

# Features of Formation and Development of Possessory Risk Management Systems of Organization in the Russian Economy

Mikhail V. Khachatryan, Inga A. Koryagina, Maria Nikishova

**Abstract**—The study investigates the impact of the ongoing financial crisis, started in the 2<sup>nd</sup> half of 2014, on marketing budgets spent by Fast-moving consumer goods companies. In these conditions, special importance is given to efficient possessory risk management systems. The main objective for establishing and developing possessory risk management systems for FMCG companies in a crisis is to analyze the data relating to the external environment and consumer behavior in a crisis. Another important objective for possessory risk management systems of FMCG companies is to develop measures and mechanisms to maintain and stimulate sales. In this regard, analysis of risks and threats which consumers define as the main reasons affecting their level of consumption become important. It is obvious that in crisis conditions the effective risk management systems responsible for development and implementation of strategies for consumer demand stimulation, as well as the identification, analysis, assessment and management of other types of risks of economic security will be the key to sustainability of a company. In terms of financial and economic crisis, the problem of forming and developing possessory risk management systems becomes critical not only in the context of management models of FMCG companies, but for all the companies operating in other sectors of the Russian economy. This study attempts to analyze the specifics of formation and development of company possessory risk management systems. In the modern economy, special importance among all the types of owner's risks has the risk of reduction in consumer activity. This type of risk is common not only for the consumer goods trade. Study of consumer activity decline is especially important for Russia due to domestic market of consumer goods being still in the development stage, despite its significant growth. In this regard, it is especially important to form and develop possessory risk management systems for FMCG companies. The authors offer their own interpretation of the process of forming and developing possessory risk management systems within owner's management models of FMCG companies as well as in Russian economy in general. Proposed methods and mechanisms of problem analysis of formation and development of possessory risk management systems in FMCG companies and the results received can be helpful for researchers interested in problems of consumer goods market development in Russia and overseas.

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**Keywords**—FMCG companies, marketing budget, risk management, owner, Russian economy, organization, formation, development, system.

## I. INTRODUCTION

THE financial crisis began in Russia in the 2<sup>nd</sup> half of 2014, after the collapse of the Russian ruble. This collapse was triggered by the fall of oil prices, the major export article for Russia, and international economic sanctions imposed against Russia. The crisis has affected the Russian economy as a whole, as well as all consumers, companies and marketing budgets. In the conditions of economic instability, it becomes crucial to have effective mechanisms for identification, analysis, assessment and management of all kinds of risks and threats within owner's management models of FMCS companies. Furthermore, the main emphasis in the process of functioning of such systems within possessory management models of FMCG companies should be placed on the analysis of consumer demand and the main types of risks and threats of the external environment affecting this demand level. It should be noted that consumer demand and consumer behavior in modern conditions depends on many factors, the most important include:

- product price vs. quality ratio;
- availability of substitute goods;
- availability of complimenting products and services; and
- reputation of the manufacturing company.

It is obvious that without high-quality and comprehensive analysis of multiple factors affecting consumer behavior, it is impossible to provide a company's sustainable development and stable sales levels. It is also important to emphasize that these factors are common not only for the consumer goods and services sector. Similar problems in crisis conditions are observed in other sectors of the Russian economy. In the process of analyzing risks and threats, special attention must be paid not only to the external factors determining consumer demand and consumption levels of the company's production, but also to the factors of the internal environment of the organization. Thus, it can be concluded that without an effective system of identification, analysis, assessment and management of all types of risks of external and internal environment of the organization, the transition from stagnation to sustained growth in both: FMCG sector and in Russian economy in general, will be impossible.

## II. CONCEPT DEVELOPMENT

Owners and managers of any organization in all kinds of markets focus on improving management models and increasing a company's value and risks reduction.

Modern management models should be built on the basis of process-project approach, which allows to improve existing business processes, and to implement new ones according to the goals of individual clients within the framework of separate business projects [3].

Possessory risk management is based on establishing an effective mechanism for their identification, analysis, assessment and management, namely, on building an adequate owner's risks management system.

Risk management is an important concept related to ensuring the economic security and financial stability of the organization and its analysis and risk assessment are integral parts of the program of its strategic development.

