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MANAGEMENT SYSTEM AND ORGANIZATIONAL RISKS IN PUBLIC ENTITIES

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***Abstract**: In its historical dimension, risk is a fresh concept and at the same time one of the few business terms with direct origin in the commercial and financial environment and not derived from the military, psychological or scientific vocabulary. While in the 1970s "risk" was a notion associated with natural sciences, and less with the financial and insurance theories, in recent years, the concept of risk has gained importance among decision-makers in the business world. In this context, American economists Harry M. Markovitz and James Tobin, winners of the Nobel Prize, played the role of pioneers. Their works focused on the concepts of efficient portfolios (the portfolio that provides the highest profit for a given level of risk, or the equivalent of the lowest level of risk for an expected return). However, the more sophisticated the methods of scientific risk assessment become, the more attention gives the society to conflicts of risk acceptance and evaluation technologies. The concept of risk gained general connotations that enabled it to extend to diverse areas within modern society structures.*

***Keywords**: risk management, financial insurance, decision making process*

1. The concept of risk and risk management

Why did the concept of risk gain such great importance in modern society? Why is modern society defined as a "risky" society? The German sociologist Nicklas Luhman brought a substantial instrumental contribution, by launching the idea that "risk" is a general form in which society describes its future. According to Luhmann, risk is a concept that should be differentiated from danger. While risk indicates a possible future loss due to the decision of another agent, danger is related to the possibility of a loss caused by indecision. To sum up, Luhmann's thesis asserts that future is totally dependent on the decisions of the present. This approach has important implications for risk analysis.

In this context, risk is a problem related to the decision-making process. The analysis is therefore linked to the general decision-making problem under conditions of uncertainty. Risks do not exist objectively, they are built by decision-makers, while parties involved in the decision-making process, potential non-participants in the process but targets of its effects, may perceive this phenomenon as a danger. As indicated by the psychological studies of risk perception, this analysis has a significant impact on attitudes in front of potential hazard. The possibility of reaching a consensus on risk decreases significantly. A larger volume of information, transparency and active communication with the audience cannot solve conflicts; they can only reduce conflicts regarding risk, as the problem lies in the difference of content of the phenomenon approached by decision-makers and decision receptors.

Any entity sets up sets its targets, goals to be pursued, at the moment of its being established. In this respect, it sets one or more general objectives, the results that are expected to be obtained both on the whole and on the structure level. At the operational level, each general objective breaks down into derivative and specific objectives. It is very important that the latter can be defined as precisely as possible and can be measured (measured) by associating some indicators.

Achieving these goals involves carrying out activities, activities that are the result of the work done by the people (the employees of the entity). Each activity is associated with certain risks. Knowing the risks facilitates the effective and effective achievement of the entity's objectives. It is clear that if we know the threats, we can make a hierarchy of these, based on the probability of occurrence, the extent of the impact on the objectives and the costs associated with the measures intended to reduce their chances of appearing or to limit the undesirable effects. The lower the probability of occurrence of risk, if it occurs, the impact would be insignificant; the activity to which risk was associated would be more "healthy", more secure.

Risk is "a problem that has not occurred yet, but which may arise in the future, in which case the obtaining of previously fixed results is threatened or increased. In the first situation, risk is a threat, and in the second, risk is an opportunity. "

The identifying and assessing risks, as well as the way to react to them, namely to implement internal control means in order to minimize or mitigate in the event of occurrence concerns their management.

Risk management shall be subordinated to the goals of the entity that form an integrated, coherent and convergent system aimed at achieving the overall objectives, so that the levels of activity are mutually supportive. This approach allows the organization to define and implement a risk management strategy from top to bottom and to be integrated into its routine activities and operations. Risk management shall therefore become an integral part of the manner of organization management. The management personnel, regardless of their hierarchical level, shall develop the skills they need to manage risk-based principles. Moreover, staff as a whole need to be aware of the importance that risk management has in achieving their own goals.

Risk management or risk management refers to "all processes for identifying, assessing and assessing risks, setting responsibilities, taking mitigation or anticipation measures, periodic review, and monitoring

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progress", and stands for the major responsibility of the management of the public entity to ensure the implementation and proper functioning of these processes.

