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THE SUCCESS OF THE COMPANY THROUGH THE KNOWLEDGE OF BUSINESS RISKS

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Abstract
The aim of this work is to provide an overview of the serious risks on the company. It does not claim to solve the problem of the presence of risk in corporate life, it can reveal the risks with which to come into contact with the company and which can achieve the achievement of corporate objectives. In fact, to evaluate in a global way the riskiness to which a company has been declared a rather difficult operation. In the work, the innumerable risks to which the company is exposed will be examined. Finally, risks will be distinguished and examined with respect to their origin and the effects they generate in the company.

Keywords: risk, company, risk management

1. The classification of business risks

The countless risks to which the company is exposed vary from company to company. However, it is possible to distinguish them with respect to their origin, with respect to effects, and the method of verification. Of course, classifying the risks does not allow you to avoid them but it is still a first step to recognize and prevent them. There are various risk classifications in the literature. The most widespread and adopted classification in finance distinguishes risks into: market risks, credit risks and operational risks. The former emerge from the stock and bond markets and from the trend in interest rates and exchange rates. Credit risks derive from granted extensions, from non-fulfillment even only partially and/or overdue of what has been agreed by a debtor or by whoever has a financial obligation, and can be further divided into: default risks, settlement risks and sovereignty risks. Operational risks, finally, are all those risks that derive from the business of the company and that do not belong to the first two categories. Examples are the risks deriving from theft and fraud, from innovations or changes in technology, from errors in management and relations with suppliers. The distinctions adopted by non-financial companies and illustrated above, however, provide a broader and strategic vision: we move from risks deriving from the environment or economic performance to specific risks in the sector in which they operate and which obviously different from one company to another. Another classification is that which distinguishes between entrepreneurial risk and non-entrepreneurial risk. The first, inherent in the business concept, derives for example from the launch by the company of a new product, from the company's entry into a new market, from the expansion of production, or from the stipulation of a new one contract. The second, on the other hand, does not derive from the company's activity but from the occurrence of negative events (such as natural disasters, earthquakes, fires, thefts) or from external forces acting on the company's economy (actions of competitors, competitive pressure, price changes, stock market crash). Other authors distinguish the risks based on the characteristics of the sector and based on the

frequency of the event that may originate the risk. With reference to the effects caused by harmful events, the risks are divided into economic risks and non-economic risks. The former are those that determine a change in the value of an asset or a complex of assets, i.e. a monetary loss, while the latter, on the contrary, cause non-monetary losses. In other words, economic risks can be quantified from a monetary point of view, unlike non-economic risks which, on the other hand, derive from events linked to the moral and social sphere of an individual. to the effects deriving from the manifestation of the future event proposed by Corsani[1]. He distinguishes the risk into unilateral or pure and bilateral or speculative; it is a pure or unilateral risk if a consequence, an unfavorable effect may arise from the occurrence of a future event; of speculative or bilateral risk if the effects can be both favorable and unfavorable. The unilateral risk, in turn, can be objective or subjective: objective that linked to the transferor negotiation of goods, subjective that deriving from the eventuality of contractual breach, such as, for example, the non-collection or non-payment of the goods by the customers, that is, the failure of suppliers to deliver the materials within the terms. A classification, made in relation to the methods of verification of the future event, distinguishes the risks into: static or pure risks and dynamic or speculative risks. This distinction is based on the possibility that the consequence of the event is a loss or, alternatively, a gain and a loss. In fact, those risks that are strictly connected to entrepreneurial activity and have the characteristic of being unpredictable as they are linked to accidental causes (fire, destruction, accidents at work, damage during transport, failure of an equipment) are said to be pure or static.). They therefore arise independently of the dynamics of the economy and can only cause losses. These losses will be said:

- ✓ *absolute: if they destroy existing corporate wealth;*
- ✓ relative: if they reduce or destroy wealth compared to what it was expected to produce.

