

METHODICAL APPROACH TO IMPROVING RISK MANAGEMENT SYSTEMS AT RUSSIAN ENTERPRISES

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Abstract

Risk management in Russian companies began in the mid-1990s, but was generally limited to managing individual risk groups in functional units. In the early 2000s, new stakeholder expectations with regard to risk management emerged, which served as a driver for the creation and development of specialized risk management units, as well as the development of the first regulatory and methodological documentation regulating the risk management process. However, in general, risk management is still considered as a separate process with its periodicity unrelated to the points of making managerial decisions.

Empirical analysis of risk management development in Russian enterprises was conducted in accordance with the methodology of Aon Hewitt, which showed the current economic situation makes business to consider the issue of allocation of resources through the prism of risks faced by the company even more clearly.

System analysis of existing Russian and foreign practices in the field of risk-oriented management models allowed to form a methodical approach to improving the risk management process in Russian companies by integrating risk management processes into operational, strategic and business planning processes. The results of the research are practically oriented.

Key words: risk, risk management system (RMS), empirical analysis, methodical approach

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Introduction

Today's business world is dynamic. After two years of the intertemporal period (2014-2015), a new reality for the prospects of business development in Russia is gradually emerging. Under the conditions of a shrinking market and a weak ruble, companies are forced to form and fully develop their export potential, which requires additional transformation of enterprise management. In this connection, the risk management system can become a resource of attractiveness for investors and a factor of success in foreign and domestic markets.

Risk management system is understood as a set of measures to assess the likelihood of negative factors affecting the results of activity, as well as the development of measures to counteract these factors. Possession of risk management tools gives companies an opportunity to respond adequately to threats through development and implementation of effective behavior strategies, implementation of appropriate compensating measures.

Risk management as an independent research area in the field of theoretical and practical management appeared comparatively recently. A systematic approach to risk management began to take shape in the middle of the past century. By the end of the 20th century, as a result of the evolution of decision-making, risk management was singled out as a separate area of economic science. In the mid-1990s, risk management began to take shape as a new paradigm of strategic management (Altukhova, 2016). Scientific search resulted in a new risk management model that treats risks in all business areas in an integrated manner.

The company's management, which previously considered risk management as the competence of individual separate divisions, now must move to the implementation of integrated risk management. In this connection, the purpose of this work is to develop a methodical approach to improving risk management systems at Russian enterprises in the modern conditions of a rapidly changing business environment.

1 Empirical analysis of the development of risk management at Russian enterprises

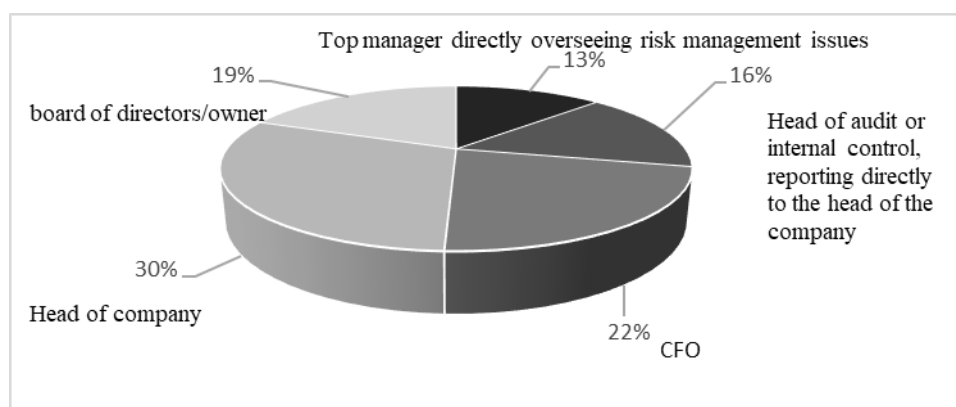
At present, there is no single universal definition of risk management. One of the common definitions is given in ISO 73:2009. According to it, risk management of an organization is a coordinated action to manage the organization taking into account the risk (Bernstein, 1996). It is necessary to note that at the present stage it is accepted to speak not simply about measures on risk management, but about creation and use of risk management systems. Modern risk management systems are complex and systemic, as they consider enterprise risks in close interconnection and take into account the possibility of their influence on each other.

