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Project management under risk

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Abstract

The paper analyzes the current aspects of project management under risk. The empirical base of the research is the advertising agency LLC “22 VEK PLUS”. To improve the efficiency of project management in an advertising agency, it is advisable to introduce a matrix (mixed) structure. It was found that spontaneous formation of project teams becomes one of the problems in the company’s work when implementing advertising activity. This leads to uncoordinated project implementation: the lack of common terminology and a common understanding of the project management principles, also the lack of a clear delineation concerning the areas of responsibilities.

Keywords: Project, Project management, Project risks.

Gestión de proyectos bajo riesgo

Resumen

El documento analiza los aspectos actuales de la gestión de proyectos bajo riesgo. La base empírica de la investigación es la agencia de publicidad LLC "22 VEK PLUS". Para mejorar la eficiencia de la gestión de proyectos en una agencia de publicidad, es aconsejable introducir una estructura matricial (mixta). Se descubrió que la formación espontánea de equipos de proyecto se convierte en uno de los problemas en el trabajo de la empresa al implementar la actividad publicitaria. Esto lleva a una implementación descoordinada del proyecto: la falta de una terminología común y una comprensión común de los principios de gestión del proyecto, también la falta de una delimitación clara sobre las áreas de responsabilidades.

Palabras clave: Proyecto, Gestión de proyectos, Riesgos Del proyecto.

1. INTRODUCTION

The modern concept of project management as one of the key functional areas of project management defines the area of risk management (DAN OFORI, 2014). In the economic literature, as well as studies of the financial and economic performance of companies, there is no uniform analytical framework for interpreting the risk components of project activities (ANDREW EDKINS, JOANA GERALDI, PETER MORRIS & ALAN SMITH, 2013). This circumstance limits the practice of assessment, insurance and risk prevention in a project, which makes it relevant to study the trajectories of improving project management in high risks and environmental uncertainty conditions (CARLOS EDUARDO MARTINS SERRA, MARTIN KUNC, 2015; GIORGIO LOCATELLI, GIACOMO MARIANI, TRISTANO SAINATI, MARCO GRECO, 2016).

A general interpretation of the notion “project risk” includes consideration of conditions and factors affecting a project and its elements, as well as possible unforeseen events that constitute a threat of damage and, as a result, impede the achievement of the objectives of the project activity (MISHRA P.K., 2016; MARMIER F., GOURC D., LAARZ F., 2013). The nature of risk occurrence is primarily related to the likelihood of financial losses due to the predictive nature of expected cash flows and the volume of resources used (RODNEY E., DUCQ Y., BREYSSE D., LEDOUX Y., 2015). A separate difficulty is the need to forecast labour costs, taking into account the specifics of project personnel management (MARTIN OLLUS, KIM JANSSON, IRIS KARVONEN, MIKKO UOTI & HELI RIIKONEN, 2011). The human factor introduces additional uncertainty into risk diversification processes, and in reserving funds for covering contingencies emerging in the course of project activities (ANDRONICEANUA A., RISTEAA B., MASCU UDA A M., 2015). The project risks may include errors in the actions of the project management team: the available source data were incorrectly aggregated, errors were made when the decision-making model was selected and built, or the algorithm for using it was determined (TARIQ A. OUN, TIMOTHY D. BLACKBURN, BILL A. OLSON & PAUL BLESSNER, 2016; KIRILLOV, A.V. et al., 2017). Additionally, the risk of making a non-optimal decision may be superimposed on risks that arise in an uncertain situation or when information is not complete. At the same time, the risk of an incorrect decision is greatly increased under uncertainty conditions, when there is only an approximate (probabilistic) assessment of the initial data, the initial conditions are multivariate, as the decisions themselves are, and also, when the selected probability distribution model

in the considered processes, which determines the outcome of the decision, is inadequate (INGASON, H.TH, & SM.M. SHEPHERD. 2014).

Thus, the activities of the project manager for accounting and minimization risk should be based on the assessment of:

- The probability not to achieve or deviate significantly from the goals that were set for the project;
- The probability of not achieving the established technical, economic, production and other indicators for the project;
- The probability of obtaining material and financial damage when the uncertainty of environmental conditions is high enough (RUMESERA D., EMSLEYB M., 2016; WILSON E., J. MCDONOUGH, ALLBEE W., 2003). In this case, it is necessary to take into account the pattern: when the magnitude of one of the project risks changes, this leads to a change in other risky components of the project activity.

2. METHODOLOGY

The authors of the paper attempt to critically comprehend the modern aspects of project management under risk. The company “22 VEK PLUS” is defined as an empirical base of the research. This full-service advertising agency has been operating in the market since 2016. Its activity has a project-oriented nature, and it proceeds under conditions that have a high degree of uncertainty and risks of non-compliance. An economic analysis of the company's activities in the existing market, expert assessment of the risk components of the

project activity, modelling possible directions for optimizing the company's project activity, as well as forecasting possible changes in the case of the implementation of the proposed solutions is defined as the leading method of research.