It should be emphasized that each of these events can cause both direct damage, caused by their very occurrence, (for example the damage that a flood can cause on the equipment and materials present on site) and indirect damage (for example the slippage of the executive program determined by the machine downtime necessary for their repair with economic-financial repercussions due both to the delay in invoicing and to the cost of personnel which is unproductive during the stop period. The risks are speculative (or dynamic) that emerge from unexpected changes in economic productivity and can cause both losses and gains; they are normally connected to the financial planning of production, products, marketing, sales. Examples of speculative risks are: the change in the prices of raw materials, technological innovations, fluctuations in consumer tastes or exchange rates, the launch of new products on the market. In fact, speculative risks are linked to actions taken by the entrepreneur with a speculative purpose: to produce wealth. For this type of risk, all the actions that can facilitate the occurrence of potentially favorable events must obviously be identified. while pure risks should be opposed in

[1] Gaetano Corsani (1893-1962). Corsani began his collaboration in 1918-19 as Rigobon's in the chair of Banco model where he was assistant until 1921. Corsani appears for the first time as Assistant in the Accounting and Model Bank courses in 1914-15, while he is not among the teachers of the School in the following years until 1918-19.From the following year, he moved to the University of Florence where he took on the title of the course in Industrial and Commercial which distinguished itself, in the following years, providing a fundamental contribution in the definition of its contents.

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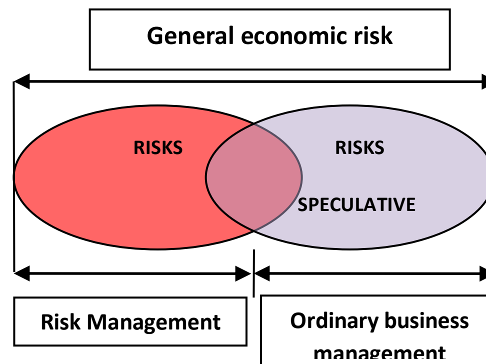
any case by trying to remove, where possible, the causes that can generate them. To have a clear view of the risk to which the company is exposed, both pure risks and speculative risks must be considered. The figure below illustrates overall business management as general risk management. We can identify two areas: a first, dedicated to pure risks, and intended as the management of those problems created by malicious or accidental events and a second corresponding to ordinary management, dedicated to speculative risks, or those that are usually considered as normal problems. business. It should be noted that every action in business management can be interpreted as the management of speculative risks, while pure risks are mainly the subject of Risk Management, even if its problems can find moments of intersection with the structure of speculative risks. Not always, in fact, an event can be classified as only pure or speculative risk; there are, in fact, events that, depending on the subject who considers them and the particular context in which they are placed (considered), can represent a threat, and at the same time an opportunity and for this reason, as the figure clearly demonstrates, they belong simultaneously to the speculative and pure areas.



In other words, the problems located in the intersection area may from time to time be judged to belong to Risk Management or ordinary management, or both, depending on the choices of the company. Even if often the difference between speculative risk and pure risk is not always so clear-cut, since they tend more and more to present commonalities or to overlap their effects, their possible classification is the one that can be deduced from the following graph:

