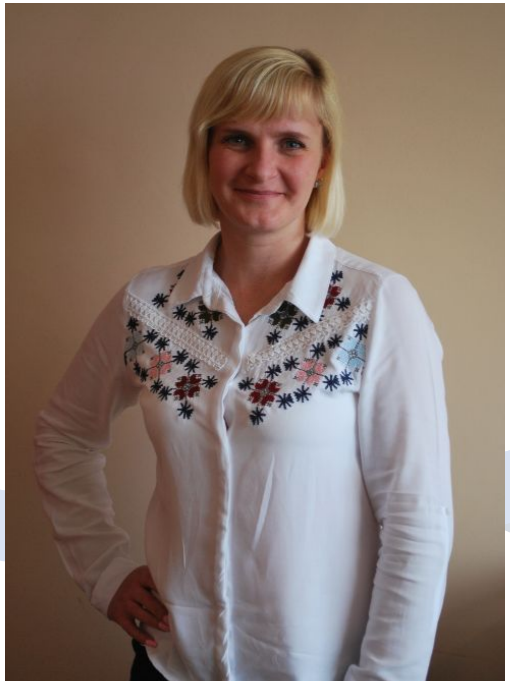
Transformational Learning Network for Resilience

Enabling Ukrainian higher education to ensure a sustainable and robust reconstruction of (post-war) Ukraine

Sustainable pathways and risk management in times of crises

Lecture 1.
Definition of "crisis", "risks", "uncertainty".



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Agenda

1. Definition of "crisis", "risks", "uncertainty".
2. Classification of risks. The impact of risks on the activities of society, business and the environment.
3. Risk management as a tool for ensuring the sustainable functioning of an enterprise in conditions of uncertainty.

1. Definition of "crisis", "risks", "uncertainty"

Crisis is called a situation marked by high danger, a state of uncertainty, a sense of urgency (Y. Rosenthal and B. Pidzhnenburg).

Crisis - a large-scale, unforeseen event that leads to potentially negative results. This event and its consequences can cause serious damage to the entire organization: employees, products, communications, finances and reputation (L. Barton).

Crisis - a loss of control over the situation. The most important task of crisis management is to limit the size of potential damage as much as possible in the shortest possible period (P. S. Green).

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Crisis phenomena are classified according to the following features:
– *by place of occurrence*: ***internal*** – crises that arise and manifest themselves directly in organizations and enterprises; ***external*** – crises that arise and manifest themselves in the external environment in relation to organizations and enterprises;

– *by level of economic manifestation*: ***microeconomic*** – characteristic of individual organizations and enterprises; ***mesoeconomic*** – manifest themselves in a certain industry; ***macroeconomic*** – arise within a certain country; ***international*** – are formed outside the country and capture several or most countries of the world;

– *by scope:* **individual** – crises that affect the activities of specialized organizations and enterprises; **group** – crises that affect the activities of a certain group of organizations and enterprises;

– *by nature of occurrence*: **random** – crises that arise spontaneously under the influence of unforeseen circumstances; **regular** – crises that are a consequence of certain natural and/or social laws of development; **cyclical** – crises that have the ability to constantly repeat;

– *by sources of origin*: **natural** – arise regardless of human activity and social processes, depend on force majeure circumstances; **artificial** – specially created for a specific purpose.

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1. Definition of "crisis", "risks" "uncertainty"

Components of the ***ecological crisis***:

-depletion of ecological systems;

-degradation of the agricultural resource base;

-desertification (desert attack on fertile lands);

-deforestation; disappearance of many species of animals and plants;

-water and air pollution;

-excessive use of natural resources.

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Reasons that caused the global ecological crisis:

– lack of political will of states to consistently, effectively implement activities related to environmental protection and rational use of nature;

– imperfect environmental legislation and legislation in the field of rational use of nature;

– defects in the organization of state environmental policy;

– dominance of economic interests and satisfaction of economic needs without taking into account the ecological capacity of ecosystems;

– predominance of commercial interests over general human interests;

– insufficient funding of environmental protection programs and measures;

– lack of competent specialists in the field of ecology and nature management;

– low level of ecological awareness, ecological knowledge, ecological culture;

– ecologically “barbaric”, nature-consumer concept of social development.

