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Enhancing the quality of risk management in a company

Mejorar la calidad de la gestión de riesgos en una empresa

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Contents

ABSTRACT:
The authors establish that improving the quality of risk management in a company is quite a lengthy and costly procedure that may require substantial material, financial, labor, and intellectual resources. It is proved that a key element in effective risk management in a company is putting in place a proper risk management program, as well as conducting monitoring and analysis of the effectiveness of the company's risk management in general. The authors prove that special attention in managing risk in a company ought to be devoted to its culture of risk management. It is established that a company's culture of risk management ought to incorporate fostering good chemistry among its top- and mid-level managers, raising awareness on issues related to professional ethics and risk taking, as well as taking account of risk in making managerial decisions.
Keywords: quality, management, risks, crisis, production, company, development

RESUMEN:
Los autores establecen que mejorar la calidad de la gestión de riesgos en una empresa es un procedimiento bastante largo y costoso que puede requerir importantes recursos materiales, financieros, laborales e intelectuales. Se ha demostrado que un elemento clave en la gestión eficaz de riesgos en una empresa es implementar un programa adecuado de gestión de riesgos, así como realizar un seguimiento y análisis de la efectividad de la gestión de riesgos de la empresa en general. Los autores demuestran que la atención especial en la gestión de riesgos en una empresa debe estar dedicada a su cultura de gestión de riesgos. Se ha establecido que la cultura de gestión de riesgos de una empresa debe incorporar el fomento de la buena química entre sus gerentes de nivel medio y alto, sensibilizando sobre temas relacionados con la ética profesional y la toma de riesgos, así como teniendo en cuenta el riesgo al tomar decisiones gerenciales.
Palabras clave: calidad, gestión, riesgos, crisis, producción, empresa, desarrollo.

1. Introduction

Right now, at a time of exacerbating recessionary phenomena, managerial activity is in need of new progressive methods and mechanisms that would help minimize the negative impact of known risk factors on companies' operation and development. At the same time, their sustainable development and effective performance have to do with the availability of a mechanism that would help ensure them protection from risks. A potential mechanism of this kind is an effective system of risk management that will be predicated on the latest methods for enhancing the quality of risk management in a company.

The degree to which risk impacts on a company's performance depends on multiple internal and external environmental factors. This is what adds more relevance to the need for specialized anti-crisis management. In other words, it is necessary to know what risk is, how to assess its levels and avoid the damage it may inflict, how to manage it, and how to put in place a system of protection from risks.

The significance of creating in a company a well-structured and independent system of risk management amid today's recessionary phenomena within the production sphere needs little to no substantiation. The lack of an effective system of risk management may eventually lead the company to face some serious trouble. A particular underestimated risk may turn into a structural risk and result in significant damage for the entire company. However, it is worth understanding that escaping risk completely within the production sphere is an impossibility, so a sensible objective in the risk management process in most companies is not to avoid risks completely but try to limit and minimize their impact.

Issues related to enhancing the quality of risk management in a company have been investigated by scholars A.A. Gilazova (Gilazova 2015), M.V. Dudinskaya (Dudinskaya 2016), M.A. Eliseeva (Eliseeva & Malovik 2016), A.N. Kletskin (Kletskin 2009), L.R. Sabir'yanova (Sabir'yanova 2011), and others. However, an analysis of scholarly works indicates that there is a need for further work in the area of developing the theoretical, research-and-methodological, and applied aspects of enhancing the quality of risk management in companies, including with respect to the nature and sources of the emergence of risks, their identification, their assessment and analysis, and implementing risk management in the company management system.

2. Methods

The study's methodological basis is grounded in the systemic approach, methods of scholarly abstraction, analysis and synthesis, the dialectical method of enquiry into economic phenomena, and certain tenets of strategic and anti-crisis management. To resolve their objectives, the authors employed the following methods: theoretical generalization, the logical method, and methods of association and analogy – to explore and summarize the methodological foundations of enhancing the quality of risk management in a company; methods of systems analysis, generalization, and comparison – to explore existing methodological techniques and methods for diagnosing risk management in a company.

The study's information basis is certain statutes, laws, and regulations, statistical materials from federal and local authorities, and research publications by domestic and foreign scholars related to issues of enhancing the quality of risk management in a company (Agamirova et al. 2017, Kolupaev et al. 2017, Zavalko et al. 2017a).

The study is focused on developing a set of techniques for managing risk and substantiating a particular risk management strategy in a company. In addition, the authors seek to substantiate a set of techniques for assessing relevant factors for risk management in a company and determine and formulate a set of key areas for the company's development in various risk conditions.

3. Results

Scientifically substantiated risk management in a company is part of its corporate strategy for development. The efficiency of its risk management depends on its policy, which makes up its ideology and serves as the ideological basis for formulating its targets. Of special significance is the development of a risk management strategy for enterprises within the nation's production sphere, the seamless operation of which forms the basis of the nation's economic security.

