

## RISK MANAGEMENT THROUGH THE PRISM OF UKRAINIAN ECONOMIC RECOVERY

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**Problem statement and its relation to important scientific or practical tasks.** Risk management is a system of risk management, which includes management strategies and tactics aimed at achieving the main business goals of the business entity.

Modern economic science represents risk as a possible event, the occurrence of which may result in positive, neutral, or negative consequences. If the risk involves both positive and negative outcomes, it refers to speculative risk. If the consequences are negative or non-existent, it is referred to as net risk.

The purpose of risk management in the economy is to increase the competitiveness of business entities by protecting them against the realization of net risks.

Risk management of an ideal enterprise should be integrated into all processes and become an integral part of any decision-making process. In practice, risk management is often carried out by a stand-alone unit, resulting in its detachment from key business processes.

Risk management should be carried out at different levels of management – this will allow the company to best control risks and take preventive measures. This is why risk management should be an integrated rather than a stand-alone system within the enterprise.

Risk management should be paid the greatest attention to when making decisions on the most significant issues for the development of the company – during strategic planning and changes in the policies of the company, when introducing new projects, processes, and procedures, before large financial investments or optimization measures.

The economic consequences of Russian military action in Ukraine should be a strong argument for reconsidering the role and importance of risk management in the management of Ukrainian enterprises. Possible military action in Ukraine has not been included in the risk management system, but recent events have focused the management of enterprises on drawing up development strategies for the next 10-15 years with this factor in mind.

**Analysis of recent researches and publications, which have initiated problem solution, the author relies on.** Theoretical and practical aspects of risk management were investigated by Bugay V.Z., Matsyuk O.V.<sup>1</sup>, Gerasimenko O.M.<sup>2</sup>,

<sup>1</sup> Бугай В.З., Мацюк О.В. Ризик-менеджмент як інструмент підвищення ефективності господарювання. *Економіка та управління підприємством*. 2017. 5(10). С. 35-40.

<sup>2</sup> Герасименко О.М. Еволюція світового ризик-менеджменту. *Інвестиції: практика та досвід*. 2013. 12. С. 26-31. URL: [http://nbuv.gov.ua/UJRN/ipd\\_2013\\_12\\_9](http://nbuv.gov.ua/UJRN/ipd_2013_12_9)

Matviyenko-Bilyaeva G.L.<sup>3</sup>, Popova L.V.<sup>4</sup> The creation and realization of an effective strategy that takes into account the mechanics of risk management require further scientific research and development. In particular, the development of theoretical propositions and recommendations for creating an enterprise strategy that takes into account the risks of military aggression on the part of another country is relevant today.

**Identification of previously unresolved matters of the generic problem the article deals with.** Few Ukrainian enterprises have experience in doing business under conditions of low-intensity warfare. Enterprises in the Donetsk and the Luhansk oblasts, where hostilities have been taking place since 2014, are the most adapted to such economic realities. In most cases, these are extractive industry enterprises. Their production cycle cannot be replicated in another geographical area, so relocation is impossible for them. As for enterprises in other sectors of the economy, only some of them have been able to resume operations in independent Ukraine since 2014, as they were not prepared for such a situation.

In 2022, Ukraine's military operations affected more regions, with shelling and destruction affecting areas in northern, eastern, and southern Ukraine. Some businesses and their employees were evacuated to Western Ukraine or EU countries.

Analysts and experts forecasting developments in Ukraine argue that regardless of the outcome of this war, Ukraine should be prepared for an attack from the Russian Federation in the next 10-15 years. Therefore, the study of risk management options to create a strategy for enterprise development.

**Goal statement (task statement).** The purpose of this article is to define the peculiarities of the formation of enterprise development strategies, taking into account the potential risk of military operations on the territory of Ukraine in the coming decades.

**Presentation of research material with full justification of findings.** The industry of the Donetsk and the Luhansk regions was systemic for the national economy. The Donetsk and the Luhansk oblasts were

<sup>3</sup> Матвієнко-Біляєва Г.Л. Ризик-менеджмент як сучасна система ефективного управління ризиками підприємницьких структур. *Молодий вчений*. 2018. № 4(2). С. 814-818. URL: [http://nbuv.gov.ua/UJRN/molv\\_2018\\_4%282%29\\_109](http://nbuv.gov.ua/UJRN/molv_2018_4%282%29_109)

<sup>4</sup> Попова Л.В., Солійчук А.О. Побудова ефективної системи ризик-менеджменту суб'єктів господарювання. *Інфраструктура ринку*. 2018. Випуск 26. С. 345-350. URL: [http://www.market-infr.od.ua/journals/2018/26\\_2018\\_ukr/55.pdf](http://www.market-infr.od.ua/journals/2018/26_2018_ukr/55.pdf)

the backbones of the national economy, with a quarter of Ukraine's industrial potential.

