Investment Risks in the Field of Social Entrepreneurship

Elena Lyapuntsova¹, Iulia Belozerova², Ilona Drozdova³* and Marina Berlinova⁴

¹ Bauman Moscow State Technical University, 2-Ya Baumanskaya street, 5/1, Moscow, 105005, Russia
² The Humanities Institute of TV and Radio Broadcasting, 32A Khoroshevskoye road, Moscow, 123007, Russia
³ Federal State Educational Institute of High Education, Russian University of Transport, st. Obraztsova 9/9, Moscow, 127994, Russia
⁴ Moscow State University of Civil Engineering, Yaroslavskoe shosse, 26, Moscow, 129337, Russia

Abstract: In this article, the authors investigate the types and causes of risks of entrepreneurs working in the field of non-profit social projects. The authors draw conclusions about the high importance of such risks as reputational risks, the risks of negative attitude to the project by interested audiences, the risks of underfunding.

1 Introduction

Social entrepreneurship, risks, types of risks, methods of risk reduction, business reputation.

At present, almost no system can do without calculating the probabilistic assessment of various risks.

Depending on the content and nature of the consequences taken into account, it is customary to consider risk as a multidimensional category: financial, category of deviation from the goal, probabilistic, and also used individually or in a complex.

According to ISO 31000: 2009, risk is defined as the effect of uncertainty on the achievement of objectives, as well as coordinated actions to control and direct the activities of an organization [or another standard user] with respect to risk.

The theory of D. Bernoulli is a basic theory of decision making under uncertainty. Her formalized model, which was built by J. Neumann and O. Morgenstern, is based on the concept that the system optimizes the expected “utility” of possible results. This theory of expected utility is based on the fact that the system makes a rational choice based on its preferences regarding risk and on its knowledge of possible outcomes and the corresponding probability.

2 Methodology

The From the point of view of official recommendations, the most popular is the United Nations Economic Commission for Europe (UNECE) model “Risk management in

* Corresponding author: ildrozd@yandex.ru
regulatory systems”. This model includes the most important stages in the development of regulatory measures based on risk assessment: complete and timely identification and assessment of risks, followed by a structured risk management process. In this model, in particular, the basic idea is that risk identification should proceed from the finally defined and agreed objectives of the regulatory system and asset management processes, which are established with the participation of a wide range of stakeholders. [1]

The purpose of risk management in a dynamic external environment is to establish the structure of costs and capital for production in such a way as to ensure the required rate and dynamics of profit.

Realization of this goal is carried out through risk management mechanisms, united by the notion of lever (lever).

Under the lever is understood as a factor, with a small change which can significantly change the results of financial and economic activities of the enterprise (profit, profitability).

In economic practice, it is considered a good indicator of the stability of the system, the proportion of foreign capital raised. A good indicator is for the development of the system, but not always for the economic security of this system. With this approach, the characteristic of the investment climate, as a rule, consists of two components: an assessment of the factors that attract investment in the country and an assessment of the risks of investing.

The quality level of the investment climate in a particular country is associated with such an integral indicator as country risk.

Country risk is a multifactorial phenomenon characterized by the close intertwining of many financial, economic, and sociopolitical variables. And if in developed countries the level of country risk is a rather slowly changing value, then for countries with emerging stock markets (emerging markets) there is a significant short-term volatility (volatility) inherent in a statistical indicator characterizing the tendency of the market price or income to change over time; this is a characteristic that determines the variability of the financial results of the instrument used.

It is necessary to first correctly assess the financial stability of the foreign counterparty. The country risk assessment is an analysis of the past, present and future creditworthiness of the borrowing country, i.e. its ability to meet its financial obligations. Country risk prediction relies on an analysis of indicators based on the study of digital data and ratios.

Country risk analysis (country risk) is carried out to overcome the uncertainty that investors face when investing in a foreign country. It determines the likelihood that a sovereign state or independent creditors in a particular country will not have the ability or desire to fulfill their obligations towards foreign creditors and / or investors [2].

