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RISKS ASSOCIATED WITH THE MARKET BEHAVIOUR OF BULGARIAN INDUSTRIAL ENTERPRISES

Problem Statement. Bulgarian industrial enterprises operate in extremely competitive global markets that are characterized by complex economic relationships among market players, great variability of the current rules and mechanisms and great market volatility. The uncertain and dynamic market situation, on the one hand, and the multi-faceted business objectives and goals – on the other, undoubtedly lead to many options when choosing a market behaviour model. The formulation, creation and implementation of the appropriate model of market behaviour demonstration, which ensures that Bulgarian industrial enterprises adapt timely to modern challenges, create prerequisites for the emergence (appearance) of multiple risks. The majority of potential risks can have a significant impact on the status and performance of industrial enterprises, their competitiveness and market efficiency. Therefore, the ability of industrial enterprises to develop and implement an adequate and reliable risk management process is becoming a vital factor for their normal operation and development.

Analysis of Researches and Publications. The risks related to the behaviour demonstrated by industrial enterprises on target markets are a topical scientific field for theoretical and empirical research, which is constantly expanding its range and is increasingly attracting scholars' interest. The following foreign scholars deal with this issue: Ph. Kotler, K. Keller, W. Beaver, G. Parker, J. Fraser, B. Simkins, C. Pritchard, A. Decker, I. T. Balabanov, I. S. Menshikov, D. A. Shelagin, D. V. Sokolov, A. V. Barchukov, N. V. Hohlov, etc. A number of Bulgarian scholars also contribute to the issue: R. Gabrovski, B. Nikolov, T. Nenov, M. Aleksandrova, P. Banchev, N. Yankov, etc.

The objective of this article is to highlight some of the main risks accompanying the demonstration of a certain market behaviour by Bulgarian industrial enterprises, to present the results of analyzing the risk exposure and problem areas in their market behaviour, and to justify the opportunities for affecting the risks and hence to limit and reduce the adverse consequences of their occurrence.

Presentation of the Main Material. The dynamic and uneven development of markets and the rapid development of market relations arising from globalization have led to an increase in the uncertainty related to the adoption of a particular market behaviour model by Bulgarian industrial enterprises. The industrial enterprises in Bulgaria have become particularly sensitive to the changes in market parameters (factors) and new market challenges (increased competition, changes in demand and consumer buying behaviour, strong market segmentation, market saturation in more and more product categories, etc.) [6]. This inevitably raises the likelihood of the occurrence of a number of risks and increases their degree of risk exposure. It is a fact that there are a lot of risks in the market behaviour of industrial enterprises in Bulgaria and they are characterized by a great diversity (see Fig. 1). The attempt for a systematization and priority treatment of certain types of risks is predetermined by the risk profile specifics, their diverse nature, size and dynamics (intensity), the frequency of occurrence and the weight (size) of the consequences, and the functional area of manifestation [1; 4; 8].

Based on an empirical study among 115 industrial enterprises in Bulgaria¹, which have different objects of activity, some of which – strongly export-oriented, it was found that according to their 'nature', the share of *subjective risks* predominates (56.9%). These risks are most often associated with the educational and qualification level, professional experience, competencies, abilities and attitudes of executives involved in the development of the enterprise's marketing strategy. For example, 28.6% are the result of the executives' erroneous assessment of the short- and long-term interests related to the industrial enterprise's behaviour on specialized markets, 25.8% are due to errors in assessing the current state and the nearest prospects for market development, 19.1% – due to the incorrect market situation forecast, 14.6% – due to the inadequate needs assessment in the sphere of consumption and domestic production, 11.9% – due to premature or untimely decision-making, as well as the implementation of inoperative models on demonstrating appropriate market behaviour.

¹ Structurally, the majority of enterprises are medium-sized – 51.2%, small-sized enterprises are 23.8%, large-sized enterprises – 15.5% and micro-enterprises – 9.5%. According to the form of capital ownership, the majority of industrial enterprises are entirely funded by Bulgarian capital – 52.4%, 36.9% are funded by mixed capital and only 10.7% are totally funded by foreign capital.

The proportion of the *objective risks* is also quite substantial (43.1%), which can hardly be controlled, predicted and managed by the executives in the industrial enterprises. These are the risks which are due to the multi-directional and dynamic impact of the business environment factor parameters (see Table 1). The results obtained show that executives are increasingly expe-

riencing difficulty in making the right decisions, in-depth analysis and objective assessment in response to the changes in the external environment. Therefore, more innovation and flexibility in the management approaches are desirable, as well as learning from the experience and implementing the best practices of the leading industrial organizations in this field.

