THE USV ANNALS OF ECONOMICS AND PUBLIC ADMINISTRATION | VOLUME 24, ISSUE 1(39), 2024

METHODS OF RESILIENCE OF VENTURE FUNDS IN BUSINESS LINES

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Abstract:
Business resilience shows that business funds can be managed effectively, but the risk that spreads is not only eliminated by psychosis and opposition, but also by promoting business lines and business resilience, which helps to calculate the total capital requirement for operational risk. In this respect, approaches that address operational risk assessment and management are becoming increasingly essential as they provide a comprehensive view of capital needs and potential threats. The purpose of this article is to bridge the gap between efficiency and the calculation of the capital requirement for operational risk. The analysis presented in the paper's results indicates potential risks to the entity's operations, risks that are mitigated by the relevant rules, guidelines, and regulations that serve as the body's activity's reference documents. Administrators and managers can identify numerous internal objectives that contribute to achieving the target set by employing the "from result to objective" model.

Key words: business resilience; potential risks; operational risk; internal objectives.

JEL classification: G21, M10, M14.

Received 15 March 2024; Accepted 5 June 2024

1. INTRODUCTION

In today's uncertain and volatile economic environment, the resilience of risk funds across business lines is becoming increasingly crucial to the success of organisations. The concept of resilience refers to the ability of a business to withstand shocks and adapt quickly to changes in the environment, ensuring operational continuity and the ability to achieve its strategic goals despite challenges (Duchek 2020; Schipor, 2022). In this context, effectively managing risk and aligning funds to address emerging threats become key priorities for managers and leaders of organisations.

The desire to learn more about how venture capital funds withstand setbacks and uncertainties across a range of industries is what led to the selection of this particular subject. There are a variety of perspectives on this matter in the literature; the most popular ones make reference to (see Table 1):

Table no. 1. Approaches to maintaining the resilience of venture capital funds in the business environment

No.	Issues addressed	Description
1.	Investment strategies	specific investment strategies of venture capital funds, including portfolio diversification, asset allocation and risk management to ensure resilience in the face of market fluctuations and uncertainties.
2.	Relations with entrepreneurs and managers	relationships between venture capital funds and entrepreneurs or company managers, examining how these relationships contribute to the development of a resilient business environment and investment success.
3.	Risk assessment technologies and tools	using advanced risk assessment technologies and tools, such as data analytics, financial modelling and artificial intelligence, to enhance the ability of venture capital funds to manage risk and remain resilient in the face of environmental change.
4.	Partnerships and	partnerships and collaborations between venture capital funds, other financial

No.	Issues addressed	Description
	collaborations	institutions, governments and non-profit organisations, examining how these collaborations can help increase resilience and create a more stable business ecosystem.
5.	Socio-economic factors and regulations	the impact of socio-economic and regulatory factors on the activity of venture capital funds, including government policies, demographic changes and economic trends, and how these factors influence their resilience to environmental challenges.

Source: Authors compilation based on literature (La Rosa & Bernini, 2023; Zhou et al., 2018; Kim & Kim, 2023)

This article aims to explore the different ways in which organisations can strengthen their risk pools and build resilience to the challenges of today's business environment. In doing so, it will explore the role and importance of financial resilience in ensuring the stability and sustainability of organisations, as well as key strategies and practices used to effectively manage operational and financial risks. It will also explore case studies and practical examples that illustrate the application of theoretical concepts in real business contexts, highlighting the impact of risk fund resilience on organisational performance and survival.

Thus, by analysing and understanding these issues, the article aims to provide a comprehensive perspective on the importance and ways of implementing risk fund resilience in business lines, providing managers and leaders with the necessary information and tools to successfully navigate an increasingly complex and unpredictable economic environment.

2. STRATEGIES FOR ADDRESSING INSOLVENCY AND RISK MANAGEMENT IN UNFORESEEN BUSINESS ENVIRONMENTS

The objective of this section is to highlight two important aspects of business risk management, namely: an organisation's ability to anticipate and manage risks that could lead to insolvency or business failure in the face of adverse situations, such as economic crises, legislative changes or other unforeseen events, which involves the use of stress scenarios to assess an organisation's resilience and resilience in the face of extreme events or crisis situations, and the impact of these strategies on organisational performance and survival.

a. CAPTURING INSOLVENCY IN THE PSYCHOSIS OF BUSINESS ADVERSITY

Psychosis is a concept that attests to an event of an alarmingly serious degree. According to Catan (2014a) insolvency is the financial situation of a legal entity, ascertained by a court decision, which is due to the inability to pay or over-indebtedness of the legal entity and which can be attributed to its management bodies, or the financial situation of the legal entity characterized by the impossibility of paying due and certain payments, ascertained by a judicial act of disposition. Setting up and developing a thriving business is time-consuming and requires a great deal of physical and intellectual effort, tenacity, domain knowledge, orderliness and entrepreneurship (Scutaru & Sivoconi, 2018).

