

**RISK AVOIDANCE MODELS AS A FACTOR IN NEUTRALIZING NEGATIVE
CONSEQUENCES**

**MODELOS DE PREVENÇÃO DE RISCO COMO FATOR DE NEUTRALIZAÇÃO
DE CONSEQUÊNCIAS NEGATIVAS**

**MODELOS DE EVASIÓN DE RIESGOS COMO FACTOR DE NEUTRALIZACIÓN
DE CONSECUENCIAS NEGATIVAS**

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Abstract

The relevance of this work lies in the fact that the activity of any enterprise is accompanied by risks. In this regard, there is a need to form and apply a strategy of effective activity within the competencies of various departments. Modern business is conducted in a highly competitive environment, and making adequate decisions requires a deep, comprehensive assessment of the situation and a reliable forecast of the development of events. Methods of literature review, retrospective and documentary analysis, as well as synthesis, generalization, and systematization, are used in the study. The main causes of risks are identified, a comparative analysis of risk avoidance models is carried out, and possible alternatives to the strategic choice of risk management are proposed.

Keywords: model, investment, risk management, investment project, risk avoidance.

Resumo

A relevância deste trabalho reside no fato de que a atividade de qualquer empreendimento é acompanhada de riscos. Neste sentido, existe a necessidade de formar e aplicar uma estratégia de atuação eficaz no âmbito das competências dos vários departamentos. Os negócios modernos são conduzidos em um ambiente altamente competitivo, e tomar decisões adequadas requer uma avaliação profunda e abrangente da situação e uma previsão confiável do desenvolvimento dos eventos. Métodos de revisão de literatura, análise retrospectiva e documental, bem como síntese, generalização e sistematização são utilizados no estudo. Identificam-se as principais causas dos riscos, procede-se a uma análise comparativa dos modelos de prevenção do risco e propõem-se possíveis alternativas à escolha estratégica da gestão do risco.

Palavras-chave: modelo, investimento, gestão de riscos, projeto de investimento, prevenção de riscos.

Resumen

La relevancia de este trabajo radica en que la actividad de cualquier empresa está acompañada de riesgos. En este sentido, existe la necesidad de formar y aplicar una estrategia de actuación eficaz dentro de las competencias de los distintos departamentos. Los negocios modernos se llevan a cabo en un entorno altamente competitivo, y la toma de decisiones adecuadas requiere una evaluación profunda e integral de la situación y un pronóstico confiable del desarrollo de los eventos. En el estudio se utilizan métodos de revisión de literatura, análisis retrospectivo y documental, así como de síntesis, generalización y sistematización. Se identifican las principales causas de los riesgos, se realiza un análisis comparativo de los modelos de evitación de riesgos y se proponen posibles alternativas a la elección estratégica de la gestión de riesgos.

Palabras clave: modelo, inversión, gestión de riesgos, proyecto de inversión, evitación de riesgos.

1. INTRODUCTION

Speaking about risk avoidance models, it is advisable to consider the concept of risk in the system of market relations and the economy as a whole. There are risks in economic relations, regardless of the desire of people. Risk is inherent to both sellers and buyers. All spheres of human activity are at risk. Risks can either have a positive or, most commonly, negative effect.

The problem of the existence of risks is aggravated along with the constantly changing economic conditions of the environment, expressed in the contraction of the world economy, capital outflow, high inflation, falling living standards of the population, etc. Nevertheless, market relations cannot exist without risks. For example, any kind of entrepreneurship cannot be imagined without risks, and, as a rule, the greater the risk, the more chances to achieve significant financial results.

One can avoid risks by using a certain financial mechanism and strategy (Metody ukloneniya ot riska, n.d.; Sultanov, n.d.).

Risk in the economy is understood as the possibility of losses and damages, which in turn causes a decrease in income and a loss of money and material resources. This concept in economics is a separate category. The implementation of this category in practice can lead to an outcome in three different variations (Agafonova, 2004).

The first outcome of risk is a positive result. For example, this is making a profit or winning. The second outcome is a negative result, which includes losses or a decrease in profits. The third outcome is zero.

If we consider the process of risk avoidance as a decision of the subject, it means that the actions of the subject are aimed at minimizing the consequences of risks. That is, avoidance, evasion, or exclusion of a risky situation implies the termination of its implementation in practice. Figure 1 depicts the process of risk avoidance.