The strategy of the organization's risk management implies that all possible risks must be identified, assessed, controlled and managed and it means that risk levels will be maintained within the limits set by owners and managers of companies.

Risk management is the process of identifying, analyzing, and responding to all types of risks faced by the organizations. The costs of system implementation depend on the methods used to manage unexpected events [4].

The process of possessory risk management must be constant, and the results should be reflected in the management decisions aimed at risk reduction or elimination, which may affect the ability to achieve the goals of the organization. The purpose of the possessory risk management system is to optimize the possibilities of interaction of the organization with risk factors to prevent losses and to analyze threats and opportunities which accompany a risk event.

Risk accompanies any human and company activity. It is important to note that some of new types of risk arise against the will of owners or managers; they are an integral part of the environment in which an organization operates, but on the other hand, a significant part of the risks result from the activities of the organization.

The word "risk" origin from the Italian word "risicare", which means "determination". Thus, risk is a choice, not fate [1]. This definition means that risk is not a predefined event, but any actions of a person or an organization are accompanied by one or other risks; this must be kept in mind in order to control those risks and to use the opportunities created by them.

Nowadays in management science there is no single definition of the "risk" concept. However, in this work, the authors try to distinguish several definitions that reflect its essence most fully:

- A risk is a possibility to obtain favorable or unfavorable results of the actions taken with probabilistic nature.
- A risk is a potentially possible event, implementation of which can lead to some losses.
- A risk is threat that an event or an action will have a negative impact on the ability of an organization to achieve its goals [2].

Economics and management describe the term "risk" as losses caused by improper structure of economic activities [1].

Analysis of the above mentioned definitions allows drawing the following conclusions:

1. Some of these definitions describe risk as a probability of a favorable or an adverse event, other definitions are more comprehensive, as they include a probability of a risk and negative or positive consequences of a risk event.
2. In a definition of the risk concept, some experts equate risk and threat. It is important to specify that a threat has a low probability, but high negative consequences, since its probability is difficult to assess. A risk is an event with a high probability of occurrence but with insufficient information to assess the likelihood and consequences of its occurrence [5].
3. Some concepts of risk focus only on the negative consequences of a risk event, while others take into account all the variables of risk - threats as well as the opportunities [6].
4. Most of the definitions focus on likelihood of achieving an expected result of an action under the influence of random factors which accompany it in all stages of the implementation regardless of an area of an organization.

In conclusion, a risk can be defined as a problem (situation, event) which has not occurred yet, but may occur in the future, impeding achievement of agreed results. Thus, risk is the uncertainty of obtaining the expected results and should be considered as a combination of probability of occurrence and severity of consequences.

The risk management strategy for a company implies that all possible risks must be identified, assessed, controlled and managed, which means that risk levels will be maintained within the limits set by company owners and management.

Key type of possessory risks for FMCG companies is a fluctuation in consumer demand and consumer activity. In this regard, it is obvious that the task for the possessory risk management system of FMCG companies on one side is to build an effective mechanism for analysis of consumer preferences and external factors affecting their change, and on another side – to develop a set of measures for assessment of internal capabilities of an organization to form the customers' needs and their subsequent satisfaction.

This article will be mostly devoted to the analysis of the main consumer behavior trends in Russia, related risks and threats to economic security of FMCG companies and formulation of the directions to perfect the possessory risk management system of FCMG companies.

## III. RESEARCH METHODS

As a method of study, the authors used the means of statistical data analysis of Russian and foreign agencies, devoted to the state of the consumer market of Russia. Also materials of reports of 20 of the largest FMCG companies of Russia were used as a data source for analysis.

As the main methodological tools, the following methods were used: comparative method, methods of deduction and induction, a method of analogies and other methods. The use

of these methods allowed reaching conclusions about the main trends of consumer behavior, to identify and analyze the main risks and threats to economic security of FMCG companies associated with these trends, and to offer basic directions to perfect the possessory risk management of FMCG companies in conditions of economic instability.

The main condition for effectiveness of a possessory risk management system of FMCG companies in modern conditions is presence of adequate management structure to cope with key challenges and threats. Implementation and development of such management structure, according to authors' opinion, should enhance stability of the possessory management model of FMCG company, and consequently, improve quality of identification, analysis, assessment and management of key types of risks involved in activities of such organizations.

