

EFFECTIVE RISK MANAGEMENT IN BUSINESS ACTIVITIES: THEORETICAL AND PRACTICAL ASPECTS

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Abstract

In the conditions of a market economy, entrepreneurial activity is always associated with a certain level of risk. This article highlights the main types of risks, their causes and effects, as well as practical methods for managing them. Furthermore, it presents scientifically grounded strategies aimed at assessing risks, reducing their impact, and ensuring the stability of enterprises. The article provides managers and entrepreneurs with practical guidelines on the systematic management of business risks.

Keywords: Risk, risk management, risk reduction, financial risk, operational risk, reputation.

Introduction

Business owners, managers, investors, and executives must consider risk as an integral part of their operations and success. Entering the field of business with the ambition to become a leader, manager, or owner of an enterprise requires a clear understanding of risk management as a key element of decision-making.

But what exactly does risk management mean? Regardless of the level of business activity, it is essential to understand the risks associated with any business operation, as well as how to assess and manage them effectively. Improper risk management may expose companies to disputes, financial losses, security breaches, potential strategic challenges, and a decline in managerial trust. Therefore, enterprises must define their management techniques and risk assessment capabilities as part of their business plans in order to demonstrate their competence and sustainability.

Research Materials and Methodology

In the course of their economic activities, individuals sometimes take risks willingly, and at other times involuntarily. The concept of risk has different meanings across various branches of economic science. In Russian-language dictionaries, the word risk is derived from a Greek term referring to underwater rocks that endanger ships, leading to shipwrecks, human deaths, and the sinking of property into the sea. It literally means “to sail between rocks while avoiding the wind and other obstacles.” Professor Sh. Abdullayeva, who defended her doctoral dissertation on the topic “Bank Risks and Lending” and published a monograph, interprets the word risk as danger, threat, or taking a hazardous action. She explains the verb to risk (riskovat) as “to dare to expose oneself to danger.”

Risk management is defined as a set of measures, methods, and techniques that enable the prediction of potential risk situations and the elimination of their negative consequences. According to the American definition, risk is the possibility of avoiding losses resulting from engaging in any type of activity. Of course, some risks can be prevented through insurance contracts with insurance companies.

However, the main burden of risk

- managerial errors;
- price fluctuations;
- decrease in demand;
- poorly chosen projects;
- employee dissatisfaction, and others- falls directly on the entrepreneur's shoulders. The risk factor serves as a strong motivator for saving resources and energy. It compels the entrepreneur to:
- conduct a deep analysis of the profitability of enterprise projects;
- make accurate cost calculations;
- and take a highly responsible approach to resource acquisition and personnel recruitment.

When enterprises fail to understand the purpose or definition of risk management, or when they are unwilling to take steps to manage risks properly, business risks are often mismanaged. This mismanagement may also result from the company's reluctance to invest time, effort, and money into effective risk management.

Enterprises face a wide range of risks, some of which may lead to severe financial losses or even bankruptcy. However, while large corporations often have extensive "risk management" departments, small enterprises rarely approach this issue in such a systematic way.

Types of Risk

No. Criteria for Risk Classification Types of Risk

1 By the sphere of formation Internal Risk:

- Risks related to the economic activity of the enterprise
- Risks arising from the structure of clients
- Risks associated with the implementation of financial services

External Risk:

- Natural
- Social
- Political

2 By scope of coverage Micro-level risk ,Macro-level risk

3 By time of coverage Current risk ,Prospective (long-term) risk

4 By type of financial services performed Innovation risk

Investment risk

Operational and technological risk

Risks related to enterprise security

5 By causes of occurrence Objective risk ,subjective risk

Methods of Risk Management

Your enterprise can apply various methods to reduce risks. It is important to carefully examine which risk management techniques are most suitable for your company. Some of these techniques include the following:

Avoiding risk

Avoiding risk is usually the most effective measure in risk management. As the name suggests, this technique eliminates the risk completely. If successful, the probability of loss from this risk factor becomes zero. Therefore, avoidance is often considered the first and most preferred method of risk management. For instance, companies that conduct background checks on employees to prevent potential problems are applying this technique. Similarly, an investor may decide not to invest in a financially unstable sector, thereby avoiding potential losses.

Transferring risk

Risk transfer occurs when a company recognizes that it cannot completely avoid a particular risk and decides to reduce its exposure by engaging a third party, such as an insurance company. Common examples include insuring company property or products against fire, theft, or flooding. Another example of risk transfer is signing contracts with employees or clients through legal entities to mitigate future liabilities.