In 2012, the share of regions in the structure of national GDP was close to 17%: 12.4% in the Donetsk region and 4.4% in the Luhansk region. Donbas had a 24.6% share in the industrial production structure (18.5% in the Donetsk oblast, 6.1% in Luhansk oblast). Over 2,000 industrial enterprises are located in the Donetsk region, 800 of which are the largest in Ukraine. Before the start of hostilities in 2014, the Donetsk and Luhansk regions accounted for about 23% of export revenues. In 2012, the share of regions in the structure of national GDP was close to 17%: 12.4% in the Donetsk region and 4.4% in the Luhansk region. Donbas had a 24.6% share in the industrial production structure (18.5% in the Donetsk oblast, 6.1% in Luhansk oblast). Over 2,000 industrial enterprises are located in the Donetsk region, 800 of which are the largest in Ukraine. Before the start of hostilities in 2014, the Donetsk and the Luhansk regions accounted for about 23% of export revenues<sup>5</sup>.

However, fighting and the occupation of the territories of the Russian Federation's breakaway the Donetsk and the Luhansk regions have had an extremely negative impact on the industrial situation in these regions.

In 2014, industrial production in the Donetsk region decreased by 31.5% year-on-year, including in March 2014 compared to March 2013. – by a factor of two. In autumn 2015, industrial production has already decreased by 18.5% compared to the end of 2014, and by 50% compared to June 2014<sup>6</sup>.

To support the activities of these business entities, the Law of Ukraine on Temporary Measures for the Period of the Anti-Terrorist Operation was adopted<sup>7</sup>.

The law establishes temporary measures to ensure support for economic entities operating in the territory of the antiterrorist operation and for persons residing in the antiterrorist operation zone or resettled from it during the period of the operation.

In particular, the law enshrines norms aimed at assisting state-owned enterprises to save property and promote economic activity in the territory under the control of the Ukrainian authorities.

The law stipulates:

1) moratorium on the performance of contractual obligations and on imposition of penalties and fines on the principal amount of the debt for loan and other contractual obligations;

2) oratory for fulfilling the contractual obligations and for charging penalties and fines on the principal amount of the debt for loans and other contractual obligations;

3) peculiarities of state registration of legal entities and natural persons-entrepreneurs;

4) licenses and authorization documents issued to the business entities engaged in activities on the territory of the antiterrorist operation, which expired during the period of the operation, shall be deemed extended for the period of the antiterrorist operation;

5) release from payment for the use of land plots of state and communal property;

6) forgiveness of rent for use of state and communal property and concession fee for the right to create (construct) and/or manage (operate) state and communal property;

7) measures for the preservation of mortgage property.

However, the external environment proved to be strong and most enterprises were bankrupted.

The attack on Ukraine's economy by the Russian Federation continued in February 2022.

Two months of active hostilities have taken a heavy toll on Ukraine's economy. Ukraine's economy lost more in two months of active fighting than in two years of the coronavirus pandemic.

Ukraine's human cost as of the end of April 2022<sup>8</sup>. The number of refugees is 4 million, of whom 2 million are children. Internal displacement – 6.5 million people. Casualties: 1,300 to 3,000 civilians not including civilian casualties in Mariupol. The preliminary number of casualties in Mariupol is 20,000. Russia has forcibly removed about 500,000 Ukrainians, including more than 120,000 children.

Ukraine's economic losses as of the end of April 2022.

According to various estimates, the war is being fought in territories where 50-60% of GDP has been created. The fall of the economy in 2022 is estimated at 20-35%. According to the EBRD, about 30% of Ukraine's businesses have stopped working, and the drop in electricity consumption is estimated at 40%.

According to the Ukrainian Economy Ministry, economic losses from the war are estimated at \$564.9bn, including

\$112 billion in GDP losses;

\$119 billion – infrastructure (almost 8,000 km of roads, dozens of railway stations, and airports were destroyed and damaged);

\$90.5 billion in civilian losses (10 million square meters of housing, 200,000 cars, food supply for 5 million people);

<sup>5</sup> Амоша О.І. Промисловість Донбасу на шляху до відновлення. *Економіка України*. 2016. № 8. С. 93-109.

<sup>6</sup> Залознова Ю.С. Соціоекономічний розвиток України в контексті глобальних і національних викликів: монографія. К.: НАН України, Ін-т економіки пром-ті, 2014. 336 с.

<sup>7</sup> Про тимчасові заходи на період проведення антитерористичної операції: Закон України від 02.09.2014 № 1669-VII. URL: <https://zakon.rada.gov.ua/laws/show/1669-18#Text>

<sup>8</sup> Амелин А. Стратегія економіки України воєнного часу. URL: <https://thepage.ua/experts/strategiya-ekonomiki-ukrainy-voennogo-vremeni-chast-2>

\$80 billion – losses to businesses;  
\$54 billion – loss of direct investment;  
\$48 billion in budget losses.

