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BUSINESS PLANNING AS AN EFFECTIVE TOOL FOR PRODUCTION AND OTHER RISKS ASSESSMENT

БІЗНЕС-ПЛАНУВАННЯ ЯК ЕФЕКТИВНИЙ ІНСТРУМЕНТ ОЦІНКИ ВИРОБНИЧИХ ТА ІНШИХ ВИДІВ РИЗИКІВ

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Ковтуненко Ю.В., Драгомир Д.В., Фрайман А.В. Бізнес-планування як ефективний інструмент оцінки виробничих та інших видів ризиків. Оглядова стаття.

У статті наводиться поняття щодо сутності ризиків під час розробки бізнес-планування. Перелічено способи аналізу та оцінки ризиків. Запропоновано алгоритм виявлення найімовірніших ризиків підприємства. Наведено загальну класифікацію ризиків, а також виявлено різницю між контрольованими та неконтрольованими ризиками. Більш детально розглянуто виробничі ризики, визначено причини їх виникнення та шляхи подолання. Виявлено вплив інших видів ризику, надано їх характеристику та можливе усунення. Проаналізовано останні дослідження щодо сутності ризиків в системі бізнес-планування. Розглянуто бізнес-планування у вигляді ефективного інструменту щодо виявлення та запобігання ризиків на підприємстві.

Ключові слова: бізнес-планування, ризик, оцінка ризику, проблеми, шляхи подолання

Kovtunenکو Yu.V., Drahomyr D.V., Fraiman A.V. Business Planning as an Effective Tool for Production and other Risks Assessment. Review article.

The article gives an idea of the risks nature in the business planning development. The methods of risk analysis and assessment are listed. An algorithm for identifying the most likely risks of an enterprise is proposed. General risks classification is presented, as well as a distinction between controlled and uncontrolled risks. The production risks are discussed in more detail, the reasons of their occurrence and ways of overcoming are determined. The impact of other risk types is identified, their characteristics and possible elimination are given. The analysis of recent studies on the risks nature in the business planning system is analyzed. Business planning is considered as an effective tool for identifying and preventing risks in the enterprise.

Keywords: business planning, risk, risk assessment, problems, ways of overcoming

Business planning is an important type of activity associated with implementing the long-term plans that promotes an enterprise economic activity development, identifying the necessary resources to achieve the desired result. In addition, business planning is an effective tool that identifies and analyzes all types of risks, which reliable assessment influence the enterprise further operation and its development. Therefore, one of the important and relevant issues today is studying risk analysis in planning the enterprise future development.

Analysis of recent research and publications

Such scientists as O.Ye. Babyna, M.M. Tarashevskyi, Zh.M. Zhyhalkevych, A.M. Hrubar, O.V. Kryvda, M.V. Pastushenko, S.M. Nevmerzhytska, K.D. Semenova, K.I. Tarasova, M.I. Cherednychenko, Yu.O. Shvets, K.V. Shelekhov, D.M. Danyliuk, V. Hoyer (an Austrian businessman) and others were engaged in research of risks in economic activity of various business structures.

Unsolved aspects of the problem

However, the group of risks, their classification and characteristics, the essence of the analysis, methods and ways to prevent them in the enterprise business planning development need more detailed research.

The aim of the article is to investigate the theoretical aspects of business planning as an effective tool for assessing production and other types of enterprise risk.

The main part

The market system of economic relations, which includes the domestic economy, generates new, appropriate to its conditions needs and special interest in terms of increasing the enterprise potential for risk management. Introducing the principle of market participants free interaction, ensuring healthy market competition inevitably increase uncertainty and risk. In these conditions, it is extremely difficult to choose the optimal solutions and predict their consequences in business.

In the economic sense, risk management is an economic measure to prevent the occurrence of adverse events that entail harm, which is expressed in loss of profit or economic loss. Misinterpretation of the «risk» concept narrows the understanding of the complexity and ambiguity of the risk nature, not only for many business leaders, but also applies to some researchers in this field.

One of the best ways to turn a business idea into an economically viable project is a business plan, which creates many issues related to the economic feasibility of a business idea and its possible implementation, as well as the risks directly related to the project.

Business planning – is a tool of prime importance in the company management, which effectiveness depends on the enterprise future operation. The business plan formation allows the team to apply existing funds and resources effectively and competently, and use planning as a very effective management mechanism [2].