Within the general country risk, there are non-commercial, or political, and commercial risks. The latter is divided according to the level of its influence:

1) at the state level, it is the risk of insolvency (sovereign risk), “associated with the provision of loans to foreign governments”;

2) at the company level, this is a transfer risk (transfer risk) - the risk that during the conduct of economic policy a single country may impose restrictions on the transfer of capital, dividends and interest to foreign creditors and investors.

In world practice there are many methods and models for assessing country risks [3]. For example, the method of “old acquaintances”, “big tours” (method of the “Delphic oracle”), PSSI, Ecological Approach, ASPRO / SPAIR, ESP, model I. Walter, model V. Tikhomirov, Prince-model, etc.

A significant amount of economic and financial literature is devoted to attempts to explain the determinants of investment and the relationship between investment and risk. As a rule, the review is focused on foreign direct investment, rather than investment in...
infrastructure and most of the works use cross-country technical characteristics. For example, Chakrabarti comes to the conclusion that the size of the market is a reliable determinant of FDI and Nunnenkamp determines the exchange rate, openness, growth rates and trade balance as the leading factors determining the overall level of investment [4].

There are also a number of world rankings, the position in which affects the investment attractiveness of a country:

- Credit rating agencies: Fitch, Standard and Poor
- Business Conditions Index - Doing Business
- Index of Economic Freedom - Index of Economic Freedom

For example, among foreign methods, there is a universal method for assessing the investment climate (B. Toyn, P. Walter, and others) covering the maximum number of economic characteristics, trade indicators, characteristics of the political climate, the legislative environment for investments [5]. This method allows a deep and comprehensive assessment of the socio-economic situation in the country at the current moment and make a reasonable forecast of the dynamics of the main indicators that determine the investment climate in the future period.

Examples of the use of such techniques are the digital scale of the Harvard Business School (USA) and the index “BERI” (Germany) [6]. This index provides estimates of the investment climate in 45 countries around the world based on 15 assessment criteria with different weights. All criteria are given a rating from 0 (unacceptable) to 4 (very favorable) [3]. The more points scores assess the investment attractiveness of the country, the higher should be the potential profits of investors, and vice versa.

In order to assess the investment climate of countries, this rating uses nine groups of indicators: economic efficiency; level of political risk; debt status; the country's ability to service debt; creditworthiness; availability of bank lending; availability of short-term financing; availability of short-term loan capital; probability of occurrence of force majeure. [1]

The lack of a single concept of “investment” remains one of the most pressing problems, which significantly complicates international economic cooperation against the background of the increasing dynamics of investment relations observed in recent decades. Developing a correct idea of its essence, content and types has important practical and theoretical significance.

The word "investment" comes from the Latin word "invest", meaning "to invest."

The definition of “investment activity” is also closely related to the concept of “investment”. If we refer to the regulatory acts disclosing these categories, then the Federal Law “On investment activity in the Russian Federation, carried out in the form of capital investments” dated February 25, 1999 No. 39-FL gives the following definition: “Investments - cash, securities, other property, including property rights, other rights having monetary value, invested in objects, entrepreneurial and (or) other activities in order to gain profit and (or) to achieve a different useful effect”, and investment activity, in turn, is “investing and taking practical actions in order to gain profit and (or) achieve a different beneficial effect”. [2]

These definitions are broad enough, but they do not reflect the whole range of investment objectives as an economic process. Investing is a diverse process, depending on the source of investment. In the law, such a classification is not specified, only capital investments as a separate type of investment. Capital investments - investments in fixed capital (funds), incl. the cost of new construction, purchase of equipment. inventory, machines, design and survey and other costs.
3 Results and Discussion

It is also necessary to consider the opinions of scientists, representatives of various schools and directions, regarding the category of “investment”. In his work “Investments. Organization of management and financing “N.V. Igoshin defines investment as “the cost of money directed at the reproduction of capital, its maintenance and expansion”. [7] According to this definition, only money is involved in the investment process, while material, intellectual, human, and administrative costs are excluded. E. F. Borisov and F. M. Volkov in The Foundations of Economic Theory offer a slightly different definition of investment: “long-term capital investment in an enterprise or business for the sake of profit”. [8] In the two concepts cited, the key words are “reproduction of capital, its maintenance and expansion” and “profit extraction”. It should be noted that this is not always the goal of investment. [7]