3. RESULTS AND DISCUSSION

In different periods, there were changes in the shares of income brought to the company by various lines of business. Initially, the ratio of development and production was 50/50. Later, this proportion changed in the direction of increasing revenues from the implementation of advertising campaigns and production. Today, the situation is reversed - the greatest profits of the company are brought by creative developments - about 60% of the total.

The company uses a linear organizational structure: each group of specialists is managed by one manager. The supreme management body to which the heads of areas and divisions are subordinate is the director of the company. The personnel capacity of the company is 17 people, of which 5 are managers (not counting the director) and 12 are specialists (designers, production workers, copywriters, managers working with clients). Only 10 specialists of the company have specialized education, the rest of the staff have a higher education not related to the current activities of the company. During the period of seasonal activity or when conducting resource-intensive events, the company invites freelancers to work with whom contracts are concluded.

For the most part, these employees are invited to unskilled labour and are promoters, telemarketing operators, and porters.

The company practices a system with individual bonuses based on labour results, team participation in management decisions by the company's management; various motivating measures are used to increase employee's interest in the work, such as joint field trips, sports, and collective participation in various city and community events. The company has been working on the market for more than 3 years, but still mainly performs one-time orders - the number of regular clients placing orders in a regular mode is about 15%, which indicates insufficient client loyalty and insufficient coverage of the territory by the company.

The company's revenue for 2018 amounted to 16.3 million rubles, which is 7% higher than in 2017, but, primarily, due to inflationary growth (Table 1).

Table 1: Company's revenue figures, rub

Type of income	2016	2017	2018	Total
Development and implementation of an advertising campaign	2,938,000	3,171,480	3 378 600	9 488 080
Development, production and installation of advertising structures, printing.	8,136,000	8,705,520	9 356 123	26 197 643
Creative development	3 390 000	3 675 450	3,898,385	10,963,835
Total sales	14,464,000	15 552 450	16 633 107	46,649,557

More clearly the dynamics of sales growth is reflected in Figure 1.

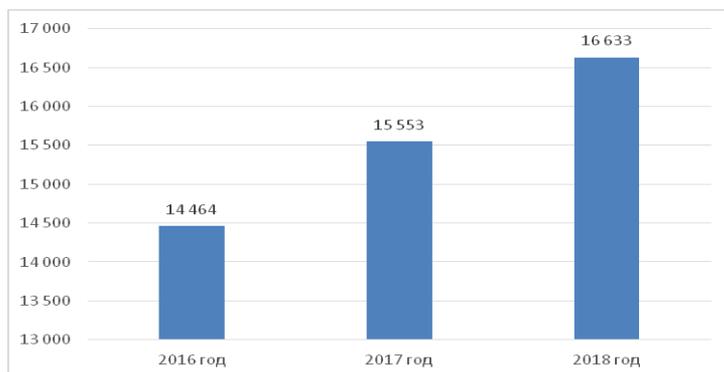


Figure 1: Company's revenues, thousand RUB

The main share in the company's revenue was the development, production and installation of outdoor and printing advertising (56% of total sales). Creative development and development of advertising company was 24% and 20%, respectively. The production cost of the company grew insignificantly over the course of 3 years. Significant growth is found in indicators of business expenses due to the intensification of the company's promotion in 2018 (Table 2).

Table 2: Company performance, thousand rubles

Name of the indicator	2016	2017	2018	Dynamics in 2017, thousand rubles	Dynamics in 2018, thousand rubles	Dynamics in 2017,%	Dynamics in 2018,%
Revenue	14,464	15 553	16,633	1,089	1,081	8	7
Cost of sales	13,682	14,664	15 681	982	1,018	7	7
Gross profit (loss)	782	889	952	107	63	14	7
Selling expenses	723	311	499	-412	188	-57	60
Profit (loss) from sales	59	578	453	519	-125	881	-22
Profit (loss) before tax	59	578	453	519	-125	881	-22

The main part of the company's fixed costs was the payroll costs (63% of the total costs) (Figure 3), taxes on wages and rent (19% and 13%, respectively). Utility costs do not exceed 5% of the total costs. To a greater extent, variable expenses of the company are the costs of production (90% of the total amount). Administrative expenses are no more than 1%. The net profit indicators are marked by stable growth, except for revenues in the "failed" periods - in particular, the fall in demand for the company's supply is observed in January, June, and July. But attention is drawn to the fact of profit decline in 2018 (Figure 2).

