

STRATEGIES FOR OPTIMIZING RISKS AFFECTING SOURCES OF FINANCING OF CONSTRUCTION INDUSTRY ENTERPRISES

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Introduction. The main goal in formulating strategic objectives of the economic activity of a construction enterprise is to increase the well-being of the owners of the enterprise and maximize its market value. The system of strategic objectives should ensure the formation of sufficient own resources and highly profitable use of own capital in the process of implementing the enterprise's economic activity, as well as an acceptable level of entrepreneurial risks. The system of strategic objectives should be formulated clearly and concisely, reflecting each of the objectives in specific indicators target strategic standards, which include:

- the coefficient of profitability of capital;
- the marginal level of entrepreneurial risk;
- the minimum level of funds to ensure the current solvency of the construction company.

The specification of target indicators of the general strategy of a construction company by implementation periods is carried out in order to align the general strategy with the predicted changes in the commodity market, ensuring timely implementation of target strategic standards, as well as their external and internal synchronization during this period.

Analysis of recent research and publications. Optimizing the risks affecting the financial resources of construction enterprises is essential to ensuring the sustainable operation of the enterprise. Financial risks mainly arise from project costs exceeding the planned ones, extension of implementation periods and inefficient use of resources Abbasov S.A. [1]; D. A. Bagirov., M.Kh. Hasanli [2].

In addition, the leadership and decision-making skills of project managers have a direct impact on reducing financial risks, as they can effectively implement project budgeting, cost monitoring and resource planning (I.A. Babayev [6]; Mammadov M. A., Aliyev A. M. [8]; Mammadova K.M. [9]). Planning tools and investment strategies are important for strategic management and risk optimization Mammadov M. A., Mammadova F. A., Alizade S. I. [10]. In addition, the application of marketing strategies and the use of logistics analyses are effective tools for reducing the financial risks of construction enterprises. Marketing strategies allow creating attractive projects for investors and customers, while logistics analyses ensure optimal use of resources (Shirinov Bashar Habib oglu., Mammadzade Ilkin Farid oglu.[12]; Shirinov B.[13]). The combination of these approaches ensures the preservation of access to financial resources and helps construction companies implement projects on time and within budget.

Flyvbjerg, B. [4] notes that optimistic forecasting is one of the main factors that increases financial risks in large construction projects.

It is not correct to claim that optimistic forecasting increases financial risks in all cases. In some cases, this approach encourages the start of projects and increases investor interest. Thus, the approach proposed by Bent Flyvbjerg is limited in certain contexts.



There are several investment areas related to real estate. Reconstruction and construction of office and commercial buildings, warehouse construction, housing construction, hotel direction, exhibition centers and cultural event centers, etc. Each of these areas has its own characteristics. Therefore, the material and financial resources spent will also differ significantly.

As a result, some banks do not invest in construction, explaining this by the increased market risk. According to banking experts, the main risks are the significant diversity of construction projects, as well as the large amount of work on the legal development of such facilities, risks associated with design and construction and installation work, and control over financial flows. According to experts, investment projects in the construction industry have a clear specificity.

Firstly, the implementation of construction projects is a resource-intensive and time-consuming process. The construction of facilities such as hotel complexes, residential areas, shopping and entertainment centers requires large investments and the project implementation period often exceeds five years. Therefore, such projects are rarely implemented only at the expense of the initiators' own funds, mainly with the active participation of debt capital, and mistakes in making incorrect investment decisions, sometimes expressed in billions of manats, are very painful for the bank.

Secondly, during the implementation of construction projects, cash flows often arise, which can be directed not only to servicing debt capital, but also to the implementation of the project itself. At the same time, the amount of the resulting flow directly depends on the degree of completion of the project.

