

## REPORTS

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# CONTROLLING AND INSURANCE IN ECONOMIC SECURITY OF TRANSPORT COMPANIES

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### Annotation

*The article reveals the essence and content of the system of economic security of transport companies. Particular attention is paid to its components such as controlling and insurance. The features of the application of these instruments to counter the threats and risks in the operation of transport companies of Ukraine are analyzed. Promising areas of security and controlling in the current economic conditions are proved.*

**Key words:** economic security, risk, controlling, insurance, transport.

Transport enterprises perform important functions for the organization and execution of the transportation process, meet the requirements of people and cargo owners in quality transportation and logistics support. Meanwhile, the current economic environment (both internal and external) is characterized by numerous risks associated with the unstable political and economic situation in Ukraine, the companies' activity in the financial crisis, and so on. In these circumstances, it is necessary to resist risks and take steps to minimize their impact on the economic activity of transport companies. The above is based on creation of an effective economic security system of transport companies.

Economic security is the basis of the company as characterizes the state to protect the economic interests and relations, all kinds of productive resources and results of the company and creates the opportunity to systematically counter the threats and risks that accompany them. Such protection is based on adaptation to external changes and contributes to the objectives of strategic development, which leads to increased competitiveness on the market. In general, the system of economic security of transport companies is a coherent set of elements, relationship, interaction and mutual impacts which allows to neutralize or minimize the impact of the threats to the economic activity of the company. Goals, tasks, factors, principles, function, technology, management instruments, economic security and others are often distinguish among these elements.

The purpose of this article is to study the nature and content of controlling and insurance as important elements of economic security of transport companies, affecting its level. The systematic approach methods, comparison, abstraction, logic synthesis were used during the study.

For the effective functioning of the economic security system all the elements, their cooperation and coordination are important, however, within this article we consider the role and importance of controlling and insurance as elements that are key to achieving the objectives of the economic security system of transport companies, thus requiring priority attention by the management of transport companies. This analysis of economic security system of companies indicates that despite the common goal of using these instruments to minimize risk exposure, their action is directed primarily to the internal environment (for controlling) or the environment (for insurance) (Fig 1).

Process of controlling and insurance is covering the whole production and economic cycle of transport company, from development of transport service to its implementation and provide conditions for effective work of the company on the transport market to achieve its goals through timely detection and minimizing the impact of varied dangers and threats. Let's consider the features of controlling and insurance in case of transport companies.

Economic security of transport companies in the economic management undergoes a large number of threats that arise both in the internal and external environment of the subject. Thus, all productive resources require protection used during economic activity, and it is in this regard an effective controlling system is of particular relevance. Controlling acts as an additional instrument that is a part of the system of management of transport companies activity and aimed at the orientation of the system to ensure economic security (Ilashchuk, 2016).

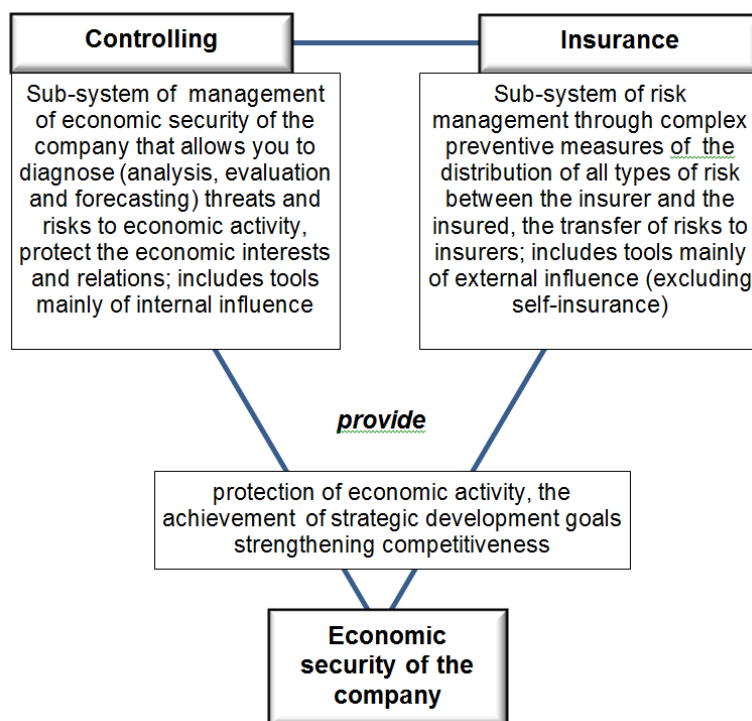


Fig. 1. The relationship of the individual elements of the system of economic security