At the same time, there are definitions that exclude the aforementioned drawbacks: they take into account the forms of investment, the complexity of the types of costs and the multivariate effects obtained from investments. For example, the definition given in the work of D. A. Endovitsky: “Long-term investment is a combination of physical, intangible and financial assets that are directly invested for more than one year in objects of entrepreneurial or other activities, as well as labor resources related to this process the purpose of obtaining economic benefits, social or environmental effect.” [3]

This definition establishes the term of investment and types of invested capital. I. A. Blanca has a similar interpretation: “The investment of an enterprise is the investment of capital in all its forms in various objects (tools) of its economic activity with the aim of earning a profit, as well as achieving a different economic or extra-economic effect, the implementation of which is based on market principles and is linked to time, risk and liquidity factors.” [9]

The author identifies the characteristics characterizing this category: “factors of time, risk and liquidity”. Similar things can be found in the work of G. P. Podshivalenko and N. I. Lakhmetkina: “Investing is understood as a set of costs realized in the form of purposeful capital investment for a certain period in various sectors and spheres of the economy, in objects of entrepreneurial and other activities for profits (income) and the achievement of both individual goals of investors, and a positive social effect. [4] Only in it are the defining signs taken beyond the definition:

- making investments by persons (investors) who have their own goals, which do not always coincide with the general economic benefit;
- the potential ability of investments to generate income;
- a certain period of investment (individual);
- purposeful investment of capital in objects and investment instruments;
- use of different investment resources, characterized by price, supply and demand in the process of making investments;
- risk of capital investment. [10]

All the above definitions are similar to other authors, which makes it possible to perceive a similar interpretation as the most popular in modern domestic investment theory.

Also in the scientific literature there is a definition with a limiting degree of concretization: “Long-term investments are connected with the implementation of capital construction in the form of new construction, as well as reconstruction, expansion and technical re-equipment of existing enterprises and non-production facilities; the acquisition of buildings, structures, equipment, vehicles and other individual objects (or their parts) of fixed assets; the acquisition and creation of intangible assets; the implementation of long-term financial investments in order to improve the skills and development of workers’ abilities (intellectual investments) ”. [11] This definition includes intellectual investment,
emphasizing that investment is not only an investment in the expansion of fixed assets, but a much more complex system of various types of investment. [10]

A number of foreign scientists, in turn, adhere to the interpretation of investment from the position of the Keynesian model of "consumption - savings - investment." The Oxford Explanatory Dictionary gives the following definition: “The acquisition of means of production, such as machinery and equipment, for an enterprise in order to produce goods of future consumption. Typically, such an acquisition is called capital investment "and“ Acquisition of assets, for example, securities, works of art, deposits in banks or building societies, etc., primarily in order to obtain financial returns in the form of profit or capital increase. This type of financial investment represents a means of saving.” [5] Investments are ranked by form, but continue to rely on the ideas of an American economist.

According to B. Faibel, “investing is the initial deprivation of something that we can assess, in exchange for the supposed benefits of getting back more than we originally invested. The difference between invested and received is profit; we invest for profit.” [6] U. Sharp, G. Alexander, and D. Bailey adhere to a similar position: “The refusal of a certain value at the present moment for (possibly uncertain) value in the future.” [12] These definitions are united by their pronounced theoretical nature and focusing on the fundamental sign of investment - the rejection of current consumption in favor of savings and, consequently, greater consumption in the future. The domestic interpretation of investments due to the Soviet heritage is focused on capital investments. And the formation of Western investment theory, in turn, was based on the development of methods for analyzing financial instruments and their markets. However, in the foreign scientific literature there are definitions that take into account capital investments. The methodology for assessing the effectiveness of investment, developed in the framework of the United Nations Industrial Development Organization, understands investment as a “long-term investment of economic resources with the goal of creating and obtaining benefits in the future. The main aspect of this investment is the transformation of liquidity — the investor’s own and borrowed funds — into productive assets represented by investments in fixed capital and net working capital, and also the creation of new liquidity when using these assets.” [13] V. Behrens and P. M. Havraneko point out that the term “benefit” in this definition is used to show that investment goals are not limited only to receiving net income. The authors of Economics, R. R. McConnell and S. L. Brue, provide a definition focused on the real sector of the economy: "Investments - the cost of production and the accumulation of the means of production and the increase in inventories." [14]