Recent studies show that the events of the last few years have caused many and profound changes in all spheres of social life (Vărzaru, 2023). The judgment of the trial of the insolvency process and the date of pronouncement, have a particular importance, due to the conditions of opening the procedure to which a number of legal effects are linked (Catan, 2014b). Insolvency is a legal state of a debtor whose liabilities exceed its assets, so insolvency is a consequence of a very weak budget.

b. RISK MANAGEMENT BASED ON STRESS SCENARIOS

Corporate financial stress encompasses four generic terms: failure, insolvency, bankruptcy and default (Habib et al., 2020). Financial stress indicates that the firm is definitely bankrupt.

Risk is inherent in all aspects of an organisation and implicit in those of a management system, thus there are risks in all systems, processes and functions, risk-based thinking creates the framework for these risks to be identified, considered and controlled through the design and use of the management system (Roncea, 2018).

Furthermore, in terms of resilience in the face of a pandemic crisis, we will show how a company that is part of a retail chain has demonstrated resilience.

During the COVID-19 pandemic, a retail chain faced multiple challenges, including temporary closures, supply chain disruptions and declining consumer demand. However, thanks to a proactive risk management policy and adequate financial reserves, the company was able to maintain its operations and adapt quickly to changes in the market. Proactive policies focused mainly on the implementation of hygiene and safety measures, extension of delivery and pick-up services in the store, clear and transparent communication. Also, in order to protect the health of employees and provide them with support in these difficult times, the company has adopted flexible working policies for some employees, such as teleworking or flexible working hours, which involved adjusting store capacity, implementing additional safety measures or recalibrating the services offered to meet new needs and requirements.

Thus, through investments in technology and innovation, as well as flexibility and agility in adjusting business strategies, the company has demonstrated resilience in the face of crisis and strengthened its position in the market.

Another example related to the financial and operational resilience of some companies in the face of unforeseen events is the case of a company, a manufacturer of electronic components, that was affected by a major natural disaster in the region where it was headquartered. The company's factory was severely damaged and the supply chain was significantly disrupted. However, due primarily to previous investments in business continuity plans that included strategies for crisis management that assumed prior identification and assessment of potential risks associated with the major natural disaster and the establishment of appropriate preventive and corrective measures. Also, implementing backup systems and procedures to ensure continuity of critical operations, such as backing up data and IT infrastructure, and identifying production and distribution alternatives in case of major disruptions.

Second, the company was able to recover from the disaster rather quickly because it had strong relationships with its suppliers and partners, which helped to ensure that they had access to necessary raw materials and components both during and after a major natural disaster. It also established efficient and transparent communication channels with these parties to coordinate response during the crisis and share pertinent information about the status of operations and needs. Finally, the company improved supply chain resilience by diversifying its sources of materials and components and identifying backup supplies in case of major disruptions. By using its financial reserves and ability to adapt quickly, the company was able to resume operations in a short period of time and minimize financial losses and the impact on its customers and partners. This case study highlights the importance of financial and operational resilience in the face of unforeseen events and the crucial role of pre-planning and preparing for such situations.

3. BUSINESS RESILIENCE TO SOCIAL AND ENVIRONMENTAL CHALLENGES

In a broad sense, resilience is the ability to successfully adapt in the face of stress and adversity, so resilience as successful adaptation is based on effective responses to environmental challenges and ultimate resistance to the detrimental effects of stress, therefore a better understanding of the factors that promote such effects is of great relevance (Wu et al., 2013).

The resilience approach focuses primarily on studying the resources, capacities, factors, strengths, etc. of people and communities in order to improve our knowledge of this phenomenon. Resilience thinking addresses the dynamics and development of complex socio-ecological systems (Folke, 2016).

Resilience, the development of competence despite severe or pervasive adversity, is examined using data from a longitudinal study of high-risk children and families (Egeland et al., 1993). Resilience has, over the past four decades, been an increasingly used term in a number of sciences: psychology and ecology most prominently. Increasingly, information on disaster planning, urban planning and international development is mentioned in political science, business administration, sociology, history (Martin-Breen & Anderies, 2011).

In terms of the importance of sustainable finance in strengthening business risk resilience, Azadda (2023) highlights its crucial role in improving the risk management infrastructure within organisations. At the same time, they discuss (Zadek et al., 2012) the integration of sustainability principles into financial strategies that can significantly contribute to strengthening organisational resilience and increasing their ability to face future challenges.