Based on the findings from this study, there are three major strategies for responding to the emergence of threats, or risks, capable of having a negative impact on efforts to attain the company's objectives. The fourth strategy, acceptance, can be employed with respect to both negative risks and favorable opportunities. The four strategies are avoidance, transference, mitigation, and acceptance.

Risk avoidance implies altering the company's plans in such a way as to rule out a threat completely. The company's leadership can also attempt to protect a project's objectives from the impact of risks or alter a particular objective that is being jeopardized. The most radical avoidance strategy is a total company shutdown. It is possible to avoid certain risks arising at the preproduction stage via getting relevant requirements cleared up, obtaining more information, enhancing the communication process, and/or conducting an examination.

Risk transference requires shifting all of the negative impact of a threat or its portion, as well as responsibility for responding to it, onto a third party. In transferring risk, responsibility for managing it is shifted onto another party, but the risk does not, actually, go away. Shifting responsibility for risk is the most effective solution when it comes to dealing with financial risks. Risk transference almost always implies paying a cash award to the party assuming the risk. There are various risk transference tools, including the use of insurance, contract fulfillment guarantees, and warranty liabilities.

Risk mitigation implies lowering the likelihood of a negative risky event occurring or reducing its impact to acceptable limits. Taking early measures to lower the likelihood of a risk occurring or reduce its impact turns out to be more effective than attempting to redress the damage done after the risk arises. An example of activities on mitigating risk is implementing less complex processes, carrying out a considerable number of tests, or selecting sources of resource supply that are more reliable.

If it is impossible to reduce the likelihood of risk arising, mitigating it must be aimed at the impact it has, more specifically the linkages which determine the gravity of that impact. For instance, designing redundancy in a system can help mitigate the gravity of the aftermath of a major unit's failure.

Evidence from practice indicates that one gets to resort to risk acceptance because it is often impossible to eliminate all threats in the company. Adopting this kind of strategy suggests that the management team has decided not to alter its management plan for combating risk or is unable to come up with some other relevant response strategy. This strategy can be passive or active. Passive acceptance requires no action except for documenting a strategy, with the executive having to deal with risks as they arise.

The most popular active-acceptance strategy is establishing a reserve against possible losses, including certain volumes of time, money, or resources that may be needed to remediate risk. The authors have identified three major risk management strategies: cautious, measured, and risky. Notice that each of the risk management strategies is in a close interrelationship with a set of priority techniques for managing them. Table 1 lists several groups of risks for Gazprom PJSC and illustrates a system of activities designed to help manage them, which have found reflection in a specific strategy identified.

The information provided in Table 1 is indicative of a well-defined interrelationship between the company's risk management policy and strategy. Through its risk management policy, the company can make proper decisions concerning the key processes within the corporate system of risk management, the architecture of the corporate system of risk management, the participants in the corporate system of risk management, the priority areas dealing with risk management, and its own risk retention capacity.

An analysis of the above strategies in the context of Gazprom PJSC helps infer that, for the most part, the company favors a cautious strategy that is based on diversifying risk. When armed with a well-balanced strategy, this helps anticipate risks and minimize their effects in a timely manner.

Table 1
Risk Management Policy at Gazprom PJSC

Risks	Measures	Technique	Strategy

Preventive risks			
Operational, processual	Identifying, assessing, managing, and monitoring risk as part of the company’s annual planning	Preventive risk management	Measured strategy
	Programs on reducing operating costs and boosting the efficiency of production processes	Preventive risk management	Measured strategy
	Emergency response plans	Preventive risk management	Measured strategy
	Insurance	Risk insurance	Risky strategy
Strategic risks			
Financial, currency	Limiting counterparty non-payment	Risk avoidance	Cautious strategy
	Assessing the risks of investment projects	Preventive risk management	Measured strategy
	Partial capitalization	Offsetting risk	Cautious strategy
	Maximizing the number of fixed-price contracts	Offsetting risk	Cautious strategy
	Asset impairment provisioning	Offsetting risk	Cautious strategy
	Diversifying the company’s sources and currency of proceeds	Risk diversification	Measured strategy
	Managing the loan portfolio	Risk acceptance	Risky strategy
Regulatory	Monitoring the company’s risk appetite	Preventive risk management	Measured strategy
	Having in place a proper risk response system	Preventive risk management	Measured strategy
	Running company subdivisions	Risk acceptance	Risky strategy
Environmental	Activities aimed at reducing environmental risk appetite	Risk avoidance	Measured strategy
Information	Running a centralized infrastructure management and service system	Preventive risk management	Measured strategy
Reputational	External and internal publicity	Risk	Measured

		diversification	strategy
	Information security management	Risk acceptance	Risky strategy
	Adopting a corporate governance code	Preventive risk management	Measured strategy
External risks			
Market	Changing the company's sales structure	Risk diversification	Measured strategy
	Expanding the company's markets	Risk diversification	Measured strategy

The proposed approach is grounded in five major elements, which are aligned with the strategic, tactical, and operational levels: the plan, the principle, the prospect, the technique, and the position. Each element is represented by relevant positions which perform various tasks as part of risk management. This strategic approach is aimed at enhancing the quality of risk management in the company.

