individual elements of the business entity strategy on the basis of balanced scorecard (BSC): finance, clients, internal processes, education and development [16, c. 38]. The financial component should determine the targets of sales, revenues, financial results, profitability, productivity of the main factors of production. The client component contains a description of the target segments of the consumer market and the guidelines that determine the attractiveness of the enterprise in the eyes of clients. The internal component is the formalization of the processes of product creation and reduction of costs for its production. Training and development is a component that reflects the development of skills and motivation of staff to encourage the introduction of financial innovations [2, c. 130].

The addition to the BSC system is the methodology of SWOT-analysis (strengths, weaknesses, opportunities, threats). It provides not only for the identification of internal strengths and weaknesses of the enterprise, as well as for external opportunities and threats, but also for the establishment of relations between them. SWOT-analysis as an instrument of development of financial potential of economic entities [10, c. 182] allows to base strategies as a combination of such measures: SO - measures to be taken to use strong parties to increase opportunities of development of financial potential of the enterprise; WO - measures to be taken, overcoming weak sides and using presented opportunities; ST - measures that use strong sides of the enterprise to prevent threats to the development of financial potential; WT - measures that minimize weaknesses to prevent threats to the development of financial potential.

One of the factors that determine the financial potential of an enterprise, especially joint-stock companies, is its value, since its stable growth and/or maintenance at sufficient level reduces the risks

of capital loss and the probability of bankruptcy. From the position of risk-oriented financial management it is expedient to estimate it according to indicators of value-oriented management VBM (value based Management): Strategic investments; flow of money, which these investments generate (dividends); term of economic life of these investments; cost of capital associated with them (minimum rate of return on investment).

The success of agricultural enterprises is largely determined by resource availability, structure, speed of renewal and efficiency of use. Given the high level of dependence of enterprises of the agro-industrial complex on influence of factors which are difficult to predict (with high degree of probability and time of their occurrence), the question of estimation of influence of risks on resource provision of agricultural enterprises requires development and substantiation.

Agricultural production is prone to the risks that are not relevant in other sectors of the national economy. Specifically, they are: seasonality, which requires subjects of agriculture to carry out short-term loans during spring-summer field works and autumn harvest gathering; possibility to get the result of operation in the form of finished products in plants – once/twice a year (more often – in hothouse farms, livestock breeding), despite the expenses during the whole period; impact of biological laws on the development of animals and plants; complicated accounting and evaluation of agricultural assets represented by land, plants, animals, etc.

In order to determine their impact on the financial potential of the enterprise it is possible to use methods of simulation modeling, in particular, due to marginal profitability of the enterprise in the field of plant growing. In order to determine the risk of loss of financial potential, it is necessary to forecast the target of marginal income according to different scenarios, probability of their realization and total probability of loss, which will be a measure of risk.

Ensuring the effectiveness of enterprises in the agricultural sector depends to a large extent on the forecast of losses from risks through the introduction of rational methods of their management. One of the risk assessment tools is cluster analysis, which allows to form information to assess the impact of risk factors, which are divided into clusters depending on the purpose of enterprises. The combination of cluster analysis with the "decision tree" allows to predict risks and make relevant management decisions on risk minimization.

We believe that the most dangerous risk with which agricultural production in plant production is a natural and climatic factor. However, if the natural component of a certain region (terrain, altitude, soil cover) the enterprise has actually in existence and production technologies are built from the very beginning, based on this fact, it is difficult to predict and predict the climatic component (especially during the period of change), however, the results of its impact on the consequences are the most extensive for production. Since climate is a long-term weather regime in this area, it is weather conditions that should become a determining factor for a cluster analysis of plant risks. It is advisable to conduct it in the field from groups of crops similar to the biology of development (early yards of culture, late yards of culture and winter of culture), because the risks between them will be significantly different.

The analysis and assessment of the risks of the agricultural sector is dictated by the priority of solving a number of problems, which require making decisions on limiting the dependence of enterprises on the influence of specific, difficult-to-predict, and related to natural-climatic and weather conditions. Limiting the degree of influence of negative consequences on the process of achievement of positive results determines the necessity of forming an antirisk mechanism of management of agricultural enterprises.

The choice of a rational structure of the sources of financing for the activities of agricultural enterprises should be based on the concept of compromise between expected profitability and acceptable risk of capital investment. This means that the profitability increase due to the attraction of loan funds is achieved on condition that the economic profitability of the enterprise's assets is higher than the interest rate on the loan. This concept is aligned with business financing theories based on cost comparisons under different conditions of capital attraction and different combinations of financing, oriented on the reproduction of the enterprise value. The following measures will contribute to the formulation of a rational policy of financing the development of agricultural

enterprises: creation of an effective credit market, which provides for expansion of competition between creditors and reduction the cost of attraction of credit resources; stimulation of innovation development of production potential through acquisition of some kinds of production facilities at the expense of state funds; provision of credit support by reducing interest, repayment or delay of debts; optimization of choice of source of financing structure from the positions of ensuring profitability and permissible risk; analysis of efficiency of forming and use of financial resources to develop strategy of financial regulation of development of agricultural enterprises. The policy of financing the agricultural sector should be oriented to the optimal combination of sources and methods of financing according to different scenarios in the context of ensuring profitability and acceptable risk of the activities of the agricultural enterprises.

In order to eliminate the impact of natural events, intuitive decisions, limiting factors and to stimulate its growth, it is advisable to include it in the system of financial control, which consists of financial and management accounting, planning of analysis and control systems in order to reduce the risks of financial potential development. Their close connection allows to carry out continuous process of factors identification of financial potential development, to conduct accounting and estimation of their influence, monitoring of growth stability, quality control of strategies.

The effectiveness of the financial strategy of agricultural enterprises depends on the rational financial policy aimed at the formation and effective use of financial resources. Financial policy should be flexible and adapted, i.e. to take into account specific conditions and factors of the agrarian sphere: Naturally - climatic, industrial, market and financial, which lead to the risk of loss of economic development.

Methods of risk management of financial potential loss depend on risk factors and their identification points.

In order to create equal conditions of competitiveness of development of financial potential of different organizational and legal forms of economic activity it is necessary to improve the antimonopoly legislation in terms of limitation of monopoly position of super-concentrated formations, activity of intermediary structures of non-market type and stimulation of formation of competitive environment on agrarian market [17]. Vertical-integrated formation should play a decisive role in the formation of innovative and investment model of agricultural sector growth, in strengthening the country's competitiveness on foreign agricultural markets, in the creation and certification of systems of agricultural products quality and food safety, implementation of ISO standards International Organization for Standardization, HACCP Hazard Analysis and critical Control Point, etc.

When assessing the financial potential of enterprises, it is also necessary to take into account risks inherent in stock operations and approaches to development of financial strategies: With active – high probability of mistakes in forecasts, with passive – inconsistency of historical data to the future dynamics of securities exchange rates. Therefore, for effective management of the portfolio of securities during the long period of investment it is necessary to use mixed approaches, which take into account the volatility of the market and securities.

**Conclusion.** Thus, risk management of financial potential of economic entities is strategic and tactical. The main laws, which are the grounds for providing strategic development of financial potential, can be:

differentiation of types and types of strategies for financial potential development based on results of internal and external environment diagnostics and dynamics of changes in financial potential state taking into account risk;

interrelation of target vectors of strategic development of financial potential and general strategy of enterprises through modeling of financial potential for the future and establishment of risk appetite and limits of risks.

In order to reduce risk and ensure overall financial potential development, control over the selection of funding sources should be improved by developing risk classifications, risk assessment approaches, and strategic risk map development.

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