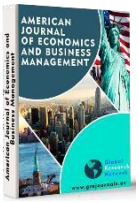

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Article

Increasing Business Efficiency by Reducing Investment Risk

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Abstract: The article analyzes the relationship between investment risk and enterprise efficiency from an economic, theoretical and practical perspective. The main goal of the study is to systematize the methodology for assessing investment risk and develop scientifically based ways to increase enterprise efficiency through mechanisms for reducing it. In the practical part of the study, the relationship between the level of investment risk and performance indicators was analyzed based on the financial indicators of the enterprise "Kamalak Tekstil" LLC operating in the Samarkand region for 2024–2025. The results of the analysis revealed that financial risks were significantly reduced through leverage optimization in the enterprise, and that high exchange rate risk and a large share of the cost structure were identified as factors that negatively affect the efficiency of the enterprise. This article substantiates the diversification of the investment portfolio, optimization of financing sources, setting discount rates in accordance with the level of risk, as well as the introduction of a risk management system as the main areas of reducing investment risks. At the end of the study, it is scientifically proven that through effective management of investment risks, it is possible to ensure financial stability in enterprises and increase investment efficiency.

Keywords: foreign investment, investment risk, enterprise efficiency, income, type of financing, investment project, diversification, net profit, leverage optimization.

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1. Introduction

The issue of ensuring efficiency by reducing investment risks in the activities of enterprises is of crucial importance in the sustainable development and competitiveness of economic entities in a market economy. Investment activity is of strategic importance for any enterprise, it serves to expand production capacities, update technologies, increase product quality and competitive advantages. However, the investment process is associated with a high level of uncertainty and risks, and if these risks are not identified in a timely manner or are not effectively managed, they can lead to the loss of investment resources, disruption of financial stability and a decrease in the efficiency of the enterprise. In this regard, the development of mechanisms for assessing and reducing investment risks on a scientific basis is one of the important areas for ensuring the efficiency of enterprise activities.

Literature Review

We can see that some foreign and domestic economists who have conducted research on the essence of increasing efficiency by reducing investment risk in an enterprise with foreign investment have different opinions.

In this regard, economist Harry Markowitz mathematically stated that investment is not only a source of income, but also a question of the balance of risk and income [1].

Franco Modigliani also studied how the question of how to finance an enterprise (debt or equity) does not affect its future value, and that the value of an enterprise depends not on

the source of its financing, but on the effectiveness of its real activities and investment projects [2].

Aswath Damodaran is an Indian economist who most fully and practically described DCF (discounted cash flow), NPV (net of payments), real options, relative valuation and all other methods [3].

Yen Yee Chong interprets risk not only as a possible loss, but as a complex phenomenon associated with income variation, distinguishes its main sources (market risk, credit risk, liquidity risk and operational risk) and extensively covers their quantitative assessment methods (variance, standard deviation, Value at Risk) [4].

The theoretical aspects of market mechanisms for financing investment activities have been studied by a number of economists. In particular, according to Professor Mirkin, a realistic, promising form of financing investments is to increase the placement of companies' savings from the secondary market into equity capital, but the level of source financing of investments is very low [5].

One of the well-known foreign scientists, Sharp, also touches on the issue of investment risk, paying special attention to the mechanism of diversifying investment activities and financing its activities through the stock market [6].

In their book "Organization and Financing of Investments" by Mamatov et al., one of our scientists who conducted scientific research in this area, they noted that risks in financing investment projects are considered financial risks by their economic nature, and financial risks usually mean the risk of losing financial resources, that is, resources in the form of money [7].

Soliev, Akhmedov, and Nazarov further develop the theoretical foundations of regional economics, arguing that balanced investment distribution and infrastructure development are key factors for regional stability. Their work argues that excessive concentration of capital in selected regions can deepen socio-economic disparities [8].

G'ozibekov va Qoraliyevlar investitsiya iqlimini investor tomonidan hisobga olinadigan barcha muammo va masalalarni mujassamlashtiruvchi keng tushuncha sifatida ta'riflab, risk omillarini shu muhitning ajralmas qismi ekanligini ilmiy asoslab berganlar [9].