Thus, the main purpose of controlling system functioning in the context of raising the level of economic security of transport companies is to increase the ability of management (through its managers) to make better strategic and tactical management decisions (Ilashchuk, 2016). Creating a system of controlling depends on the model of the company. Thus, transport companies are characterized by financial and economic model, the efficiency of which is estimated ratio of revenues and cost of resources used, that is an indicator of income, which acts as an indicator of economic security of business entity.

In terms of economic security of companies, controlling has number of characteristics:

- 1) Subsystem of controlling is able to prevent threats that arise in the internal and external environment as well as identify the opportunities to the company during the economic activities;
- 2) Controlling uses analytical instruments that can be applied to the process of ensuring economic security;
- 3) Controlling is implemented with the emergence of risks to the operation of the business and contributes to solving tasks assigned to the system to ensure economic security;
- 4) Controlling is an effective coordination system to ensure the economic security of transport company;
- 5) A single information system is formed by the introduction of controlling, whose data are used to ensure the economic security of the company;
- 6) A variety of threats to economic security of transport companies require forming system that would form and provide the leadership necessary information about the company, which is possible due to the system of controlling;
- 7) Controlling is able to provide planning and forecasting key indicators of economic security of business entity.
- 8) Controlling is able to provide an assessment of the impact of innovation on the level of economic security of transport company.

Therefore, carefully constructed controlling subsystem is able to provide company control and its economic security, based on the choice of the optimal three-component model of system that includes business processes of transport company, controlling functions and controlling mechanism (2 Fig.).