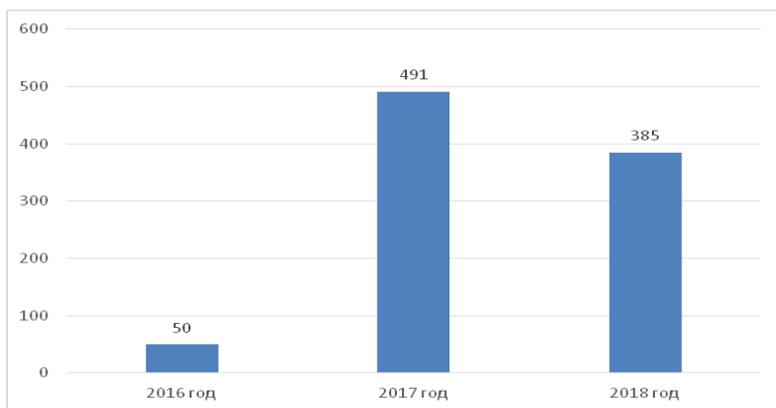


Figure 2: Net profit of the company, thousand rubles

The company's profitability in sales is extremely low - only 2.72% in 2018. Since the company's activity was initially focused on ensuring stable wages for the team members, the result was appropriate for the owners up to a certain point. However, at present,

the company is experiencing a need for increased revenues and profitability.

Characteristics of the project activity in the company

Today, the company “22 CENTURY PLUS” is applying a standard approach to the project work of an advertising agency, when works on a project are headed by an account manager and a project manager. This is a fairly common functional combination, which is most often found in the advertising field and has both advantages and disadvantages. The reason is that clients are turning to an advertising agency not to create a specific product but to achieve their business goals. Clients are interested in how these goals are achieved only in terms of not harming the reputation of their brand and complying with current legislation. The technical part of a project is only a means for the client to achieve their main goal, and should not be in the center of their attention. This approach expresses the utmost focusing of advertising agencies on the client’s interests: they communicate with the clients using the “language” that is understandable to the latter, and not imposing their own.

An account manager is a link between performers and a client. The account manager is responsible for the formalization of the client's task for the performers and controls the quality and timing of the project's delivery to the client. The technical part of the work is supervised by a project manager. Based on the information he/she

receives from the account manager, he/she coordinates the activities of the performers.

This type of project management has certain risks:

1) The process of powers distribution between two persons often leads to that the responsibility is eroded, and this harms the project.

2) A situation often arises when the account manager is between two fires: is under pressure from the client, and has obligations to account for the resources and capabilities of his/her employer. Keeping a balance between necessity and opportunity is a kind of conflict of interests that takes a lot of energy. All this leads to that the project becomes the subject of competition between the client's representative and the project manager. They seek to "push through" the account manager and impose their vision of the final result on the former. Therefore, high professional requirements are imposed on account managers. They must address all issues related to the economic rationality and technical feasibility of the project.

Project activities to create an advertising campaign begin with the collection of information. Initially, a client collects information about the agency, deciding whether to trust it. If the client is satisfied with the information received and decides to interact with the agency, then the agency already collects information about the client. This

information can be obtained both from the client and in the market research conducted by the agency itself. The more complete and structured the information is, the clearer the client's tasks and the higher the likelihood of the agency's quality work.

The first stage of the project is carried out in the sales department. If a contract is concluded, then the client manager is assigned a category (grade) A, B or C (it depends on what the budget, the size of the company, its importance for the agency, the number of services ordered). Dividing clients into categories does not affect the level of service. All clients receive sufficient service as part of the ordered ones. But clients with the highest category, A, receive additional agency attention. This is necessary to increase the loyalty of such companies. If a sales manager leads a client of the category a, then a meeting will be arranged with it, where the presence of an account manager, strategist, sales manager and SEO-specialist will be mandatory. Here the team gets acquainted with the client, reaching agreements, and discussing the key points. This helps a smoother launch of any project, as well as provides an opportunity to survive the critical first 3 months, which is the period when clients are most likely to leave. For a client of category B or C, the communication is carried out within the task: the account manager calls the client, appears and informs that it is now the leader of the project and is willing to assist with any issue.

In the end, the project is transferred to the client service department, which transfers it to production. Many problems may arise

when transferring a project from a client and on the way to the production department:

- A brief was not delivered → Client is dissatisfied with copywriting.
- The estimates were not delivered → Project costs exceeded the plan.
- The meeting with the client of category A was not held → the client is not satisfied with the service.
- We met with clients of category B or C → we spent time on projects with low margins.
- KPI was not passed to production → the client did not get the result it has expected.
- The client's grade was not transferred to production → the strategy was not updated after 3 months and the client was lost.