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Possible ***ways to solve the environmental problems*** of humanity, according to V. Pisarenko:

– creation of a new ecologically-oriented worldview of man;

– development, consistent and effective implementation of national and international environmental policy;

– development of modern environmental legislation;

– creation of a system of state management of nature management and environmental protection;

– ensuring optimal financing of activities in the field of ecology;

– ecological and educational activities, environmental education and training of environmental specialists.

1. Definition of "crisis", "risks" "uncertainty"

The activities of any business entities are associated with factors of **uncertainty**, that is, randomness, incomplete information, vagueness, etc.

Uncertainty is closely related to risks.

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1. Definition of "crisis", "risks", "uncertainty"

Risk can be represented as uncertainty that leads to possible losses as a result of carrying out a certain activity.

Uncertainty represents the objective impossibility of obtaining absolute knowledge about the objective and subjective factors of the functioning of the system, the ambiguity of its parameters.

To ensure the sustainable development of business entities, it is necessary to effectively manage risks in conditions of uncertainty.

2. Types of risks

Risks can be combined into the following groups:
– by place of manifestation (by origin of the threat) – external, internal;
– by sphere of origin – production, commercial, financial, investment, environmental;
– by duration – short-term, medium-term, long-term;
– by degree of impact – permissible, critical, catastrophic;
– by insurance possibility – insured, uninsured.

2. Types of risks

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External and internal factors that determine business risks

Risks	External	Internal
Financial risks	Interest rate Currency rate Credit	Liquid assets Cash flow
Strategic risks	Competition Consumer Market Change Industry Changes	Research Intellectual Capital
Operational risks	Legislation Culture Composition of the Board of Directors	Accounting Recruitment Technology Raw material supply
Dangers	Contracts Suppliers Environment Natural Hazards	Commercial Service Personnel Property Products and Services

2. Types of risks

Economic risks are the result of economic actions caused by decisions on the production and consumption of goods, which leads to inefficient and irrational distribution and use of material and financial resources.
Political and legal risks are characterized by the use of political power to maintain ineffective forms of government. These risks are characterized by maintaining socio-political stability by restricting rights and freedoms, ensuring sustainable economic growth by means of non-economic coercion and irrational use of resources, a significant part of which is directed to supporting and preserving the political regime.
Social risks are risks caused by an increase in human needs and a decrease in the resource base to meet these needs. Under the influence of social risks, national, religious and labor conflicts increase. The nature of these risks is due to the ineffective and irrational use of creative abilities and an ineffective system of social protection of the population.
Environmental risks are risks associated with the results of economic activity and the impact on the biosphere, which lead to increased threats to the life and health of not only people, but also other objects of the natural world.
Technogenic risks are associated with errors and the location of production and social facilities in a specific territory, which pose a real threat to people's lives and health.

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Risks have certain properties:

– systematicity;

– integrity;

– dynamism;

– flexibility;

– complexity;

– manageability;

– diversity.

4 TYPES OF RISK MITIGATION

3. Risk management as a tool for ensuring the sustainable functioning of an enterprise in conditions of uncertainty

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Risk management is one of the tools that helps create conditions for the effective functioning of any economic system in the face of risk to ensure sustainable development.

Risk management is a process of influencing a business entity, which ensures the widest possible range of risk coverage, their reasonable acceptance and reduction of the degree of their impact to minimum limits, as well as the development of a behavior strategy in the event of the realization of specific types of risk. [p. 93].

Risk management is a set of methods, techniques, and measures that allow predicting the occurrence of risky events, taking measures to eliminate or reduce the negative consequences of their occurrence. [p. 181].

Risk management is a set of actions of an economic, organizational and technical nature aimed at identifying types, factors, sources of risk, assessing their magnitude, developing and implementing measures to reduce the level and prevent possible losses. [p. 188].

In most interpretations, ***risk management*** is ***defined as the process of influencing a management entity on an economic entity in order to minimize the negative consequences of the action of certain factors***.

Устенко О. JL Теория экономического риска : монография / О. JI Устенко. − К. : МАУП, 1997. − 164 с.

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3. Risk management

The purpose of risk management is to ensure the necessary level of resilience and adaptability of the enterprise to possible threats for its stable functioning.

The main objectives of risk management can be:

- timely identification of possible environmental factors that will affect the results of the enterprise's activities;
- assessment of the level of probability of occurrence and the degree of influence of these factors;
- prevention of external and internal dangers and threats that arise during the operation of the enterprise;
- ensuring and guaranteeing the security of the enterprise's activities;
- creation of a favorable operating environment, elimination of the consequences of losses, etc.

