THE RISK MANAGEMENT INFLUENCE ON THE OPERATIONS OF THE COMPANY

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Abstract: The primary goal of a modern company is to preserve and increase its value. The essence is tracing and implementation of a sustainable development path of the company based on the analysis of its position, development trends in the environment, the probability of negative events and milestones, and the aspirations of direct competitors, whose behaviour, among other things, is related to the company's current performance and strategy. Risk is a natural companion of all important decisions (on target markets, choice of technologies, structural portfolio of business, investments, methods of financing). These decisions lead to the allocation of resources that should allow the value to be preserved or increased. Consequently, the risk that is inherent or caused by decisions in the company is assessed from the aspect of the influence on operations. Due to all this, attention is focused on the impact of risk management on the operations of the company as a research problem. Most research in this field deals with financial risks for which, accordingly, appropriate criteria and tools for its management have been developed, primarily in the form of financial derivatives. Only a small number of studies have been dedicated to the application of an integrated risk management process in a company in the real sector. Consequently, there was an opportunity to cover this under-explored area when it comes to risk management with the given paper. The subject of this paper is the influence of risk management on companies' operations on the example of companies operating in the Rasina district. Given that risk management in each company is a complex system of identifying, measuring and monitoring relevant risks, as well as making adequate decisions that align the exposure to given risks with a defined risk appetite, the authors will try to process the complete process of risk management, which shapes all activities in the process of risk management and risk-related decisions from the perspective of influence on operations and the value of the company on a specific example of companies from the Rasina district in Serbia. The general goal of this paper is to point out that the risk management system is a complex process, by which organizations methodologically take into account the risks associated with their activities in order to achieve continuous profit, both within each activity and in the entire portfolio of activities.
Keywords: risk, value, value drivers, risk management, assessment.

1. INTRODUCTION

Risks have always been a constant companion of man. Since prehistoric times, we have lived in risky situations. The first risks were the inability to provide basic necessities. It was not known whether prehistoric hunters would catch enough animals to feed the family, there were no arranged homes that would provide protection from unpredictable weather conditions.

Organized risk management is noticeable much later, creating organized human communities. Back then, the biggest risk the communities faced was the possibility of attacks from enemy communities or kingdoms. Because of that, people started building fortifications and defence chains whose purpose was to suppress and defend against enemy attacks.

The first risk assessments appear in ancient Babylon. There, the merchants asked for certain guarantees for the goods due to the danger of robbery during the transport. It was their way to financially protect their business. Therefore, a risk assessment was performed to determine the amounts of guarantees for each type of goods.

A further step in the development of risk assessment methods occurred in the 17th century. With the development of probability theory and statistics in 1654, we obtained a tool for risk quantification. In the second half of the 20th century, new and more sophisticated methods of quantitative risk assessment for the needs of the nuclear industry and energy were developed. With the development of computers, there is the possibility of analysing thousands of different situations related to risk analysis. At the end of the 20th century, risk management became extremely interesting for business organizations, so they invested large amounts of money in the development of this aspect of operation.

It can be concluded that during human development there have been great changes in lifestyle and the dangers surrounding us. Our activities have become more complex, and with them the risks. We live in uncertain times marked by constant wars and economic crises. It could be said that the only certainty today is that nothing in life is certain. Which is confirmed by the Covid-19 pandemic that occurred in 2019. Global markets have been adversely impacted by the ongoing Covid-19 pandemic outbreak (Mariya Gubareva, 2021).

2. MATERIALS AND METHODOLOGY

Two companies in Kruševac were observed and their perception of risk in the financial statements presented in the publicly published data through the Business Registers Agency, hereinafter SBRA, was analysed. The observed companies are DS SMITH PACKAGING LLC Kruševac and Cooper Tire & Rubber Company Serbia LLC Kruševac.

DS SMITH PACKAGING LLC Krusevac published its last financial report on April 30, 2021 in which it recognizes the following risks: foreign exchange risk, interest rate risk, credit risk (trade receivables), management of trade payables, liquidity risk, litigation, tax risk, rapid spread of Covid-19 is also presented as a possible risk of the Company. Table 1 gives an example of credit risk, i.e. the age structure of unadjusted receivables expressed in thousands of dinars.