Thirdly, when building housing for sale, the investor faces the problem of a limited volume of goods that can be sold. When building a house with a hundred apartments, sales can be carried out only within these hundred apartments, and the income from their sale can only increase or decrease due to price fluctuations. As a result, the bank is engaged in a limited amount of resources that can be used to service borrowed funds and repay them. Also, all these factors are aggravated by a large dependence on regional market fluctuations. This factor often determines the financial efficiency of construction projects

There are still risks associated with the implementation of construction projects Kerzner, H. [7]:

First, market risks. Due to the significant influence of macroeconomic factors, the real estate market can be quite unstable, despite its high profitability. It is known that prices can dynamically change both in the direction of increase and decrease over several years. Therefore, an investor who decides to invest in a project for more than five years may face an unpleasant situation, and in this case only a high profitability from the project can help to avoid losses.

Second, the risk of choosing a construction site from a technical and legal point of view. Inattention to the choice of location due to disregard for land legislation can lead to the need to resolve issues in court. There are also technical difficulties. For example, if old but functioning communications are discovered on the site, the relocation of these communications may cast doubt on the feasibility of the entire project, and the investor's refusal to purchase the site will not return the invested funds.

Thirdly, the risk may be associated with the construction process itself. Often, due to the untimely completion of the construction period, an unplanned increase in the volume of investments occurs, which significantly affects the efficiency of the project. This is also accompanied by the embezzlement of loan funds. Most often, this happens in cases where the bank provides loans for several construction projects, and companies sometimes try to correct the mistakes of another by financing one object, which can lead to the unprofitability of both projects.

The last, fourth risk group is associated with the formation of project revenues. It is very important not to make a mistake when choosing a strategy for implementing the planned one. The wrong policy in this matter will lead to a significant decrease in the efficiency of the construction project.

Based on the above, the conclusion is that without a team of highly professional specialists, a well-thought-out and well-established scheme for the participation of financial institutions in the implementation of a construction project, success is practically impossible. Therefore, banks create special departments that analyze construction projects and prepare investment decisions. In order to reduce risks at the initial stages of an investment project, it is worth paying great attention to the sustainability of the project in the market.

It is also important to involve specialized consulting and law firms to reduce legal risks associated with the preparation of a set of permits and certificates accompanying the project. There are several ways to reduce construction risks.

Firstly, they are reliable and experienced contractors and designers. It is better if the selection is made on a competitive basis. The value proposition and experience will be important factors when analyzing proposals. For large-scale and complex projects, foreign experience can be used in bank guarantees. This does not significantly increase the project budget, but disciplines contractors, reduces the risk of construction delays or dishonest work. It also screens out potentially unreliable partners, since only successful companies can issue a bank guarantee.

Secondly, the financial institution needs strict control over the progress of construction. For this, large banks have specialized departments that are engaged in the construction and financial monitoring of the facility. It is also possible to involve independent specialized companies as a supervisory body. Currently, there is a large selection of such companies on the service market. Their involvement allows for strict control over the progress of construction work and the movement of funds, and it is also possible to establish current control over the financial condition and work of the company by creating “remote accounting”.

Additional measures to reduce risks include the correct financial structure of the transaction. Sometimes banks provide funds with the expectation that part of the construction costs will be financed by future proceeds from the sale of land, which creates unjustified risks.

In practice, the dynamics of sales and sales prices may be lower than predicted, which will jeopardize not only the repayment of the loan, but also the project as a whole. The financing procedure will be very correct, in which the amount of the loan allows the project to be fully completed at the expense of loan funds, they should not take into account the income received by the project. Also, one of the successful factors in reducing construction risks is the formation of a financial reserve in case of missed deadlines or other unplanned events that lead to an increase in the budget. For reliability, 10–15% of the estimated cost of construction is planned.

The easiest way to reduce risks is to use collateral for a loan in the form of created or, better yet, already created real estate objects. Understanding the ways to reduce risks and their successful reduction depends on the coordinated work of all participants in the construction project, among which financial institutions (banks, financial funds, finance companies) and the operating company, contractors and investors play an important role.

The task of the financial institution is to provide financial resources that allow: – to successfully implement the project – to ensure the estimated return on investment with minimal risks, on the other hand, the task of the investor is to successfully implement the project, with maximum financial efficiency.

Thus, the only task facing the project participants is to successfully implement the project. But there is still a financial contradiction. Financial institutions are trying to minimize risks, therefore they are interested in increasing cash flow from the initial stages of the project. The investor, in turn, is trying to delay the transfer.

