# Integration of Financial Risk with Efficiency Measurement: Case of Summer 2006 in Electricity Sales Business in Poland

Dariusz Michalski, Ph.D. and Marcin Wiśniowski

Enterprise Risk Management Symposium
Society of Actuaries

Chicago, IL

March 28-30, 2007



## Abstract

Decisions taken in order to achieve planned targets are always connected with risk that influences the resources of the company—both in positive and negative ways. It should be considered through a capital perspective. That is why it is necessary to state that business decisions always have a financial character, which requires burdening them with costs of risk capital connected with each decision.

Hence, forming the risk capital—the insurance surplus of capital—should support achieving the superior target of the enterprise: maximizing the long-term value of the company. This characteristic of risk implies the consequences of efficiency measurement. There is a necessity to extend the analyses of return on capital by taken risk. That is why the risk profile should be considered and budgeted in the financial planning.

Failure to take into consideration the risk in the process of management control and evaluation of management efficiency leads to inefficient resource allocation in enterprise and reduction of information utility, which is provided to the company's management. It can falsify the real picture of its financial situation. Therefore, the financial analyses should be expanded by risk capital and unrealized results (unrealized PnL) even in the companies that are active in other than financial markets. The efficiency of the risk taken should be a basis for decisions of capital allocation and activities development.

The above-presented approach should be grounds for integration of the risk management with overall economy of enterprises. It defines the target of the paper—the analysis of the influence of risk (that took place during winter and summer 2006) on economic results of utilities selling power to final customers.

The authors believe that integration of the financial sphere in enterprises with risk-controlling techniques should make the process of management and efficiency control more consistent, installing the risk awareness into overall activity of the individuals making decisions. Such a situation improves steering their behaviors in the direction of maximizing the enterprise long-term value for all stakeholders.