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Issues for Introducing the Risk Management System in the State-Owned Enterprises of Uzbekistan

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Abstract: The paper, based on the study of scientific literature and foreign practical experience, reveals the essence and importance of risk management in the enterprises, as well as formulates the proposals and recommendations for the introduction of a risk management system in the state-owned enterprises of Uzbekistan.

Keywords: risk, risk management, risk management, risk management system, state-owned enterprise.

Introduction

In recent years, Uzbekistan has been paying great attention to the development of corporate governance, both from the side of the state and from the side of the private sector and the scientific community. Today, the main document that gave a new impetus to the development of corporate governance and determined measures for the medium-term period for further improvement of the national corporate governance system is the Strategy for Management and Reform of State-owned Enterprises for 2021-2025, approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan os of March 29, 2021 No. 166 [1].

In accordance with this Strategy, it is planned to introduce a risk management system in the state-owned enterprises. In this regard, based on the study of scientific literature and foreign practical experience, the authors have prepared this paper containing information about the nature and significance of risk management in enterprises, as well as proposals and recommendations for the introduction of a risk management system in the state-owned enterprises of Uzbekistan.

To begin with, it is necessary to clarify the concept of risk and describe the conceptual framework of the risk management system in enterprises.

The concept of risk, its types and risk factors for enterprises

In essence, risk is the probability of a possible undesirable loss of something in a bad set of circumstances, possible circumstances that can cause damage and loss to any person. For an enterprise, risk is an uncertain event or condition that, if it occurs, has a positive or negative impact on the reputation of the enterprise, leads to acquisitions or losses in monetary terms. The economic nature of risk means that risk is characterized as an economic category, and has a certain place in the system of economic concepts related to the implementation of the economic process of the enterprise. The risk arises in the sphere of economic activity of the enterprise, is directly related to the formation of its profit, and is often characterized by possible economic consequences that arise in the course of financial and economic activities.

The risk takes place in all areas of economic activity. For example, the following types of risks occur in production and economic activity: property, settlement, production, financial, currency, credit, investment, etc. At manufacturing enterprises, the following types of risks can also be distinguished: administrative risk, operational risk, legal risk, currency risk, property risk, credit risk, financial risk. All these types have their own subtypes. For example, financial risk includes credit risk, interest rate risk, currency risk, tax risk, inflation risk, deposit risk, insolvency risk, investment risk, criminal risk.

Risk and its consequences must be identified and predicted, as well as constant monitoring of factors that can lead to great difficulties and losses in enterprises. The following risk factors may differ:

Unforeseen macroeconomic factors:

- booms and crises in the economy, inflation;
- increase in tax and customs rates;
- introduction of compulsory deductions, change of contractual terms, alienation of property and funds;
- currency exchange rate changes;
- changes in legislation, etc.

Factors caused by changes in the market situation:

- falling demand and falling prices;
- increase in prices and tariffs for material and energy resources, transport tariffs;
- changes in the tastes of customers, unexpected actions of competitors, the appearance of interchangeable products
- changes in the exchange rate of securities, etc.

External economic factors:

- prohibition and introduction of restrictions on the export of goods in certain countries;
- increase or decrease of customs duties on the export of goods in certain countries;
- political and economic crises in other countries;
- changes in prices on world markets;
- assets or income in other countries may be frozen or expropriated;
- possible changes in long-term contracts abroad, etc.

Intra-company factors:

- imperfection of methodology and incompetence of persons forming the strategy of the enterprise and its business plan, calculating profits and losses;
- dishonesty and insolvency of business relations partners
- incorrect management decision-making;
- mistakes in the marketing forecast, refusal of the general meeting of shareholders or supervisory board

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to accept a radical proposal of the executive body, etc.

Risk management system in enterprises: conceptual foundations and foreign experience

Risk management is the process of making and executing management decisions aimed at reducing the likelihood of an unfavorable result and minimizing possible losses caused by its implementation. The purpose of risk management is to ensure that in the worst case scenario, we could only talk about a certain decrease in profits, but in no case was there a question of bankruptcy. In order to achieve high-quality risk management, it is necessary to systematically analyze and predict risk situations, detect areas of increased risk, develop and take measures to reduce losses from risky moments. At the same time, it is necessary to coordinate the activities of the management structures of the enterprise.

Risk management includes the following steps:

- analysis and forecasting of risk situations,
- detection of high-risk areas;
- development and implementation of appropriate measures to reduce losses from risky situations;
- coordination of the activities of the company's divisions, stimulation, control, etc., that is, the whole complex of managerial functions.