In Russia, risk management has long been limited to issues of technical and industrial safety. In the period of domination of the command-administrative system, enterprises were seldom faced with the phenomena of uncertainty and risk. Supply and sales of products at fixed prices, renewal of fixed assets - all these issues were solved by line ministries. Risks in the economy were taken into account on an intuitive level (Belousova, 2010). Risk management in Russian companies began in the mid-1990s, but, as a rule, it was limited to managing separate

groups of risks. In Russia risk was seriously discussed only after the crisis of 1998, when many Russian enterprises have reconsidered their policy in the part of risks studying and management (Karelina, 2020).

The empirical analysis of risk management development at Russian enterprises at the present stage was conducted on the basis of the Magnitogorsk State Technical University named after G.I. Nosov in accordance with the Aon Hewitt methodology in 2018-2019 on the basis of interviewing 44 respondents of the largest Russian enterprises. The conducted research has shown that in most companies risk management is separated into a separate independent function. Fig. 1 shows the distribution (Karelina, 2019) of risk management reporting in Russian companies.

Fig. 1: Distribution of subordination of the structural unit responsible for risk management in Russian companies



Source: author development

The following conclusions can be drawn from the data provided: in 13% of cases, the structural unit responsible for risk management of the organization reports to the top manager directly supervising risk management issues; in 16% of cases, the head of audit or internal control reporting directly to the head of the company (general director, president, chairman of the board, etc.); in 22% of cases - the financial director; in 30% - directly reporting to the head of the company; in 19% - directly to the board of directors or the owner of the business.

Thus, risk management in most organizations is independent, falls under the responsibility of a special risk management structural unit and reports directly to the head of the company or is the responsibility of the CFO, internal audit or internal control service.

The conducted empirical analysis of risk management development in Russian companies indicated a lack of qualified risk managers. 43% of the surveyed respondents noted that in

addition to the requirement of knowledge of best practices and methods in the field of risk management the following requirements are imposed on a risk management specialist:

- knowledge and competence in the field of business process administration to identify bottlenecks in the company's operation;
- an advanced level of knowledge of methods of probability theory, mathematical statistics, economic-mathematical and econometric modeling for development of methods of quantitative evaluation of the revealed risks.