Further, we will consider the definition of "risk", which scientists provide in their research papers in more detail (Table 1).

Table 1. The Definition of the Concept "Risk" by the Scientists

Authors	Definition
O.Ye. Babyna, M.M. Tarashevskiy [1, p.15]	Risk is an existing reason, or set of reasons, that may cause a future event with a certain probability and consequences.
M.V. Pastushenko, S.M. Nevmerzhytska [3, p.24]	Risk is the threat probability of losing the part of its resources, losing the income or additional costs emergence as a result of certain production and financial activities.
K.D. Semenova, K.I. Tarasova [5, p.223]	Risk is characterized by the variability and randomness of economic, political and social processes occurring in society, and means the probability of one of the several alternative events with an unknown outcome in the future. Risk characterizes the objective-subjective nature of the uncertainty situation, which accompanies all the areas of business entity operation, and the probability of an adverse outcome in the form of loss. Risk characterizes the objective-subjective nature of the uncertainty situation that accompanies a certain area of the enterprise activity, and the business entity probability in receiving losses or profits.
Yu.O. Shvets [7, p.131]	Risk is the probability of the available result deviation from the expected one.
K.V. Shelekhov, D.M. Danyliuk [8, p.189]	Risk is the probability of losses, diseconomies and income deficiency

Source: compiled by authors on materials [1, 3, 5, 7,8].

Therefore, a risk should be understood as a situation probability that could lead to the loss of a certain share of available resources, estimated profits crunch or unforeseen costs emergence.

When developing a business project, risk assessment is an important part of future successful business. This is due to the fact that the chances of successfully completing the project will be much higher with a detailed study of possible risks, and in the future – to minimize their consequences and partial or complete avoidance.

Sometimes a detailed assessment of potential risks can be one of the major parts of the business project. According to statistics, most of the risks studied in the project may not occur, but there are those that arise during the project, and then the study and clear detailization of such risks help to take operational action that cannot only reduce project losses but also reduce them to zero.

Therefore, a significant area for the business project will be risk assessment, through which the owner will be able to avoid the most important risk – the loss of money during the project [4].

There are different ways of risk analysis and assessment: statistical, expert assessment and combination. The first method will help to quickly identify all risk groups that may arise during the project implementation phase. It is usually occurred during the indicators analysis of other similar projects and companies. However, the main disadvantage of this method will remain a high level of inaccuracy, because the project risks will be considered as a whole.

As for the second method of risk assessment, it will be the opposite of the first ones, because in this case there will be the risks analysis that are most interesting to the business project owner, and from which the company may suffer the most.