2. Materials and Methods

The article uses comparative analysis, a systematic approach, analysis, generalization, synthesis, and forecasting methods.

Another effective way to reduce investment risks in enterprises is to select and implement investment projects based on a comprehensive economic analysis. A thorough analysis of indicators such as the project's financial stability, solvency, profitability, payback period, and stability of cash flows increases the validity of investment decisions. This approach allows enterprises to abandon high-risk but low-yield projects and direct investment resources to areas that provide high economic efficiency.

One of the indicators widely used in assessing investment risks is the net present value (NPV) of an investment project. It is determined by the following formula:

$$NPV = \sum(CF_t/(1+r)^t) - I_o \quad (1)$$

Where,

CF_t – tcash flow in period t;

r – discount rate (taking into account risk);

t – time period;

I_o – initial investment volume.

As the level of investment risk increases, the discount rate (r) also increases, which leads to a decrease in the NPV value. Therefore, reducing investment risks serves to optimize the level of the discount rate, and as a result, to increase the economic efficiency of the investment project. In the conditions of Uzbekistan, it is often observed that enterprises use nominal discount rates when evaluating investment projects without sufficiently taking into account the risk factor, which reduces the validity of investment decisions.

3. Results and Discussion

Investment risks are the probability of not receiving the expected returns as a result of the implementation of an enterprise's investment activities. Interest rate risk arises as a result of a decline in credit interest rates in the stock market, which has a direct negative impact on a company's investments [10], [11].

Reducing investment risks, first of all, begins with their identification, classification and assessment. In practice, various approaches to risk assessment are used, such as statistical, expert, scenario analysis, sensitivity analysis, discounting methods. These methods allow comparing the volume of possible losses, the level of risk and alternative investment decisions for investment projects. Correct assessment of investment risks helps enterprises direct resources in the most effective directions, minimize the likelihood of financial losses and ensure the stability of the investment portfolio.

Diversification policy is of particular importance in reducing investment risks. By diversifying investment objects by sectors, regions, projects and financial instruments, an enterprise reduces its dependence on one project or one market segment.

According to the principle of diversification, distributing investments between several assets reduces the risk inherent in an individual asset, since changes in the prices of different assets partially compensate for each other.

R_p=w_1R_1+w_2R_2 (2)

R_p = *total return.*

w_1, w_2 = *share of money (for example 50%, 50%.*

R_1, R_2 = *income of each asset.*

From the formula it follows that if we invest $1000 in one stock, then:

50% probability →+20% ($1200)

50% probability →-20% ($800)

The risk is high and our loss amount is also high. If our total investment is another $1000, then we:

A: −20% → $400

B: +20% → $600

Total = $1000, i.e. no loss

This is an important indicator of the combined assessment of risk and return through this formula.

Another important indicator in the analysis of investment risks is the internal rate of return (IRR) of the investment project. It is defined as the discount rate at which the NPV is equal to zero:

$$NPV = \sum(\frac{CF_t}{(1+IRR)^t}) - I_o = 0 \quad (3)$$

If the IRR value is higher than the minimum acceptable rate of return established for the enterprise, the investment project is considered acceptable. However, in a high-risk economic environment, the IRR indicator may not fully reflect the real situation. Therefore, when evaluating investment projects in the Uzbek economy, it is advisable to supplement the IRR indicator with a risk premium, that is, to compare it based on the weighted average cost of capital - WACC.

In the case of the Uzbek economy, the issue of reducing investment risks is primarily related to the sectoral structure and institutional environment of the national economy. In recent years, large-scale reforms have been implemented in the country aimed at increasing investment activity, including the transformation of state-owned enterprises, accelerating privatization processes, reducing the tax burden and improving investment legislation. However, at the same time, a high level of regulation in some sectors, insufficient development of infrastructure and low depth of financial markets retain investment risks [12], [13].

The main risks in investment projects in the industrial, construction and agricultural sectors include increased costs, delays in project implementation, exchange rate fluctuations and limited access to financial resources. Therefore, the use of public-private partnership mechanisms, phased financing of projects and the use of guarantee instruments are effective solutions for reducing investment risks for Uzbek enterprises.