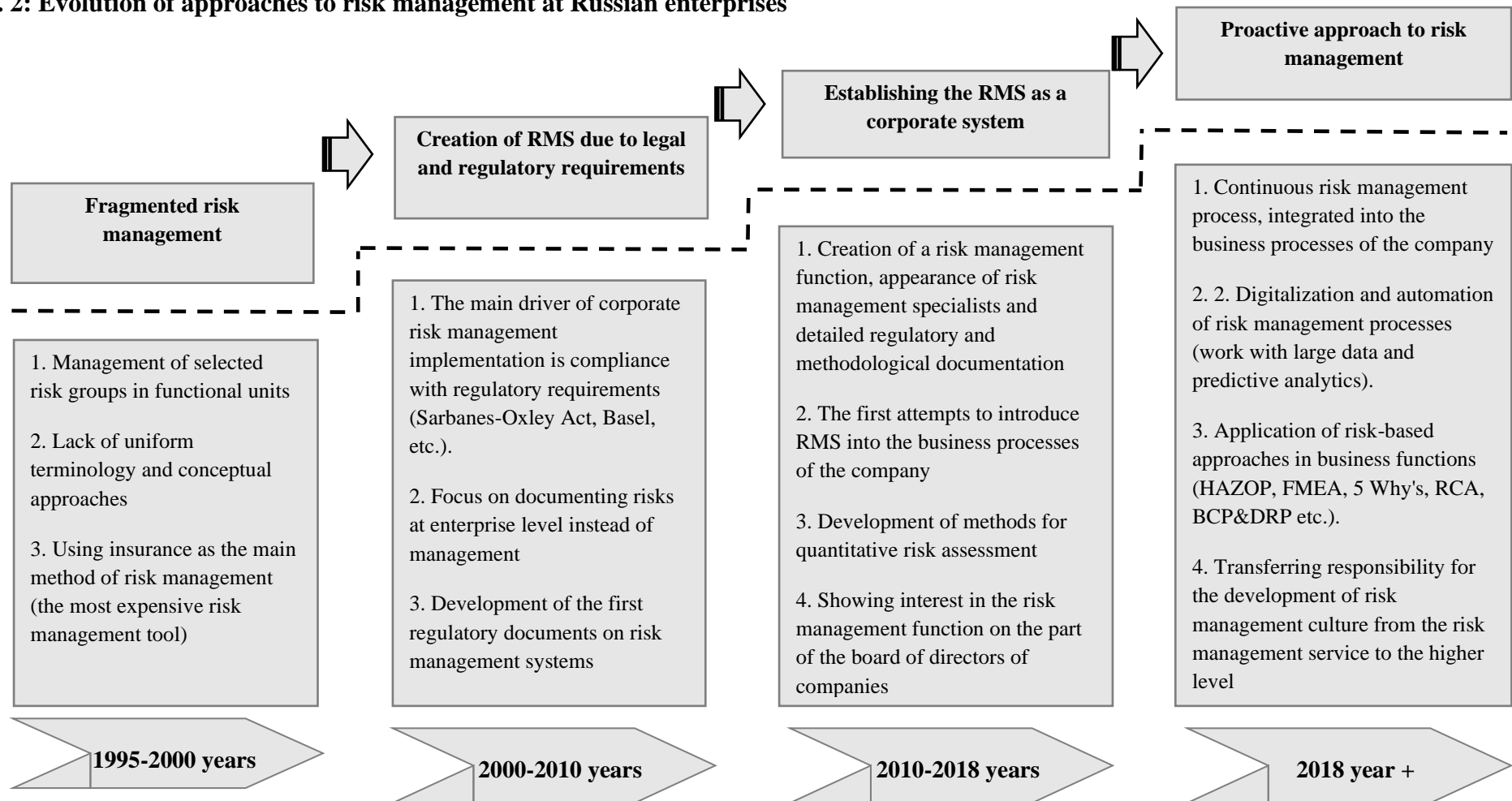
The analysis of risk management development in Russia has shown that without risk assessment at all levels of the management hierarchy; it becomes impossible to achieve the basic goals of profit extraction and company value growth. It is obvious that today there is a need for proactive risk management, which implies the improvement of risk management technologies.

2 Development of a methodical approach to improving corporate risk management in Russia

Risk management in Russian companies began in the mid-1990s. In the early 2000s, new stakeholder expectations with regard to risk management emerged, which served as a driver for the creation and development of specialized risk management units. However, in general, risk management was considered as a separate process with its periodicity unrelated to the points of making managerial decisions (Vereshchagin, 2014). Fig. 2 shows the evolution of risk management approaches in Russian companies.

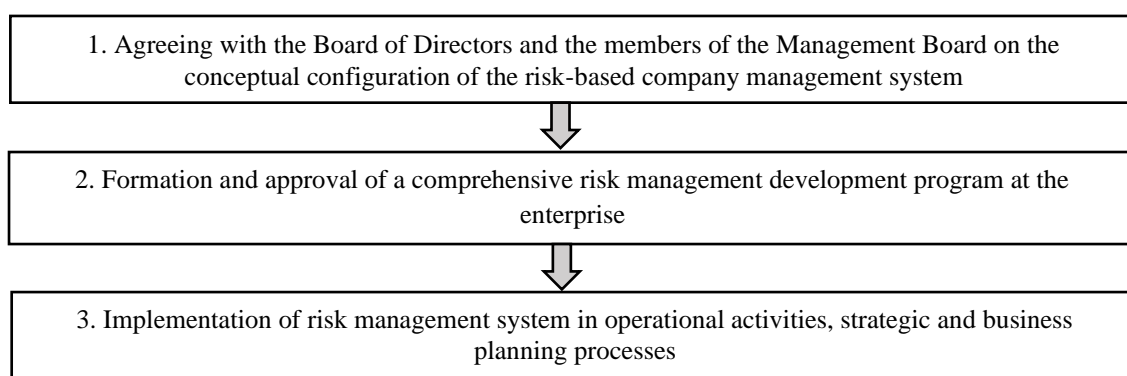
System analysis of the most widespread Russian and international standards in the field of risk management has shown that they do not contain detailed and universal recommendations on construction of risk-oriented management systems (Telenkov, 2018). At the same time, the authors of the paper believes that the ultimate goal of improving the risk management system of Russian enterprises is the integration of risk management processes and procedures into operational activities, into strategic and business planning processes. The developed methodical approach to the improvement of risk systems (Fig.3) includes the implementation of a number of stages aimed at changing the existing system of management decision making using Problem Solving and Decision Making methodology (Hruzova, 2012).