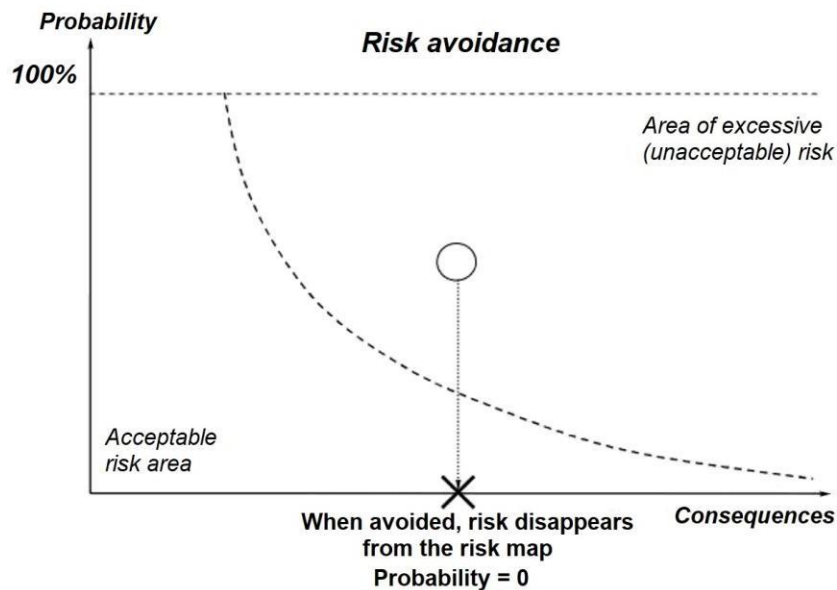


Figure 1. Schematic representation of risk avoidance

Risk avoidance can also affect economic activity and the work of an enterprise both positively and negatively. L. Barton (2003) notes that risk avoidance entails the rejection of a possible win in most cases.

We focus on the reasons contributing to the occurrence of risks (Lapusta, 2003).

Firstly, the reason lies in natural disasters and anomalies. Examples are floods, earthquakes, droughts, etc. Drought can lead to crop failure; respectively, an enterprise or a single engineer farmer can suffer significant economic losses. Let us recall the earthquake in the southeast of Turkey, which happened on February 6, 2023. This is an example of how a natural phenomenon serves as the primary cause of risk and unforeseen costs.

Secondly, risk has the property of randomness. Randomness is the outcome of a particular situation or process that has arisen. Subjects entering material relations are subject to the element of chance. The outcome of the same event may be different in the same environment, place, or conditions. Accordingly, this outcome is not foreseen by the subjects and cannot affect unambiguously the result of their activities.

We can cite the activities of urban transport services aimed at transporting passengers as an example. Neither the manager nor the maintenance staff can guarantee and confidently say how many passengers they will carry in one day. In this case, the number of people transported is a random variable.

Thirdly, the occurrence of risk may be associated with such man-made factors as accidents, equipment failure, fires, etc.

Accidents constitute a separate group of causes contributing to the occurrence of risks. This is also an element of chance, because, unfortunately, no one is insured against accidents.

In addition, often the cause of the risk is a clash of interests. This refers to the opposing groups. These can be both individual organizations (enterprises) and individual countries (Polyak, 2004). A vivid example of how a conflict between countries has caused risks is the relationship between Russia and Ukraine. This is a clear example of a clash of political interests, from which losses and damages are experienced by both sides.

Risk caused by the special military operation is the most striking example of how a person or organization falls into the risk circle. Thus, today many companies face the problem of exporting (importing) equipment. Many people have problems with traveling in air space. Certain individuals are prohibited from conducting their activities. Some organizations completely failed and were forced to declare bankruptcy.

2. METHODS

Our research was aimed at studying the effectiveness of risk avoidance as a method of risk neutralization in economic activity. We examined various risk avoidance models based on the transfer of business through contracts, insurance, quality assurance, and interaction with reliable partners. Our methods include a combination of qualitative and quantitative approaches, data analysis, and visualization used to study the role of risk prevention in various contexts and industries.

We used the literature review method to identify existing risk models in various contexts.

We used comparative research to consider and analyze various risk avoidance models, including termination of interaction with unreliable partners, refusal to work with projects with low efficiency, low innovation potential and additional risk, modification of transaction methods, surety agreements, factoring agreements, obligations on the quality of goods, insurance contracts, and futures agreements.

We analyzed the results of risk situations that can be positive, negative, or zero to investigate the effectiveness of risk avoidance as a method of risk neutralization. We also examined the causes contributing to risk, which include natural disasters, accidents, equipment failure, fires, and conflicts of interest.

3. RESULTS AND DISCUSSION: ANALYSIS OF RISK AVOIDANCE MODELS

Risk avoidance is an effective method of risk neutralization. Risk avoidance, as a rule, is performed at the beginning of its occurrence. If one starts the process when risk is gaining momentum, it is possible to face several financial problems, as well as various legal consequences.