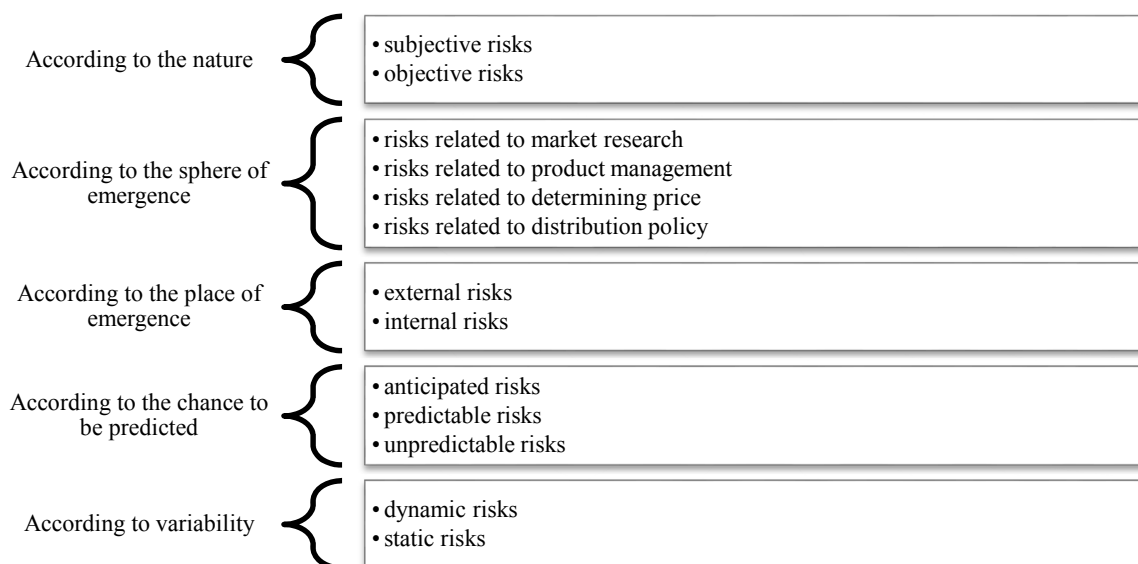


Fig. 1. Types of risks, related to the market behaviour of industrial enterprises

Table 1

Structure of Bulgarian industrial enterprises according to the assessment of macro- and meso-factors, influencing their market behaviour

| Macro-factors | Impact strength* | | | | |
|--|------------------|-----|------|------|------|
| | 0 | 1 | 2 | 3 | 4 |
| Macroeconomic stability | - | 8.3 | 7.1 | 19.0 | 63.1 |
| National legislation | 2.4 | 6.0 | 13.1 | 36.9 | 41.7 |
| International trade regulations and restrictions | 3.6 | 2.4 | 4.8 | 23.8 | 61.9 |
| Market liberalization | 1.2 | 2.4 | 16.7 | 58.3 | 21.4 |
| State of the financial and capital markets | 2.4 | 6.0 | 14.3 | 34.5 | 39.3 |
| Number and structure of the country's population | 3.6 | 4.8 | 58.3 | 25.0 | 8.3 |
| Migration processes | 3.6 | 6.0 | 51.2 | 22.6 | 14.3 |
| Education and professional training of the population | 1.2 | 2.4 | 20.2 | 26.2 | 46.4 |
| Development of information and communication technologies | 1.2 | 1.2 | 34.5 | 4.8 | 58.3 |
| Meso-factors | Impact strength | | | | |
| | 0 | 1 | 2 | 3 | 4 |
| Presence of established (good) practices in market behaviour in the sector | 1.2 | 9.5 | 7.1 | 17.9 | 61.9 |
| Production features and characteristics of goods and services requiring specific market behaviour methods and activities | - | 4.8 | 7.1 | 14.3 | 72.6 |
| Number of enterprises in the sector, having an impact on the level of competition | - | 3.6 | 8.3 | 63.1 | 21.4 |
| Concentration of enterprises in the sector in a certain region | 2.4 | 6.0 | 13.1 | 58.3 | 17.9 |
| Presence of production and social infrastructure | 2.4 | - | 17.9 | 16.7 | 60.7 |

* Assessment scale from 0 to 4: 0 – no impact; 1 – almost no impact; 2 – slight impact, 3 – moderate impact, 4 – strong impact.