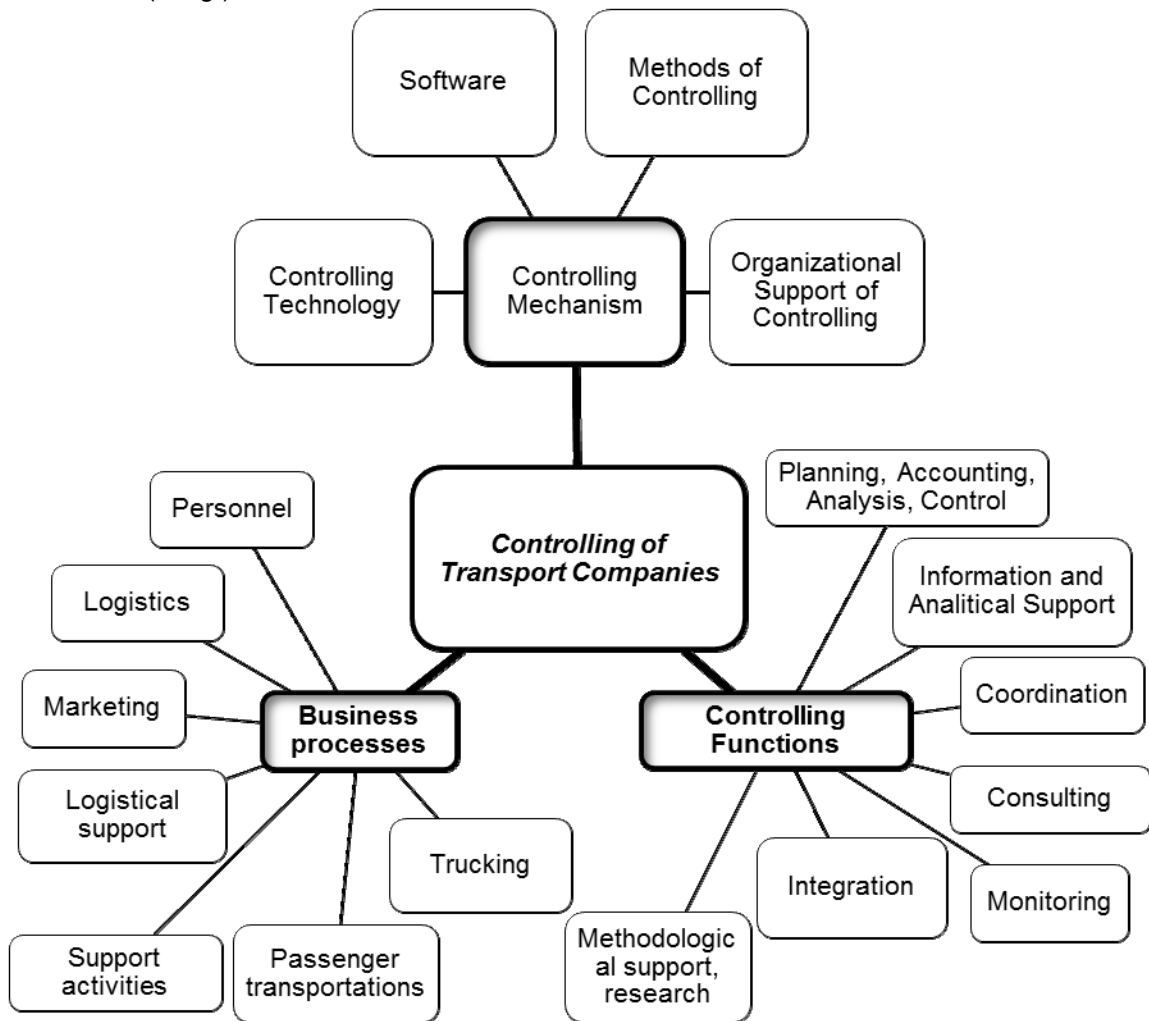


Fig. 2. Three-component model of controlling in the context of economic security of transport companies. Source: Developed by the authors based on (Makarenko, Pyrkov, 2009 and Korezyn, 2010)

To ensure efficiency of controlling in transport companies should optimize their business processes and make centers of financial responsibility that will cover the main areas of business (cargo and passenger transportation, repair manufacturing, logistics, etc.). The purpose of controlling implementation corresponds its functions, which are related to the most important stages of the management cycle (planning, accounting, analysis, control, etc.). And the most important element of this model is the development, implementation and improvement of the mechanism of controlling that should ensure operability of the system and efficiency of the methodological approaches, regulations, software, metrics that characterize the effectiveness of management technology in the context of economic security of the company.

Implementation of controlling mechanism in the company takes place in several stages. Firstly, the goal setting of controlling that meets the needs of management and the specifics of each company. It should be clearly defined how the results of controlling will affect the final result of the company activity, usually an indicator of income. Secondly, restructuring of the company's accounting policies to the needs of information and analytical support of controlling system, creation of document circulation, the introduction of the initial forms of management reporting, and eventually in the reporting of sustainable development, which is based on the concept of social responsibility. Thirdly, the introduction of management information systems (ERP), which allow you to integrate financial and management accounting within a single information field. Fourthly, the introduction of budgeting procedures, which may predict the development of a balanced indicator taking into account the specifics of the activity of transport

company, which can be integrated into the system of budgets. To implement each management goal a set of indicators should be defined, whose analysis, conducted through the system of budgeting, would provide management with relevant information for making decision. Fifthly, the introduction of a mechanism of control and internal audit to determine the causes of deviations from planned indicators. Sixthly, the development of internal consulting mechanism through which the support of making decisions by management of the transport company is realized. The introduction of this mechanism is possible if to create a division or controlling department in the company that would serve as a coordination and structural consulting unit.

It should be noted that the system of controlling is mainly used by companies, including the transport sector, for the implementation of operational tasks to ensure the economic security, that will transform later into profitability. And the system does not guarantee economic security in the long term to create conditions for long-term existence and development of the company. Thus, a more effective mechanism to ensure the economic security of companies are implementing of integrated controlling as a complex system of management process. At present time this concept of controlling is promising and relevant because it allows you to create a system of information and consultation support of all management functions, involve all areas of company activity, including the area of security management. Thus, it can separately identify the concept of controlling, economic security, which mechanism is shown in Table. 1.