Before evading a risky situation, a manager or an enterprise should fully understand why these evasions are needed and what they can lead to later (Kiseleva & Simonovich, 2016b, p. 64). There are cases when risk avoidance leads to the loss of a very large profit. That is why one needs to consider all aspects when building a risk avoidance model.

When building a risk avoidance model, it is necessary to adhere to several measures.

First of all, risk avoidance should be accompanied by the termination of interaction with unreliable partners and contractors, as well as projects that pose a threat or concern to an entity's activities.

In addition, risk avoidance should be accompanied by a refusal to purchase raw materials, whose value in the market is low and whose cost, on the contrary, is high (Kirchmer, 2017; Morrow et al., 2007; Porter, 2005, pp. 314-405).

An entrepreneur can avoid risk by modifying the way operations are performed. For example, this is a departure from the cash payment method, the transition to electronic document management, the rejection of circulating liquidities with a low-quality coefficient, etc.

Here is a practical example of the risk avoidance model (Figure 2).

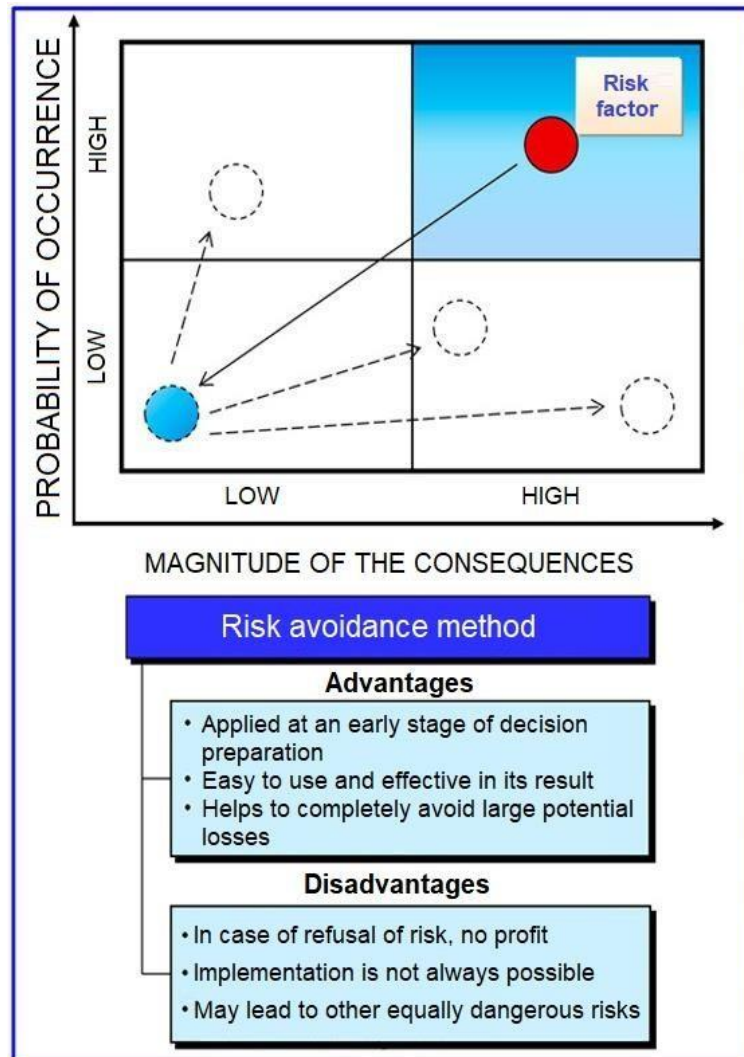


Figure 2. Risk avoidance model

A visual avoidance model is presented above (Drucker, 2017). The conditions for its implementation are as follows.

What are the conditions for the model to be implemented in practice?

First of all, it is the absence of the probability of an alternative and more dangerous risk. Secondly, it is necessary to consider the fact that compensation for a risky situation at its sole cost can contribute to the termination and neutralization of risk.

The theses related to the conditions for the implementation of the model include:

- Possible losses from risk are higher than lost profits.

- There are no statistics on the success of similar decisions, they relate to uncharacteristic actions.

Speaking about the risk avoidance model, it is advisable to mention the business data transfer model (Istomina, 2020; Prazdnichnykh, 2013; Smirnova, 2018). The transfer of information and data implies the contact of the head, the entrepreneur with other organizations and operators, who take the issue of avoiding risky situations under their responsibility. This model can be formed based on a surety agreement. The essence of such a contract is based on the assignment of responsibility to the guarantor and their obligations to the lender.