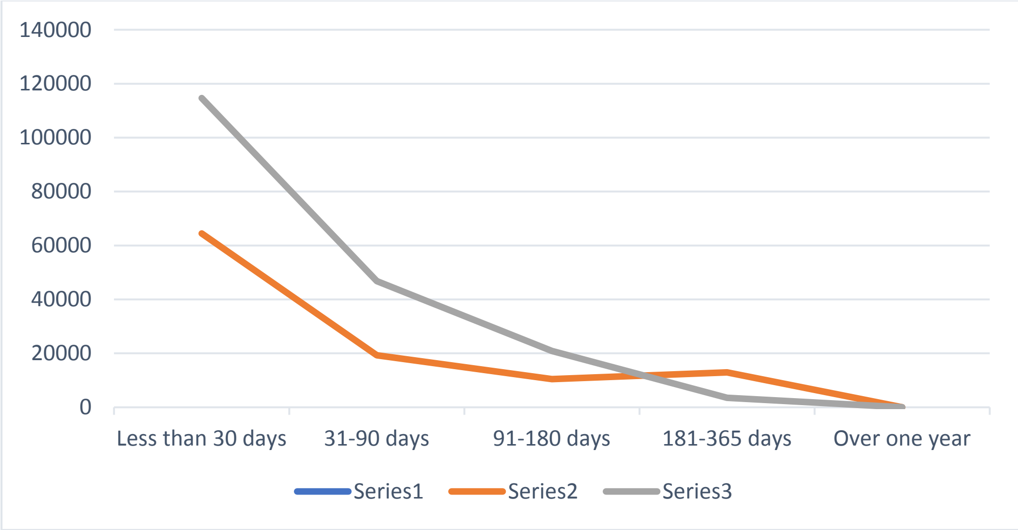
Table 1. DS SMITH PACKAGING Credit risk

	30.04.2021	30.04.2020
Less than 30 days	64470	114658
31-90 days	19268	46765
91-180 days	10465	20873
181-365 days	12930	3528
Over one year	0	0
Total	107133	185824
Standard deviation	17217,36	34837,36

Autor's visualization, based on *annual business report*

Credit risk includes the risk that debtors will fail to meet their obligations under financial instruments or contracts, resulting in financial losses. The Company is exposed to credit risk from ordinary activities (mainly from trade receivables and loans) and from financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Figure 1. Uncorrected receivables of DS SMITH PACKAGING for the observed period 30.04.2020 and 30.04.2021



In Figure 1 we can see that DS SMITH has brought credit risk under control and that it is decreasing from year to year.

Cooper Tire & Rubber is a parent company owned by companies around the world that specialize in the design, manufacture, marketing and sale of passenger car tires and light truck tires. Cooper operates in various countries around the world, including Cooper Tire Serbia, which operates in Serbia. Cooper Tire Serbia's operations form an important component of Cooper's growth strategy in Europe and especially in Eastern Europe, as well as in the Russian tire market. As is the case with all foreign operations, the parent Company will finance operations to support targeted business growth in accordance with the optimal capitalization of the entity. In addition, Cooper intends to comply with all laws and regulations relating to the capitalization of foreign entities.

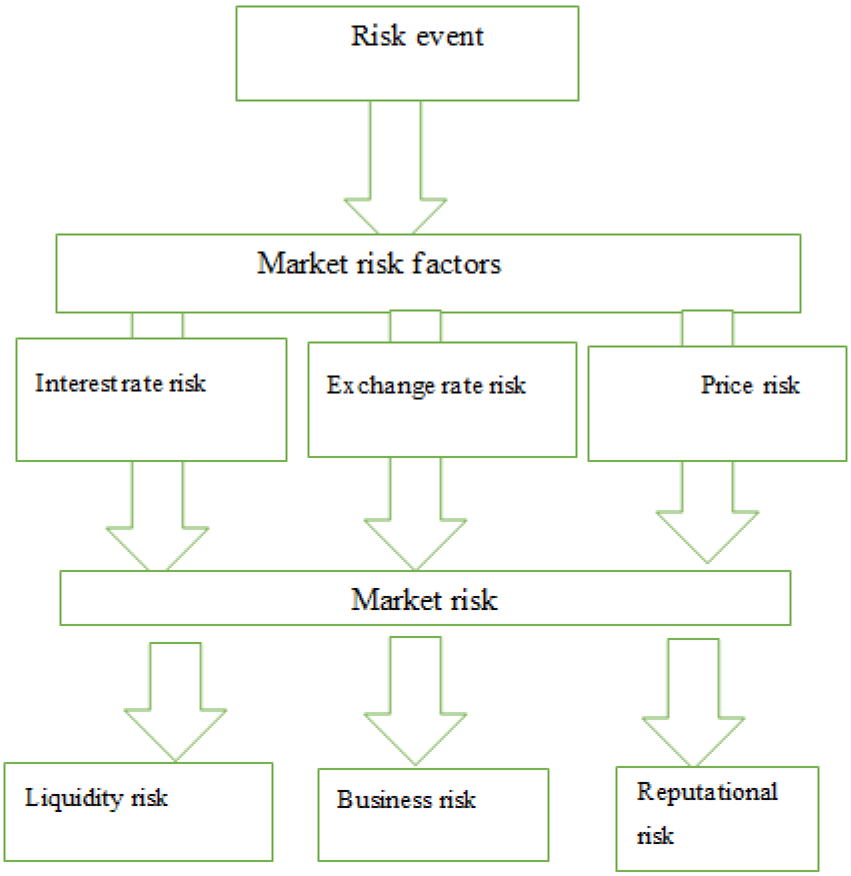
The primary objective of the capital management of Cooper Tire & Rubber Serbia LLC Kruševac is to ensure that the Company maintains a strong credit rating and a healthy capital ratio to support operations and maximize capital value.