When analyzing the regulations and works of various scientists, it can be established that the term “investment” does not have a standardized definition, until the nineties of the 20th century. It is practically not used. One of the reasons for this phenomenon may be the lack of years of experience in the study of investment activities and related aspects. During the period of the Soviet economy, the very category of investments was completely denied. In the Soviet scientific literature, investments were defined as an element of bourgeois economics, until 1991 the analog concept of “capital investments” was used in practice, which was considered as the cost of creating new, expanding, updating and reconstructing existing fixed assets.

Based on the above studies, the following general concepts can be distinguished: Investments are a set of financial, material, intellectual and other types of values that are aimed at creating, acquiring or improving long-term assets, the use of which in the future should lead to a one-time or periodic profit; positive economic or extra-economic effect. Investment is a dynamic process of diverting own or borrowed capital from its current consumption in the form of investment costs, with the aim of its future possible return in the amount exceeding the initial one, or in the form of a different beneficial effect both for the company and for society as a whole.
The first definition contains all inalienable attributes: the universality of forms, the multivariate effects, the presence of uncertainty in their achievement, the complexity of the types of costs.

The second definition reflects the phenomenon itself, focusing on the Keynesian idea: the rejection of current consumption in favor of savings and the subsequent greater consumption.

Investments are the subject of an investment, and investment is a process of this investment, but when interacting, these two categories form only a one-time investment act, and investment, in turn, is a complex and continuous process in the enterprise. The third category, “investment activity”, gives them a sign of purposefulness and systemic character.

Investment activity is a separate type of economic activity of a commercial enterprise, which is responsible for the development and implementation in practice of the investment process. Investment activity is a sphere of economic activity of companies aimed at their perspective development, within the framework of which systematic planning, organization and management of the process of investing free equity or attracted capital in objects of entrepreneurial and other activities with the aim of creating assets, earning profits or achieving other beneficial effects take place.

**Investment Characteristics**

Summarizing the above approaches to the definition of the concept of "investment", we can distinguish the following signs of investment, which are the most significant:

- the potential ability of investments to generate income;
- the investment process, as a rule, is associated with the conversion of a part of accumulated capital into alternative forks of assets of an economic entity (enterprise);
- in the process of making investments, a variety of investment resources are used, which are characterized by demand, supply and price;
- purposeful investment of capital in any tangible and intangible objects (tools);
- the existence of the period of investment (this period is always individual and it is illegal to determine it in advance);
- investments are made by individuals, called investors, who pursue their individual goals, not always associated with the extraction of direct economic benefits;
- risk of capital investment, meaning that the achievement of investment objectives is probabilistic in nature. [15]

Investments also perform a number of important functions as an economic category. Without them, any enterprise or state could not develop. The main functions are:

- Regulatory function. Investments adjust the process of reproduction of capital and maintain their growth rates.
- Stimulating function. Investments are aimed at the modernization, improvement and renovation of existing facilities of the enterprise, the introduction of new technologies, etc.
- Distribution function. Investments distribute economic benefits, expressed in monetary terms, between the participants of investment activities, spheres and sectors of the economy.
- Indicative function. Investments create the necessary tools and mechanisms to achieve the set investment and production goals, and help maintain the stability of the economy.
- Sanitizing (wellness) function. Investments indicate the advantage of certain areas of economic development and suppress uncompetitive industries.
Integration function. Investments create prerequisites for the development of the national economy and its participation in international relations and the world economic system.

Investment activity is carried out through the types of investments that have a certain classification according to various criteria for the purpose of planning and analyzing activities.