Preventing loss

Loss prevention involves taking preventive measures to minimize the impact of unavoidable risks. For example, a company may store inventory prone to theft or fire in a secured warehouse. By installing surveillance cameras or hiring security guards, it can prevent losses and reduce risks. Similarly, companies may require passwords on their computers to prevent data breaches and maintain information security.

Retaining risk

This method involves managing risks internally rather than relying on external sources. Some companies prefer this approach because they believe they can handle risks on their own instead of paying for external insurance or services. For example, an organization that maintains its own internal IT department to manage cybersecurity rather than outsourcing to a third-party vendor is applying this method. Another case is when a company chooses not to purchase insurance for certain risks, believing that potential losses will cost less than paying insurance premiums over time.

Operational Risk

Up to this point, we have examined risks arising from external factors. However, your company itself can also be a source of risk. Operational risk refers to unexpected disruptions in a

company's daily operations. These may include technical failures that halt production or issues caused by human error or flawed internal processes.

Financial Risk

In finance, risk refers to the possibility that actual outcomes will differ from expected ones. Most types of risk have financial consequences, such as additional costs or lost income. However, financial risk specifically concerns the inflow and outflow of funds within the business and the potential for sudden financial losses.

For example, suppose a large portion of your company's revenue depends on a single major client, and you extend a 60-day credit period for that client. In this case, your company faces a significant financial risk. If the client fails to pay or delays payment for any reason, your business may experience serious financial difficulties. Having excessive debt also increases financial risk, especially when much of that debt consists of short-term obligations due soon. If interest rates suddenly rise — for instance, from 8% to 15% — this results in higher expenses and thus becomes a financial risk for your company.

Reputational Risk

Regardless of the type of business, one common factor unites all enterprises: reputation is everything.

If your reputation is damaged, you will immediately experience revenue loss, as customers will hesitate to engage with your business. The consequences, however, extend beyond lost income. Employees may become demotivated and even leave the company. Attracting qualified replacements may become difficult if potential candidates have heard negative information about your firm. Suppliers may begin offering less favorable terms. Advertisers, sponsors, and business partners may also decide to distance themselves from your company.

Concept of Risk Management

The definition of risk management refers to the process of identifying, assessing, and controlling threats to the financial security of an enterprise. The main idea behind this definition is that the company examines all areas that could potentially cause problems, evaluates the most effective ways to resolve them, and then establishes controls to minimize these risks as much as possible. It also involves addressing any problematic situations that may arise. Within this topic, one can explore various examples and determine the methods used in risk management that help business owners and managers lead their organizations to success.

How Risk Management Works

The process of risk management may vary depending on each business and specific situation. Some companies have entire corporate risk management departments that focus on strategic risks, risk assessment, risk profiling, risk mitigation, and the identification of potential risks for every new product or strategy. In smaller enterprises, risk assessment might be handled by a

single individual or considered an additional responsibility within another role. Before starting a business, it is essential for entrepreneurs to identify and analyze potential risks. Doing so allows them to establish effective strategies to minimize possible losses and ensure stability in their business operations.

Examples of Risk Management

Understanding how risk management functions in real organizations makes it easier to comprehend strategies for managing risks effectively.

For instance, a company may decide to avoid purchasing a new building because it is uncertain about its ability to generate sufficient product sales to cover the costs. Similarly, an investor might refrain from investing in a company if they believe the industry is too competitive or if their goals do not align.

Automobile manufacturers seek to reduce risks by conducting comprehensive tests of vehicle quality and safety before launching sales. Another risk management strategy for businesses could involve a retail company gradually introducing a new product to the market to observe consumer response before proceeding with full-scale production. Many business leaders also use insurance companies as a means to eliminate risk entirely.

Why Risk Management Is Important in Business

Risk management plays a crucial role in the business world. Whether you are a large corporation with an entire strategic risk management department or a small business owner handling risk management independently, it remains a vital component of success. The overall objective should be to ensure that your enterprise is as secure as possible—financially, physically, and technologically—while being prepared to respond to any potential issues. Identifying and managing risks helps protect your company's financial position and reputation.

Additionally, effective risk management safeguards your business, employees, and customers, contributing to long-term sustainability and trust.

Conclusion

Recent studies indicate that optimism, as well as positive feelings about luck and ability, helps risk-takers achieve success. The more an entrepreneur perceives themselves as fortunate or confident in their skills and capabilities, the higher the likelihood of overcoming challenges associated with the risks they take.

Apart from learned risk-taking, entrepreneurs can greatly benefit from business education. Studying finance, marketing, sales, and accounting provides aspiring entrepreneurs with essential knowledge about how the business world functions and equips them with the tools needed to navigate it effectively.

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