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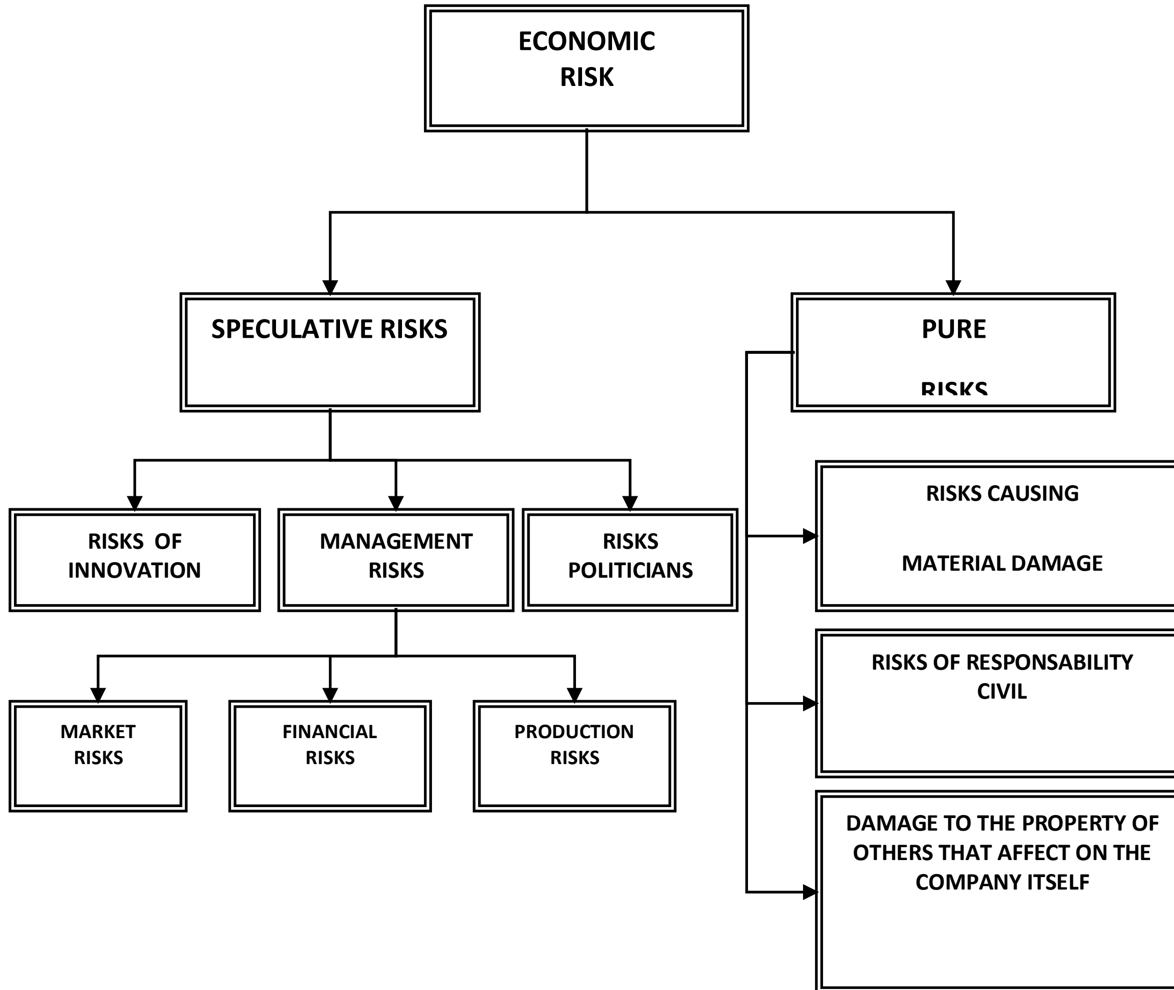

Speculative risks are divided into:

a) *innovation risks*: this category includes all those risks strictly related to company innovations, to the placing on the market of a new good or service.
b) *political risks*: this category includes all those risks that are generated by events in political life (government crisis or choices of the governing body such as the increase in taxes,) or by events of social instability.
c) *management risks*: in this grouping we find many of the risks with which the company is faced on a daily basis: risk of non-sale, insolvency risks, etc. that continually test the same economic-company stability. These risks, which therefore represent the most significant risk component, are divided into market risks and production risks and financial risks

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Other types of risk are:

- ✓ *Risks market*: mean all those risks to which companies are exposed as a result of the activity in which they operate. The risks that the company has to live with vary depending on the type of market in which it operates, therefore, they are strongly influenced by the operating environment. For example, the market risks of an industrial company will certainly be different from those of a banking company, in fact, the industrial company may incur, for example, the risk associated with a change in market conditions regarding raw materials (goods, fuel, semi-finished products, etc.). The banking company will certainly not be exposed, given the nature of its business, to this type of risk but it will certainly be exposed to the risk of losses resulting from changes in interest rates, foreign currency exchange.
- ✓ *Risk of production*: includes all those risks strictly interconnected with the production activity that the company aims to achieve by becoming an integral part of the production process itself. This category includes all those elements that contribute to realizing the company production process and at the same time failing can give rise to risks. Among which we remember those connected with raw materials, with the workforce and with technological tools.
- ✓ *Financial risk*: includes all those risks closely related to the financial activity of the company such as: exchange risks, interest risks, equity risk and derivatives. Let's see them in detail:

  - ❖ Exchange risk: the company can be continuously treated to this type of risk, it can be of three types: transaction risks, translation risks and economic risks.
  - ❖ Transaction risk: it is the risk that the cash flow generated by a project, investment or activity of a subsidiary operating in a foreign country fluctuates as a result of a change in the currency of that country. The most used techniques to manage this type of risk are derivatives on currencies (futures, options and swaps).
  - ❖ Translation risk: emerges from debts and credits in foreign currency contracted by the company. Between the moment in which the obligation to pay or collect arises and the settlement date, the exchange rate of the reference currency may vary. This variation can produce a greater profit, which occurs when the company has a credit in foreign currency, or a loss when the company has to pay off a debt contracted with foreign countries.
  - ❖ Economic risk: derives from the effects that exchange rates have on the company's ability to compete. In fact, an increase in the cost of money, due to inflation, leads to a loss of competitiveness on international markets. In fact, the company, in spite of itself, sees an increase in all production costs, transport costs, etc. which consequently lead to an increase in the price of the product offered on the foreign market and all this negatively affects international business competitiveness, leaving room for competing companies ester.
- ✓ The *interest risk*, on the other hand, is a risk strictly linked to the fluctuation of the interest rate. The risky event sees its materialization when a certain financial asset