Reducing investment risks directly affects the financial performance of enterprises. This can be expressed through the return on investment (ROI):

ROI=(Net profit / Investment volume) ×100% (3)

As the risk level decreases, the stability of profits increases, which leads to an increase in the ROI indicator. In the practice of Uzbek enterprises, it is observed that large industrial enterprises that have implemented a risk management system have a relatively high return on invested capital, which confirms the practical effectiveness of risk management.

The main type of financial risks inherent in investments is project-related, which includes risks that threaten the economic efficiency of projects and negatively affect the flow of cash. Currently, project risks are understood as a set of situations that lead to a decrease in the expected income as a result of the implementation of the project. At the same time, project risk also means the sum of risks that interfere with the implementation of an investment project or reduce the effectiveness of the project.

Any investment projects are associated with various uncertainties and risks. Each investment participant must have accurate information about risks, the causes of the occurrence of risk types, their classification and measures to prevent the likelihood of risk. Only then can they contribute to the successful implementation of the investment project.

The financial market is considered the most risky sector. The risks in it are divided into two large groups: - systematic risks; - unsystematic risks. Systematic risks (investment portfolio risks) - not some securities, but the entire market, a large part of it, are exposed to the risk. In this case, due to economic instability or for other reasons, most issuers and holders of securities may suffer losses. Systematic risks include: interest rate risk; currency risk; inflation risk; political risks. Unsystematic risks - the risk is inherent in some securities or a set of them, that is, securities of a particular enterprise or securities of an industry. Unsystematic risks include: entrepreneurial risk; financial risks; illiquidity risk [14].

The project under analysis is “Kamalak Tekstil” LLC, operating in the Urgut district of Samarkand region, SEZ. The type of enterprise is considered an enterprise with foreign investment. This enterprise, which operates through investment directed by China and Turkey, produces unfinished carpets and other textile floor coverings.

Type of expense	Billion soums	% share %
Cost	395,00	93,69
Period Expenses	4,25	1,01
Interest Expense	2,47	0,58
Foreign Exchange Loss	36,62	8,68
Net Profit	0,58	0,14

Figure 1. “Kamalak Tekstil” – comparative risk analysis
(Risk composition — 2025 (% share)) [15]

Indicator	2024 (%)	2025 (%)
Gross profit margin	8,12%	6,31%
Operating efficiency	7,44%	5,30%
Foreign exchange rate risk	8,60%	8,68%
Interest burden	5,01%	0,58%
Finance cost risk	13,61%	9,27%
Net profit margin	0,13%	0,14%

Figure 2. Risk indicators in percentage — 2024 vs 2025 [16]

The dynamics of indicators of the enterprise "Kamalak Tekstil" LLC in the period from 2024 to 2025 indicate a conscious restructuring of the financial structure of the enterprise. In particular, the reduction in the debt share confirms the effectiveness of management decisions.

The most significant change in the financial statements of the enterprise "Kamalak Tekstil" LLC in 2025 was observed in the interest rate: this indicator decreased from 5.01% in 2024 to 0.58% in 2025. In the theory of financial management, this phenomenon is called "leverage optimization" - that is, the enterprise, having revised its capital structure, managed to minimize dependence on debt sources. Through this, management ensures the maximum value of the enterprise while keeping risk under control.

According to one of the classical rules of financial management — the theory of capital structure, based on the Modigliani-Miller theorem — a decrease in the debt burden reduces the financial risk of the enterprise and thereby increases the value of its own capital [17]. Kamalak Tekstil LLC applied this very principle in practice: by reducing the interest burden by 4.43 percentage points, the enterprise not only reduced its current expenses, but also strengthened its future financial stability.

In parallel, the risk of financial expenses also decreased from 13.61% to 9.27%, an improvement of 4.34 percentage points. From the point of view of financial risk management, the simultaneous improvement of these two indicators indicates the effective implementation of the "double protection" strategy: on the one hand, debt service costs were reduced, and on the other, total financial expenses were brought under control.