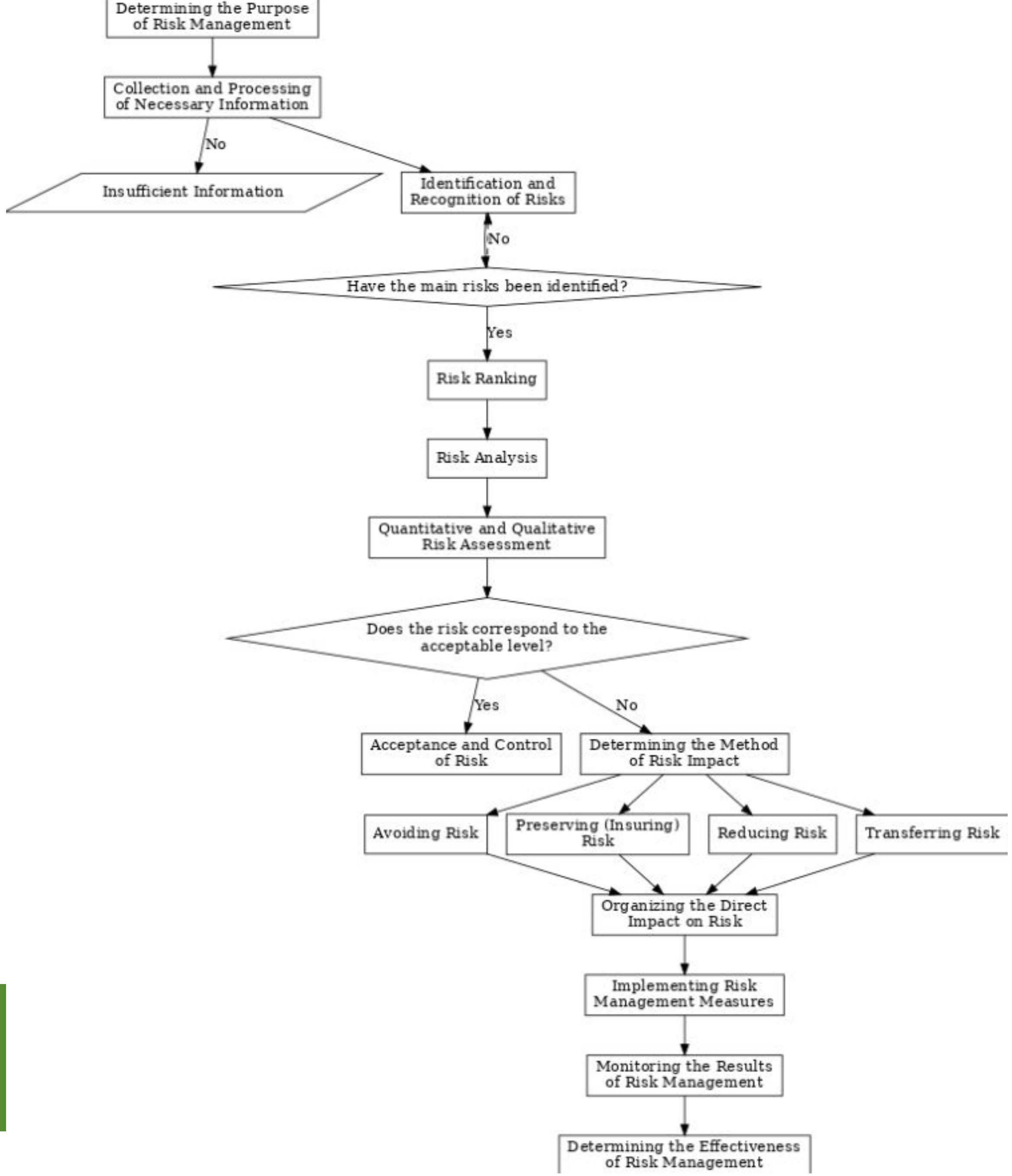
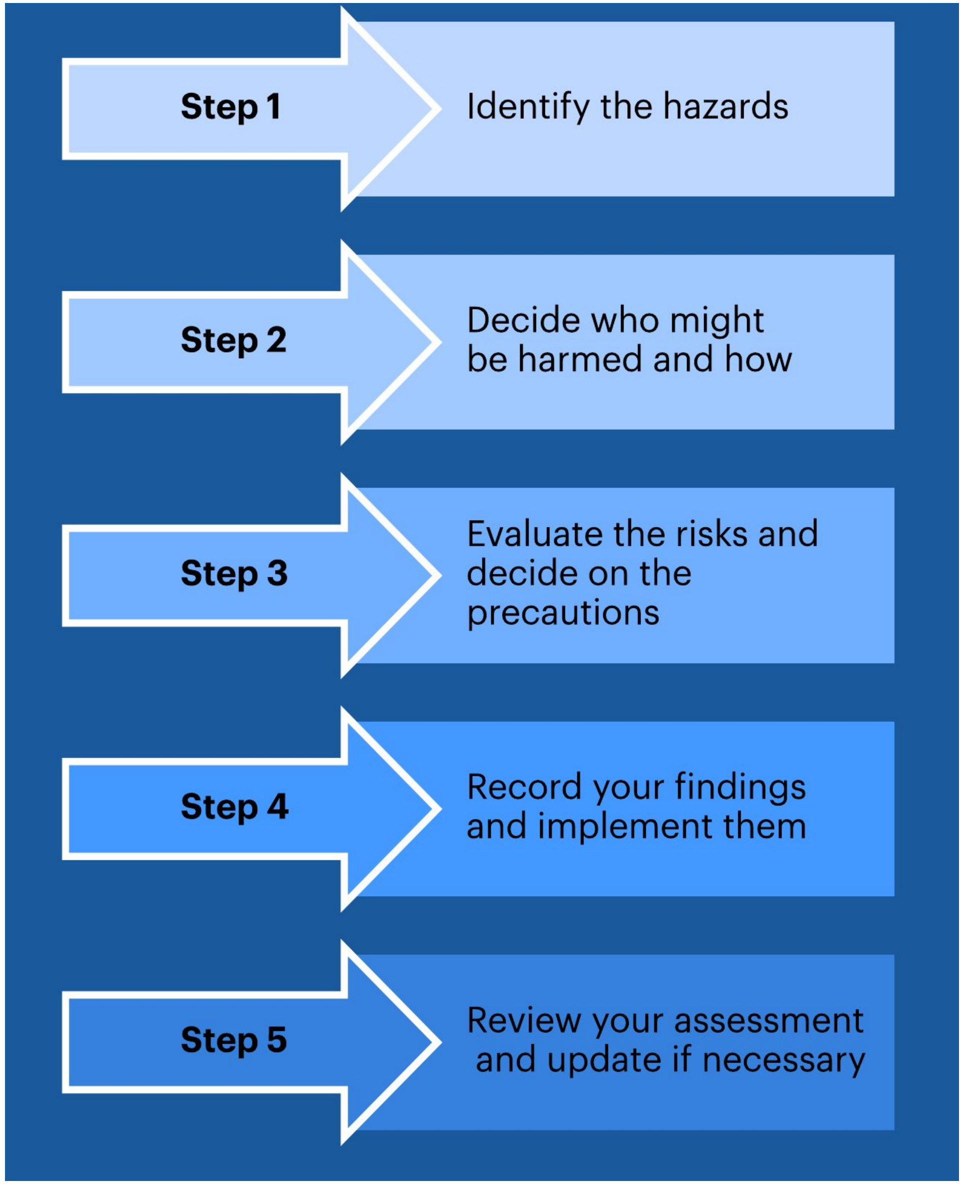


Fig. 1. Risk management process


Step 1
Identify the hazards
Step 2
Decide who might be harmed and how
Step 3
Evaluate the risks and decide on the precautions
Step 4
Record your findings and implement them
Step 5
Review your assessment and update if necessary


5. Monitor and Review the Risk
1.Identify the Risks
Risk Management Process
2. Analyze the Risk
3. Evaluate or Rank the Risk
4. Treat the Risk
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ASSESS RISK
IDENTIFY RISK
RISK MANAGEMENT PROCESS
CONTROL RISK
REVIEW CONTROLS

To successfully manage risk situations, a manager should adhere to the basic principles of risk management:

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TransN Learn

1) one cannot risk more than one's own capital allows.

2) one cannot risk "big for the sake of small".

3) it is necessary to think about the consequences of risk.

Thank you for attention!