Exchange transactions can also be cited within the framework of such a risk avoidance model. A good example is ensuring the relationship between the supplier of the goods and the factor, or the factoring contract. A commercial bank may act as a factor, providing the contractor with a deferred payment if necessary.

In the risk avoidance model, it is possible to resort to assigning responsibilities for the quality of goods or material values when they are delivered.

The insurance contract is also an integral part of the risk avoidance model because, in case of damage, the insurer is obliged to pay a certain amount of money to the policyholder based on the insured event.

An agreement between two investors (or futures) is also a fundamental link in the system of risk avoidance model. The essence of this agreement is the timely sale of the futures of the underlying asset(s) to the owner based on the contract.

The information summarized above takes place below. Figure 3 schematically shows the risk transfer model discussed above.

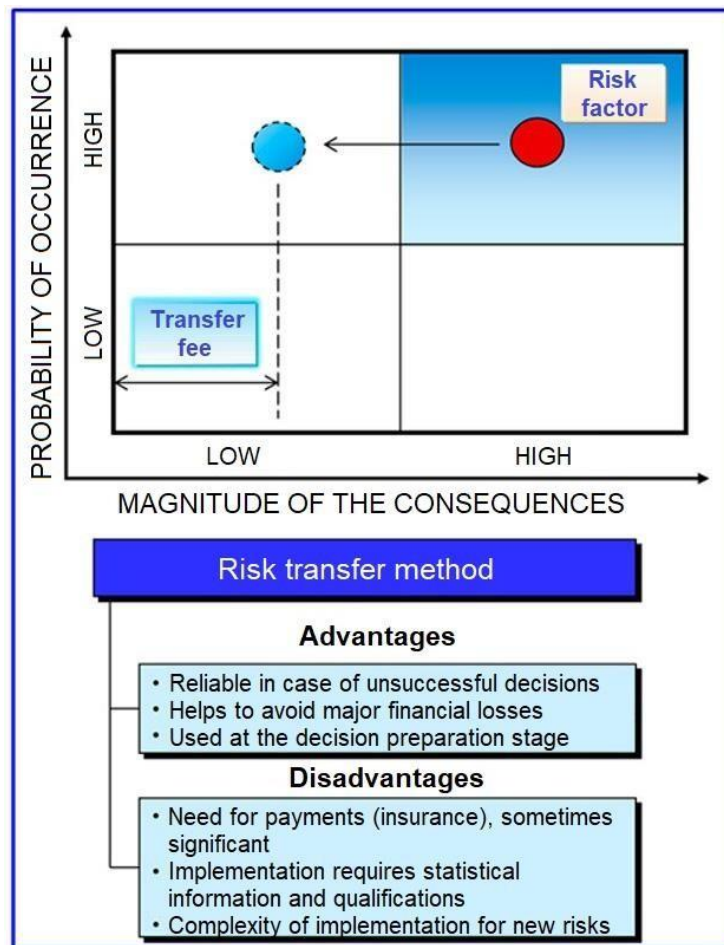


Figure 3. Visual model of risk transfer

The implementation of such a model in practice has a positive result if several conditions are met (Cherkasov, 2002; Sleptsova & Kachalov, 2014).

The first of them is the fact that the degree of probability of risk is very high.

The second condition under which the risk transfer model will bring a positive result is a low fee for concluding a contract (surety agreement, insurance contract, etc.) (Gavrilova et al., 2014; Kumar, 2018; Mason & Spring, 2011).

Thus, risk is an economic category that has to be in any sphere of life. People, entrepreneurs, organizations, and even states are at risk.

Risk avoidance is a way to preserve the financial situation and stability of an enterprise. It is advisable to approach all parties to the risk responsibly when assessing the degree of a risk situation. It is necessary to pay attention to the nature of the risk that has arisen, its

consequences, and the areas of activity within which it has arisen (Kiseleva & Simonovich, 2016a, p. 94).

Risk avoidance may be accompanied by:

- refusal to interact with unreliable partners;
- refusal to work with projects with low efficiency and innovation potential, as well as those causing doubts and additional risk.

4. CONCLUSION

The considered model of risk avoidance based on a business transfer through the conclusion of contracts in a situation with a high degree of risk is very effective because a business transfer becomes a safety cushion for entrepreneurs or organizations. Insurance of property, production facilities, and workflow allows for minimizing the consequences or even neutralizing the risks.

Today, many funds and bodies have the status of guarantors of insurance. That is, they take responsibility for the joint implementation, for example, of a project.

Thus, risk avoidance has several features that, when forming a risk avoidance model, it is important to consider and comply with to minimize negative consequences and neutralize risk.

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