Problems and Prospects of the Financial Risk Management System Development of Economic Entities

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Abstract: In modern macroeconomic conditions the well-being and efficiency of economic entities can be achieved through the formation of an economic security management system, including the assessment and the neutralization of financial risks. The significance of this component is due to the fact that financial security affects all the main functional areas of any organization. The financial risk management plays a huge role in ensuring the sustainable development of both individual organizations and society as a whole, so the company's risk management issues are relevant. Based on this, the purpose of the study develop scientifically-based recommendations for improving the management of financial risks of economic entities. The scientific significance and novelty of the research expand and deepen the scientific understanding of the problems and prospects of the financial risk management system development. As a result, the next most significant scientific results: the main proposals of the financial risk management in the sustainable development of the organization; the expediency of implementation of an adaptive risk management framework and implementation of targeted measures; developed a system of gradual assessment of risks in the organization. The results of the study are of applied importance which consists in substantiating methods for improving the efficiency of risk management in organizations. The implementation of the recommendations and the introduction of an adaptive risk management structure will reduce the threat level of their manifestation and negative impact on the activities of economic entities.

1 INTRODUCTION

The current macroeconomic situation is characterized by high variability of the external financial environment and therefore the main element of ensuring the effectiveness of the organization's financial activities is the formation of the financial risk management system. It lets the necessary volume of sources of formation and attraction of financial resources is calculated, the optimal ways of their further use are determined and, ultimately, the level of investment attractiveness of the organization is ensured.

The main factors which reduce the effectiveness of the organizations include the lack of an optimal sound and actual financial risk management system, fragmentary information about the market dynamics and market conditions, not the full capabilities of its main competitors, a lack of management training.

These factors determine the need for the formation of the financial risk management system in the organization in the current conditions of economic development, accompanied by the transformation of the external financial environment, changes in its key tasks and internal corporate goals due to the emergence of new business projects within the main areas of activity, as well as the transition to a new stage of the life cycle which determines the relevance and significance of the research topic.

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2 RESEARCH METHODOLOGY

2.1 Urgency

The relevance of the research topic is due to the increased importance of the scientifically based approach in the management of financial risks of economic entities.

The purpose of the research studies various financial risks and develop evidence-based recommendations for improving the financial risk management of companies.

In accordance with this goal, it is necessary to solve the following tasks:

– study of the concept of risks, factors and causes of their occurrence;

– classification of financial risks;

– consideration of various risk management methodologies;

– development of directions for improving the corporate financial risk management.

2.2 Scientific Significance of the Issue

In the scientific field there is no single point of view on the content and nature of risk, which is due to the multidimensional nature of risks, the complexity of their accounting in practice, as well as gaps in legislation. The following key concepts are presented below, which together reflect the content side of risk.

Firstly, the risk should be considered as the probability (threat) of the economic entity losing its share of internal resources, reducing profitability or increasing costs from current production and financial activities (Mamaeva L. N., 2018). This means that the risk is associated with the possibility of a certain adverse event or event.

Secondly, the concept of "risk" is associated with the term "risk situation" which is expressed by the possibility of a qualitative and quantitative assessment of the level of probability of the corresponding course of action. Such situation is characterized by the following conditions: uncertainty, necessary to choose an alternative (including refusal to choose), as well as the right to assess the probability of implementing the chosen alternatives (Knight F., 2017).

Now the theory of risk management is one of the most important components of project management, because in almost all areas of life, people are used to facing a lot of uncertainties. Uncertainty is a property that is inherent in any activity of an economic entity, since the implementation of any project is always possible for any unforeseen results or situations (Krysanova N. V. Pankratova M. E., Kuznetsov A. N., 2017).

The main purpose of any company increases its market capitalization, or its value, based on the total value of all outstanding shares. It is obvious that any risk is a threat of a further fall in the value of the company, so risk management is especially important to implementing any projects. Based on the above, the category "risk" is used in many areas of activity, but there is no general approach to the definition of this term.

Risk – the possibility that an unfavorable outcome will occur.

Risk management is a purposeful and consistent activity of the company to increase its profit and capitalization while minimizing the consequences of risks.

Like most scientists we believe that economic risk arises in connection with certain activities and manifests itself through the results of these activities.