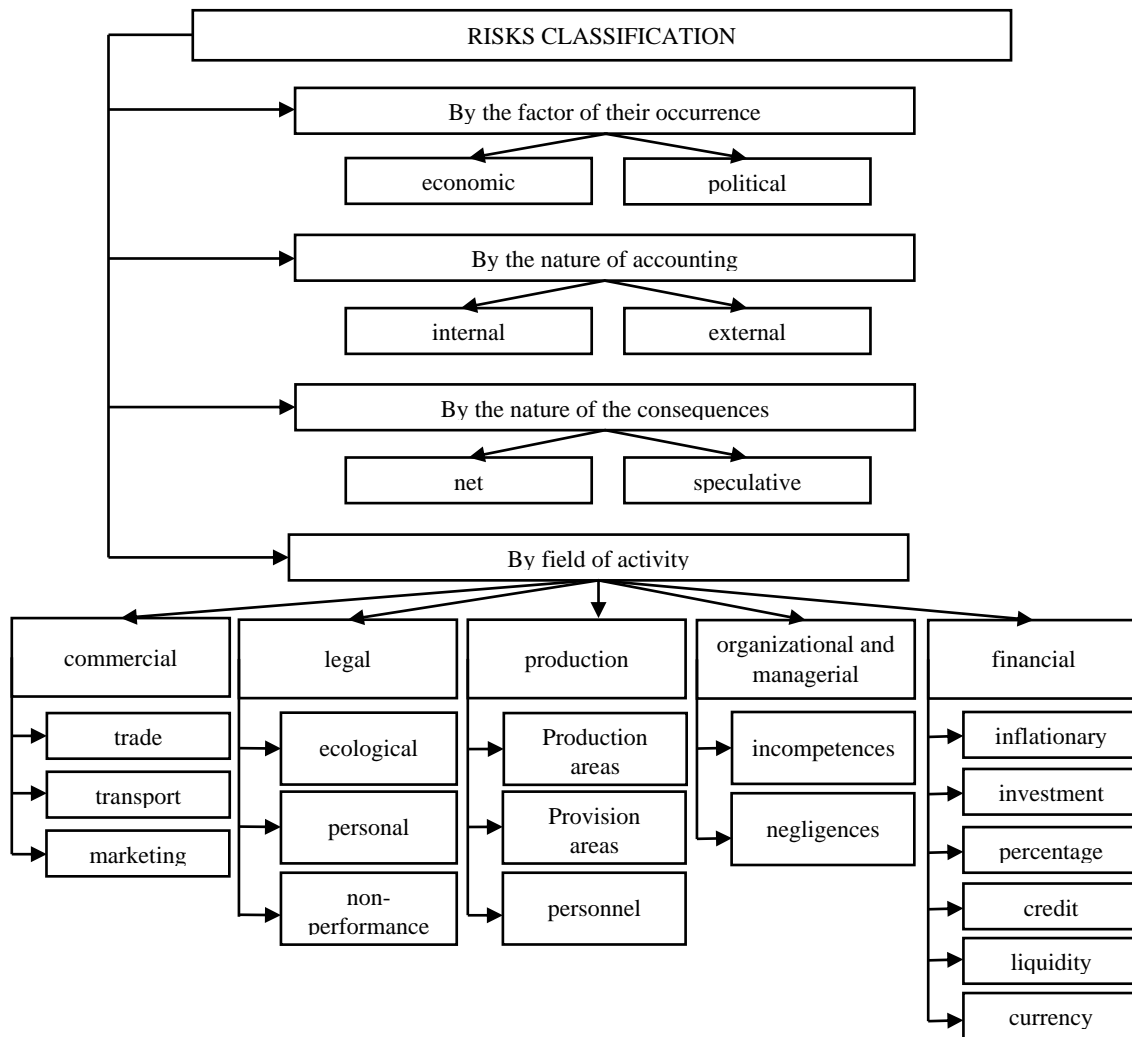


Figure 1. Risks classification
 Source: authors' own development

The third method is considered combined, because it combines the first two ones, so its application is considered the most effective – it allows to avoid all the disadvantages. This is due to the assessment in several ways in a certain sequence.

The depth of the study of possible risks depends on what a particular company does and what is its activities scale. For large production structures, a detailed analysis is performed using mathematical calculations based on the probability theory presentation. Expert assessment is enough for ordinary business projects.

There are different types of risks that arise in the process of the enterprise business planning, they are shown in Figure 1 [7].

One can come across a large number of risks in the project implementation, so it is important to take into account the most likely of them [3]. What is needed for it:

- to identify all possible risks;
- to evaluate the manifestation probability of each one;
- to calculate possible financial losses at their occurrence;

- to distribute risks according to the probability degree of their occurrence;
- to calculate the maximum allowed level;
- risks, which probability occurrence is below the allowable value, should not be taken into account.

After analyzing all possible risks and identifying the most significant of them, one should consider a list of preventive and neutralizing measures for each one.

However, in addition to the revised classification, Attention should also be focused on controlled and uncontrolled risks. Uncontrolled risks are: economic crisis, shocks within the social order, natural disasters, volatile exchange rates, political, social and economic conditions, changes in the currency regulation order, changes in tax conditions, legislative changes. That is, anything that can negatively affect entrepreneurial activity.

Controlled risks are:

- production: the threat of shortages in the products manufacture, technological risks, failure risk in the production process;
- financial: too little active money, receivables emergence, rising costs of production;

- personnel: the company's employees insufficient level of qualification, loss of leading specialists, unfavourable changes in labour legislation;
- market: general changes in the industry, which may negatively affect the work of the production structure (technological innovations emergence, trade special principles etc.);
- operational: failures that occur at different stages of building and developing business.

Uncontrolled risks are unmanageable. As for the controlled ones, the company can take appropriate measures against them. The role of business planning is to anticipate possible risks and plan the necessary preventive actions.

Uncontrolled risks consequences (which occurrence the company is unable to influence) can be minimized. There are effective levers for this, methods of organizational and financial nature.

Financial methods are the company's property insurance, related investments, financial reserves development.

Organizational methods are the practical application of the latest information technologies, copying important data, focusing on the company's development in the regions, taking preventive steps against the possible consequences of natural disasters.