After analyzing existing approaches, the authors came to the conclusion that they share a common trend on risk management – the choice of a cautious strategy that is based on implementing techniques of risk diversification. In totality, the choice of this kind of strategy helps anticipate risks associated with relevant goals and objectives and distribute them among all participants. This helps assign a certain sphere of responsibility to each participant and determine their willingness to take on a risk.

In developing and implementing a risk management strategy, a crucial link is organizing routine procedures. Routine procedures cover the selection and formulation of a strategy's objectives and determination of its principles and assessment criteria. These elements make up the basis of the strategic concept of risk management which determines the contours of basic business processes dealing with the functional load in strategic management. Further, a risk management strategy is in a close interrelationship with a set of priority techniques for managing risk and sources of funding.

Evidence from practice indicates that, in selecting a particular source of funding, it helps to factor in the strengths and weaknesses of each of them, as well as take account of risks that can arise if a specific source of funding is selected. As part of this study, the authors have identified a set of key techniques for managing risk management that would work for production companies, which are as follows:

1) the risk acceptance technique – considering that there are uncontrollable and remote risks which cannot be avoided, it may help to develop a set of activities aimed at minimizing their effects;

2) the risk diversification technique – implies the development of a set of activities related to risk management, including distributing risks among the participants by way of contracts. A portion of responsibility for risk is taken on by the company, and a portion of it is transferred onto insurance firms or general reserve funds;

3) the risk insurance technique – implies the complete transfer of responsibility for taking a risk onto others, mainly insurance companies.

Each technique can be represented by a set of preventive risk management activities both of a technical nature and of an organizational one, with the latter divided into financial and non-financial ones. It is worth noting that risks like political, currency, and market ones are external risks and are regarded as uncontrollable risks, so activity on managing them must be undertaken at the government level. The third technique for managing risk implies not only shifting responsibility for risk onto other participants but undertaking activity on minimizing these consequences as well.

4. Discussion

The reliability of the examined approaches to boosting the quality of risk management in a company is substantiated by that the system of risk management fashions the company's organizational infrastructure of risk management and ensures a set of key tenets and instructions associated with this activity (Cherkasov et al. 2017, Kosevich et al. 2016, Zavalko et al. 2017b, Zhukovskiy et al. 2014). The purpose of the system of enhancing the quality of risk management in a company is to develop a set of key principles related to risk management.

Therefore, there is a need to come up with a scenario of actions for each individual process that a risk manager is going to follow. In executing a business process, the risk manager must be empowered to adjust a scenario in accordance with changes in the external and internal context of the process.

Further, risk management integrated into the company management system may need to meet the following characteristics: employ a systemic approach to managing risk that implies the system's integrity and complexity and its ability to integrate new elements; be integrated with the risk management of each participant engaged in implementing the project, i.e. be aligned with strategies related to fostering the company's economic security; be aligned with the company's goals and objectives, which will govern the specialized nature of decision making in the company; focus attention on risky situations affecting the company's financial sustainability; be oriented toward support for other business processes.

Evidence from practice indicates that enhancing the quality of risk management in a company helps anticipate the emergence of a risk situation and boost the effectiveness of the production process. Further, the systemic approach makes it possible to decide on a risk management system and processes with respect to which risk management is integrated. The processual approach to managing risk helps aim a new business process at supporting the company's auxiliary and main processes.

In addition, the situational approach determines a set of processes as carriers of risk situations in connection with which there operates integrated risk management aimed at the attainment of the company's objectives. In addition, designing risk management in a company requires joining up the systemic, processual, and situational approaches so as to visualize the contour of management through the lens of the process's principal stages.

5. Conclusion

To sum up, enhancing the quality of risk management in a company is quite a lengthy and costly procedure that may require substantial material, financial, labor, and intellectual resources. In this context, there naturally arises the issue of effective risk management, which is known to govern increases or decreases in the need for resources without corresponding changes in cost and revenue and increases and decreases in appetite for risk.

The key elements in effective risk management include developing the company's policy which will govern its risk management principles and procedures; putting in place a proper organizational infrastructure; developing the company's risk management program; conducting monitoring and analysis of the effectiveness of the company's risk management in general.

Special attention in managing risk in a company ought to be devoted to its culture of risk management, which is a system of values and modes of behavior that governs the essence and form of decisions made in the sphere of risk management. A company's culture of risk management ought to incorporate fostering good relations among its top- and mid-level managers, raising awareness on issues related to professional ethics and risk taking, providing inducements to staff to act in accordance with the company's established rules, taking account of risk in making managerial decisions, and taking account of the effect of the company's existing culture of risk management on its relations with its partners.

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