Kostetska N. I.
Ph.D. in Economics, Associate Professor
Litkovets Yu. O.
Ph.D. in Economics
Ternopil National Economic University

RISK COST MANAGEMENT IN UKRAINE'S FAT AND OIL INDUSTRY

The articles studies cost management in the light of unique features of enterprises of fat and oil industry. It examines risks that arise at enterprises and their role in cost management in terms of management functions.

Keywords: costs, cost management, planning, organizing, motivating, controlling, risks, fat and oil industry.

Costs are an integral part of any activity or inactivity of an enterprise and all its business units. Costs are a monetary expression of resources consumed in the course of industrial and business activities. However, in a market economy, the economic activity of enterprises regardless of their ownership and industry is largely affected by numerous risk factors. Therefore, not only is cost management important and relevant, but it also requires to take into consideration the likelihood of various kinds of risks and degree of their impact on an enterprise performance.

In recent years, the development of food industry in Ukraine has been characterized by such negative trends as technology usage lag in production, a simultaneous reduction of output and product range accompanied by a deteriorating product quality, weakened investment and innovation activities, the driving out of domestic food products from domestic and foreign markets, reduced revenues from export industry, etc. These and other problems determine the list of risks arising in the external environment of an enterprise and affect the process of enterprise management as a whole and cost management in particular.

In the light of the above-mentioned issues, fat and oil industry stands out in a positive perspective. In particular, in 2016 Ukraine was the largest exporter of sunflower oil, increasing its production during the year by 20%. According to the Association "Ukroliyaprom", in 2016 Ukraine exported a record amount of sunflower oil equal to 4.8 m tons, which exceeds the 2015 figures by 23%. In monetary terms, exports of this commodity amounted to $4.8bn compared to $4.2bn in the previous year [1]. Table 1 demonstrates fat and oil production in Ukraine in more detail.

Table 1 shows an increase in the output of all kinds of oils, apart from unrefined rapeseed oil, colza oil, mustard oil and their fractions, in 2016. Positive dynamics of production output show that trends of oil enterprises development have begun in the industry. However, it should be noted that these enterprises are functioning under uncertainty and risk. This fact requires a more detailed analysis and study in order to eliminate and minimize the identified risks, which will have a positive impact on the performance of enterprises in the industry.

Table 1

Output of oils and fats, margarine and similar edible fats (excluding chemically modified) in Ukraine in 2012-2016 (tons)

Indexes	2012	2013	2014	2015	2016
Unrefined soybean oil and its fractions	92600	120000	154000	168000	168240
Unrefined sunflower oil and its fractions	3804000	3403000	4401000	3715000	4400874
Unrefined rapeseed oil, colza oil, mustard oil and their fractions	2200	52100	101000	150000	81562
Other unrefined vegetable oils	3245	3423	4170	1469	4677
Refined sunflower oil and its fractions	642000	587000	685000	528000	548859
Margarine and similar edible fats	178000	144000	133000	142000	184253

Source: [2].

Scientists have repeatedly considered the issue of classifying risks and identifying factors that cause them. E.A. Fyodorova [3] suggests an approach to risks classification in cost management at enterprises, which is advisable to modify according to the unique features of the industry and adapt to the object of study. The research into how fat and oil companies function reveals typical risk factors based on places of cost formation and responsibility centers.

From the economic standpoint, cost management deals with such risk factors as the price of raw materials, materials and components, cost of equipment, cost of other organizations services, cost of the means and objects of labor, labor costs; budget overrun; change of corporate income tax rate; cost of improving working conditions and fire safety practices; spending power, technology development, product quality, etc. These groups of risk factors give rise to risks themselves, namely rising cost of resource use, increased tax incidence, a risk of additional costs due to changes in state regulation of fat and oil enterprise activities.

Innovative activity is closely connected with such risk factors as the innovation budget and innovation potential; scientific, technical and commercial project implementation, and lack of project information. The corresponding risks consist in increased overhead expenses of the current period, an increasing duration of an innovation development stage, and a complete loss of innovation development value.

As far as investment costs are concerned, there are the following risk factors: lack of project information, planning, staff qualification, schedule of incoming materials, raw materials, components, management proficiency, work coordination, compliance with the funding scheme, budget tensions, adequate technology, and selection of necessary equipment. This set of factors gives rise to risks of increased capital costs of the current period, increased duration of the investment project and a complete loss of capital costs.