At the stage of project execution, the agency's work begins with the conclusion of a contractual relationship. Any approved plan must be legalized and agreed upon from a financial point of view. The account manager must agree on the procedure for carrying out the work and determine its financial conditions.

Another important activity of the account manager is the coordination of the work with third parties. A full-cycle advertising agency often does not own a media, a production base, or a narrow profile advertising business. If the agency owns these components of a business, then this factor deprives it of objectivity, since it becomes directly interested in selling what it owns. The agency hires contractors to perform works which are associated with the process of direct implementation of projects. They can perform the tasks that the agency formulates for them according to the wishes of the client.

In the process of legal registration of these relations, the most important task of an account manager is to agree with the terms of the contractor and the client. The terms and conditions of performance, the amount and procedure for payment in contracts with them, must be the same. The client's conditions should be known to both the head of the department responsible for the execution of the order and the contractor working for the agency. After all the conditions are met, and with the legal approval, the account manager begins to implement the client's advertising strategy. For the account manager, it is to develop intra-agency briefs, monitor the stages of work performed by departments and contractors, constantly and daily be in touch with the client, with which the emerging subtleties of works in the process of executing the project are coordinated.

At the same time, despite the exclusive project nature of the activities for creating and implementing advertising campaigns as such, project teams are not created at the enterprise - they arise

spontaneously. Specialists of the relevant specialties are included in the project team if there is a request for the implementation of work by their specialty. The company does not have a methodology for the implementation of projects consisting of a system of methods, mechanisms, regulations that standardize the organization's work on the implementation of projects and include the following documents:

- The root document which contains a description of the general principles of project management, a classifier of projects, a description of the roles of participants in project activities, a general map of project management processes;
- The document which describes in detail all the processes of project management, regulations, templates, job descriptions, and other regulatory documents.

The lack of a unified methodology leads to uncoordinated project implementation: the lack of common terminology (staff communication takes place in different “languages”), the lack of a common understanding of project management principles, of a clear delineation of responsibilities of project participants, and the detailed description of project management processes. If a project is replaced, the possible transfer of information about the project to a new manager is difficult. The factors listed above lead to a decrease in the effectiveness of project management and the organization as a whole. There is a lack of involvement of specialists in the implementation of the project - this activity is perceived as current, payable in the volume

of wages, which indicates a lack of motivation of the participants of the project teams.

Evaluation of the project activity effectiveness of the company.

When assessing the effectiveness of projects implemented in an advertising agency, the following characteristics should be considered:

- Time (time deviations from the project schedule);
- Quality (deviation of the quality of the product from the project documentation);
- Risks (quality of management and response to project risks);
- Staff (human resource efficiency);
- Resources (compliance of costs with planned indicators and obtained results).

Per the company's internal reporting, for 2018, 22 projects were implemented, representing a comprehensive advertising campaign. For 14 projects, no time deviation was found. For 8 projects, the following deviations were identified in terms of implementation:

- 1) Delay for 1 week of delivery of layouts in print and production.

2) Delay for 5 days of the approval of the campaign and, as a result, the implementation of the tasks set in urgent mode.

3) Delay for 4 days at the start of the advertising campaign in the media (Internet promotion).

Consequently, 36% of the projects were completed with violation of the deadlines, which did not critically affect the launch of advertising campaigns but led to increased costs.

To assess the quality of completed projects, an interview was conducted with the clients of the agency regarding their satisfaction level with the quality of solving the assigned tasks. 18 clients took part in the survey. The survey results showed that 10 clients rated the quality of completed projects at 100% (10 points out of 10), 2 clients gave 9 points, 3 clients answered that the quality was 7 points, 2 clients were satisfied with 6 points and 1 more the client was satisfied with only 5 points. Consequently, there is a potential for improving the quality of projects, since only 56% of clients are completely satisfied with the quality of work performed.

4. CONCLUSION

Thus, the authors analyzed the specifics of risk management in a project using the example of a full-cycle advertising agency. The components of risk management in the project were evaluated based

on the analysis of the company's project activity, evaluation of its effectiveness under conditions of uncertainty and risks of non-compliance with client requirements. Currently, the scientific literature does not pay enough attention to the development and approbation of measures for the implementation of design solutions under risk conditions, and the assessment of their economic efficiency.

The results showed that to improve the efficiency of project management in a company under risk conditions, it is first necessary to analyze the existing organizational structure and to plan its changes, which will make it possible to ensure prompt response to possible changes in the external environment of the project. The study also showed that the introduction of an automated project management system (1C: Project Office Management) will allow the company to model the resource constraints through the introduction of capacity into the system for each of the functional roles, as well as analyze the planned and actual resource utilization. The study showed that, in the face of risk, project management should "strengthen" the ongoing monitoring of project activities, which will make it possible to identify emerging risks on time and respond promptly to them.

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