The study reveals surprising results regarding the functional area of risk manifestation associated with the market behaviour of Bulgarian industrial enterprises. The fact that there are *risks associated with market research planning, organization and implementation* in almost a third (31%) of the industrial enterprises is nega-

tive. In particular, these are risks of incorrect definition of the problem and objectives of the study (10.7%) improper planning and budgeting (41.4%), poor choice and non-compliance with the drawbacks of the methods for collecting information (19.1%), improper systematization, analysis and presentation of information (29.1%),

which inevitably leads to unrealistic presentation of the final results and making wrong decisions. This is a proof that specialists are not well-trained to carry out qualitative research, there is a lack of organizational experience and knowledge of the best practices in the area of the study, difficulties in providing funds, etc. In practice, this leads to serious negative consequences and a number of difficulties in demonstrating a particular behaviour towards market participants. The fact is that Bulgarian industrial enterprises are not able to carry out good market segmentation or choose the wrong target market.

Overall, the proportion of industrial enterprises, where there are *risks related to product management*, is small (9%). These risks are due to incorrectly specified product nomenclature and range (8.3%), limited opportunities for developing and introducing new products (61.9%), bad positioning of products (8.6%), lack of own brands (13.8%) and delays in product removal (7.4%). Unfortunately, the trend regarding the innovation activity of Bulgarian industrial enterprises remains negative. They do not find enough good conditions and resources to develop innovative products [5]. Gradually, this trend leads to limiting the achievement and maintenance of high competitiveness and to missing the opportunities to reach leading positions. Over 70% of the Bulgarian industrial enterprises prefer to take a position near an existing competitor, and only 28% – to fill the vacant competitor's position by offering a new product on the market.

At the same time, about half of the surveyed enterprises (18%) indicate that there are *risks associated with product pricing*. They are the result of reporting only the influence of economic factors and not of psychological factors in determining the price (12.3%), changes in the level and structure of expenditure (78.5%), and poor price adaptation to the specific market conditions (9.2%). Although the share of these risks is relatively low, it is worrying that enterprises inadequately and incompletely establish the impact of factors affecting the prices of the products, do not disclose reserves and opportunities for reducing costs and do not work out measures to adapt the price to the specific market conditions [7].

Bulgarian industrial enterprises find *risks associated with the distribution policy* (42%) the most difficult. These arise due to a wrongly designed and implemented distribution policy (12.6%), poor choice of a distribution channel (44.7%), unjustified determining of the common distribution strategies (15.5%), and inadequate development of the distribution plan, programmes and events (27.2%). Therefore, Bulgarian industrial enterprises cannot achieve good management and organization of their product flows and ensure their effective delivery to consumers. They fail to reduce the time and cost of delivery, control the output, optimize the structure and relationships between the parties in the ex-

change process, as the distribution chain, which they apply, is long and involves a large number of specialized distributors (intermediary units). In this sense, industrial enterprises have difficulties in managing distribution, which in turn influences their behaviour on the specialized markets.

At the same time, more than half of the industrial enterprises in Bulgaria (53%) experience *external risks*. They are due to a non-compliance with the contract terms by the supplier or intermediaries, unfair competition, presence of political instability, new international treaties and agreements, changes in consumer requirements, preferences and habits, migration processes, demographics, traffic accidents, etc. For 47% there are *internal risks* arising from the specifics of the industrial enterprise business activities. They are usually associated with non-implementation of the production programme, lowered or no control over product quality, use of worn out and obsolete equipment, worsened financial situation, problems in supply, etc.

It is noteworthy that the risks associated with market behaviour are *anticipated* for 44.6% of the industrial enterprises, and *predictable* – for about 27.2%. This is mainly due to the fact that these enterprises make predictions, analyses and evaluations by gathering, processing, systematizing and analyzing information regarding risks. In particular, the factors shaping the risk situation are traced, which helps to identify them more accurately, i.e. risks are predicted on the basis of previous experience. Therefore, the likelihood of occurrence of these risks, i.e. the frequency and weight of any losses and damages from them, as well as the possible sources can be predetermined and the causes eliminated by implementing specific measures to counteract and mitigate their negative consequences.

An alarming finding is that risks are *unpredictable* for almost a third (28.2%) of the industrial enterprises, i.e. these are risks that are difficult to foresee and the probability of their occurrence cannot be premeasured due to their nature, which makes them difficult to assess. This fact impedes both the provision of prompt and timely response in case of unfavourable market situations and the demonstration of adequate market behaviour.

