Risk Forecasting: Essence, Subject and Object

This document explores the fundamental concepts of risk in economic activities, examining the nature of risk, its assessment algorithms, main causes, and functions within business operations. Understanding risk is crucial for effective decision-making in uncertain business environments.

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The Concept of Risk and Assessment Algorithm

To characterise the concept of "risk", let us consider what a risk situation is. Every person in domestic, production and other types of activities constantly encounters situations where they do not have an unambiguous solution, but it is necessary to make a choice of one of several solution options that have different probabilities of implementation. The act of a person's understanding that they have encountered a risk situation can be characterised by the term "risk awareness". This is a necessary component that interconnects the existing risk situation and direct risky action, since awareness of the content of the risk situation allows a person to remove it through choice and implementation of one of the available alternative actions.

This complex of removing the risk situation corresponds to the concept of "risk", which generally represents the process of "removing uncertainty".

Different scientists give different interpretations of the concept of "risk":

Terry's Definition

Risk is the level of uncertainty associated with a project or investment.

Webster's Definition

Risk is defined as danger, possibility of damage or losses.

Raisberg's Definition

Risk is a threat or danger of damage occurring in the broadest sense of the word.

Bobrov's Definition

Risk is possible losses or non-receipt of income compared to the option provided by the project, programme, plan or forecast.

The most complete reflection of the nature of risk is contained in the following definition:

> **Economic risk** is the activity of economic entities related to overcoming uncertainty in a situation of necessary choice, in the process of which they have the opportunity to assess the probability of achieving the desired result, failure and deviation from the goal.

Economic risk represents an objective-subjective category.

Main Characteristics of Risk

Objects of Risk

Economic system whose efficiency and operating conditions are not precisely known in advance.

Subjects of Risk

Person (individual or collective) interested in the result of managing the risk object and having competence to make decisions regarding risk objects.

Sources of Risk

Factors (phenomena or processes) that cause uncertainty or conflict of results.

Algorithm for Economic Assessment of Business Risk

01

Risk Identification

Determination of all possible risks of a certain type of activity based on comparison of favourable and negative consequences of such activity.

02

Risk Assessment

Evaluation of each type of risk: quantitative, qualitative, and integral assessment methods.

03

Risk Minimisation

Selection and justification of measures to minimise risk. Determination of the effectiveness of these measures.

Main Causes of Economic Risk

The causes of risk occurrence can be divided into three groups:

1 Fundamental Indeterminacy

Most processes related to economics are fundamentally indeterminate.

2 Information Incompleteness

Economically optimal incomplete information creates uncertainty in decision-making.

3 Organisational Uncertainty

"Organisational" uncertainty or information asymmetry between different parties.

Risk Causes by Sphere of Manifestation

Internal Causes

- Deficiencies in the management system
- Deficiencies in the organisation of the production process

External Causes

- Behaviour of counterparties
- Errors in demand determination
- Natural and climatic conditions
- Changes in market conditions
- Changes in economic factors
- Political factors

Functions of Risk

Understanding the essence of risk is directly related to identifying the functions it performs in carrying out economic activities. These functions include regulatory and protective functions.

Regulatory Function

The regulatory function of risk has a contradictory nature and can appear in two forms:

Constructive Form

The constructiveness of risk manifests itself in that risk in carrying out economic activities performs the role of a kind of catalyst. It has such properties as activity and orientation towards the future, search for innovative solutions.

Destructive Form

The destructive nature of risk manifests itself in that the adoption and implementation of decisions with unjustified risk lead to voluntarism and adventurism. In this case, risk acts as a destabilising factor.

Practice shows that there is a real transformation of risk into an instrument for regulating economic relations, which helps entrepreneurs develop skills of orientation in a probabilistic world and form necessary thinking qualities such as alternativeness, variability and dialectical thinking.

Protective Function

The protective function of risk also has two aspects:

Historical-Genetic Aspect

Even in the early stages of civilisation development, people instinctively sought means and forms of protection from possible undesirable consequences. In modern conditions, such foresight manifests itself in the form of creating risk funds and applying various risk minimisation methods.

Social-Legal Aspect

This aspect manifests itself in ensuring the rights of innovators to risk, since necessary legal and economic guarantees are required that would exclude punishment of workers who take risks in case of failure. Practical implementation is related to introducing the category of lawful risk into criminal, economic and labour legislation.

Risk Management Framework

The nature of risk itself encourages the business entity to protect the object from the negative consequences of a risky event. This allows, on one hand, to use the constructiveness of risk, and on the other hand, to protect the entrepreneur from negative consequences.

Risk Identification

Systematic identification of potential risks across all business operations.

Risk Assessment

Quantitative and qualitative evaluation of identified risks and their potential impact.

Risk Strategy

Development of comprehensive strategies to manage and mitigate identified risks.

Implementation

Execution of risk management strategies and protective measures.

Monitoring

Continuous monitoring and evaluation of risk management effectiveness.

The practical realisation of the social-legal aspect is connected with the introduction into criminal-economic and labour legislation of the category of **lawful risk**, which would separate cases where negative consequences arose from incompetence and mismanagement from those cases where risk justification was carried out when making decisions.

Key Insight: Effective risk management requires balancing the constructive potential of risk-taking with adequate protection against negative outcomes. This balance is achieved through systematic assessment, strategic planning, and continuous monitoring of risk factors in business operations.