Economic Analysis Positioning of Risks at the Stages of Company Development

Albina Dzhavdatovna Khairullina* and Anastasiya Alexandrovna Skutelnik

Department of General Management, Institute of Management, Economics and Finance Kazan Federal University, Kazan Federal University, Kazan, Russia

Abstract: The purpose of the article is economic analysis and compare the organization's risks to the stages of the life cycle according to I. K. Adizes. This paper uses risk classifications of V. S. Romanov and Microsoft. Based on the description of each stage of the organization's development, an attempt is made to systematize risks at each stage of the company's life cycle according to the model of Yitzhak Adizes. In addition, risk maps have been drawn up for the company's development stages. The authors of the article argue the need for this research by the fact that at the moment risk management in companies occurs without taking into account the life cycle, respectively, those groups of risks that are characteristic of the stage of development of the company are overlooked. This is why life-cycle risk management is necessary: companies will have a list of risks that are specific to the stage of development of the organization.

Keywords: Risk-management, life cycle of the company, risk map, risks of the organization's activities.

INTRODUCTION

In today's rapidly changing environment, the problem of survival of organizations is particularly acute. Many enterprises are not able to adapt quickly to external changes, especially for young companies. For example, in the Russian Federation, 90% of newly opened companies stop their activities in the first year of their existence (Federal state statistics service. Small and medium-sized businesses in Russia). However, the activities of large companies are no exception. This is confirmed by the American Fortune 500 rating (Fortune Global 500 List 2018), according to which about 40% of the companies that led the rating in 2005 do not exist today. Statistics speak for themselves, which is why the desire to prevent the decline of the enterprise, as well as to find ways to preserve it, determines the importance of studying such a concept as the life cycle of an organization (Shirokova and Kozyreva 2006; Araz, Choi, Olson and Salman 2020).

For example, the research and consulting company Gartner believes that situational decision-making is not enough in the context of a pandemic, and many companies have faced this problem. At the same time, according to the same study, in those companies where the entire risk management process is described, the damage from the prevailing conditions is minimal (Bolshov and Khairullina 2018). The research company explains this by saying that each organization should have a list of risks that affect its activities.

In this regard, there are some works that project risks investigated. Muehlen and Ting-YiHo provide an overview of risks associated with BPM projects along with the phases of the BPM lifecycle. After a classification of the risks identified with individual lifecycle phases and transitions, four strategies to deal with these risks discussed: avoidance, mitigation, transfer, and acceptance (Muehlen and Ting-YiHo 2006; Karami, Samimi, and Ja'fari 2020). Also in the year of 2013, the reasons of that some organizations are more successful in detecting risks early in the project life cycle, and in decoupling risk factors from work processes before they impact project performance were studied. Which the results represent that effective project risk management involves an intricately linked set of variables, related to work process, organizational environment, and people (Thamhain 2013; Hubbard, 2020).

METHODS

The study was based on the life cycle model of I. Adizes (2008) and risk classifications by V.S. Romanov and Microsoft. There was an assessment of the impact of risks at each stage of development. Based on this ranking, risk maps were created for each stage of the company's life cycle.

The company's risks at each stage of the life cycle were assessed on a scale of 1 to 5 based on the Microsoft methodology (Table **1**).

Estimates were made based on the impact of threats and existing problems at the stage of the life cycle, discussed in the book "Managing the life cycle of a Corporation" by Yitzhak Adizes (Adizes 2008).

*Address correspondence to this author at the Department of General Management, Institute of Management, Economics and Finance, Kazan Federal University, Kazan Federal University, Kazan, Russia;
Tel: +79600420223; E-mail: k_search12@mail.ru

E-ISSN: 1929-4409/20

Table 1: Definition of Risk Criteria According to Microsoft Corporation (Barton *et al.*, 2008)

Weight	Probability	Importance
5	Almost certainly	Very high
4	Very probable	High
3	Possible (50/50)	Average
2	Unlikely	Low
1	Unbelievably	Very low

Let's look at the impact of risks on an organization, depending on the stage of its life cycle. So, to create a risk map at each stage of the company's development, we will introduce a risk symbol. Since the group of financial risks is present both in the classification of V.S. Romanov and in the classification of Microsoft, we use the same encoding (F), with sequential numbering within this group of risks.