Risks associated with operating costs include a risk of increased variables, fixed costs and transaction costs; increased work duration; operational risk; subsidies risk. In addition to the above-mentioned risks, the following risk factors belong to the group: sales volume, variable and fixed costs, methods of accounting and allocating costs; solvency of regular suppliers, meeting the deliveries schedule; staff turnover, costs of improving working conditions and fire safety practices, etc.; the state of technological equipment.

Strategic cost management at fat and oil enterprises takes into account the following factors: variable and fixed costs, production costs, administrative and commercial costs, capital costs, innovation costs, changes in a company's nominal revenue. This may lead to risks of higher costs per monetary unit of goods sold and risks of loss or return.

A special feature of risk cost management is its targeted focus on determining the optimal amount of costs including the impact of possible risks in order to improve the efficiency of an enterprise activity. Cost management should be aimed at using resources rationally and maximizing their return in production and economic activities.

The process of cost management is characterized by a sequence of steps, namely developing, adopting and implementing decisions on forming the amount and structure of costs, and monitoring their implementation. Cost management is an important component in the system of an enterprise management and should fit in with all constituent elements of this system. Management of an enterprise activity involves carrying out such major functions as planning, organizing, motivating and controlling [4]. Therefore, it is necessarily to fulfil these functions at all stages and levels of cost management. The above-mentioned characteristics of cost management are common to all businesses. However, unique features of the industry and peculiarities of cost formation make a cost management system for enterprises of fat and oil industry somewhat atypical.

Planning as a management function logically precedes all of the other functions. Therefore, planning production costs is an important component in a cost management system of fat and oil enterprises. The purpose of planning production costs in conditions of uncertainty is to (1) estimate the expected size of costs; (2) identify potential risks and study the degree of their impact on costs; (3) consider the effect of changing organizational, technical and economic factors under the influence of possible risks upon the amount and structure of costs; (4) calculate the marginal cost of risks; (5) allocate costs according to activity types; and (6) eliminate inefficiency costs. Production costs planning must be based on using advanced standards of resource use and consistent with the financial capacity of an enterprise, while the growth rate of costs should be lower than the growth rate of production output.

Organizing is an important constituent element of a cost management system that allows combining all components of production and economic activities of an enterprise in space and time. The organizing process enables to determine costs formation places and responsibility centers. An organizational aspect in cost management has to provide a practical observation of changing costs by the means of appointing responsible people and coordinating the boundaries of their competence with production and organizational structures of fat and oil enterprises. However, this process is linked to certain organizational risks from errors made by employees or being a result of irregularities in an enterprise management structure.

Motivating in a cost management system of an enterprise helps to identify ways of encouraging employees not to exceed the planned amount of costs and finding new opportunities to reduce them. To this end, enterprises of fat and oil industry use economic incentives (pay raise, bonuses, additional payments, etc.) and non-cash rewards or fringe benefits (flexible work schedules, promotions, etc.). However, an enterprise faces a risk of failing to achieve the greatest possible benefit from cost management due to an unscrupulous attitude of employees to performing assigned tasks and commitment to overstating planned costs.

Controlling is the final element in a cost management system providing feedback by comparing planned costs with the actual ones. The purpose of controlling is to monitor and supervise production and economic processes in order to detect deviations and combat undesirable occurrences. Accounting and cost analysis are used to make a thorough inspection of how much costs deviate from what has been planned. Cost accounting allows preparing and grouping information about actual costs for further analysis of fat and oil enterprises. A cost analysis, as part of controlling, is necessary to compare the actual costs with planned costs, determine the causes of deviations from the plan, assess efficiency of using a company's resources, find reserves and identify ways to reduce costs. Results of a cost analysis provide a basis for preparing and making managerial decisions on cost planning at fat and oil enterprises. However, controlling, along with the other components of a cost management system, is linked to certain risks. One of them is lack of effective and comprehensive monitoring system of tracking deviations in the process of abiding by managerial decisions at fat and oil enterprises.

Nowadays, in the unstable conditions of the national economic development, cost management at an enterprise level should be carried out bearing in mind potential risks. This integrated approach should involve research of risks sources and causes in the process of cost management. In other words, managerial decisions on costs should consider the likelihood of risks resulting in deviations from the expected course of events and strive to achieve the desired results in conditions of unplanned situations at fat and oil enterprises.

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