It should be borne in mind that *dynamic risks* are of great importance for the demonstration of certain market behaviour by Bulgarian industrial enterprises. These risks are of varying frequency and intensity of occurrence (see Fig. 2). The following risks have the most constant frequency of occurrence – *an increase in competition and changes in public needs as well as an increase in receivables from contractors and third parties*.

It should be noted that these risks are external for industrial enterprises, which further impedes tracking, analyzing, and assessing them, hence, predicting and implementing adequate ways of reducing and neutralizing them. The dynamic occurrence of this group of risks

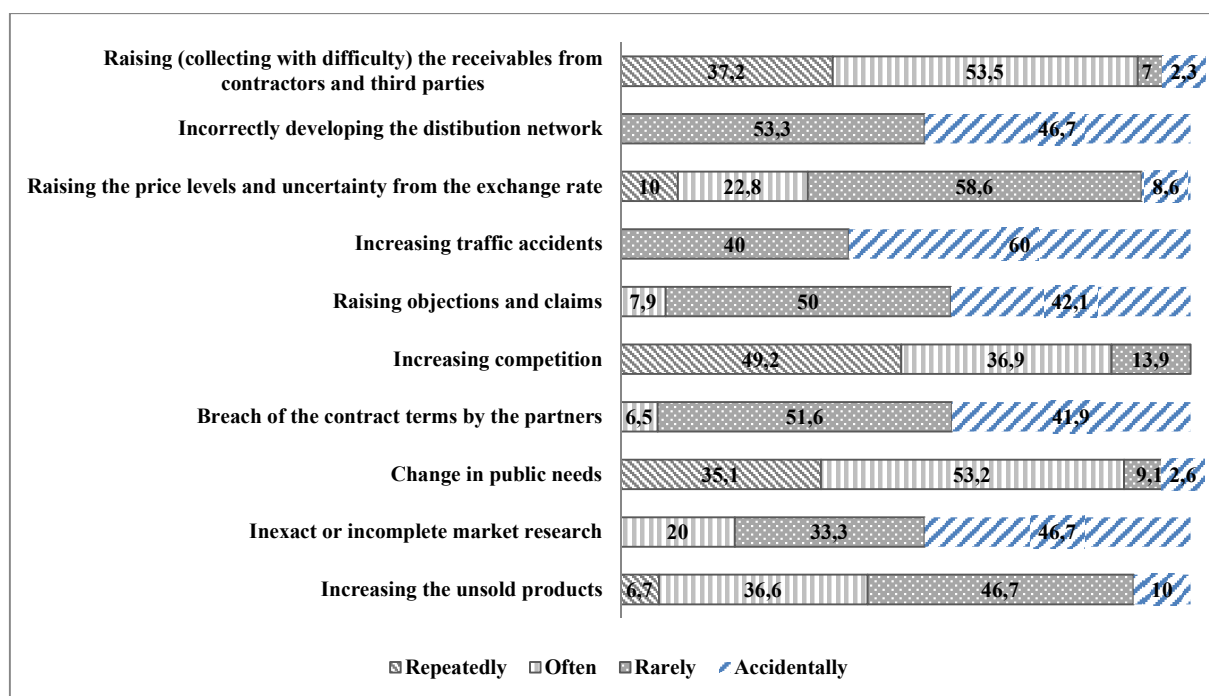


Fig. 2. Structure of Bulgarian industrial enterprises according to the frequency of occurrence of risk situations regarding their market behaviour

leads to unfavourable characteristics and dimensions of market positioning, company reputation and public image, the competitive power of the product portfolio and of industrial enterprises as a whole, their cash flows and financial results.

Regarding *competition* as the major risk is not accidental, since with the liberalization and opening of markets the global competition becomes more intense both in terms of product proposals and the development of marketing strategies [2]. This inevitably affects the positioning of the products of Bulgarian industrial enterprises and leads to demonstrating certain behaviour on the market. Bulgarian industrial enterprises offer their products both on domestic and international specialized markets. Small entities (including micro entities) sell their products mainly on the domestic market, while the production of medium- and large-size enterprises is predominantly export-oriented. The share of economic entities whose production is sold both on domestic and international markets is 65.5%, while 34.5% of them are focused entirely on domestic markets. The main export markets are the EU Member States – Greece, Romania, Germany, France, Great Britain, Italy, Austria, as well as the non-EU countries – Turkey, Macedonia, Serbia, and Russia, which further strengthens competition and puts Bulgarian industrial enterprises at risk.