Table 2: Risk Symbols according to V.S. Romanov (Romanov, V.S. (2017)

Risk Symbol	Type
M	Risks associated with the equipment
S	Risks associated with marketing activities
F	Financial risks
P	Risks associated with personnel
G	Management risks
A	Risks of the external environment

We believe that this classification most fully covers a variety of risks and, accordingly, allows the most complete approach to the problem of identifying risk-forming factors and risk research in the organization (Aleksandar 2017).

The risk classification proposed by Microsoft Corporation, developed in 2007, was also used (Barton *et al*., 2008). This classification is one of the most up-to-date, and all relevant business risks are taken into account. Microsoft Corporation divides risks into 5 large groups: natural risks (external environment) (N), financial risks (F), personnel risks (P), operational risks (O), and legal risks (L).

Thus, the risk classifications of V.S. Romanov's organization and Microsoft are combined in this study, since, in our opinion, they complement each other and allow us to disclose the company's risks in all areas of its activity.

RESULTS AND DISCUSSION

Let's look at the impact of the above risks on the organization, depending on the stage of its life cycle. Let's analyze the risks of the stage «Infancy» (Figure **1**).

Red on the map highlights the risks that the organization needs to control at the stage of «Infancy».

Financial risks that the company should pay special attention to include:

- non-receipt of credit funds (F1);
- low provision of financial resources (F2);
- the decline in investment (F3).

Risks of high («red») categories related to operating activities:

- defective and reduced quality of goods and services (O1);
- errors/actions of top managers (O3).

Important management risks are:

- excessive centralization (G3);
- lack of good managers (G2).

We believe that at the stage of «Infancy» management is often chaotic. The organization lacks good managers, and there is no competent interaction between different levels of management.

A dangerous external risk is non-affected sales markets, since the company is just starting its activities, and customers are still looking at the organization and the quality of its products. The organization at the stage of «Nursing» is unstable; any fluctuations in the external environment can disrupt its integrity (Shuklova, 2011).

DAMAGE	1	2	3	4	5
5			S4	S2,O3	M3,S3
4			M4,M5,G5,A5, N3,F7,F9,F11,L2	S1,S6,F1,F3,G3,A3,O1	F2,G2
3			P4, A1, A4, A6, F10, O8, L4	M2,F4,P1,P5	S5
2	N5	M1, P2, P3, F8, O4, O9, L1, L3	G1, F5, F6, O7, L5		
1	G4,A2,N1,N2, N4,O2,O5,O6	F12			
	PROBABILITY				

Figure 1: The risks of the stage «Infancy».

Most of the high category risks are related to marketing risks:

- customer rejection of the product (S4).
- loss of clients (S2);
- lack of demand for products (S1);
- errors in strategy selection (S6).
- the inability to organize production by the level of demand (S3);
- ambiguity of goals, mission, vision (S5).

At the «Go-go» stage, the organization has the following risks (Figure **2**).

We see that at this stage, the number of risks with high significance is lower. Financial risks that an organization needs to control at the «Go-go» stage include:

- low provision of financial resources (F2).

The company does not effectively spend money resources, there is no cost control and budgeting. This leads to serious financial crises within the organization.

At the same time, the most significant risks at this stage are those related to personnel:

- attracting qualified personnel (P1);
- non-compliance of personnel with the needs of the organization (P5).

At the «Go-Go!» stage, when the company strengthens its development, qualified personnel are needed, but the organization cannot afford such personnel, since the level of remuneration does not correspond to the market remuneration of highly qualified personnel.

At the analyzed stage, management risks increase:

- inadequate organization of work activities (G1);
- lack of good managers (G2);
- weak control system (G5)
- excessive centralization (G3).

At this stage, the Manager is confident in his idea and believes that all the difficulties for the company are over. Overconfidence leads to ineffective management, management is distant from each other. There is no delegation.