Table 1

The functions and tasks of controlling of economic security of transport companies

Controlling of Economic Security	Function	Tasks
	<b>Information Support</b>	<ul style="list-style-type: none"> <li>- The collection and processing of information about the risks, the continuous updating of this information;</li> <li>- Preparation of information for analysis of transport market and internal environment;</li> <li>- Organization of internal and external information communication;</li> <li>- Engineering of management economic security</li> </ul>
<b>Planning</b>	<ul style="list-style-type: none"> <li>- Analysis and risk assessment of transport companies' activity;</li> <li>- Development of recommendations for risk management in the industry;</li> <li>- Transport insurance program planning;</li> <li>- Planning security management costs;</li> <li>- Top management consulting in the development of strategy of economic security companies;</li> <li>- Coordination planning with other departments of the company;</li> <li>- Methodological support planning</li> </ul>	
<b>Monitoring</b>	<ul style="list-style-type: none"> <li>- Development of monitoring indicators, its methods and ways of getting information;</li> <li>- Revaluation of risk profile;</li> <li>- Regular inspection of responsibility areas for risks;</li> <li>- Evaluation of effectiveness of risk management strategies;</li> <li>- Development of recommendations for correcting strategy and tactics of security management</li> </ul>	

Source: Developed by the authors based on (Makarenko, Pyrkov, 2009 and Korezin, 2010)

Thus, the creation of the controlling subsystem though directed to diagnose risks both internal and external environment, in most cases, can be implemented in the company on its own, thus based on instruments of internal impact. Unlike the controlling, it is more effective to organize the insurance protection with participation of professional insurers.

Stable and reliable operation of modern transport company, growth and development of its economic potential largely depends on the prediction and advance warning of possible threats and risks. Use of insurance and strengthening its role in the economic security of transport companies is the most effective instrument of protection in case of unpredictable material and financial losses and guarantee compensation.

One of the effective instruments of economic security and reduction of the impact of risk factors in the company is insurance. In accordance with the most known definitions, insurance is characterized as a special kind of economic activity, associated with redistribution of risks to property interests of insurance participants (insured and insurers), which is carried out by specialized organizations (insurers) that ensure the accumulation of premiums (insurance premiums), formation of funds of insurance reserves and implementation of insurance payments (Korchevskoy, Turbinoy. 1996).

The insurance mechanism is based on a study of the risks which are characterized as threats, the risk of adverse effects or events that may occur and as a result give rise to the loss of resources or cause damage. The reasons of risky events - actions or decisions that lead to unwanted development which is adverse for the stable functioning of the company. To assess individual risk factors and making decisions about the adequacy of preventive measures, the

risk must be expressed in comparable indicators. If the risk is to be measured in terms of its probability and amount of possible losses, the management of such risks effectively carried out with the use of insurance.

Insurance is a basic and the most versatile way to transfer risk to professional organization, and as a method of risk management, contributes to the protection of property interests, security and stability of functioning of transport companies. Contributing redistribution of risks between economic entities and compensation due to the savings, insurance can eliminate and significantly reduce the negative effects and increase the economic security of transport companies. It should be noted that the insurance does not have well developed classification of risks, which is necessary for its evaluation, analysis and management. However, there is a requirement of actuarial calculations when determining insurance rates, based on a valuation of risks (Zabarna, Conradi, 2011).

Risks on transport due to manufacture and technological complexity of the industry vary by factors such as: the object of forming of risks; sources and their causes, the possibility of impact on risks; possible impact of risks on performance of the company; stage of production cycle and the amount of possible losses; type of transportation, the number of carriers, and more.

Thus, development backgrounds of transport insurance are formed due to the large number of technical and technological risks, organizational, economic and financial nature. It is an insurance mechanism of economic interests protection that form the basis of transport companies development, contributes to the achievement of strategic goals, the reform, social development of companies.

Insurance mechanism provides an entire system of insurance contracts that provide compensation for possible losses at various stages of company activities. Use of insurance mechanism to ensure economic security comes up from its nature, the inner essence. The main blocks of insurance protection instruments aimed at reducing the risk of the company are:

1) transport company property insurance - insurance protection covers property interests related to possession, use and disposal of company property that are caused by the need to preserve it from the possibility of its destruction, flooding, damage, theft in the result of the unpredictable accidents and other negative events;

2) cargo transportation insurance - the purpose of cargo insurance is to create conditions of guaranteed compensation for financial loss during the delivery, in case of destruction or damage due to circumstances independent from the owner; the costs that may arise during the rescue of the cargo must be taken into account and associated with the reduction in the amount of loss;

3) liability insurance - insurance protection may cover the civil liability of insured for the damage caused to health, life or property of third parties; it should be noted that on different types of transport (except automobile) liability insurance is not developed enough;

4) personal insurance of employees - insurance of property interests related to the life, health, ability to work and additional pension of the insured.