The main requirements which must be submitted to an emerging management structure are:

1. Ability to reflect on the content of organization activities, basic controls, objectives, methods, principles, functions, and stages of adoption and implementation of decisions.
2. Flexibility – ability to respond to changes of socio-economic and organizational-technical conditions.
3. Minimum levels of hierarchy.
4. Minimum time for decision-making flow, and flow of orders from superiors to direct executors.
5. Organizational structure should ensure efficient distribution of functions among departments – units, to avoid duplication of functions at different levels, to assume needs and the possibility of its continuous improvement.
6. Relatively equal load on each unit of the management structure, connection between separate parts and levels, which should be linked by common goals, and the solution to certain problems and tasks.

Based on the logic of application of the above mentioned research methods, the authors came to the conclusion that the key task for the development of a possessory risk management system in all areas of the Russian economy is not only to analyze and prevent potential threats for organization functioning, but also to form mechanisms to reduce uncertainty in the external and internal environment of the organization. Another challenge for the development of a possessory risk management system is to increase the efficiency of formation and development of management architecture and the responsibility of top managers for the results of their activities. This aspect of possessory risks must be considered in terms of separation of processes of activities of an owner and a proprietor of a business.

#### IV. RESULTS OF THE RESEARCH

One of the key types of risks faced by companies manufacturing FMCG goods is a decrease in demand. During a crisis people become more aware of the necessity to save and become more pragmatic in taking decisions on buying and expenses, partially or completely abandoning some FMCG and durable goods, many people change their consumer

behavior. One of the key tasks for the majority of FMCG companies is to remain, and for some, even to increase market share, also with the help of marketing. During the crisis, average revenues are decreased significantly in the food retail sector, while the decrease in the FMCG sector is not as significant.

Data on the percentage of these indicators are shown in Fig. 1.

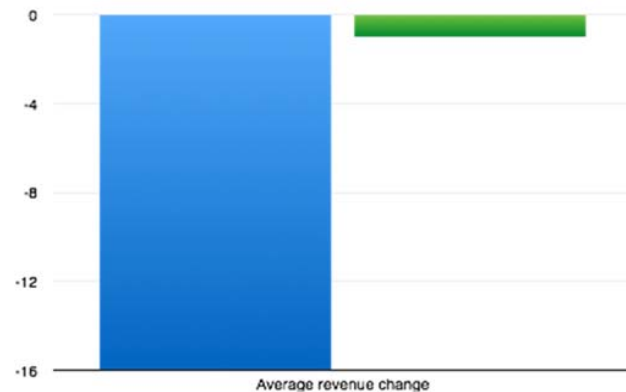


Fig. 1 Average revenue change reported by respondents, % [7]

One of the key factors that led to the increase in the level of this risk was a sharp decline in the income of the population over the past two years (Fig. 2).

Period	Real incomes dynamics (% to the same period of the last year)
Q1 2014	97,2
Q1 2015	97,7
Q1 2016	96,3

Fig. 2 Real income of Russian consumers [10]

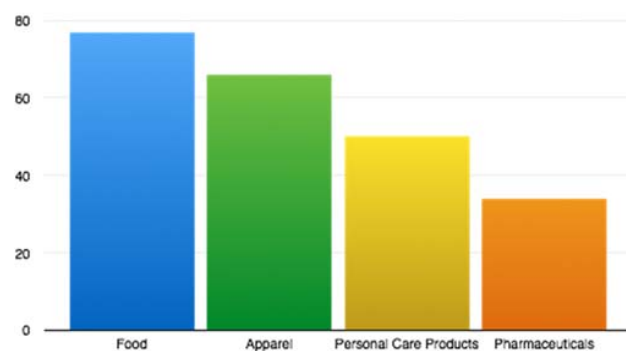


Fig. 3 Share of respondents who changed their consumption patterns and behavior in each category during 2015, % [7]

The obvious consequence of the income reduction of the population caused dramatic changes in consumer behavior: some are forced to buy less, some are forced to buy cheaper goods, and part of the population began to buy goods at stocks and discounts, and some buy products in cheaper stores. And

this trend may continue, according to the executives surveyed in 40 companies in the PWC study (Fig. 3).