Marketing risks that affect the company's level of development include:

- the complexity of organizing production in accordance with the level of demand (S3).

Risks associated with legal activities do not have a strong impact on the company. However, the following risks must be controlled:

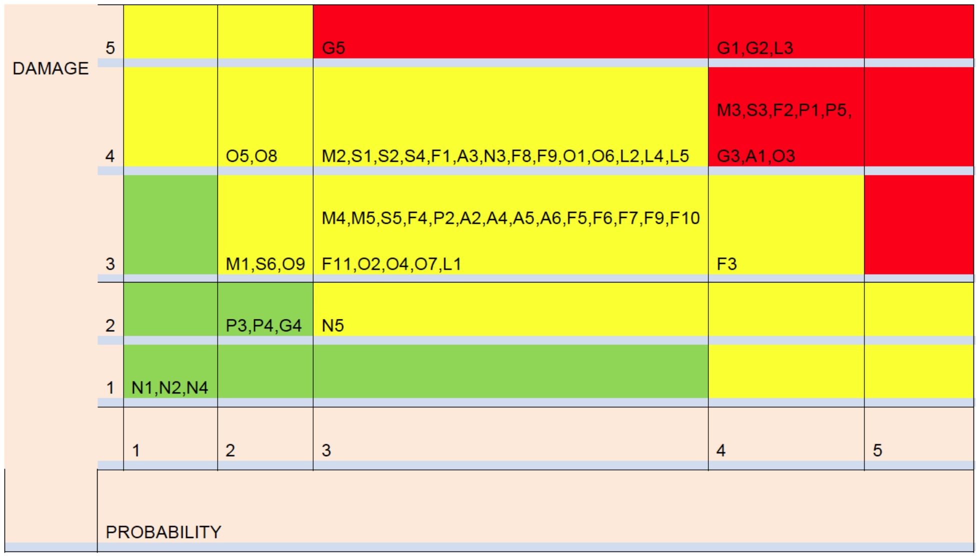

Figure 2: The risks of the stage «Go-go».

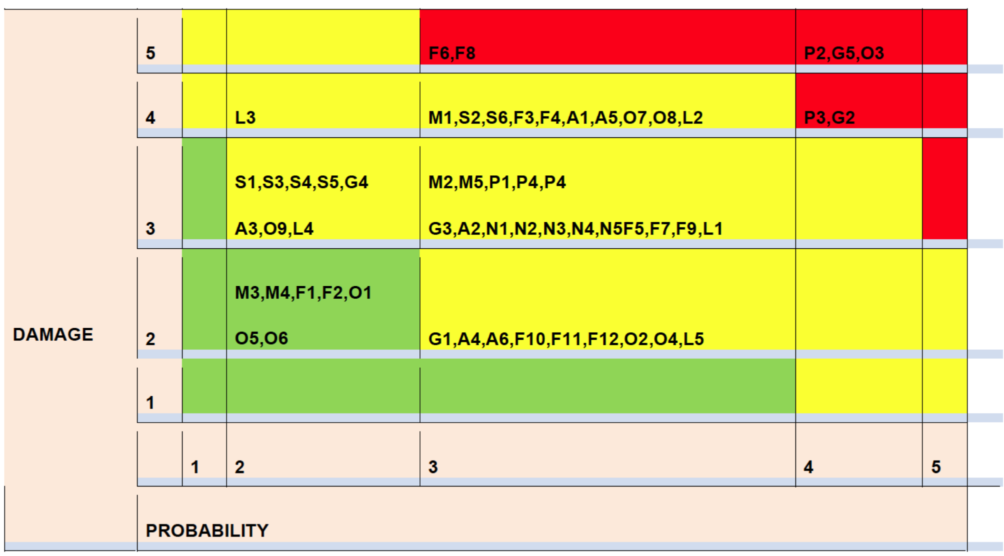

Figure 3: The risks of the stage «Youth».

- legal sanctions on the company regarding the quality of goods (L3).