The controlled risks impact can be minimized or even eliminated altogether.

Let's dwell in more detail on the characteristics of a particular important type of risk, namely – production.

The production risk is associated with expenditures that may arise during the cessation of production (regardless of any factors), damage to fixed and working capital or the introducing new equipment and technology.

Most economists consider that the industrial risk is one of the most dangerous, because scientists include in its classification a set of other types of risk.

Technical risks – the occurrence of such risks is due to the deviations probability in economic activity. In other words, with the advent of technical risks, the company does not get the expected results.

Direct production risks – a massive group of risks, which is divided into their own subspecies:

- risks in the process of strategy development – arise due to incorrect development of the enterprise market strategy or incorrect assessment of the scope of own production.
- supply risks – arise from the lack of necessary resources or from an unsatisfactory purchase price. This also includes the problem connected with finding a reliable supplier with whom one can enter into a long-term contract.
- risks of planned deadlines violation – arise due to non-compliance with the planned schedule of income and expenditures.
- risks associated with the support of the enterprise current activities – arise due to the need to allocate funds to finance current needs in order to support economic activity.

Transport risks is an independent group of risks, which is used in world practice, because this type of risk can be found at almost every stage of the production process.

Implementation risks – they are also called marketing or commercial. This group of risks is especially distinguished, because it is directly related to of the enterprise products realization, which depends on the amount of income received, and subsequently - profit.

Main reasons of emerging the production risk are shown in the figure 2 [6,9].

The following preventive measures are applied to the production risks: monitoring material and technical base, main points of technological process, obsolete equipment updating, optimization of production, products quality control.

Let's consider other types of risks. Regarding financial risks, the following measures are applied: analysis and control of the enterprise financial stability, funds management received in the form of loans, revision and expansion of possible sources of investment, rational use of receivables, drawing up analysis and forecast of cash flows, financial audit companies involvement.

In order to prevent personnel risks in business process planning, there are the following measures: maintaining the company's correct personnel policy, monitoring the labour code implementation, the employees' regular acquaintance with the intricacies of production processes and safety rules, care for timely training, personnel replacement.

Measures to minimize market risks may include the following actions: market analysis (short-term and long-term), competing companies and the industry as a whole, introducing new technological developments, impact on consumer preferences, increasing the product range, periodic monitoring of legislation and government regulation.

Operational risks are controlled by: a comprehensive approach to business process planning, tracking all the documentation, drafting regulations and internal instructions, full (if possible) automation of business processes, monitoring the work of leading specialists.

In addition, in the business planning system to the elements of the business plan section, most scientists offer options for including additional information about the risks that may arise during the business activities of the enterprise, and the possibility of eliminating them, for example, I.M. Stepnov includes: risk analysis, risk planning, risk insurance, risk hedging, risk allocation, redundancy, cost limit setting. O.M. Stanislavchuk – types and measures of risk, risk analysis, risk financing methods, profit management and risk minimization.

P.H. Hrabovyi, S.M. Petrova – determining the risk degree, determining miscalculations in the field of marketing, risk analysis, risk planning, identifying problems in business. V.M. Popov, S.I. Liapunov – risk insurance, risk analysis, risk allocation, risk planning.