Currently, there is a real trend of growth in investment activity across sectors of the economy. When implementing investment projects, it is necessary to take into account the impact of risks at different stages of construction. Project risk management is understood as a set of measures aimed at identifying negative situations and reducing their impact on the project to an acceptable level.

To date, there are various classifications of risks in the implementation of investment and construction projects: poor quality of materials, raw materials and structures, failure energy and water supply systems, malfunctions in the operation of vehicles, changes in financing conditions, staff turnover, underestimation of the costs of physical and moral damage, customs policy, the degree of perfection of legislation, interaction with related production sectors, variability of weather conditions, aviation and maritime disasters.

Effective risk management requires: monitoring the operating environment, assessing and comparing possible losses from risk, and evaluating results at all stages.

Objectives of the article. The aim of the work is to develop methodological recommendations for strategies for optimizing risks affecting the sources of financing of construction industry enterprises.

The main material of the study. The construction industry is one of the main production areas and largely determines the solution of social, economic and technical problems of the development of the entire country's economy. The leading role of the construction complex in achieving the strategic goals of the development of society is determined by the fact that the final results are achieved through the implementation of investment and construction programs and projects at the national and regional levels.

Optimization of the financial and economic activities of the enterprise involves increasing its efficiency. Since it is characterized primarily by the level of financial provision of the organization and its effectiveness,

it is advisable to pay special attention to the development of a strategy for optimizing the financing of an economic entity.

Practice shows that construction industry enterprises are characterized by low financial stability and a large amount of borrowed funds, which affects the organization's costs, financial results and overall risk level [3]. In order to optimize the financing of the enterprise, it is advisable to strive to stabilize its financial condition and increase the efficiency of enterprises.

To choose the optimal financing scheme, it is necessary to pay attention to the strategy implemented by a particular organization.

In general, two options for financing strategies are widely used:

1. The strategy of maximum return on capital while maintaining a high level of financial stability.
2. The strategy of maximum return on capital with active involvement of borrowed funds in conditions of an acceptable level of loss of financial stability.

The strategy of maximum return on capital while maintaining a high level of financial stability is relevant for construction companies that are provided with a sufficiently large amount of their own financial resources. As a rule, these are large and medium-sized enterprises, often independent developers. Experience shows that the number of such organizations in the modern construction industry is small and is gradually decreasing. For other organizations, choosing this strategy means intensive capital increase and working with the most reliable customers.

For this strategy, financial leverage should be significantly less than one, and the increase in capital should exceed the increase in debt capital.

Financial leverage (leverage of financial leverage, credit leverage, leverage, financial levers) is the ratio of borrowed capital to equity capital (in other words, the ratio between borrowed and equity capital). Usually, when calculating this ratio, the total amount of liabilities, including both short-term liabilities and long-term liabilities, is taken into account.

Sometimes only the amount of long-term liabilities is used. If the ratio is less than 1, then the company's assets are financed mostly by equity. If the leverage ratio is more than 1, then the company's assets are financed mostly by debt.

Also, the effect of financial leverage or financial leverage is the effect of using borrowed funds to increase the volume of operations and profits without sufficient capital. The size of the ratio of debt capital to equity characterizes the degree of risk, financial stability [11].

Financial leverage can only arise when a trader uses borrowed funds. The cost of debt capital is usually less than the additional profit it provides. This additional profit is added to the return on capital, which allows it to increase its profitability.

Lenders prefer low leverage ratios for borrowers, as they are better protected in the event of the borrower's bankruptcy. From the perspective of shareholders (business owners), high leverage values are preferred, which increases the profitability of the investment.

In the commodity, stock and currency markets, the concept of financial leverage is translated into margin requirements – the ratio of the funds that a trader must have on his balance sheet to close a transaction to the total value of the transaction being closed.

Typically, the commodity market requires collateral of at least 50% of the total transaction amount, that is, to close a contract for \$ 200, the trader must have at least \$ 100. In the market for derivatives or foreign exchange, for example, when concluding a futures contract, the trader is obliged to deposit a collateral of 2 percent to 15 percent of the contract value, that is, to close a contract for \$ 200, in fact, \$ 4-30 is enough.