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generates a lower return or when a liability becomes more onerous due to a change in interest rates. This type of risk can take on two configurations, let's see them:

- The first concerns the effects that changes in interest rates have on debts and credits. If a bond has been issued at a floating rate, a fluctuation in interest rates affects the income statement.
- The second configuration concerns the fact that real interest rates, especially in the short term, have a different trend from one currency to another. In fact, if the interest rate linked to the dollar decreases more than inflation, while that linked to the hero one behaves in the opposite way, due to the monetary policy choices of the Authorities, there are negative effects on the competitiveness of European companies and companies. this will benefit American companies with undoubted negative repercussions on the international competitiveness of European companies.

The *pure risks* are divided into:

- Risks that cause material damage to property: this case includes all those risks for which the company is not directly or indirectly responsible but derive either from natural events (wind, hail, earthquakes, etc.), or from acts unintentional assets of the man himself (vandalism, riots, etc. ..) but which can damage or destroy, directly or indirectly, the capital goods he possesses and which are necessary for carrying out his own economic activity;
- The risks of civil liability: (commercial liability insurance) include all those risks to which the entrepreneur, as the manager of the company, is exposed. This includes, for example, the responsibilities due to a defective product, or to the non-compliance of a product with what is advertised and so on.
- Damage to the property of others that affects the company itself: (commercial liability - property insurance) - This category includes all those "reflected" risks to which the company is exposed due to damage caused to another company with the which maintains commercial relations. Consider, for example, a supplier company that, due to a fire, is no longer able to supply material to the client company. In this way, the client company will no longer be able to carry out its normal business and therefore will find itself in difficulties both in terms of production, due to the impossibility of making the products, and financial difficulties due to lost earnings. These risks will also affect the supplier company, generating an image risk. In fact, not only will the purchasing company for the future look for new supplier companies for its orders, but it will certainly advise other companies to behave accordingly, and this will certainly generate a loss of earnings for the current supplier company and therefore alongside market risk will also be associated with image risk.

There are many other risk classifications present in the doctrine. One, based on the nature of the potentially favourable event, distinguishes the risks into physical risks and economic risks. Physical risks are connected to the action of physical-natural phenomena, that is, they are linked to the eventuality that the production obtained technically fails due to the action of natural forces such as floods, earthquakes, droughts. Therefore, they do not depend on direct human action and are essentially unpredictable. Economic risks, on the contrary, are determined by the economic

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activities of man; they are substantially connected to controllable phenomena and dependent on human action. These risks can be further divided into: commercial risks, technical risks and economic risks and therefore, to the eventuality that the production fails technically or cannot be placed on the market with an effective economic response. Entirely corresponding to the previous classification is the one offered by Leinter which distinguishes the risks of elements from economic risks. The risks of elements are connected to the occurrence of natural events that occur outside the economic field, such as earthquakes, floods and other events, and produce their effects on the entire company system, while the economic ones are linked to the trend, both single and collective, of the economy. With reference to economic risks, Leinter makes a further distinction, dividing them into economic-individual risks and economic-social risks. The individual economic risks are those related to the internal management of the company (active risks) or to the relationships between companies and third parties (passive risks), while the economic and social risks are independent of actions undertaken by the company and third parties (political and social events). A classification of risks, widespread in the literature and made in relation to the possibility of approximating the knowledge of the methods of verification of the future event, distinguishes between static risks and dynamic risks. We speak of static risks if their state of knowledge is probabilistic, that is, it is measurable by means of mathematical-statistical indicators; we speak of dynamic risks if their distribution is not known and they are measurable through a subjective judgment. Another classification, proposed by Cassola, distinguishes the risks into: static and dynamic. Those risks that do not depend on the processes of human activity and can manifest their influence even in a stationary social context are static, while those risks linked to the economic-social changes of the environment are dynamic and therefore are lacking in the hypothesis of static nature of the surrounding economic system. A further distinction, proposed in the literature, is based on the "legal criterion of entrepreneur liability" and distinguishes the risks into: undivided risks, typical of sole proprietorships, and divided risks, typical of all collective forms of business. Ferrero, on the other hand, classifies the risks according to the subjects on which the effects of the harmful events fall and distinguishes them into equity and non-equity. Property risks are those that result in a partial or total loss of the sums invested and in this case the parties who bear the negative economic consequences of the event are the third party contributors of capital, both credit and risk. In the case of non-equity risks, the subjects affected by the consequences are all those who participate in the life of the company through different interests and constraints, such as, for example, employees and, more generally, the economic community. A final classification, based on risk measurement criteria, distinguishes risks into objective and subjective if based on the possibility of coping and control or in avoidable risks and inevitable risks.