Here are some more definitions:

– Risk – a situation in which the exact result of an economic entity's decision is unpredictable, but the course of action is known which makes it possible to neutralize the negative variants of its resolution (Senchagov V. K., 2012);

– Risk – the probability of losses, losses, shortfall of planned income, profits (Higgins, R., 2013);

– Risk – a possible deviation of the results of the activity of a commercial organization from those predicted at the time of making a decision (Teplyakova E. V., 2016).

It should be noted not only the risk of losses and losses, but also the chance to acquire the benefits of one of the counterparties of the transaction at the expense of the other (Pakova, O. N. Konopleva Yu. A., Berdanova A., 2017).

Financial risks associated with working with financial assets, including credit, currency, interest rate and market risks, as well as illiquidity risks (Puchkova S. I., 2016).

Risk as the possibility of failure is an objective category which exists independently of the will and consciousness of people, but the risk can be considered as a subjective category: the risk is associated only of the threats, the existence of which the subject is informed of the risk; therefore, ignorance of the danger is equivalent to the absence of risk (risk subject is the person who decides and is responsible for the result, the risk object is defined value which can be lost as a result of the impact of risk) (Krui M., 2015). On the other hand, risk is identified with possible luck (Konopleva J. A., Zenchenko S. V., Pakova O.N., Sokolova A. A., 2017).

Thus, the value of the information may significantly exceed the reduction in the value of the risk object as a result of the implementation of the risk. We believe that all definitions of risk represent the personal views of the authors, ranging from the definition of risk as the probability of an unfavorable result of a financial transaction to the definition of risk as the uncertainty of financial results in the future.

The most consistent among them is the statement that risk in its primary basis is uncertainty.

A key component of the financial risk management system in the company is the timely identification of problems and prospects of a financial base. In our opinion risk is a situational aspect of the activity of a business entity which arises in the case of making management decisions in favor of choosing probabilistic alternatives that can potentially generate chances of achieving the desired goals, despite the presence of various dangers and threats; it reflects the possibility of a negative deviation of the actual results of the activity from the planned ones. Accordingly hazards and threats should be considered as risk factors and in any case should not be identified with it itself. Therefore, it is possible to determine the risk and its degree in a situation of uncertainty only by one of the methods of calculating the probability of the occurrence of negative consequences of uncertain events. If this method fails, the result remains uncertain. Therefore we can draw the following conclusion, risk is the probability of experiencing a loss of expected economic (financial) benefits or direct losses through the occurrence of an uncertain (accidental) event that concerns the property interest of members of the company.

2.3 Problem Statement

A huge range of financial risks in accordance with their classification system expands the possibilities in the formation of a more effective system for managing them.

As you know, the assessment of the financial condition of the company is a system of economic tools that characterize the availability and use of financial resources of the company. Comprehensive and reliable assessment of the financial situation, reflecting the results the organization's cash flow is the main source of information about reliability, business activity, and competitiveness.

If risk is loss of resources or income, then there is also a quantitative measure of them, determined by the absolute or relative level of losses. In absolute terms the risk can be determined by the amount of possible losses in material or monetary terms. In relative terms, the risk is the amount of possible losses attributed to a certain base, which can be understood as the property status of the entrepreneur, or the total cost of resources for this type of business activity, or the expected income (profit) from entrepreneurship.

In the modern literature on crisis management, the essence of the financial crisis is expressed through such concepts as a tactical, strategic crisis, as well as a crisis of solvency.

The tactical crisis is considered as a set of signs that characterize the increasing discrepancy in the implementation of the company main activities which is expressed in a decrease in production volumes, profitability and efficiency of labor resources. The prolonged course of a tactical crisis can lead to the development of financial instability which ultimately leads to the transformation of the crisis into a strategic one. Its prerequisites are the absence or weak level of development and implementation of the strategic development directions of the organization, expressed in the imbalance of the management's desire to maximize the financial results of the business and maintain a high level of financial stability.

A solvency crisis is the inability to make basic payments due to a shortage of cash and non-cash funds. This type of crisis acts as the premise of a strategic financial crisis, and as a consequence of the tactical crisis of the organization.

The division of the financial crisis into types makes it possible to form and implement appropriate measures for effective preventive and anti-crisis management.