According to other estimates, the damage to transport infrastructure is estimated at between \$40 billion and \$300 billion, and to housing infrastructure at several billion dollars (over 60 thousand residential houses, several hundred schools, and medical facilities).

Experts estimate that every day the Ukrainian ports in the Azov and Black seas are losing \$40-50 million.

According to Kernel, Ukraine's largest agricultural holding, the amount of land suitable for the spring sowing season decreased by 39%. The company itself lost 14.5% of its land bank.

The losses to the economy, including infrastructure and economic damage, already caused and future losses (lost income) are \$1 trillion.

Based on the realities of war, we divide all economic entities into three types.

The first is the front-line economy: in those cities where active combat operations continue. The economy here is becoming increasingly "mobilized". Civil-military administrations will develop food plans, accompany supplies, procure, and be the main customer for services. It is essentially a planned wartime economy.

The second is the economy of cities where there is no fighting, but where there is a risk of Russian troops approaching. Businesses in such cities will continue to operate but are unlikely to invest in development. This is where the government should step in. The authorities can provide guarantees and financial liquidity; loans that may not be repaid if the military situation changes; guarantees that products will be bought and customers will pay for services or goods received; and help with the critical supply of goods.

The third type is areas that are far from the front line. There are many migrants there. They put pressure on the economic infrastructure. But they also create opportunities. They create additional demand for products and services, and they can work. These areas are safe for investment and business development. With some support, the government has a chance to grow. Established companies from other areas can move here. Entrepreneurs can take advantage of additional demand from resettlers or the needs of the wartime economy and open new businesses here<sup>9</sup>.

Regardless of which category a business falls into, a crisis plan is needed for its recovery. Only a well-designed and clear anti-crisis action plan that takes into account the potential risks can effectively resume business operations in an unstable political and military environment.

Why do we need a crisis management plan?

- understanding of the general business situation;
- cost optimization, understanding of the main financial indicators;
- identification of the financial strategy;
- assessment of the viability of the business;
- understanding of the product and the audience to which it is marketed;
- identification of sales channels and distribution channels.

The additional importance of creating an anti-crisis action plan for a domestic business can be formulated as follows:

- preservation of business livelihood and jobs;
- payment of taxes (which at this time are very necessary for the state);
- the possibility to continue support for the CSOs, humanitarian funds, and volunteering.

In other words, the resumption of business operations not only ensures the well-being of the business owner, his family, and the company team but also supports the economy of the country.

What are the main components of the anti-crisis plan, taking into account the fact that combat operations are taking place on the territory of Ukraine?

1. Analysis of the company's current situation from the point of view of income generation.

This means understanding whether the company currently has ways to generate income:

- which costs are exact (what kind of products/services form the income you receive),
- whether or not there are any revenues and where from/by whom they originated,
- we analyze and process receivables, deferred payments, guarantee payments,
- availability of a business reserve fund, account balances, and estimates of future earnings/profit.

If there is no income at the moment, and this is a situation that has resulted in a low service company, analyze your client's cycle at the sales stage, and try to focus on those services where your client's cycle is the shortest.

2. List of costs of the company

Critical infrastructure definition. These are the costs without which the company cannot exist on the whole. Without them, it is impossible to sell services/products. For some, it is a team, logistics, or production.

3. Identification of the social component.

The donations you plan to make (lower prices/part of the product will be given as humanitarian aid, etc.). It is important to estimate the cost of the business immediately.

4. Decomposition of the company's goals.

At this stage, we already have a clear understanding of what needs to be saved and what needs to be gained (clients/investments/credits, and how much) to cover the critical infrastructure and obtain a reserve for business development.

<sup>9</sup> Милованов Т. Как украинскому бизнесу приспособиться к войне. URL: <https://forbes.ua/ru/company/yak-ukrainskomu-biznesu-pristosuvatisya-do-viyni-rozmirkovue-timofiy-milovanov-20042022-5568>

It is important to set a financial objective based on the need to cover the critical cost of the company and the possibility of at least minimum wages.

#### 5. Evaluation of costs for development.

Once you have set your objectives, you need to assess what additional resources are required and how much do they cost? Take a look at your growth prospects and consider how you can realize the hypotheses for growing your business at the lowest possible cost.

#### 6. Cost reduction or cost restructuring.

Only at this stage, it is necessary to start "cutting costs" substantially.

Often business owners spend too little on marketing. But marketing is what enables you to grow and bring potential customers/purchasers to you. So at this stage, it is necessary to clearly and honestly assess whether you need to spend money on office rent, purchase food and snacks, pay for the work of middlemen, etc.

Low costs can be redirected. Part of them will disappear altogether. The cost plan must be laid out in great detail.