The risk associated with equipment-lack of resources to purchase equipment (M3) does not have a strong impact on the company's development at the «Go-go» stage, since the useful life of the equipment has not yet expired, and if necessary, the company has financial resources for this purpose (Figure **3**).

Let's consider the impact of the organizational risks identified by us on the «Youth» stage.

At this stage, the organization is in a relatively stable state, but the impact of management risks is increasing:

- lack of good managers (G2);
- inadequate, excessive control system (G5);
- errors/actions of top managers (O3).

At this stage, a change in management style begins, the Manager blames all employees for the company's failures, except for himself. At the same time, the company's control measures become strict. All of these can undermine the company's credibility.

The loss of financial resources in most cases is caused by improper actions of managers. Possible financial risks that need to be controlled:

- bankruptcy of branches/divisions (F6);

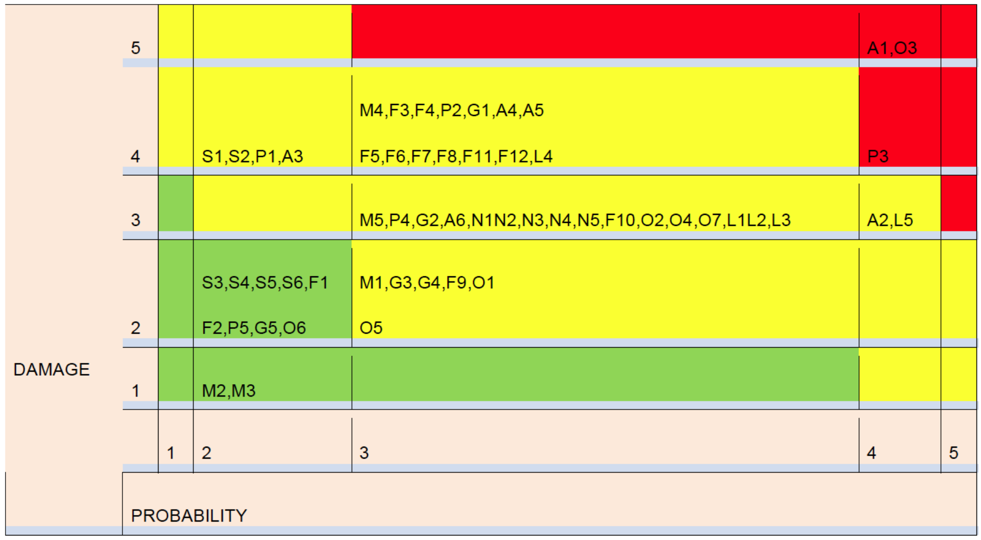

Figure 4: The risks of the stage «Heyday».

- errors in strategic investing (F8).

Also at the «Youth» stage, the risks associated with personnel increase:

- outflow of specialists (P2);

- conflicts in the team (P3).

At this stage, the struggle between new and old employees begins (Figure **4**).

«Heyday» as a stage of the life cycle represents a «Golden age» for the company . The company occupies an optimal position on the life cycle curve and achieves a certain balance between flexibility and strict control in management. Consider the impact of risks in the «Flourishing» phase.

At this stage, the organization controls its risks, but there are risks that negatively affect the organization's activities:

- errors/actions of managers (O3).

- conflicts in the team (P3);

- competition (A1).

Top managers of the company at the stage of «Heyday» rely more on past achievements, entrepreneurial activity is reduced. There is no clear vision, everyone is content with existing positions. Managers are confident in their invulnerability, and believe that the company will always be in this position. Management is held in their own hands, there is a lack of decentralization. However, there are often mistakes that could be avoided if you create an effective system of interaction with staff (Abdulina, 2014).

The company's employees are also confident that the company is actively developing, and do not make efforts for further development. They are more focused on the level of wages and other incentives. Conflicts arise based on the level of significance of each team member.

Let's analyze the risks at the «Stabilization» stage (Figure **5**).

At the «Stabilization» stage, the number of high-risk risks increases. Thus, significant marketing risks are:

- lack of demand for products (S1);

- loss of clients (S2).