At the same time, the fact that industrial entities in Bulgaria comply with the *change in public needs* substantially contributes to the existence of negative indications and to the increase in their risk exposure. A large number of Bulgarian industrial enterprises (77%) switch to behaviour that can guarantee them greater security

and flexibility in conditions of changing public needs. They aim at changing and expanding their product range and nomenclature, in order to keep and develop their market positions. Moreover, the majority of industrial enterprises offer additional variety of extras (possibilities) to their customers as due to a reduced ability to pay, they are becoming more rational and more careful in their choice of goods.

One of the biggest risks, related to the market behaviour of industrial enterprises in Bulgaria, is the *increase in receivables from contractors and third parties*. This risk raises a number of difficulties, some of which, to a certain extent, affect the development, survival, and the prospects of industrial enterprises. It creates a chain reaction that will inevitably lead to a shortage of working capital, needed to maintain current production activities, and timely covering of costs related to producing and selling products [3]. At a certain extent all this negatively affects the production activities of enterprises and the provision of sufficient funds for the full payment of their debts. There is an extremely high level of cash deficit and at the same time a low level of liquidity, which further impedes Bulgarian industrial enterprises to timely and adequately demonstrate a market behaviour that provides the implementation of the company's intentions.

It should be borne in mind that the other risks are relatively static. They occur comparatively rarely or are accidental, but they should not be underestimated, neglected or uncontrolled. Otherwise, due to the high dynamics, uncertainty and complexity of the environment in which industrial enterprises operate, they could increase their size and power of influence, which will

lead to serious negative consequences in the adoption of a particular pattern of market behaviour.

The data in the study shows that the effects of risks, associated with market behaviour, are of marked *financial nature* for Bulgarian industrial enterprises (see Table 2). Dominant are the risks which generate losses, leading to problems with their coverage and to reducing

the positive financial result. This invariably results in negative financial effects and a number of lost profits for industrial enterprises. Such manifestations affect the implementation of the marketing objectives (in strategic and tactical aspect), hence – the overall activity of the industrial enterprise.

Table 2

Extent of the consequences of the risks occurred regarding the market behaviour of Bulgarian industrial enterprises

| Extent of the consequences | | Respondents Share, % |
|----------------------------|---|-------------------------|
| <i>High risk</i> | Financial consequences for the organization lead to significant losses and a negative financial result | 40.5 |
| | Affects the parties concerned to a great extent | 13.1 |
| | Significantly affects strategic objectives | 5.9 |
| <i>Medium risk</i> | Financial consequences give rise to losses which lead to problems related to covering them and to reducing the positive annual financial result | 45.2 |
| | Moderately affects all parties concerned | 15.5 |
| | Moderately affects strategic objectives | 40.5 |
| <i>Low risk</i> | Financial consequences for the enterprise find expression in slight losses and do not affect significantly the annual financial result | 14.3 |
| | Affects at a very low extent the parties concerned | 16.7 |
| | Slightly affects the strategic objectives of the enterprise and its daily activities | 17.9 |

In this regard, it is necessary to develop and implement an adequate and reasonable system of risk management, which enables the achievement of a timely response to the occurrence of unfavourable market situations and the use of adequate tools to counteract specific risks as well as to limit and reduce the unfavourable effects of their occurrence. This management system should be oriented to effective protection (mostly economic) of the industrial enterprise from unwanted intentional or accidental events as a result of the demonstration of a specific behavioural pattern of target markets, which cause certain disadvantages, damages, and losses. For this purpose, it is necessary to deeply and objectively study, analyze and monitor the development of the existing risks, which would limit or prevent the demonstration of risky market behaviour. It is necessary to gain knowledge of the areas at high risk, to carry out science-based analysis and assessment of the degree of risk, and on this basis to develop a preventive mechanism. This will help to outline the direction, to focus efforts, to define the vision and priorities of the industrial enterprise regarding the formation of adequate market behaviour.