A financial crisis is a failure in the overall system of functioning of the company's finances. If a crisis financial situation persists, it could be the reason for the occurrence of bankruptcy. In this regard, the purpose of anti-crisis management is to develop and implement measures to promptly improve solvency and financial stability.

2.4 Theoretical Part

Based on the goals and principles of anti-crisis financial management it is possible to consider the features and mechanisms of its implementation (Figure 1).

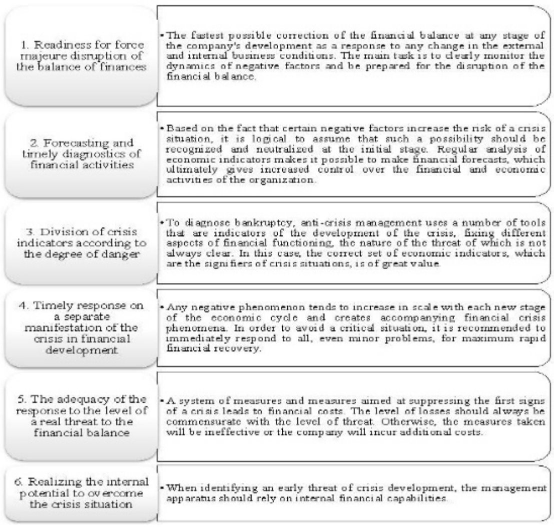

Figure 1: Principles of anti-crisis financial management.

The anti-crisis management policy is a set of mechanisms and tools for preliminary assessment of the risks of bankruptcy and financial recovery, contributing to the recovery from the crisis. This means that the mechanism for implementing the anti-crisis financial management of the organization is the system financial flow management, based on the anti-crisis financial strategy and the financial position of the organization.

The tasks that need to be solved in the process of developing and implementing a financial anti-crisis strategy are shown in Figure 2.

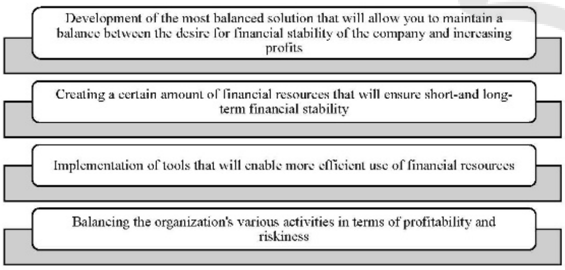

Figure 2: Tasks to be solved in the process of developing and implementing a financial anti-crisis strategy.

Thus, we can come to the logical conclusion that the process of crisis management is based on the creation of a clear plan for future activities, the main characteristics of which are constant readiness for possible instability of the financial situation of the organization.

2.5 Practical Significance

In the process of diagnosing a pre-crisis financial situation in an organization, there is an objective need to develop a system of preventive measures to prevent a financial crisis. At this stage, financial management is transformed into weak signal management and has a preventive nature which means constant monitoring of the financial potential and stability of the organization, and also, the implementation of measures to prevent bankruptcy in the current economic conditions.

A set of measures aimed at preventing crisis development should be implemented proactively and consist of the following stages:

- reducing the volume of investments in high-risk segments of the organization's financial work;
- improvement of measures for insuring material internal and external risks;
- partial sale of excess assets and those that do not participate in the processes of accumulating additional material reserves;
- restructuring of partner organizations debts, as well as equivalent financial resources in monetary form.

The next step is a deep and objective analysis of the internal financial condition of the organization and an assessment of its capabilities in order to overcome the financial crisis. It is possible to form appropriate tools and mechanisms within the framework of anti-crisis financial management. Here it is important to implement the following actions:

1. To diagnose the net cash flow received in a crisis situation for the organization, and its volume required to restore financial stability.
2. Perform a comprehensive analysis of the insurance reserves of financial resources and the level of their sufficiency in crisis conditions.
3. Identify areas where investment and operating costs can be reduced.

Higgins R. considers insolvency as the excess of monetary expenses over their receipt, provided that there are insufficient reserves to eliminate the discrepancy. This situation is called a "crisis pit", which is accompanied by problems with repayment accounts payable (Higgins, R., 2013). In such circumstances, it is important to implement anti-crisis measures to optimize the flow of financial flows to cover the shortfalls caused by high costs and low incomes. Measures to optimize cash flow for the purpose of repayment of urgent and overdue debts are shown in Figure 3.

