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## **RISK MANAGEMENT AND TRANSPORT COMPANIES**

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**Key words:** risk, risk factors, risk analysis, risk management, transport company.

**Summary:** *In the financial crisis and economic recession environment, the managements of transport companies are increasingly concerned about risks and their management that is recognized as an integral part of sound management. The paper is dealing with risks and their management in transport company that requires a broader approach as a consequence of risk diversity.*

### **INTRODUCTION**

Transport, analogous to other business activities, is impacted by the great changes in business environment that were brought especially by globalization, rapid development and use of the information and communication technologies, accession of the Slovak Republic to the world economic structures and EU. These circumstances offer to the transport companies a lot of challenges and opportunities for their next growth and development but at the same time they are source of new and complicated situations that the companies' managements have to solve almost every day.

### **THE CHANGES IN BUSINESS ENVIRONMENT AND BUSINESS RISKS**

At present, not only the changes brought by the third millennium and important events in the life of our country, but especially the actual financial crisis and economic recession force the managers in all companies to evaluate their managerial activities especially from the view of the risks accompanying them continually almost in all their activities. While several years ago risk was rarely talked about, today risk and its management have come to the forefront of the agenda, topic number one within the whole global business environment.

Risk, as one of the main aspects of the managerial work, is rarely managed correctly. The prejudice that risk analysis and management is domain of especially great companies that can afford to pay the specialists is still persisting. Risk is inescapable in business activities and especially small and middle transport companies, in respect of their weaker capital ratio, can neglected risk factors feel more severe than companies in other fields of business.

As the example we can indicate e.g. air company Sky Europe that suffered a loss in consequence of strategically mismanagement and missing risk management.

Transport is an essential component of the European economy. The transport industry at large accounts for about 7% of GDP and for over 5% of total employment in the EU of which 4.4% corresponding to transport services and the rest to transport equipment manufacturing, while 8.9 million jobs correspond to transport services and 3 million to transport equipment [1]. This data does not include transport carried out on own account

Over the last period, customer orientation as the awareness of the customer's needs, get to the forefront in transport companies business. Immaterial service as the result product of the transport together with customer orientation should be considered in the strategic risk management, especially within selection of suitable methods and systems for management supporting. The objectives of the strategic risk management have to be in accordance with the business objectives of transport companies. The task of the strategic management in transport companies is to sustain or obtain strategic competitive advantage, to define and in certain time achieve real long-term objectives. The objective is to reduce the risk of possible failure and get the organization to the situation when it is able to foresee the changes, reply upon them, activate the changes and use them in own benefit [4,5].

Risk is still evoking especially negative feelings in human mind. People perceive it mostly as danger, stress, and possible loss. In business environment the risk should be seen in its larger sense, encompassing both upside and downside consequences. But it is important to have the risks under the control and remember that the risk is never static, it is in a constant state of evolution. Empirism and intuition in managerial work with risk are not sufficient.

## RISK MANAGEMENT IN TRANSPORT COMPANY

Business risk management in modern understanding means systematic and coordinated way of work with risk and uncertainty effected within the whole company and involving all types of risks. Single components of risk management are shown in Figure 1. Components two, three and four are summararily indicated as risk analysis. The whole process has cyclic character and should be a continuous and developing process. [2].