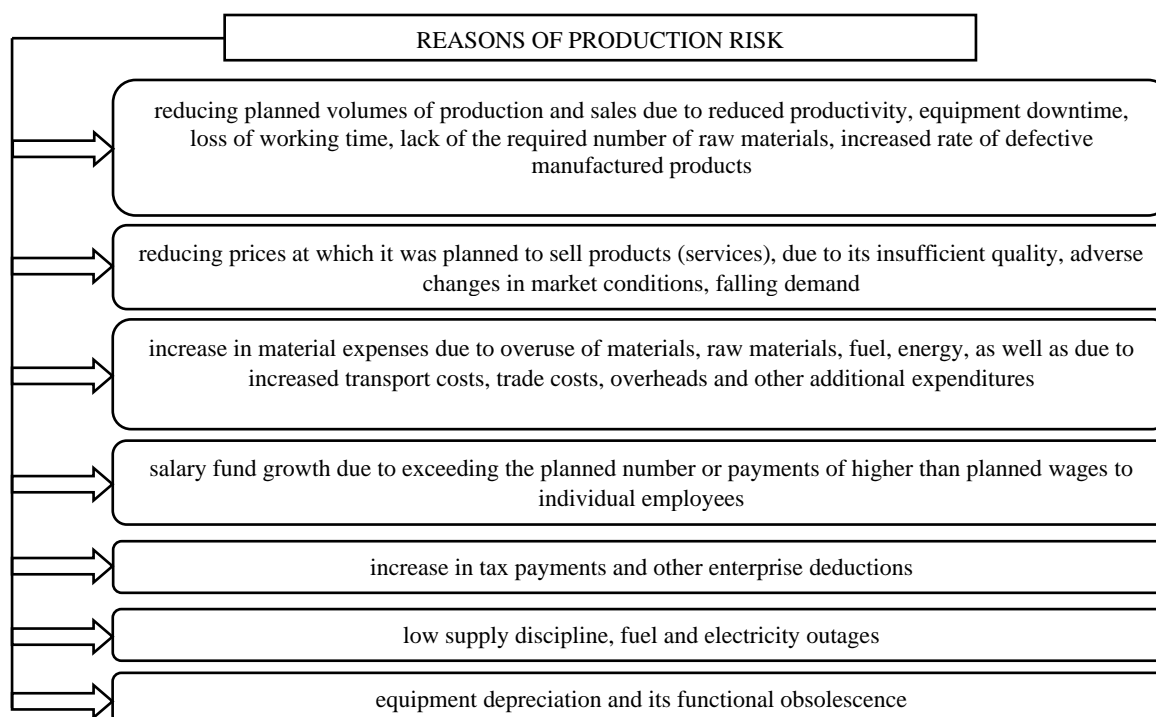


Figure 2. Main Reasons of Production Risk

Source: authors' own development

A. Chernov – risk analysis, the influence of market equilibrium factors on the change of risks, risk planning, determining the risk degree. E.A. Utkin – risk zone definition, risk analysis, risk assessment, risk measurement methods. Thus, the multivariate study of this aspect proves once again that the separation and improvement of a particular section in the business plan is extremely appropriate and necessary, and the most characteristic elements of this section layout should be: risk analysis and planning, insurance (hedging) risk.

Conclusions

Thus, business planning is an effective tool that can be used to give an objective assessment of risks,

while reducing the occurrence of a risk event, as well as minimize the expenditures associated with the risks that may arise from the project realization. The economic activity efficiency is determined by the fact that the enterprise should not immediately avoid the risk, one only needs to properly assess its degree, develop ways to overcome it and manage it in a timely manner. Effective risk management will be considered the key to the enterprise stable operation. Prospects for further research and development in this area are to study the business plan development features, because it is an important tool for successful business, which reasonably describes the risks and possible ways to avoid them.

Abstract

One of the best ways to turn a business idea into an economically valuable project is a business plan, which creates many issues related to the economic feasibility of the business idea and its possible implementation, as well as the risks directly related to the project.

Business planning is a tool of paramount importance in the process of company management, which effectiveness depends on the enterprise future operation and through which all types of risks are identified and analyzed. Therefore, the main goal will be to study the theoretical aspects of business planning as an effective tool for assessing production and other types of enterprise risk.

Risk should be understood as the probability of a situation that could lead to the loss of a certain share of available resources estimated profits understatement or the unforeseen expenditures emergence. When developing a business project, risk assessment is an important part of future successful business. This is due to the fact that the chances of successfully completing the project will be much higher with a detailed study of possible risks, and in the future - to minimize their consequences and partial or complete avoidance.

Sometimes a detailed assessment of potential risks can be one of the biggest parts of a business project. According to statistics, most of the risks studied in the project may not occur, but there are those that arise during the project, and then the study and clear detailing of such risks help to take operational action that can not only reduce project losses but also reduce them to zero. Therefore, a significant area for the business project will be

risk assessment, through which the owner will be able to avoid the most important risk - the loss of money during the project.

Business planning is an effective tool that can be used to give an objective assessment of risks, while reducing the occurrence of a risk event, as well as minimizing the costs associated with the risks that may arise from the project. The economic activity efficiency is determined by the fact that the enterprise should not immediately avoid the risk, one only needs to properly assess its degree, develop ways to overcome it and manage it in a timely manner. Effective risk management will be considered the key to the enterprise stable operation. Prospects for further research and development in this area are to study the business plan development features, because it is an important tool for successful business, which reasonably describes the risks and possible ways to avoid them.

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