At the stage of «Stabilization» in the organization, the marketing strategy is effectively functioning, but it is necessary to search for new segments, diversify production and include new business segments in the company's activities.

Dangerous financial risks may include:

- bankruptcy of divisions/branches (F6);

- inconsistency of financial planning with the actual situation (F4);

- errors in strategic investments (F8).

The company's financial resources are large at this stage, so any losses will also be large and will

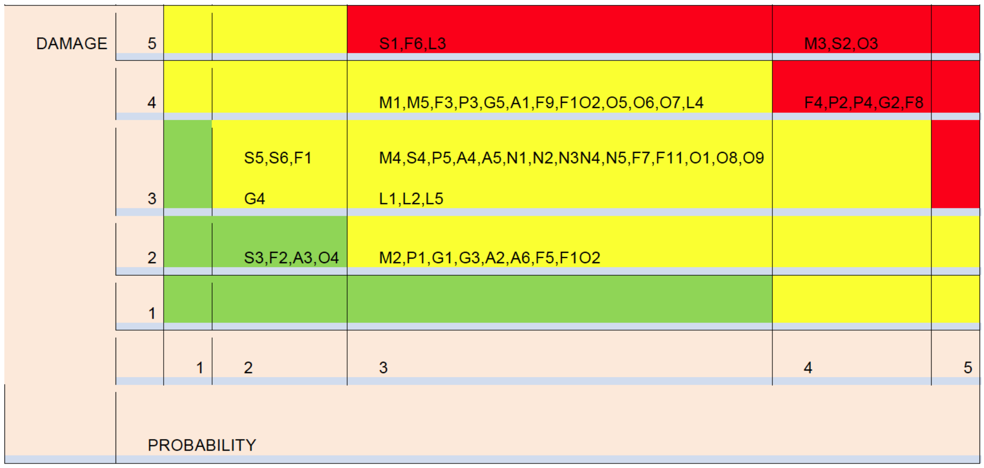

Figure 5: The risks of the stage «Stabilization».

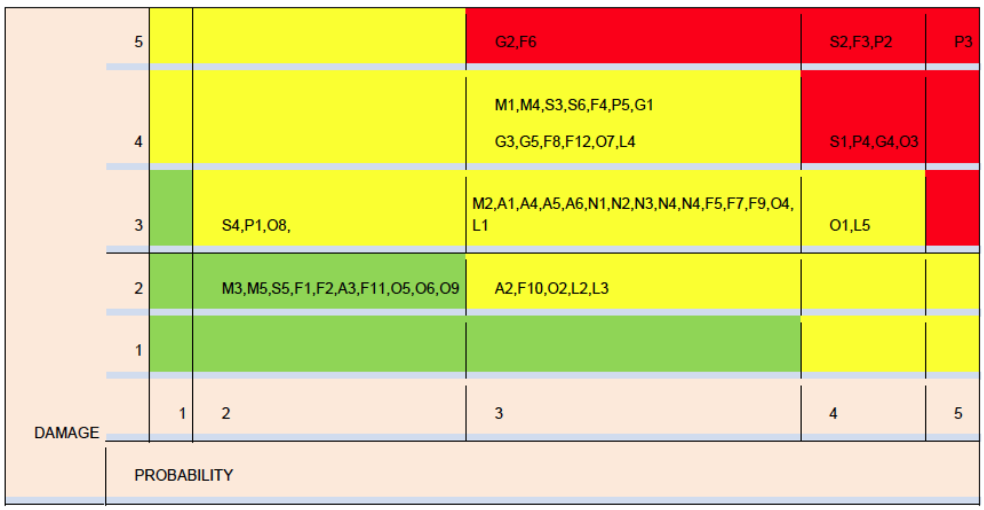

Figure 6: The risks of the stage «Aristocratic».

negatively affect the company's operations. This is primarily due to the company's large investments.

Significant risks associated with the organization's personnel are:

- outflow of specialists (P2);
- low motivation level (P4).