In margin trading, leverage is often written as a ratio, which indicates the ratio of the amount of margin to the size of the possible contract. For example, a 20% margin requirement corresponds to a leverage of 1:5 (one to five) and a 1% margin requirement corresponds to a leverage of 1:100 (one to one hundred). In such a case, the trader is said to be able to enter into a contract with a value of 5 (or 100) times his security deposit.

The client's funds are 6 times larger than before taking out a loan. In this case, the margin requirements are not 20%, but 16.67%. The use of increased leverage not only increases the possibility of making a profit, but also increases the degree of risk of such a transaction.

When calculating the MRT – the effect of financial leverage – the leverage of financial leverage (for the financial analysis of the enterprise, this is the ratio of borrowed capital (BC) to equity capital (EC)) is multiplied by the differential. The simplified formula for calculating inflation is as follows (1):

$$\text{MRT} = ((1 - T) (\text{IR} - 1.8 \times \text{SR}) - (\text{SRSN} - 1.8 \times \text{SR})) \times \text{BC} / \text{EC} \quad (1)$$

where,

- MRT – the effect of financial leverage;
- T – the corporate tax rate, which can be calculated as the ratio of tax deductions to pre-tax profit;
- IR – the economic profitability of assets;
- SRSN – the average interest rate on loan payments;
- SR – the average annual refinancing rate.

Mass trading using the effect of financial leverage is a potential prerequisite for a financial crisis. One of the most striking examples of this is the bankruptcy of the British Baring Bank, one of the oldest and largest banks in the world.

In more common cases, players use financial leverage to increase profits. However, in accordance with the leverage rule, possible losses also increase many times over.

The asset financing policy is such that long-term debt sources, as well as short-term loans, cover part of long-term assets, fixed and variable current assets.

The work presents a targeted approach to choosing the optimal strategy for financing the economic activities of construction organizations (table. 1).

Table 1

Strategy of a targeted approach to financing economic activities in construction organizations

Optimal financing strategy	Objectives of economic activity of construction organizations
Strategy of maintaining the profitability of capital at the maximum possible level	High profitability of capital
	Minimum level of financial risk
	Reducing the level of loss of financial stability to an objectively achievable minimum
	Work as many investors, developers as possible with reliable customers, for example, execution of state orders
	Reducing the dependence of the enterprise on accounts receivable, including by reducing its size and using an advance payment system
Maximum profitability strategy is the active attraction of borrowed funds in conditions of acceptable loss of financial stability	Increasing the profitability of works, services
	Increasing the volume of orders, expanding the customer base and the territory for the provision of services, work
	Increasing the company's share in the construction market

Source: the table was prepared by the author

The validity of a particular strategy is assessed after the expiration of the term, based on the actual implementation of planned indicators.

After choosing an appropriate strategy, the next step is to develop a financial security plan. The financial security plan is a reasonable and complete list of the components of the enterprise's capital, along with the directions of their distribution and expenditure [5]. Having determined the composition of the sources of formation of the organization's capital and its optimal structure, it is necessary to proceed directly to the stage of its implementation.

Conclusions. In general, in order to optimize the financial security of construction enterprises and attract capital, it is necessary to ensure the transparency of their activities for external users (investors, creditors). At the same time, the company must have a stable financial position and observe financial discipline, because for creditors and investors this indicator is a guarantee of reliability and investment return, it is possible to increase income by reducing receivables, increasing profits, reducing costs and expanding. For this, it is necessary to increase the authorized capital and attract debt funds on the most favorable terms.

Determining the economically justified value and structure of the enterprise's capital implies the presence of creditors' debts. Its large proportion is faced with the issues of suppliers and contractors, the desire to increase the number of completed construction works. At the same time, the stable financial condition of the construction enterprise and the low share of debt capital create conditions for the efficient use of capital and total capital.