These results clearly demonstrate the competence of the enterprise's management in the field of financial management. In particular, decisions taken on cash flow management and portfolio optimization of liabilities have had a clear quantitative effect.

The following model was developed based on the article and represents a mechanism for increasing enterprise efficiency through investment risk management:

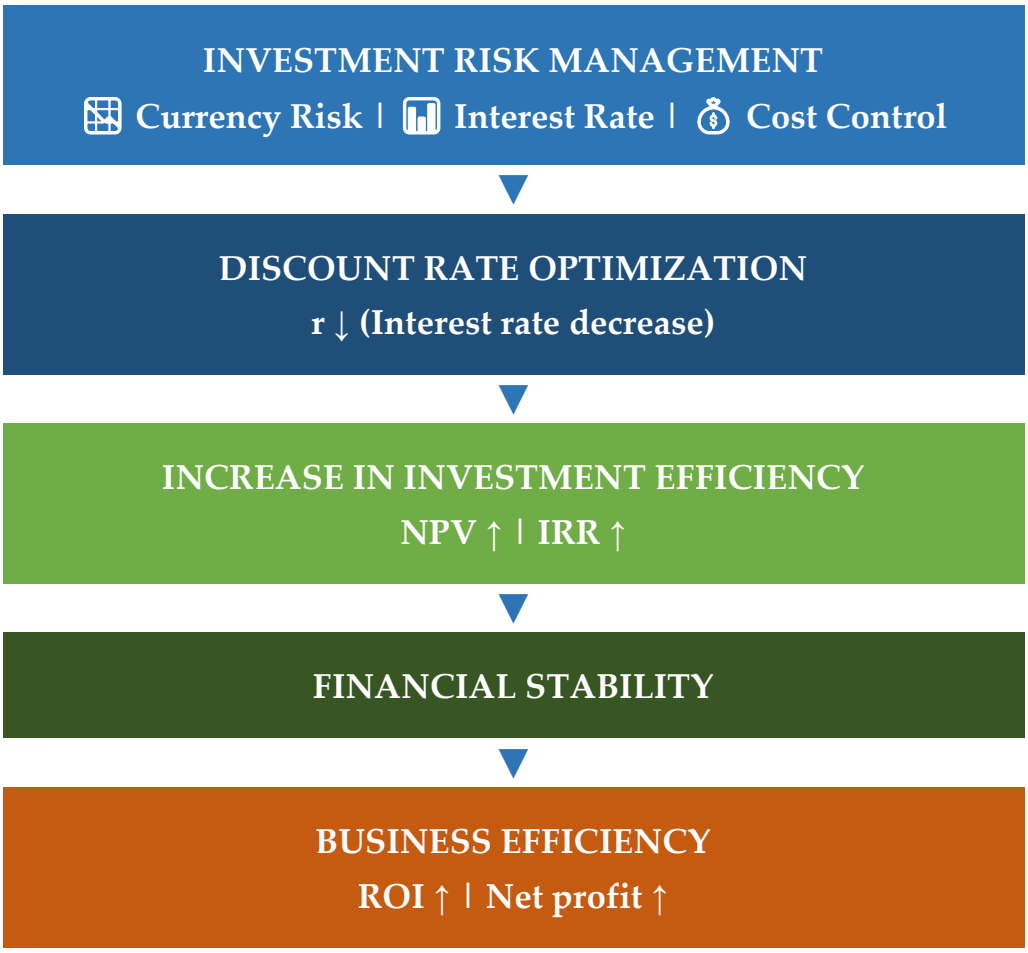

Figure 3. Investment Risk Management Model for Improving Enterprise Performance [18]

Note: *In the case of "Kamalak Tekstil" LLC, reducing interest burden through leverage optimization has reduced financial risk, but increasing operational efficiency is still relevant.*

4. Conclusion

In general, ensuring the efficiency of enterprises by reducing investment risks is a complex process that requires a combination of economic and mathematical analysis, institutional reforms and strategic management decisions. In the conditions of the Uzbek economy, this issue is especially relevant, and further improvement of the investment climate, scientific assessment of risks and improvement of mechanisms for their management are important conditions for ensuring the sustainable development of enterprises.

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