A weak motivation system in the company can lead to the fact that employees will lose interest in work and there will be a large outflow of specialists. At the «Stabilization» stage, it is important for the staff to realize their importance to the company.

Let's look at what risks are typical for the «Aristocratic» stage (Figure **6**).

At the «Aristocratic» stage, the key risks are management risks and risks associated with personnel. Thus, dangerous risks associated with personnel at this stage are:

- outflow of specialists (P2);
- conflicts in the team (P3);
- low level of motivation and incentives (P4).

The staff in the organization is too passive, the team does not accept those who are motivated by work. There are frequent conflicts between «active» and «passive» employees. Many specialists quit.

Dangerous management risks at the «Aristocratic» stage include:

- lack of good managers (G2);
- excessive bureaucratization (G4);
- errors of top managers (O3).

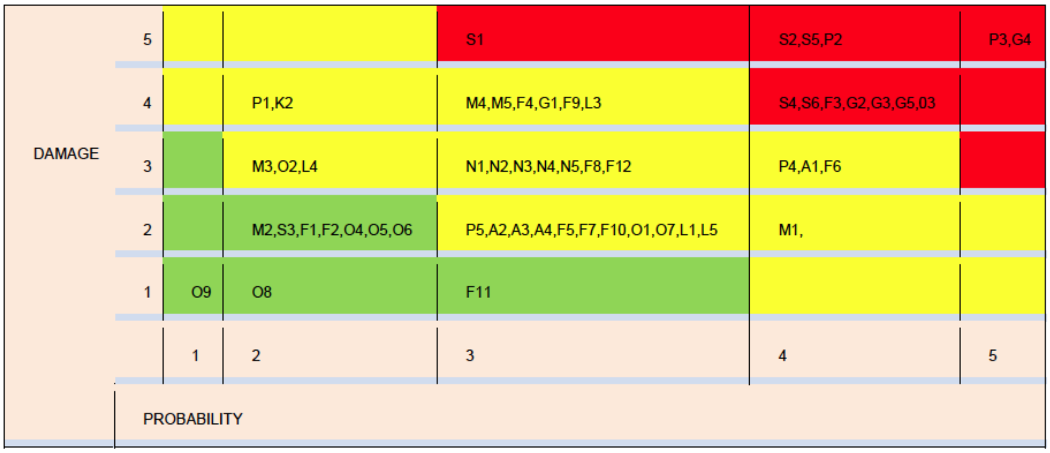

Figure 7: The risks of the stage «Bureaucratization».

In an effort to minimize all possible risks, the organization uses only those opportunities that give a tangible result in the short term. Thus, it does not master new technologies, does not show interest in implementing innovative projects, and does not win new markets. In other words, it is losing the entrepreneurial spirit that made it so successful not so long ago.

The stage of bureaucratization is the final stage of the organization's life cycle, most often, according to Adizes, not reversible (Bolshov & Khairullina, 2018). After this stage, the company will die. Let's look at what risks companies expect at the stage of «Bureaucratization» (Figure **7**).

The risks of the dangerous category at the stage of «Bureaucratization» include management risks, risks associated with personnel and marketing risks.

Thus, dangerous marketing risks are:

- lack of demand for products (S1);
- loss of clients (S2);
- customer rejection of the product (S4).
- errors in strategy selection (S6).

The company does not apply a marketing strategy, it loses regular customers, and new customers also do not appear. However, at the stage of bureaucratization, marketing processes depend on management, and managers believe that everything is fine in the organization.

Management risks that the organization needs to control are:

- lack of good managers (G2);
- excessive control system (G5);
- excessive centralization (G3);
- excessive bureaucratization (G4).

CONCLUSIONS

The primary aim of the study was to focus on economic analysis and compare the organization's risks to the stages of the life cycle. Based on the description of each stage of the organization's development, an attempt was made to systematize risks at each stage of the company's life cycle. In addition, risk maps have been drawn up for the company's development stages. As a matter of fact, the mentioned risks can affect the company's financial position adversely. To tackle this issue, it can be recommended that organizations focus on life-cycle risk management properly.