The company manages its capital structure and harmonizes it with changes in the economic conditions of the environment. In order to maintain or adjust the capital structure, the Company may adjust dividend payments to shareholders, return capital to shareholders or issue new shares.

Cooper Tire & Rubber Serbia LLC Kruševac monitors capital through the debt ratio (which is the ratio of net debt through total capital increased by net debt). The Company's net liabilities include interest-bearing loans and borrowings, trade and other payables, less cash and cash equivalents.

The observed companies from Kruševac, through their annual reports on SBRA, noticed the following risks, shown in Figure 2.

Figure 2. Financial risks



There are several types of risks in economic theory, and probably the most well-known is financial risk, which is the most common cause of small and medium-sized companies' failures. This is most often a consequence of the impossibility of regular and sufficient collection from own debtors. In Serbia, companies can be expected to collect their receivables up to a year later, and on average it is 4-6 months (Avakumović, J. 2013). There is almost no difference between state-owned companies and institutions on the one hand, and private companies on the other. It is now up to the company to provide the necessary capital for bridging, and all this is reflected in the thought of this research. Unfortunately, it is not uncommon for the failure of one company, or their deliberate delay in payment, to bankrupt other companies in the same supply chain. Financial risks are constantly active and must be treated as such. Only those companies will be successful where there is a daily focus from the highest place on this type of problem. The current globalization and complex business environment leads many business to think beyond just profitability only (Hamdu Kedir Mohammeda & Knapkovaa 2016).

Immediately following the financial one, there is also a commercial risk or the inability of the company to attract enough customers to buy its products and services at a profitable price. This category includes the risks of placing goods and services on the market at a satisfactory price, and depends on the commercial and physical competitiveness of the product or service, supply and demand (Šabović, Š., Šabović. S. 2012).

In practice, for example, there may be a recession or stagnation in the market to reduce demand (and achievable margin), or customer interest may simply change due to an innovation or your brand may suddenly "wither" as a result of a dominant competitor. In Serbia, additional risks come from competitors from the "gray economy", and we must not forget the cheap imported goods, i.e. those whose production is subsidized in the country of origin. Business owners have to deal with all these challenges on their own. Each of the above situations can break the detailed planned budget of each company if during the planning they failed to identify the appropriate risks and enter the necessary commissions to prepare the ground for an adequate fight against them.

A special aspect of commercial risk is the potential loss of reputation. It can happen as a result of some activity of the whole company, loss of a critical attribute of certain products and services or misconduct of employees and any other person associated with management. The problem would be even bigger if the company appeared in the media in a negative light for any reason - whether key customers, suppliers and even some employees would continue to cooperate with it. The risk of supply chain disruption refers to both incidents with individual suppliers and the potential collapse of the market from which they are supplied (Waters C. 2007). It is manifested by the inability of the supplier to meet your needs in the quantity and/or quality of goods in the short or long term, which can lead to business interruptions in the worst case.

Operational risk includes the potential non-functioning of any resource necessary to conduct critical operational activities of the enterprise which, as a consequence, may lead to disruption of production and delivery of products or services to customers. It covers everything from planning service and call centre to mechanization, factory hall and office building (Chapman C., Ward S., 2003). Since people are the main resource of the company, operational risk also applies to work culture, organizational structure and interpersonal relationships. Special attention should be paid to potentially large declines in the quality of products and services, accuracy of delivery and efficiency of service.

Market risk includes the risk that the fair value of future cash inflows from financial instruments will fluctuate due to changes in market prices. Market prices include three types of risk: interest rate risk, exchange rate risk and other price risks, such as the risk of changes in the price of capital. Financial instruments affected by market risk include loans and borrowings, deposits, investments in securities, and derivative financial instruments.

3. RESULTS

The companies have a defined risk management procedure, in accordance with international quality standards. The aim of this procedure is to prescribe the procedure and principles for risk management in the Company's operations. This allows for easier identification, assessment and ranking of risks by importance in order to minimize, monitor and control the probability and impact of adverse future events on the company. This procedure describes the way of risk management in all sectors of the Company's business, all with the aim of increasing the value of the Company.