It is important to assess risks in insurance that can be done in stages:

- Understanding a risk, study the causes, identify possible threats, financial risk identification, determination of their concentration in the areas of financial activity, monitoring of factors of internal and external environment;

- Risk diagnostics (analysis, evaluation and forecasting) (which is provided by creating a reliable information base, selecting appropriate methods and instruments to calculate probability of risk, identification of possible direct and indirect losses);

- Neutralizing (minimizing) the impact of risks (it is estimated the compliance of risk level to the level of profitability, and taken steps to neutralize the emergency situation, developed a set of warning actions to prevent possible violations of financial stability and solvency of the company) (Vanina, 2015).

Thus, the threat to the security of transport company is the rise and strengthening of risk or possible danger due to adverse changes (events, processes, facts, actions of persons etc.) that occur in the external or internal environment of the company and require monitoring and management from the company. Insurance protection is the most perfect instrument for the full and rapid compensation, that improves the financial performance and active development of transport companies.

In the system of economic security of transport companies insurance play a particular role, such as the protection of property interests of actual and potential sources of danger.

In the current economic environment the development of transport companies insurance requires intensification of scientific research and wider use of insurance protection, according to:

- The need to stimulate innovation and investment activities of transport companies, as this activity is accompanied by numerous risks and characterized by weak investment attractiveness, also as a result of investor insecurity;

- The insurance conditions in Ukraine are approaching to European standards of providing services, the introduction of new insurance products and training systems to improve skill levels of personnel;

- Establishing long-term relationships between suppliers of transport services and insurance companies, developing products that allow to take into account special conditions of transportation (change of risks with increasing speed of movement);

- Improving the system of compulsory insurance and settlement of issues concerning the development of compulsory liability insurance in the system of economic security of railway transport;

- Expanding the ways of implementation of insurance services, including electronic sales, taking into account the specific features of transport services on the different types of transport, taking into account their interactions.

Thus, the economic security of transport companies can be ensured by the integrated use of all events, methods and means of diagnosing risk and providing protection in all phases of the company activity.

### **Conclusions and recommendations**

Ensuring economic security of transport companies is provided by the development and implementation of the management system of economic security that takes into account the specific economic activity in various economic sectors. In particular, the economic security system of transport companies should take into account the specifics of transportation, a lot of risks arising from various objects and participants of the transport process: rolling stock, infrastructure, information systems, resource suppliers, customers, and so on. In such system of economic security a prominent place is occupied by such important subsystems as controlling and insurance.

Implementation of controlling concept as an important element of economic security of transport companies is based on the study and implementation of its functions, ensuring of its implementation by individual business processes of transport companies (cargo, passenger transportation, logistics, etc.) as well as improving the controlling mechanism by using new technologies, software and methods of threats diagnosis, dangers and risks of economic activity.

The development of insurance in the system of economic security of transport companies is based on a comprehensive approach to the organization of insurance protection for carriers and consumers of transport services, development of insurance products that take into account the specifics of transport activity, improving insurance legislation regarding the harmonization of national and international law, improving the quality of services in accordance with international standards of insurance activity.

### **Controlling and insurance in the economic system of transport companies**

The article presents the results of a study of the system of economic security of transport company, which is a coherent set of elements, relationship, interaction and mutual impact which allows to neutralize or minimize the impact of the economic threats to the company. Among the elements of the system goals, tasks, factors, principles, functions, technologies, management tools of economic security and others are allocated.

Particular attention is paid to such elements of the economic security as controlling and insurance. The features of the application of these tools to counter the threats and risks in the operation of transport companies of Ukraine are analyzed.

Controlling is a subsystem of management of economic security of the company that allows you to diagnose (analysis, evaluation and forecasting) threats and risks of economic activity, protect the economic interests and relations; includes tools mainly of internal impact. Insurance is considered as a subsystem of risk management through a combination of preventive (prophylactic) measures, the distribution of all types of risk between the insurer and the insured, insurers transfer risks; includes instruments mainly of external influence (excluding self-insurance).

Promising areas of security and controlling in the current economic conditions are proved.

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