

BASICS FOR A GRAPHICAL MODEL OF RISK - PERFORMANCES CORRELATION

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Abstract:

A company runs a business with the goal to get a minimum level of performance. Before making an investment decision, an adequate analysis of the risk-performance correlation has to be done. In order to emphasize the connection between these two terms, in this paper, we propose a graphical model for analyzing the correlation between the size of the risk and the size of the performances. In this respect, we'll define the performance as a function of two variables: efficiency and efficacy. The risk is considered as a function of the same variables, the efficiency and the efficacy, and it comprises two components: the operational risk and the financial risk. The graphical model analyses the strategy of the company regarding the concentration of its effort on the efficiency or the efficacy and, respectively, the correlation between the performance and the risk depending on the adopted ways.

Keywords: *performances, risk, efficiency, degree of operating leverage, degree of financial leverage*

JEL codes:: *G34*