In order to achieve high liquidity of the enterprise, it is very important to abandon excessively risky activities, organize risk insurance, take measures to reduce the consequences of risks and form reserves and reserves to cover risks

Risk management becomes especially relevant during economic and financial crises. At this time, on the one hand, there is a significant decline in business activity, on the other hand, there are difficulties associated with financing a weak economic environment. The globalization of economic processes is not only an additional source of risks, but also provides additional opportunities for participants in the global economic community. Professional integrated risk management, of course, will not solve all problems and will not reduce the likelihood of risk events to zero, but it is this approach that contributes to achieving the goals of a business organization, increases the effectiveness of business decisions, allows you to identify additional opportunities in an uncertain external environment, to ensure the reliability and stability of the company as a whole [2].

Due to the peculiarities of the historical process, the first experience in the theoretical understanding and practical application of risk management tools at enterprises belongs to developed Western countries. The prerequisite for the creation of the first risk management standard is the economic crisis that began in the late 80s in the United States. The Committee of Sponsoring Organizations of the Treadway Commission (COSO), consisting of accountants, financiers and internal auditors, urgently developed a manual on internal control for investment organizations. The risk and control models recommended by the commission served as the basis for a number of other standards in the future.

Currently, the most common in practical application are the following standards in the field of enterprise risk management:

1. The International Standard of Risk Management, regulations and recommendations on corporate risk management (ERM – Enterprise Risk Management, RMS – Risk Management Standards) developed by COSO (approved in 2001).

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2. The International Standard of Risk Management developed by the Federation of European Associations of Risk Managers (FERMA), namely the Institute of Risk and Management in the UK (IRM) (approved in 2002).

The main idea of international standards is a systematic approach to risk management, according to which risk management should not only be included in all strategic initiatives, but also be an integral part of all business processes of the organization [2].

The features of risk management include: the need for the management of companies to have proactive thinking, intuition and foresight of the situation; the possibility of formalizing the risk management system; the ability to quickly respond and identify ways to improve the functioning of the organization, reducing the likelihood of an undesirable course of events. The use of risk management implies a clear distribution of responsibility and authority between all structural divisions of the enterprise. The functions of the top management include the appointment of those responsible for the implementation of the necessary risk management procedures at all levels. Such solutions must comply with the strategic goals and objectives of the company and not violate the terms of the current legislation. At the same time, it is necessary to correctly distribute among the performers the event to identify risks and the functions of monitoring the created risk situation [3].

In the process of risk management, a reasonable balance is needed between the costs of risk management and the amount of possible damage or benefit from the occurrence of a risk event: if the risk level is acceptable, and the costs of risk management exceed the possible effect, additional measures to deal with this risk are not necessary [4].

At the present stage of development, the issue of introducing the risk management system in the state-owned enterprises becomes especially in demand, given the presence of the following features in them:

If there is a state share of more than 50%, enterprises cannot quickly acquire inventory, directly conclude contracts with suppliers of goods and services, lose time and money for this (since prices are higher through the public procurement system). There may not be any goods on the stock exchange that businesses need. This is a risk – the loss of a reliable supplier and efficiency.

If there is an urgent need to increase capital (for example, funds are urgently needed for the construction of a new production line). An ordinary enterprise can raise these funds promptly by issuing shares (increasing the authorized capital). Enterprises with a state share cannot do this in the vast majority of cases, since it is necessary to maintain the state share when increasing the authorized capital, and this requires financial resources that cannot be solved quickly due to the presence of many licensing procedures. This is a risk – the loss of an investment.

The use of corporate risk management methodology in the field of public administration has long been a practice in developed countries of the world. Risk management has become the basis for the modernization of public administration in the UK, Canada and the United States of America.

The program for improving public administration and improving the quality of services provided by the authorities, the so-called "White Paper of Modernization of the UK Government", was adopted in 1999. One of the aspects of the program was to improve risk management and encourage the use of innovative approaches borrowed from various sources — public and private — to improve performance. It was with the adoption of the "White Paper" that the use of risk management in public administration in the UK began.

The introduction of risk management into the practical activities of public authorities in **Canada** also began in 1999. KPMG, one of the largest auditing companies in the world, conducted a corresponding

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study for the secretariat of the Treasury Board of Canada, the result of which was the document "Best Practices in Risk Management: Private and Public Sector at the international level" (Best Practices in Risk Management: Private and Public Sectors Internationally). Based on the systematized international experience, the secretariat of the Treasury Board, which is responsible for developing measures to improve the efficiency of the public administration system and the activities of the civil service, in 2001 issued the document "Integrated Risk Management Framework" (IRMF), which became a practical guide for civil servants in decision-making and formed the national risk management policy of Canada.

The **US** government also has experience in applying and adapting successful private sector practices in its activities. Corporate risk management is no exception. Nevertheless, the social problems that state risk management is aimed at solving differ from the tasks facing corporate risk management with a greater degree of uncertainty, complexity and social conditionality. The introduction of risk management into the practice of US government authorities began in the financial sector with the recommendations of the Federal Treasury regarding the disposal of budgetary funds.