Thus, based on the research of I. Adizes, we have identified the relationship between the organization's risks and the stage of its life cycle. In addition, it was determined that the risk hazard also varies significantly depending on the stage of development of the company. Based on the method of expert assessments, risk maps are constructed for each stage of the organization's life cycle. This is a practical tool that can be used by various organizations.

The analysis conducted at various stages of the organization's life cycle suggests that the risks in the organization change depending on the stage at which the company is located. Management decision-making should be based on determining, first of all, the stage of the organization's life cycle, after which it will become clear which elements of the business need to pay more attention to, and what will not significantly affect the effective functioning of the company. By doing this, the life cycle of the organization can be extended, and the stages of destruction can be delayed as much as possible. However, this is only possible if management assesses the risk nature of the company's current position objectively.

These risk maps can be used in the management activities of companies, now risk management is a necessary element of the effective functioning of the organization. In cases where large companies have the resources to implement a risk management system, start-up companies often do not have such resources, respectively, when using the risk map for their stage of development, they will be able to see the risks that need to be paid attention to, which need to be seriously worked with.

ACKNOWLEDGEMENTS

The work is performed according to the Russian Government Program of Competitive Growth of Kazan Federal University.

REFERENCES

Abdulina, V.E. 2014. “The Life cycle of an organization and its practical application based on the analysis of a commercial organization.” URL: http://ekonomika.snauka.ru/2014/03/4148

Adizes, I. K. 2008. “Managing the life cycle of a Corporation [Text]: textbook-Saint Petersburg: Peter.” 233 p.

Aleksandar Olic. 2017. “How Companies Grow and Die (Adizes Corporate Lifecycle).” URL: https://activecollab.com/blog/growth/how-companies-grow-and-die-adizes-corporate-lifecycle

Araz, O. M., Choi, T. M., Olson, D., & Salman, F. S. (2020). Data analytics for operational risk management. Decision Sciences. https://doi.org/10.1111/deci.12443

Barton, T., W. Shenkir, P. Walker. 2008. “Risk management. Practice of leading companies: TRANS.” from English-Moscow: publishing house "Williams", 208 p.

Bolshov, A. V., and A. D. Khairullina. 2018. “Risk management: a training manual.” - Kazan: Kazan University Press.

Federal state statistics service. Small and medium-sized businesses in Russia. URL: *http://www.gks.ru/bgd/regl/b17_47/Main.htm*

Fortune Global 500 List 2018: See Who Made It. URL: *http://fortune.com/global500/*

Hubbard, D. W. (2020). The failure of risk management: Why it's broken and how to fix it. John Wiley & Sons. https://doi.org/10.1002/9781119521914

Karami, M., Samimi, A., & Ja'fari, M. (2020). Necessity to Study of Risk Management in Oil and Gas Industries (Case Study: Oil Projects). Progress in Chemical and Biochemical Research, 239-243

Muehlen, M. Z., D. Ting-Yi Ho. 2006. “Risk Management in the BPM Lifecycle.” https://doi.org/10.1007/11678564_42

Romanov, V.S. 2017. “The Classification of risks: principles and criteria.” Economy 3: 7-10

Shirokova, G. V., and T. P. Kozyreva. 2006. “Comparative analysis of problems at different stages of the organization's life cycle.” Bulletin of the Saint Petersburg state University, URL: https://cyberleninka.ru/article/n/sravnitelnyy-analiz-problem-na-raznyh-stadiyah-zhiznennogo-tsikla-organizatsii-1

Shuklova, L.V. 2011. “Interrelation of financial management and risks at different stages of the organization's life cycle / / Financial management.” URL: https://cyberleninka.ru/article/n/vzaimosvyaz-upravleniya-finansami-c-riskami-na-raznyh-stadiyah-zhiznennogo-tsikla-organizatsii

Thamhain, H, 2013. “Managing Risks in Complex Projects.” https://doi.org/10.1002/pmj.21325

Received on 02-11-2020 Accepted on 02-12-2020 Published on 30-12-2020

DOI: https://doi.org/10.6000/1929-4409.2020.09.303