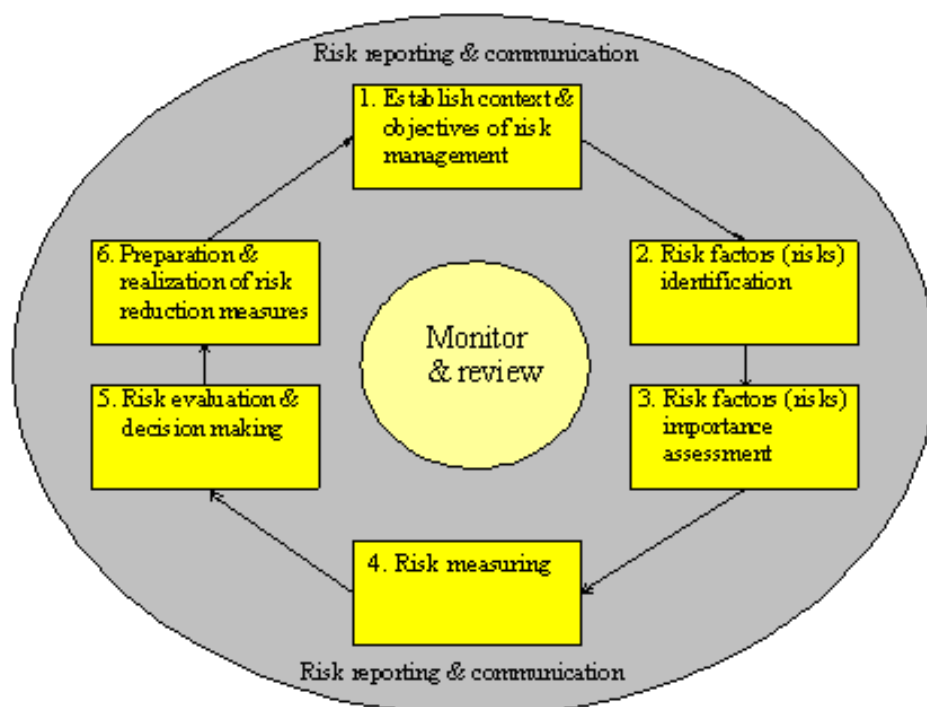


Figure 1. Components of risk management in transport company

Risk reporting & communication and monitor & review are also the components of the risk management.

**Risk reporting & communication** is responsible for preparation of reports for internal (e.g. Board of Directors, Advisory Committee,) and external users (e.g. banks), too.

**Monitor & review** is concentrated on keeping or enhancing risk management system in dependence on changing conditions or possible changes of company strategic objectives including risk management objectives.

The task of the initial phase of the risk management - **Establishing the context & objectives of risk management** includes especially:

- specification of the internal and external environment in which the company is acting, setting the risk management objectives in line with the company strategic objectives,
- setting the risk capacity – a level of the greatest amount of the loss the company is able to survive in dependence on size and structure of its capital and ability to obtain other sources of financing,
- setting the risk appetite – a risk level respectable for company within its risk capacity in dependence of management attitude to risk and stakeholders requirements and expectations.

**Risk factors (risks) identification** is focused on recognition of all potential risk factors that could, due to their future development, influence the transport company economic results not only negatively but also positively. Risk identification requires experience, orderliness, creative approach and team work [3]. It is based on use of knowledge, experiences and intuition of the employees who participate in realization and management of company activities (identification of internal risks) and also carry out careful monitoring of business environment (external risk identification).

A large number of techniques exist for risk identification, such as checklists and prompt lists, brainstorming, structured interviews, causal analysis, cognitive mapping, Delphi groups and various diagramming approaches. There is no single “best method” for risk identification, and an appropriate combination of techniques should be used.

It is evident that great numbers of identified risk factors (usually tithes) could cause problems in further stages of risk management. Therefore it is necessary to consider the importance of these factors and work in next steps only with the most important factors. Risk factors importance can be assessed e.g. by expert evaluation or by sensitivity analysis.

At present risk measuring is based to a great extent on using mathematic-statistical methods with use of calculus of probabilities that in comparison with simple deterministic models provide better information support for decision making processes.

Risk evaluation should lead to the conclusion about acceptability or unacceptability of certain risk and influence forthcoming preparation, selection and realization of the risk counter measures or avoid new activities connected with respective risk. In decision making process, the managers can use various approaches considering risks and evaluation criterion. Manager attitude toward risk plays an important role in his decision making process. Expressive aversion towards risk is often connected with opportunities rejection, avoidance to innovations and so it is not presupposition for successful management work.

Activities oriented to risk reduction are usually divided into two basic groups:

- strategies aimed at effect on risk generation reasons to prevent unfavorable situation occurrence in the future or to reduce the probability of such situations formation. These approaches present preventive measures and usually are indicated as offensive strategies,
- strategies aimed to reduce adverse impacts of risk situations on certain economically acceptable level of risk consequences. These approaches present corrective measures and usually are indicated as defensive strategies.

Both groups of measures should be realized in time, so before a risk situation occurrence. Generally they are connected with certain expenditure, so the risk reduction and higher security cannot be achieved free of charge. In some cases these measures can start so called secondary risks that require adequate and prompt response.

## CONCLUSION

Transport companies now operate in environment with high degree of uncertainty and are exposed to various risks. It is not possible to define some stable and exact process and exact solution that would guarantee risk elimination or successful crisis encompassment. Risk management as well as solving each crisis situation has individual and specific character, they are connected with various circumstances, performed in different conditions and accompanied by different events. Encompassment of each crisis situation requires great practical experience and professional knowledge in various fields. At present, risk elimination and solving crisis situations is understood as the top of managerial wisdom and the most demanding manager task.

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