Fig. 2: Evolution of approaches to risk management at Russian enterprises



Source: author development

Fig. 3: Methodical approach to improving risk management systems



Source: author development

Let's look at each of their stages in more detail.

1. The coordination with the board of directors of *a conceptual configuration of the risk-oriented management system* assumes that at different management levels there is an introduction of various components of a risk management system that allows to transform a company management system, having adapted it to statement and acceptance of administrative decisions taking into account risk factors.

1.1. At the highest level of the company's management (Board of Directors) it is necessary:

1) develop and approve the declaration of the Board of Directors on the need to implement a risk management system;

2) develop and approve a risk management policy;

3) determine the amount of risk appetite (acceptable, preferable risk) of the company.

1.2 At the level of the executive management bodies of the company (the board, collegial bodies (committees) under the board) the emphasis should be placed on:

1) defining the roles and powers of the risk management system participants;

2) development of regulatory and methodological documents in the field of risk management system;

3) consideration of critical risks on a quarterly basis.

1.3. At the level of functional areas of the company's activity it is necessary:

1) formation of production plans and development of key performance indicators with consideration of risks;

2) allocation of investments for critical risk management measures;

3) training employees in theoretical aspects and practical skills of risk management.

2. Promotion of risk management system in the business environment of a mature company with an established organizational structure and management decision making mechanisms is a complex multi-stage process (Stark, 2018). In this regard, it is necessary to develop and approve a comprehensive program of risk management system development at the enterprise, which is a logical continuation of the conceptual configuration of risk-oriented company management system and allows:

- to form a parity between the number of necessary changes in business processes and organizational structure;
- define existing competences within the company in the field of risk management;
- to develop criteria of risk-oriented management system assessment, to proceed to the stage of risk management system implementation in the company's activity.

3. Integration of the risk management system into the processes of strategic, business planning, budgeting, as well as operational activities allows companies to move to the risk-oriented planning model. The key advantages of risk-oriented planning are the improvement of planning accuracy and assistance in balancing the planning indicators (Nilsen, 2005).

Integration of risk management into company planning processes includes:

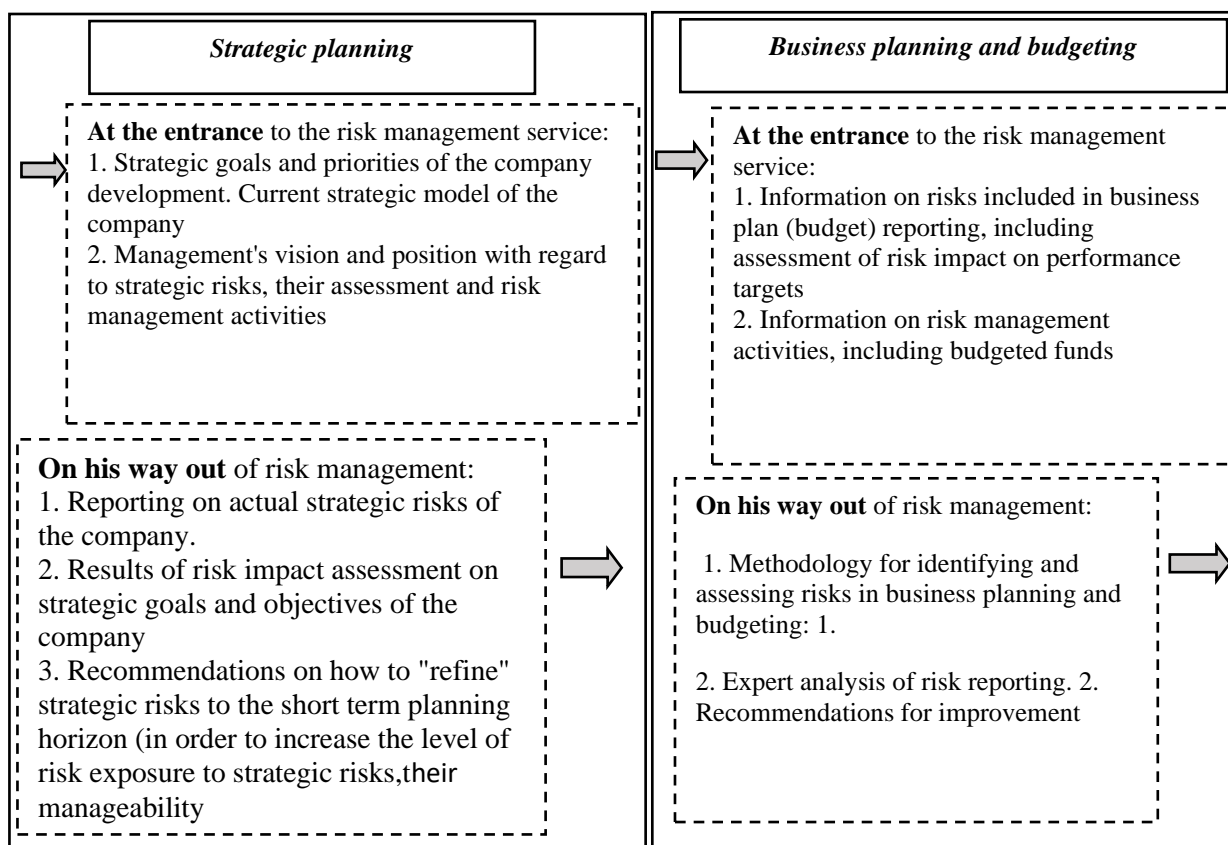
- integration of risk management methodology and processes with planning processes;
- analysis of risks in terms of their impact on the company's goals and consideration of risks in the formation of business plans;
- communication of strategic and operational planning, communication of strategic and operational risks;
- consideration of risk appetite for planning.

Figure 4 shows possible interaction of risk management system with strategic planning, as well as business planning and budgeting. Plans and forecasts should be subject to stress testing for resistance to significant risks of the company (the analysis is based on simulation technology). Stress testing through critical risks will allow analyzing the volatility of expected results for the entire value chain of the company and will give management an understanding of both current financial stability and possible scenarios of the company's development strategy implementation in general (Drobot, 2017).

When developing production plans and budgets, the company's structural units should identify and assess risks arising in the course of operational activities that may have a negative impact on both the structural unit and the company as a whole. Thus for effective management of risks a qualitatively new level of work with information which can be

provided, introducing modern technological decisions, is necessary. Gradually, the analysis of data, update of risk information should go into automatic mode, which will allow to track and have knowledge about the threats of the company in a mode close to online.

Fig. 4: Interaction of risk management system with strategic planning, business planning and budgeting



Source: author development

The developed methodological approach was tested at one of the largest metallurgical enterprises in Russia.

Conclusion

To sum up, it should be noted that in the modern Russian economy the introduction of risk management has started relatively recently, 15-20 years ago. However, this short period of time has been marked by rather severe tests for the Russian economy and has become a period of testing for many industrial and credit and financial structures. It demonstrated that risk management plays an increasingly important role in the effective development of the Russian regions' economies and is gaining reputation. In order to improve the risk image of our

country, it is necessary to consolidate the efforts of various business, government and public structures in order to create infrastructure and effective risk management tools.

The proposed methodical approach to the improvement of risk management systems, which includes a 3-stage procedure for building a risk-oriented approach to managing the company based on the integration of risk management processes and procedures in the operational activities, strategic and business planning, allows risk management from an episodic, "patchwork" business process to turn into a continuous and comprehensive process of company management. Ultimately, the growth of efficiency of financial and economic activities of Russian enterprises through the introduction of integrated risk management systems will have a significant impact on the structure and budget system of Russian regions, which will contribute to the stability and stability of development of both individual entities and the Russian economy as a whole.

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