The strategy of maximum profitability of capital with active involvement of borrowed funds in conditions of loss of financial stability at an acceptable level is more consistent with the modern realities of the construction

industry. The solution to the problem of optimizing the structure of financial capital in conditions of a high share of debt funds is based on the selection of the minimum possible value of the weighted average cost of capital indicator.

Half of the variable part of current assets is covered by short-term loans, under these conditions, the financial risk will tend to go beyond the minimum level, therefore it is advisable not to have too many short-term loans. This strategy assumes the presence of the effect of financial leverage, which brings a high return on investment. The choice of a specific strategy is based on the priority goals of the enterprise, taking into account the characteristics of its activities and the organization of finances.

The proposed strategies for optimizing the financial support of economic activity can be combined for any enterprise in the construction industry and involve maintaining the financial risks of the organization at a stable level. It is recommended to determine the value of the acceptable risk level separately for each enterprise. These strategies involve different approaches to the formation of the volume and structure of capital, but both of them are aimed at improving performance.

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Shirinov Bashar Habib, Doctor of Philosophy in Economics, Associate Professor, Azerbaijan University of Architecture and Construction. **Strategies for optimizing risks affecting sources of financing of construction industry enterprises.**

It is impossible to improve management without studying, systematizing and generalizing the experience of developing public relations in both the economy and the construction sector. Optimization of risks affecting the financial resources of enterprises in the construction industry is carried out through early identification of risks, diversification of financial sources and flexible planning. Effective management taking into account interest rates, inflation and market changes increases the stability and financial sustainability of projects. Taking into account the above, the article considers the features of investment projects in the construction industry, classifies the risks associated with the implementation of construction projects, and also analyzes such issues as risk reduction strategies and optimization of the financial and economic activities of the enterprise.

Key words: construction, financing, strategy, comparison, assets, debt sources, planning, forecasting.

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Ширинов Башар Хабіб, доктор філософії з економіки, доцент, Азербайджанський університет архітектури та будівництва. **Стратегії оптимізації ризиків, що впливають на джерела фінансування підприємств будівельної галузі.**

У сучасному стрімко розвивається індустріальному світі будівельна галузь є одним із провідних секторів національної економіки. Це пов'язано з тим, що об'єкти нерухомості задовольняють першочергові та найнагальніші потреби населення, ринок нерухомості є однією з найприбутковіших сфер, а інвестиції у

створення та реконструкцію об'єктів нерухомості – однією з найприбутковіших та найефективніших сфер. Як наслідок, фінансування будівництва займає далеко не останнє місце в інвестиційному портфелі банків та інших фінансових установ. Найбільша можливість для інтенсивного зростання будівельної компанії виникає при виході на новий ринок, особливо при впровадженні принципово нових продуктів (наприклад, нових будівельних матеріалів чи технологій), а також при роботі «на замовлення», що є типовим. У процесі інтенсивного розвитку будівельних підприємств особливу увагу слід приділяти вдосконаленню структури капіталу з метою створення умов для підвищення ринкової вартості будівельного підприємства та підвищення його інвестиційної привабливості. Така ситуація пов'язана не лише з браком інвестицій, але й з нерозвиненістю системи стратегічного планування та управління, нездатністю правління аналізувати, прогнозувати та готувати стратегічні плани підприємства. Неможливо вдосконалити управління без вивчення, систематизації та узагальнення досвіду розвитку зв'язків з громадськістю як в економіці, так і в будівельній сфері. Оптимізація ризиків, що впливають на фінансові ресурси підприємств будівельної галузі, здійснюється шляхом раннього виявлення ризиків, диверсифікації фінансових джерел та гнучкого планування. Ефективне управління з урахуванням процентних ставок, інфляції та ринкових змін підвищує стійкість та фінансову стійкість проектів. Враховуючи вищезазначене, у статті розглянуто особливості інвестиційних проектів у будівельній галузі, класифіковано ризики, пов'язані з реалізацією будівельних проектів, а також проаналізовано такі питання, як стратегії зниження ризиків та оптимізація фінансово-господарської діяльності підприємства.

Ключові слова: будівництво, фінансування, стратегія, порівняння, активи, джерела позикових коштів, планування, прогнозування.