By adopting more socially and environmentally responsible practices, organisations can reduce exposure to compliance, reputational and environmental risks. Investments in energy efficiency, resource management and cleaner technologies can also reduce long-term operational costs. These savings can provide a rapid payback on investments and increase the organisation's ability to cope with sudden changes in the market or environment. In this sense, for a company that adopts sustainability principles, this can provide it with greater accessibility to capital and lower financing costs, thus contributing to a stronger financial position and organisational resilience (De Carvalho et al., 2016).

Another principle of sustainability in financial strategies can target the adoption of sustainable practices can increase customer loyalty and strengthen the reputation and brand of the organization, reducing vulnerability to market changes and image crises (Grubor & Milovanov, 2017). Certainly adopting sustainability principles into financial strategies can help organizations comply more easily and effectively with these changing regulations, reducing the risk of penalties and negative business impact.

4. MEASUREMENT AND MANAGEMENT OF RISK FUNDS (OPERATIONAL RISK)

Operational risk is a specific risk associated with economic activities. Avoiding an unexpected loss is one of the reasons for investing in operational risk management, and the appropriate policy is to quantify the possibility of loss occurrence, the difficulty being to quantify the magnitude and probability of occurrence of a variety of such events (Avram et al., 2017).

The formula for calculating the demand for capital to prevent and mitigate operational risk of economic entities may vary depending on the specific context of each company and its needs. However, in general, this formula can encompass several aspects, including:

- assessment of the current level of operational risk;
- estimating the financial impact of operational risks;
- determining the optimal level of capital required;
- implementation of risk prevention and mitigation measures.

This formula can often involve a holistic and integrated approach, taking into account all relevant aspects of operational risk and providing a sound basis for decision making on its management. It is important that this formula is tailored to the specificities and needs of individual economic entities. According to Treapăt (2018), the total capital requirement for operational risk can be calculated using the following equation:

$$K=\frac{\sum_{i=1,3}\max(\sum_{j=1,8}GI\ ij \text{ x } \beta j,0)}{3} \qquad (1)$$

Where:

K= capital requirement to cover operational risk;

GI_{ij}, i=1,3, j=1,8 *Gross income*, obtained in year i (of the last three years) from line of business j;

βj is the fixed percentage associated with business line j, as shown in Table no. 2:

Table 2. Business lines for calculating the capital requirement for operational risk

Line of business	Beta factor (βj)
Corporate Finance ($\beta 1$)	18%
Trading and sales ($\beta 2$)	18%
Retail Activity ($\beta 3$)	12%
Commercial activity ($\beta 4$)	15%
Operations ($\beta 5$)	18%
Agent services ($\beta 6$)	15%
Asset management ($\beta 7$)	12%
Retail Brokerage ($\beta 8$)	12%

Source: Treapăt (2018, p. 202)

The analysis of operational risks is aimed at establishing the level of professional assurance, but also at identifying the risks related to the control of operational activities carried out. The analysis also includes the risks of the audit programme.

This analysis is carried out in order to analyse and determine the potential risks arising from the body's activities, in order to comply with the standards, guidelines and regulations which are the reference documents for the body's activities. We recommend a three-step process to identify and mitigate risk pools in business lines. First of all, for an economic agent to be successful in business it must ensure that whatever the firm's activity (internal objectives), it delivers the results for which customers are willing to pay for the services/products offered by the economic agent. The next step is the essential step that determines the success or failure of the business model. By using the "outcome to goal" model, administrators and managers can identify many different internal goals. Managers at this point need to focus on one of the most promising goals and define them in a way that captures how the strategy will bring in cash and capital. This is the basic logic of the business model. The final step is about how clearly managers can define key objectives and how clearly they can identify the essential capabilities to make the business model work.

5. CONCLUSIONS

This analysis is carried out in order to analyse and determine the potential risks arising from the body's activities, in order to comply with the standards, guidelines and regulations which are the reference documents for the body's activities. The results of the work show that this analysis reveals the potential risks involved in carrying out the body's activities, risks that are nullified by the relevant standards, guidelines and regulations that constitute the reference documents for the body's activity. By using the "from result to target" model, administrators and managers can identify many internal objectives that help to achieve the set target.

We propose a three-step process to identify and mitigate risk funds in business lines. First, for a business to be successful in business it must ensure that whatever the business is doing (internal objectives), it is delivering the results for which customers are willing to pay for the services/products offered by the business. The next step is the essential step that determines the success or failure of the business model. The final step relates to the clarity with which managers can define key objectives and which determines the clarity with which they can identify the essential capabilities to make the business model work.

We believe that the use of proactive and innovative risk management strategies within venture funds contributes to increasing their resilience to challenges in various business areas. We also support the assertion that the implementation of advanced risk assessment and monitoring methodologies and tools within venture funds can improve their ability to identify, assess and effectively manage specific risks in the lines of business invested in.

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