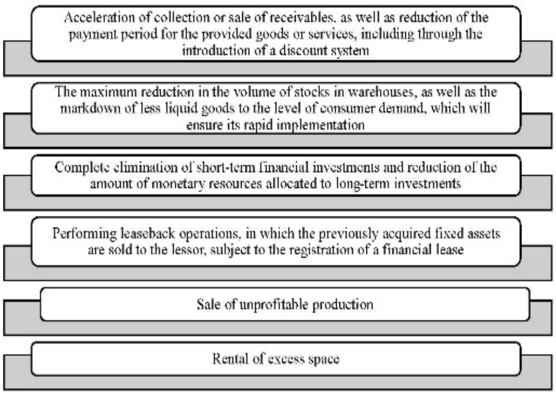

Figure 3: Measures to optimize cash flow in order to repay urgent and overdue debts.

Summarizing the results of the study at this stage, it can be noted that the financial risks of an organization in the system of ensuring internal economic security include elements that for an individual economic entity may have different priorities based on the nature of the existing threats. Through accurate and timely determination of the probability of a particular financial risk, it becomes possible to develop an effective financial policy and thereby ensure economic security. Implementation plan anti-crisis financial management is a set of mechanisms by which the impact on the financial position of the company is carried out. This complex can be characterized by the combination and consistent implementation of applied methods and tools (both preventive and anti-crisis) as part of the mechanism of anti-crisis financial management, which includes personnel, information, control and anti-crisis subsystems.

3 RESULTS OF THE STUDY

Assessment of financial risks in the activities of Russian construction industry organizations involves structuring the assessment process into two groups: external and internal (Table 1).

Table 1: Indicators for assessing financial risks in the activities of economic entities.

Group	Risk	Approach to assessment	Method of assessment
External financial risks	1 Currency risk	Market analysis	Evaluation of the organization's multicurrency activity
	2 Credit risk	Dynamic analysis	Analysis of the dynamics of the structure of credit funds in the capital
	3 Market risk	Strategic analysis	SPACE analysis
Internal financial risks	4 Solvency risk	Coefficient method	Calculation of liquidity indicators
	5 Business risk	Coefficient method	Calculation of indicators of business activity
	6 Financial stability risk	Coefficient method	Calculation of financial stability indicators

Calculation of financial stability indicators the assessment of each risk was carried out on a three-point scale. The following interpretation rules were used to translate the results of the evaluation of each indicator into a three-point scale (Table 2).

Table 2: Rating interpretation of the results of the assessment of financial risk indicators in the organization's activities.

Risk	Method of assessment	3 points (high risk severity)	2 points (average risk severity)	1 point (low risk)
1 Currency risk	Evaluation of the organization's multicurrency activity	High multicurrency activity	Average multicurrency activity	Low multicurrency activity
2 Credit risk	Analysis of the dynamics of the structure of credit funds in the capital	Positive dynamics of credit funds	Unstable dynamics of credit funds	Negative dynamics of credit funds
3 Market risk	SPACE analysis	Getting a priority aggressive strategy	Getting a priority competitive or defensive strategy	Getting a priority conservative strategy

4 Solvency risk	Calculation of liquidity indicators	Most of the indicators do not meet the standard values	The indicators partially do not correspond to the standard values	Most of the indicators correspond to the standard values
5 Business risk	Calculation of indicators of business activity	Unfavorable dynamics of indicators	Unstable dynamics of indicators	Favorable dynamics of indicators
6 Financial stability risk	Calculation of financial stability indicators	Most of the indicators do not meet the standard values	The indicators partially do not correspond to the standard values	Most of the indicators correspond to the standard values

The maximum possible number of points that can be obtained as a result of evaluating all six types of financial risks is 18 points, the minimum is 6 points. When receiving an assessment from 6 to 10 points, a low level of severity of financial risks is stated, from 11 to 14 points-an average level, from 15 to 18 points-a high level.

Let us consider the results of the assessment of each identified financial risk in the activities of the organizations under consideration

1. Currency risk

Currency risk in the system of financial risks of economic entities demonstrates the probability of loss of financial resources due to changes in the exchange rate. The exposure to this risk will be determined by the multi-currency activity of the financial and economic operations of the organization: the higher it is, the more pronounced the currency risk is.