2. Other classifications

A classification widely used in insurance companies is based on the subject of the risk and distinguishes the risks into: personal risks, real risks and liability risks. Personal risks concern events that affect the person and his productive capacity (for example accidents, illnesses, death); the real ones concern events that directly or indirectly affect economic assets (eg fire of an industrial plant). Finally, the liability risks concern events caused by the negligent and negligent

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action of third parties that cause economic damage to property or people. Risk analysis in companies also focuses on strategic risk which in a first analysis can be defined as an unexpected event or a set of conditions that significantly reduces the ability of decision makers to improve their strategy. It is broken down into three main types of risk:

- *operational risk*
- *financial risk*
- *competitive risk*

The first two, that is operational and financial risk, are linked to internal corporate events such as the business process and assets. The latter is specifically linked to external events, to changes in the competitive environment. Let's start by looking at the various types of risks:

- *Strategic operational risk* is closely linked to company management. Knight defines operational risk in this way: "operational risk refers to negative changes in the performance of a company due to how the company is financed operational risk is defined as a measure of the links between the management of and changes in the results of the management itself".
- *The strategic financial risk* is closely linked to the financial market with which the company has to operate continuously, obtaining the vast majority of the financial means necessary to carry out its business, therefore, the financial risk plays a very important role. for most companies. This form of risk is generated both in the financial markets, of which one of the causes is represented by the fluctuation of interest rates, and due to insolvency on the part of debtors. These risks translate into corporate economic growth and consequently have an impact on the financial statements and therefore on the corporate result.
- *Strategic competitive risk* is particularly relevant in the life of the company. In fact, having to continuously innovate its products due to high competitiveness and to respond promptly to customer needs, the company is continuously exposed to these risks. These, being closely related to new products, materialize (or come to light) when the product or service offered does not respond to the needs of customers: both those already loyal and those to be acquired. In this way, the company offers the possibility to competing companies to take advantage of these circumstances to offer customers a better product or a new way to satisfy their needs. Therefore, the strategic risk of a competitive type produces, as an immediate effect, the loss of customers, even of loyal customers, for the company not attentive to the changes that have taken place in the market, and consequently this translates into financial risk, as due to decrease in clientele there will also be a decrease in financial income.

The classifications reported so far have not found similar consensus in the field of Business Administration. It was, in fact, emphasized that these classifications are not feasible in this area as any event capable of influencing company management inevitably has an economic content. Thus, for example, in the case of economic risks and elemental risks, their effect always

translates, towards the company, into an unexpected increase in costs or an equally unexpected decrease in revenues, thus manifesting a nature economic. The risk associated with natural events, although linked to events in the surrounding environment, also produces economic effects within the company. In reality, the natural event itself does not have economic characteristics, but they arise as a result of its impact on the corporate assets. Similar considerations have been made with regard to the proposed demonstration of technical risks and economic risks. The former, in fact, although they relate to the success of the production process, determine effects of an economic nature and therefore, must be regarded not so much as an autonomous category with respect to economic risks but, rather, as a particular configuration of them. A part of the doctrine, however, recognizes the effectiveness of a classification only with reference to the origin of the risks and not with regard to their consequences.

3. Conclusion

The risk assessment phase is a fundamental phase of the risk management process. Without it, the risk manager would have no directive towards which to direct their choices in terms of risk management. Starting from this statement the work was developed. In the first part of the work we wanted to provide an overview of the risks affecting the company and then focus on the various types of risk with which the company comes into contact during its corporate life. At the end of our work, we can certainly highlight that the attention paid by companies to the preventive assessment of strategic risk is insufficient. This probably depends on the fact that in the past they have developed in a relatively stable or at least predictable context with a reasonable degree of reliability.

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