From the above statistical data, the authors concluded that the trends that emerged under the influence of the crisis phenomena would have a lasting effect on consumer behavior, as confirmed by the statistical studies conducted by PWC (Fig. 4), and therefore, the systems of risk management of FCMG companies should be adapted to the newly established market conditions.

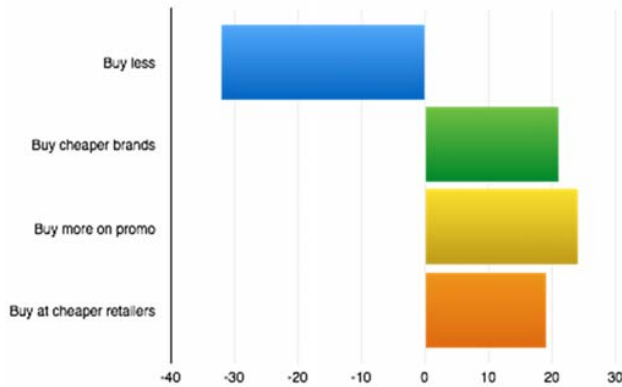


Fig. 4 Habits adopted during the crisis will continue even after it is over [7]

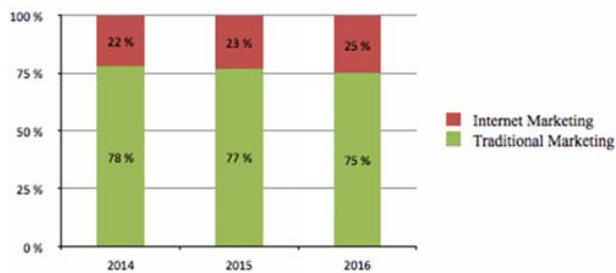


Fig. 5 The allocation of marketing budgets in 2014-2016, %\*0.001 [9]

It is quite obvious that most FMCG companies operating in the Russian market hold a different point of view and rely on increasing their marketing activity. Thus, in the period from 2014 to 2016, major players of the FCMG market spent on average 10% of their total annual income on marketing activities. The bulk of these expenses still fall on traditional marketing methods and tools, but the share of expenses on Internet marketing is gradually increasing, and in 2016 reached 25% of total annual income (Fig. 5). Thus, we can conclude that FMCG companies in Russia chose methods of marketing and promotion as the main tool to maintain the risk of a decrease in consumer activity. As a result, in terms of a financial and economic crisis, the size of the marketing budgets of the surveyed companies had no significant reduction, however, there have been some changes in the structures of these budgets; for example, the cost of Internet marketing over the last two years has increased. This trend suggests that the risk management systems of Russian FMCG companies still use time-tested tools, but at the same time,

more attention is paid to finding innovative ways to reduce and eliminate risks.

Speaking about the changes in the structure of marketing budgets as a consequence of the tools transformation of the possessory risk management of FMCG companies, it should be noted that despite some increase in spending on Internet marketing, spending on traditional mechanisms of consumer stimulation also remain relevant as effective tools. The share of TV advertising in marketing budgets in the first quarter of 2016 increased to 16%, which is, according to the authors, significant growth, considering that over the same period in 2015, the expenditure on TV advertising in the structure of marketing budgets of FMCG companies decreased by 22%. The share of outdoor advertising in the first quarter of 2016 increased by 8%, which can also be recognized as significant growth, while for the first quarter of 2015, the share of this type of marketing activity decreased by 24%. The costs of radio and print media in the structure of the marketing budgets of FMCG companies continues to decline, which indicates the reduction of the significance and impact of these instruments on consumer behavior (Fig. 6).

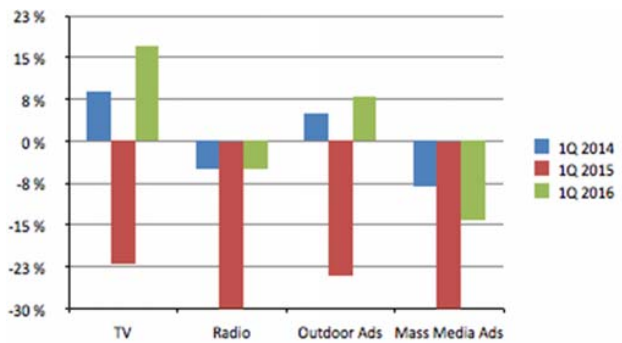


Fig. 6 Advertising Expenditure Variations in 2014-2016 [9]