Some of the benefits that can be achieved by applying a risk management framework are:

- increasing the probability of achieving the set business goals,
- encouraging proactive action of the management of the risk management process and the management of the company,
- raising awareness and understanding of the need to identify and treat risks in the company itself,
- raising capabilities to a higher level in identifying opportunities and threats,
- constant harmonization with relevant legal norms and regulations,
- improving stakeholder reporting and trust,
- creating a reliable and good basis for decision-making and planning,
- reduction of losses and more efficient use of resources,
- improving the health and safety of employees,
- improving the organization's resilience to problems it may face.

The ultimate goal of this risk management procedure is to reduce the assessed and identified risks to an acceptable level for the company, by reducing the negative effects of operating risks.
The procedure can be applied to all types of risks that can be identified in business processes. These risks may occur during:

- negotiating business arrangements with customers,
- concluding financial agreements with investors, buyers, etc.,
- procurement of raw materials and products,
- supplier selection,
- technological realization of products or product maintenance services,
- management of control, measuring and test devices,
- maintenance of production plant,
- transport and delivery,
- communication with stakeholders.

When implementing a risk management process, it is very important to know the responsibilities of all employees involved in this process. The risk management procedure defines these responsibilities through the hierarchy of the organization.
The risk management system consists of 3 main components. These components are: risk management principles, risk management framework and risk management process.
Risk management in the company is based on the following principles:

- Risk management strives to create added value for the company,
- Risk management is an integral part of the production process,
- Risk management is part of the decision-making process,
- Risk management explicitly refers to all types of business uncertainties,
- Risk management are systematic, structured and timely activities of managers and employees, as well as processes,
- Risk management is based on the best available information,
- Risk management is always adapted to specific situations,
- Risk management takes into account the human resources at our disposal at the moment,
- Risk management is transparent and inclusive,
- Risk management is dynamic, repeatable and sensitive to changes,
- Risk management facilitates the continuous improvement and advancement of products, processes and organizations.

The enterprise risk management framework is very simple and includes: framework design, implementation of risk management, supervision and review of the framework, as well as continuous improvement of the framework.
Once all the principles of risk management have been established and the management framework has been set, the process of risk management itself begins. The process consists of determining the context of the organization, risk assessment as well as risk processing. Organizations undertake risk management to maximize opportunities and minimize the consequences of events that may arise when implementing activities geared to achieving their goals and objectives (Geraldine J. Kikwasi, 2018).

4. DISCUSSION

One of the key questions for every manager is how to deal with risks and how much they can affect the operation of the entire company. This is especially important if we take into account the fact that when making a decision, the primary goal is to choose the best alternative, i.e., the most acceptable for the decision maker. The choice of an alternative does not mean that in that way the risk that goes with it will be absolutely accepted. When making a decision, the decision maker does not choose one of the possible risks, but chooses one of the possible alternatives, but choosing one alternative also means accepting the risk of a certain level, taking into account other consequences (including positive ones that provide certain benefits and negative ones having certain shortcomings).
Therefore, when making a decision, both advantages and disadvantages are taken into account, and the risk does not have to be the smallest with the chosen alternative. On the contrary, the alternative with the highest risk can be chosen, if the choice of that alternative possible benefits provide appropriate compensation. When choosing an alternative, all positive and negative consequences are taken into account. Choosing the most favourable alternative is a very complex problem and all this, in the end, can greatly affect the company's business in the future and its competitiveness and market value. The results of research in scientific journals by other authors show that in

conditions of uncertainty, management decision-making is more likely to be prudent until visible forms of risk emerge and clear response mechanisms are established (Nitya P. Singh & Paul C. Hong, 2020).

5. CONCLUSION

Following research in this paper, it was concluded that risk management in the company is a complex system of identifying, measuring and monitoring relevant risks, as well as making appropriate decisions that align the exposure to given risks with a defined risk appetite.

Risk is analyzed from the aspect of researching the causes and sources of risk, determining the probability of their occurrence and assessing the consequences after the occurrence of a risk event related to operation. The processes analyzed consisted of inputs, outputs and value-added activities.

The role of the risk management manager or the risk management department in the company is procedurally determined and includes: defining and implementing risk management policies and strategies; responsibility for risk management at the strategic and operational level; trainings and presentations to promote a culture of risk awareness in the company; creation and implementation of internal risk management policies at the level of organizational work; creating and controlling risk management processes at the company level and at the level of organizational units; monitoring and reporting the risk management process at the company level.

The role of internal audit in the risk management process is focused on: controlling and making recommendations to minimize risk in all organizational parts and business activities of the company Cooper; monitoring the fulfilment of recommended measures by organizational parts in the company; providing active support and involvement in the risk management process; reporting to the board of directors on risk, recommended measures, etc.

The key resources for the implementation of the risk management process are employees, i.e. their risk awareness and training to manage it. Then, the company's operating processes and information system and built-in control and risk minimization mechanisms.

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