Information about the product and its suitability to the needs of the target audience.

The product is what we sell and for whom. It is important to analyze your audience and talk to them to understand their current needs. The business owner must answer the following questions:

- how is the product changing for the current target audience and whether the CA of the product is changing?
- what tasks can be solved by the company and its product?
- what are the possible product modifications and are they available?
- do the marketing geography of the product change?

Is there a possibility to continue marketing it?

At this stage, the business owner understands with which product and for which audience his company will operate on the market and in which market.

#### 8. Cost structure finalization.

Once again we look over costs based on decisions made about the product: whether the packaging is cheaper, whether we can change product components, terms and conditions of suppliers or suppliers themselves, marketing geography, whether costs for certification of products and business relocation are required – this is how projected costs are finalized.

#### 9. Review of sales channels.

After the product has been implemented, it is necessary to assess how logistics have changed, how marketing has changed, and which distribution tools will remain available.

Communication has an important role nowadays. Therefore cold calls, partnership, and cooperation offers are considerably more attractive than before.

#### 10. Optimisation of processes within the company.

It was important to review the procedures for working with the suppliers and to develop a scheme of inter-

action with the team and partners. The main task at this stage was to think about how we could and could not improve the current business processes in the business.

#### 11. Pricing.

Only now is it necessary to consider the value of the product? After we have looked at the costs, the packaging, distribution channels, etc., we can assess whether and how the price of the product will change, and whether it will be possible to make it more marketable. If you are considering entering foreign markets, the price might even rise.

You need to analyze whether the price changes and how it affects profitability.

12. Finalize our understanding of the structure of what we are entering the market for.

It is necessary to record all performed actions and the general strategy of work in the new environment.

#### 13. Teamwork.

It is necessary to communicate with the staff and clearly articulate the business position: which CA we work with, what will be the new functionality, what will be the motivation, etc. Downsizing is not an option, but at the stage when the company's future activity has crystallized, it will be much easier to explain the essence and prospects of the future work to the team.

#### 14. Marketing.

The communication with the market, marketing, and sales phase begin.

A detailed action plan, business development hypotheses, sales channels, and business geography will help the business owners to avoid chaos and to focus their energies on renewing the company's operations<sup>10</sup>.

For further safeguarding of enterprise activity against risks associated with conducting combat operations on the territory of Ukraine or reduction of their negative impact, it is advisable to develop a risk-management strategy with the inclusion of this factor.

The risk-management strategy is the art of enterprise risk management in conditions of uncertain economic situations, based on forecasting of risks and implementation of methods of their reduction. Such strategy includes the rules based on which risk decisions are made and how to identify options for their solution.

The following rules of risk management strategy can be formulated: maximum winnings; optimal volatility of the result; optimal probability of the result; an optimal combination of winnings and the value of risk.

It is customary to distinguish several key stages in risk management:

- identification of the risk and assessment of the probability of its realization and the scale of consequences, determination of the maximum possible damage;

<sup>10</sup>Mats T., Kulyk V., Serohina S., Serohin V., Voronin V. Integration of Strategic Management and Process Modeling in the Activities of International Companies. *Academy of Strategic Management Journal*. 2019. Vol. 18, Is. 1 URL: <https://www.abacademies.org/articles/integration-of-strategic-management-and-process-modeling-in-the-activities-of-international-companies-8788.html>

– selection of methods and tools to manage the risk identified;

– development of a risk strategy to reduce the likelihood of risk materialization and minimize potential adverse consequences;

– implementation of the risk strategy;

– assessment of the results achieved and adjustment of the risk strategy.

The key stage of risk management is considered to be the selection of risk management methods and tools.

### **Conclusions**

Risk management in the twenty-first century included potential strategies for the development of enterprises, taking into account environmental, political, and technological threats.

Although some Ukrainian enterprises have been operating in a permanent regime since 2014, not all enterprises have yet factored the potential risks associated with military action into their development strategy.

Until 24 February 2022, most scientists denied the possibility of active warfare in Europe or threats related to the Third World War, where the use of nuclear weapons by superpowers is possible. Nowadays, Ukrainian companies are forced to operate in a situation where these small-scale threats have become a reality. To operate under such conditions is a difficult challenge for the Ukrainian economy, which cannot be met without the well-coordinated work of the state and business, as well as business and international institutions.

The formulation of a strategy for the development of enterprises after the end of hostilities should be consistent with government policy and with its support. To create favorable conditions for economic recovery, it is advisable to 1) create a registry of depreciated property of economic entities and identify sources of funding for its renewal; 2) create favorable conditions for taxation of enterprises, priority sectors; 3) simplify the procedure of issuing permits for conducting business activities; 4) introduce a moratorium on tax inspections of economic entities within a year after the end of active combat operations.

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