Thus, it should be noted the specifics of risk management in different countries. While in the UK and Canada the use of this methodology is aimed at improving the management of public projects and programs, as well as improving the quality of public services, in the **USA** the focus is shifting to ensuring state security [5].

Proposals for introducing the risk management system in the state-owned enterprises of Uzbekistan

In the era of economic and financial crisis, risk management is the most urgent problem facing domestic enterprises of the republic. The processes of globalization are becoming another source of economic risks, therefore, the use of the basics of risk management in management will contribute to achieving the goals and objectives of enterprises and companies, although, of course, it will not reduce the degree of probability of various kinds of risks to zero

In the Republic of Uzbekistan, in 2020, work began on the implementation of the "Guidelines on Risk-based Supervision", developed with the technical assistance of the Asian Development Bank. In turn, on the example of banks selected for the initial stage of transition to a risk-based supervision system, an institutional database was created as a test. The institutional data reflect all levels of the bank's structural divisions, important events that have occurred in recent history. As a logical continuation of this system, it is planned to introduce the practice of sending annual appeals to the boards of banks based on the results of analyses and existing risks. In order to implement the above tasks, improve the skills of employees, create the necessary conditions for them to acquire modern knowledge and skills in the field of banking supervision, the practice of using online platforms of international financial institutions and training in the form of videoconferencing has been established.

However, it should be noted that many state-owned enterprises have not introduced the risk management system. Precisely, due to the lack of specialized risk management structures in enterprises, it is becoming increasingly difficult for management to make correct management decisions and achieve their strategic and operational goals. Therefore, the creation of a risk management system is an important process that systematically and on a regular basis helps management and employees to identify and minimize threats, maximize opportunities and achieve their goals in conditions of uncertainty.

As an example, we can say about the activities of the Uzkhlopkamash joint-stock company, which, unfortunately, was liquidated in 2014 due to the lack of liquidity of its products, a large debt to the budget, which led to bankruptcy. However, if there were a risk management unit in the management structure, then it would be possible to produce the right assortment of products in the right quantity, taking into account marketing research of the sales market, as a result of which the company would fulfill all

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obligations to the budget and shareholders. On the other hand, the responsibility of the heads of all departments of the enterprise for the decisions taken would increase, concrete actions would be taken to prevent and suppress unnecessary risky operations.

In order to introduce the risk management system in the state-owned enterprises, as well as in order to prevent negative economic consequences of the risk that arise in the course of the financial and economic activities of the enterprise, we consider it appropriate to carry out the following:

1. Creation of specialized risk management structures, which would make it possible to prevent undesirable consequences and ensure the stable operation of the enterprise. Also, it is advisable to create such a structure in the state-owned enterprises under the supervisory board – the Risk Committee, or the direct subordination of the founder – the risk department. By its function, the Risk Committee should:

- analyze the entire risk management process;
- analyze risk level indicators on a monthly basis;
- conduct interviews with the CEO and chief accountant;
- receive confirmation from managers;
- analyze the early warning mechanism;
- study the process of checking financial statements;
- periodically conduct risk assessment and analysis;
- conduct interviews with the production director and CFO, etc.

2. Managers at all levels of the enterprise are obliged to be responsible for timely identification of risks, their assessment, development of risk management measures and informing all stakeholders, including employees, about the risks affecting the achievement of their goals. To do this, it is necessary to make appropriate amendments to the job descriptions of managers, as well as, accordingly, to the regulations on departments.

3. When organizing risk management, it is necessary to apply effective risk management methods, which will make it possible to reduce the negative consequences of risk and strengthen the positive consequences if the risk is realized in the future. This is risk reduction by reducing the likelihood of the implementation of certain risky projects. For example, in order to achieve the goals of the enterprise, it is necessary to transfer risky operations to another party (for example, to conclude insurance contracts, outsourcing, etc.). In addition, examples of other tools may be: refusal from excessively risky activities (method of refusal), prevention or diversification of risks (method of reduction), formation of reserves or reserves (method of acceptance).

4. In order to effectively organize the risk management system in the state-owned enterprises, it is also necessary to develop a Regulation on the Risk Committee, and make appropriate amendments to the Law of the Republic of Uzbekistan "On Joint Stock Companies and Protection of Shareholders' Rights" and the Regulation on State-Owned Enterprises, approved by Resolution No. 215 of the Cabinet of Ministers of the Republic of Uzbekistan dated October 16, 2006, giving the supervisory board of a joint-stock company and of a state unitary enterprise the additional powers to control the risk management system of the enterprise.

Thus, based on the above, we can say that the issues of introducing the risk management system are relevant and timely for the state-owned enterprises, and their implementation requires a systematic approach.

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