Creating a clear vision for the management of risks, associated with market behaviour, enables the achievement of a number of positive effects and adequate positioning in the context of rapid and difficult to forecast changes in the behaviour of the major market participants. Practically, this means building effective risk management, allowing early identification of potential risks and implementation of successful preventive activities. Regardless of the established theoretical formulations and models of implementing market behaviour and policy in the field of risk management, a fundamental principle for achieving success is the pursuit of individual approach. Adequate and reasonable policy is needed as well as a wise use of appropriate tools, consistent with

the state and potentialities of the entity. Practically, the focus should be on the following:

- developing a strategy for market behaviour risk management, which will facilitate the achievement of the enterprise's objectives;
- integrated and effective management of risks related to the market behaviour, and providing useful results for the operational management;
- studying stochastic phenomena of specialized markets and market participants;
- strengthening the organizational culture and achieving understanding by the managers at all levels of the need and benefits of their active participation in the activities related to market behaviour risk management;
- increasing the knowledge and expanding the skills of all participants in the process of risk management;
- motivating participants, enhancing the dissemination of best practices in risk management;
- stimulating the introduction and implementation of adequate and effective control mechanisms regarding the implementation of the risk management strategy;
- streamlining the process, updating the approaches, methods, tools, and instruments used to manage market behaviour risks;
- ceasing activities, accompanied by negative and insoluble risks or avoiding activities which are known to cause risks of an unacceptable level or are not subject to treatment;
- faster implementation of measures and restrictions, leading to the elimination or reduction of the negative impact of market behaviour risks;
- transferring the risk to a specialized institution that assumes responsibility for a full or partial compensation of the effects of market behaviour risks;

- expanding the field of implementation and the sources of corporate earnings, hence reducing the risk;
- creating own (internal) reserve funds to cover the damage that occurred as a result of the demonstration of corporate behaviour on the market or markets;
- using modern forms of joint businesses through which industrial enterprises can transfer their market behaviour risks to the other party (partner) in order to share the responsibility for any consequences of their occurrence, etc.

For Bulgarian industrial enterprises, proper risk management is a key factor, having great influence on the following: raising the level of manageability of businesses; reducing opportunities for speculation; improving the quality of decision making; increasing the effectiveness of forecasting, including by the way of accumulating an information base of the existing risks; providing company associates with a set of comprehensible and clear criteria to assess potential risks; using a system for assessing the implementation of the tasks in the field of risks as a tool to motivate staff, etc.

Conclusion. The development and implementation of an adequate system of risk management enables industrial enterprises in Bulgaria to cope with a great number of challenges and hazards associated with their market behaviour. They will be able to limit the difficulties more precisely and faster and isolate the weaknesses in their operation; they will also implement policies, providing the achievement of better business results and demonstrate a more flexible and competitive model of market behaviour. Otherwise the problems of Bulgarian industrial enterprises would deepen.

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Иванова, З. С. Риски, пов'язані з ринковою поведінкою болгарських індустріальних підприємств

Болгарські індустріальні підприємства функціонують в умовах виключної конкуренції глобальних ринків. Це безумовно збільшує ймовірність настання безлічі ризиків та збільшує ступінь впливу ризику. Ціль даної статті – виявити деякі з основних ризиків, що супутні демонстрації відповідної ринкової поведінки з боку болгарських індустріальних підприємств, надати результати аналізу впливу ризику та проблемні області їх ринкової поведінки, а також обґрунтувати можливості впливу на ризики.

Ключові слова: ризик, управління ризиком, ринкова поведінка, болгарські індустріальні підприємства, цільові ринки, бізнес середовище.

Иванова, З. С. Риски, связанные с рыночным поведением болгарских индустриальных предприятий

Болгарские индустриальные предприятия функционируют в условиях исключительной конкуренции глобальных рынков. Это неизбежно повышает вероятность наступления множества рисков и увеличивает их степень подверженности риску. Цель настоящей статьи – выявить некоторые из основных рисков, сопутствующих демонстрации определенного рыночного поведения со стороны болгарских индустриальных предприятий, представить результаты анализа подверженности риску и проблемные области их рыночного поведения, а также обосновать возможности воздействия на риски.

Ключевые слова: риск, управление риском, рыночное поведение, болгарские индустриальные предприятия, целевые рынки, бизнес-среда.

Ivanova, Z. S. Risks Associated with the Market Behaviour of Bulgarian Industrial Enterprises

Bulgarian industrial enterprises operate in extremely competitive global markets. This inevitably increases the likelihood of the occurrence of a number of risks and increases their level of risk exposure. The purpose of this article is to highlight some of the main risks accompanying the demonstration of a certain market behaviour of Bulgarian industrial enterprises, to present the results of analyzing the risk exposure and the problem areas in their market behaviour, and to justify the opportunities for affecting the risks.

Keywords: risk, risk management, market behaviour, Bulgarian industrial enterprises, target markets, business environment.

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