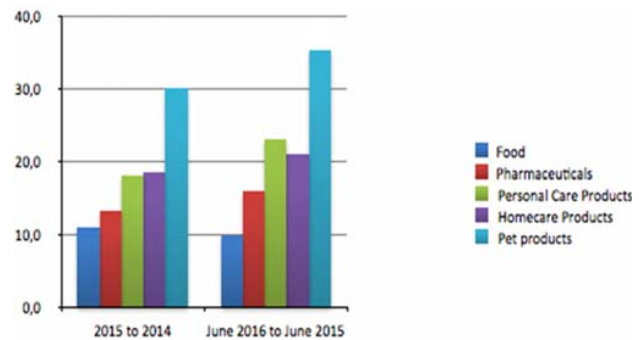


Fig. 7 Sales growth in main retail industries in Russia in 2014-2015 [8]

It is important to note that despite an increased risk of a decrease in consumer activity and, consequently, the need to reconfigure the systems managing this type of risk, the majority of Russian FMCG companies, except for companies operating the food production sector, showed sales growth during 2014-2015. The maximum rate of sales growth out of the five major categories of FMCG companies was

demonstrated by companies engaged in the manufacture and sale of pet care products (Fig. 7).

## V. CONCLUSION

The results obtained in the course of the study mostly indicate that the possessory risk management systems of FMCG companies are only in their infancy, and despite the obvious achievements, cannot effectively identify, analyze, assess and manage the risks that accompany activity in the trade sector as well as the Russian economy in general.

It is also important to note that the processes of formation of a possessory risk management system of Russian companies is complicated not only because of the lack of government support, but also because of the lack of interaction processes between commercial organizations and research centers involved in research in the field of risk management. External political and economic factors have an influence on the formation of a possessory risk management system in Russia both, at the level of private organizations and at the state level.

As noted above, external factors have had a significant impact on the fluctuation of sales levels of Russian FMCG companies, 28% of the managers of these companies believe that sales in the FMCG sector declined due to the sanctions and the economic situation in general, while 20% said that the main reasons for the decline in sales was the result of domestic difficulties and other problems (Fig. 8).

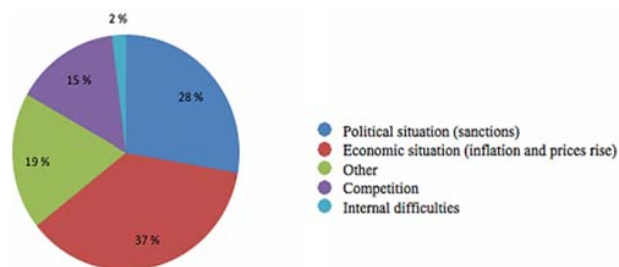


Fig. 8 Influence of Different Factors on Sales (figure produced based on authors' research of 20 large-cap and middle-cap FMCG companies based in Russia)

In conclusion, it should be emphasized that the formation and development of the possessory risk management systems of an organization is important, not only for the FMCG sector. The creation and development of a risk management complex in modern conditions is a key factor for stable operation of organizations of all economic sectors. The presence of possessory risk management systems in business projects architecture can not only extend the relationship between an owner and management system of an organization, but can also create conditions for the expansion of audit tools of an organization as well as for the economic sector in which it operates. In the conditions of economic instability, the formation of such a possessory risk management system at the government level, as well as at the level of private organizations, can become the most effective tool for the management of limited resources. Such resources for owners

are the key element in providing sustainability in an organization. Any ambitious project without sufficient resources, or with a mistake in determining the necessary amount of resources, can lead to serious problems. In this matter, a possessory risk management system obtains a strategic and targeted character and at the same time, allowing not only to monitor risks effectively and form a strategy for their management, but also to focus the activities of possessory management models on the most significant risks. The authors believe that in this combination the operation of possessory risk management systems may be fundamental for the development of new approaches for regulation and risk management, and in particular, by deepening cooperation between regulating and the regulated subsystems of an organization. However, it should be noted that such development of possessory risk management systems will be based on the recognition that errors and failures are possible in any models, even the most complex ones, characterized by the most competent and effective mechanism of control by an owner.

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