According to the study, the share of financial and economic transactions performed by the analyzed construction companies using foreign currency is insignificant. Therefore, we can talk about a low level of the organization's exposure to currency risk (1 point).

2. Credit risk

To assess the credit risk, it is necessary to consider the dynamics of credit funds in the capital of the organization. The active use of credit funds increases the likelihood of credit risk. Over the past three years, there has been an unstable trend in the use of credit funds in the capital of companies (Table 3).

Table 3: Dynamics of the use of credit funds in the capital of construction companies

Indicator	2017	2018	2019	Deviation 2019/2017
Long-term credit facilities				
Borrowed funds, thousand rubles.	2	175548	300174	300172
Short-term credit facilities				
Borrowed funds, thousand rubles.	447926	447213	477502	29576

The severity of the credit risk of the organization, based on the activity of using credit funds, is average (2 points).

3. Market risk

To assess market risk, we use the SPACE analysis method, which allows us to assess the market situation from four sides:

- the financial potential (strength) of the organization (FS);
- the competitiveness of the organization (KP);
- the attractiveness of the industry (PO);
– stability of the industry (WITH).

The results of the company's SPACE Analysis score are presented in Table 4.

Table 4: Results of the SPACE analysis of the microeconomic environment of the construction company.

Criteria	Evaluation	Weight	Generalized score score
Financial strength of the organization (FS)			
Return on investment	5	0,8	4,0
Financial autonomy	5	0,8	4,0
Solvency of the organization	6	1,0	6,0
The level of financial risk	4	0,5	2,0
General evaluation of the criterion			16,0
Competitiveness of the company (CC)			
Return on sales	5	0,6	3,0
Market share	5	0,1	0,5
The competitiveness of the services	4	0,1	0,4
Customer loyalty	6	1,0	6,0
Product quality	6	0,9	5,4
General evaluation of the criterion			15,3
Attractiveness of the industry (AI)			
Profit level	6	0,8	4,8
Stage of the industry life cycle	5	0,8	4,0

The development of the industry	6	0,8	4,8
Ease of market entry	5	1,0	5,0
General evaluation of the criterion			18,6
Stability of the industry (SI)			
The stability of earnings	6	0,8	4,8
Development of innovations	5	0,5	2,5
Marketing opportunities	5	0,5	2,5
General evaluation of the criterion			9,8

Based on the results of the general assessments of the key criteria, the vector of the recommended strategy for the development of the organization is built in the SPACE coordinate system. The beginning of the vector is at the point of origin, the end of the vector is at the point " A " with the coordinates (X: Y) shown in Figure 4:

$$X = PO\text{-}KP \quad (1)$$

$$X = 18{,}6 - 15{,}3 = 3{,}3;$$

$$Y = FS\text{-}SO \quad (2)$$

$$Y = 16{,}0 - 9{,}8 = 6{,}2.$$

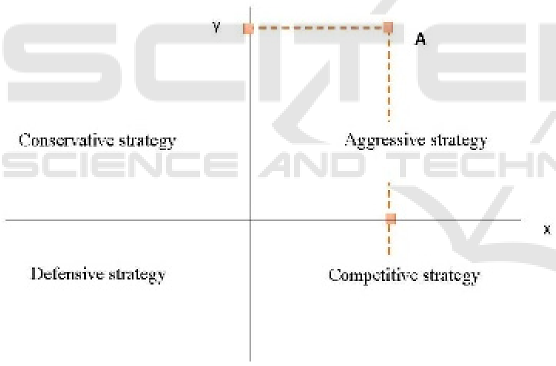

Figure 4: SPACE Analysis matrix.

The obtained result of the SPACE analysis indicates the feasibility of implementing an aggressive market strategy, therefore, the market risk is estimated at 3 points.

We summarize the results of the assessment for each considered financial risk (Table 5).

Table 5: Results of the evaluation of financial risks

Risk	Company#1		Company#2		Company#3	
	core	Status	Score	Status	Score	Status
1 Currency risk	1	Low risk	1	Low risk	1	Low risk
2 Credit risk	2	Average risk level	2	Average risk level	2	Average risk level
3 Market risk	3	High level of risk	2	High level of risk	3	High level of risk
4 Solvency risk	1	Low risk	1	Low risk	1	Low risk
5 Business risk	3	High level of risk	2	High level of risk	2	High level of risk
6 Financial stability risk	1	Low risk	1	Low risk	1	Low risk
Total	11	Average risk level	9	Average risk level	10	Average risk level

The obtained values, equal to 9-11 points, correspond to the average level of severity of financial risks in the activities of the considered organizations. The most pronounced are market risk and business activity risk (Figure 5).