Investment classification criteria:

- By investment objects
- By deadlines (periods) of implementation
- By profit
- By subjects of investment (sources of funding)
- By the nature of the investor's participation in the investment process
- In relation to the investment object
- By regional (geographic) basis
- By degree of reliability
- The degree of liquidity
- According to the degree of dependence of investment
- By the nature of capital use
- By the nature of capital use
- According to the form of implementation
- Impact on production potential
- By impact on profitability
- By focus of action
- By industry focus

The classification of investments helps to improve the assessment of their economic efficiency, select attractive areas of capital investment, and identify prospects for investing financial resources in a particular industry. Potential investors are required to classify investments for developing strategies and tactics of behavior in the investment process. Expansion of investment classification is necessary with a full and deep study of the theory and practice of investment.

It is also necessary to define the concept and role of the investor in investment activities. An investor is an individual or legal entity that purchases securities (invests in a specific project) on its own behalf and at its own expense.

4 Conclusions

Summarizing what has been said, we conclude that the list of social risks that act as bases for social security cannot be considered once and for all settled. Modern life and modern challenges generate new risks that do not fit into the overall, “classic” picture. [16-18]

Therefore, despite the presence of scientific developments affecting the definition of the concept, signs of social risk, its substantial characteristics require further research.

References

1. Borkovskaya V.G. Complex models of active control systems at the modern developing enterprises. Advanced Materials Research (Volumes 945-949). Chapter 22: Manufacturing Management and Engineering Management. June 2014. Pages 3012-3015. DOI: 10.4028/www.scientific.net/AMR.945-949.3012
2. Federal Law No. 39 dated February 25, 1999 "On investment activity in the Russian Federation, carried out in the form of capital investments"
3. Endovitsky D. A. Complex analysis and control of investment activity: studies. manual / D. A. Endovitsky, L. T. Gilyarovskaya. M.: Finance and Statistics, 2001.
4. Podshivalenko G.P. Investments: studies. manual / G.P. Podshivalenko, N.I. Lakhmetkina, M.V. Makarova. M.: KnoRus, 2006.
5. Business. Oxford Dictionary. M.: Progress Academy, RSUH. 1995.
6. Feibiel B.J. Investment performance measurement / B.J. Feibiel. Hoboken: Published by John Wiley & Sons, Inc., 2003.
7. Igoshin N. V. Investments. Management organization and financing. M.: Finance, UNITI, 2000.
8. Borisov E.F. Economic Theory: Textbook. - 3rd ed., Pererab. and add. - M.: Yurayt-Izdat, 2005. - 399 p.
9. Blank I. A. Investment Management: a training course. K.: Elga-N, Nika-Center, 2001.
10. Borkovskaya V.G., Bardenwerper W., Roe R. Interactive Teaching of Risk Management in the Russian Construction Industry. IOP Conf. Series: Materials Science and Engineering 365 (2018) 062030 doi:10.1088/1757-899X/365/6/062030
11. Gilyarovskaya L. T. Economic analysis: a textbook for universities. M.: UNITY-DANA, 2004.
12. Sharp U. Investments: Per. c eng / W. Sharp, G. Alexander, D. Bailey. M.: INFRA-M. 2001.
13. Berens V. Guide to assessing the effectiveness of investments: textbook. allowance; per. c eng /AT. Berens, P., M. Havranek. M.: Interexpert, INFRA-M, 1995.
14. McConnell, KR, Economics, Principles, Problems, and Politics: Per. c eng / K. R. McConnell, S. L. Bru. M.: INFRA-M, 1999.
15. Borkovskaya V, Degaev E, Burkova I. Environmental economic model of risk management and costs in the framework of the quality management system // MATEC Web of Conf., 193 (2018) 05027. DOI: https://doi.org/10.1051/matecconf/201819305027.
16. Borkovskaya V, Passmore D. Application of Failure Mode and Effects Analysis in Ecology in Russia. // MATEC Web of Conf., 193 (2018) 05027. DOI: https://doi.org/10.1051/matecconf/201819305026
17. Borkovskaya V.G, Bardenwerper W, Roe R. Sustainability Risk Management: The Case for Using Interactive Methodologies for Teaching, Training and Practice in Environmental Engineering and Other Fields. Advances in Economics, Business and Management Research (France-Netherlands). Atlantis Press. In press.
18. Borkovskaya V.G., Passmore D. Behavioral engineering model to identify risks of losses in the construction industry. Advances in Economics, Business and Management Research (France-Netherlands). Atlantis Press. In press.