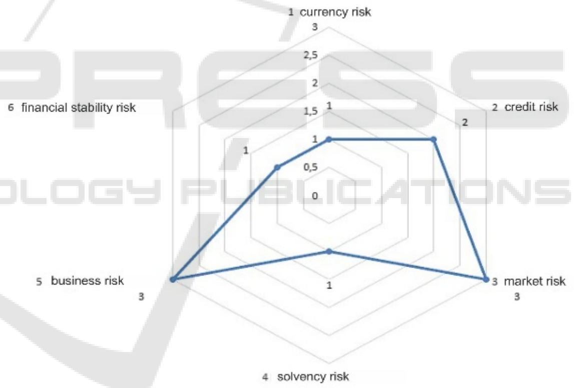

Figure 5: Financial risk profile.

Thus, the results of the assessment of financial risks in the activities of the organizations under consideration characterize their average level of severity, which updates the assessment of the effectiveness of the current financial risk management system of the organization.

4 DISCUSSION OF THE RESULTS

In order to improve the scientific level of financial risk management of the organization, it is advisable to develop a system of recommendations and proposals.

The conducted assessment of the financial risks and the assessment of the effectiveness of the current financial risk management system have determined the feasibility of improving the management activities of economic entities in this area. In this context of the study, the concept of a more optimal management system is formed the main directions of which are shown in Figure 6.

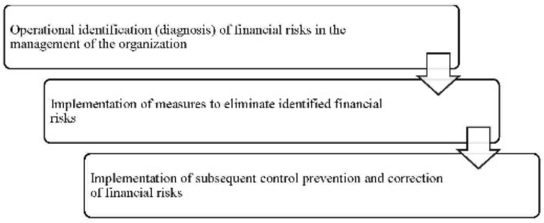

Figure 6: Directions for managing the organization's financial risks.

Thus, the proposed financial risk management system for a construction company is a complex mechanism that contains diagnostic, management and control functions. For the company's management, their practical use will provide an opportunity to quickly identify financial risks, plan funds for their elimination, as well as conduct preventive control and prevention of financial risks. The technology of implementation of the proposed system will allow you to perform the established sequence of management, which, ultimately, will ensure the effective application of its provisions by the management of the organization.

It is necessary to implement the proposed financial risk management system in the organization described in table 6.

Table 6: Recommendations for improving the financial risk management system

Recommendations	Description
Creation of a financial risk management unit in the structure of the finance department	It is proposed to allocate a financial risk management unit in the structure of the finance department consisting of 2 specialists, the first of whom will be responsible for monitoring and evaluating financial risks, the second-for planning and monitoring the implementation of measures to reduce financial risks
Regulation of the new financial risk management policy	It is advisable to regulate the implementation of the proposed financial risk management system by creating a special document describing the new financial risk management policy
External audit of financial risks	The organization is recommended to conduct an external audit of financial risks at the initial stage of implementation of the proposed financial risk management system due to the lack of competence of full-time specialists

5 CONCLUSIONS

At the theoretical stage of the research, the tasks related to the definition of the essence of financial risks and approaches to their assessment in the activities of modern companies were solved. The analysis of the scientific literature has shown that financial risks arise in connection with the movement of financial flows and are manifested mainly in the financial resources markets. Financial risks significantly affect the efficiency of business entities. At the same time, financial risks are amenable not only to accounting, but also to management. For the purposes of risk measurement, it is necessary to initially investigate all possible risks, identify them and classify them.

The structure of the financial risks assessment were divided into two groups: external (currency, credit, market) and internal (risk of solvency, business activity, financial stability). The analysis showed compliance with the average level of financial risks in the activities of construction companies. The most pronounced are market risk and business activity risk.

The concept of an effective financial risk management system is formulated, which will allow to quickly identify (diagnose) financial risks in the management of the organization, to develop measures to eliminate the identified financial risks, to implement subsequent control of the prevention and correction of financial risks.

Thus, the purpose of the study was achieved due to the solution of all the tasks set.

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