The responsibility of implementing the risk management system so that risks are identified, assessed and treated to reduce the exposure level and maintain it at an acceptable level rests with the management of the entity. It should design and implement a risk management system focused on the identification, assessment and treatment of risks that threaten the achievement of the objectives set at all organizational, strategic, general, specific and individual levels. Ensuring the achievement of the objectives requires the establishment and implementing of adequate and sufficient control devices, so that the risks associated with the objectives are controlled and maintained within the accepted limits.

The internal auditor has the role of examining and evaluating risk management processes adopted by management, of checking that they are sufficient and effective, and of issuing reports and recommendations for improvement. There are situations where the internal auditor helps the entity to identify, evaluate and implement a tool of risk and control management to manage these risks in the case of counseling missions.

2. Risks from an entity's management perspective

The definition of risk has many variants in the specialty literature. Thus: it is "the possibility of reaching a danger, having to face a tribulation or incur a loss, the risk is the practical threat that an event will affect the ability of a company to function and to pursue its fulfillment strategic objectives. The risk generally is triggered not so much from the probability that something good will not happen, but from the possibility that something wrong might happen. Moreover, "economic life is governed by uncertainty and any projection of future events is, by definition, hampered by the risk of not being achieved in the foreseen parameters.

It exists permanently and does or does not depend on the created conditions. The risk is present in all actions and events of mankind. The risk is in a constant change, it evolves in complexity, in addition to traditional exposures to hazard, adding operational, financial, strategic, market, country, legislative, human, fraud risks, and the complex character of risk can be triggered by several factors which in the literature are grouped into named macroeconomic factors that are called external factors and to microeconomic or internal ones.

The external factors are:

• economic factors determined by: interest rate changes, inflation, insurances, taxes, sudden economic changes.

• policies determined by: ambiguous and changing legislation, certain protectionist policies, regulations and their observance, sectoral policy priorities.

• competitors determined by: market changes, types and offered services, fashion trends, media use, customer requests and expectations, contract requests.

The internal factors can be considered:

• social determinants of: employees' ethics and beliefs, individual culture of involved persons regarding risks, employee pressure by wages, salaries or inadequate work, frequent staff changes, overly intimate relationships among employees.

• economic factors determined by: changes in computer processing, substitution of materials, better security of new products and technologies, a better operating system with regard to operating procedures and methods, the need to reduce losses, the expectations of investors and shareholders , the adopted strategy.

• physical factors determined by: the destruction of buildings, fraud by the acts or intentions of the employees or of the clients.

In general, business leaders are people who take risks consciously, because they get to that position as a result of successes and a managerial culture acquired in the past. Risk is a challenge for managers, which means that they take a clever risk. In fact, leading a successful business means taking advantage of the most correct business opportunities, according to company's financial and managerial capabilities. If modern management's conception is both art and science, risk management is also a balance between art and science. This is because it is important both to estimate and model the risks that also have an important role in decision-making, but also because too much emphasis on risk assessment may become inadequate. Thus, based on reasoning and experience, a manager shall strike a balance in this regard.

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Risk management is a matter of balance between processes and people. A company can survive and even thrive if it has quality people, even if it has poor management methods and proceedings. The other way around is not valid. In fact, the risk of a company is determined by the actions and decisions of its employees.

Risks are of several kinds and they are determined by different criteria. The risk classification for any kind of business is done by the extent of their damage:

- the operational risk is a potential risk, which consists in the possibility that during the course of the business, a syncope may arise due to inappropriate management, human errors of the hired personnel, fraud or computer problems.
- the financial risk refers to cash flows that allow business continuity in good conditions. This may include risks related to: interest rate risk; currency risk; the risks of the invested capital; liquidity risk.
- the strategic risk occurs when the strategies adopted by the management are not effective.
- the market risk is the risk of doing business in a particular market type. In this category, the risk of image is important, it can be generated by a series of negative articles related to the company, certain customer complaints and certain rumors. The image risk is very difficult to measure and anticipate, but it can cause serious damage.
- the country risk is the possibility of financial losses in international affairs, due to a country's macroeconomic or political events, the legislative risk refers to potential changes in legislation or regulations that could have a negative impact on the entity.

In the risk assessment process, any manager goes through a series of steps that can be synthesized in the form of the following scheme:

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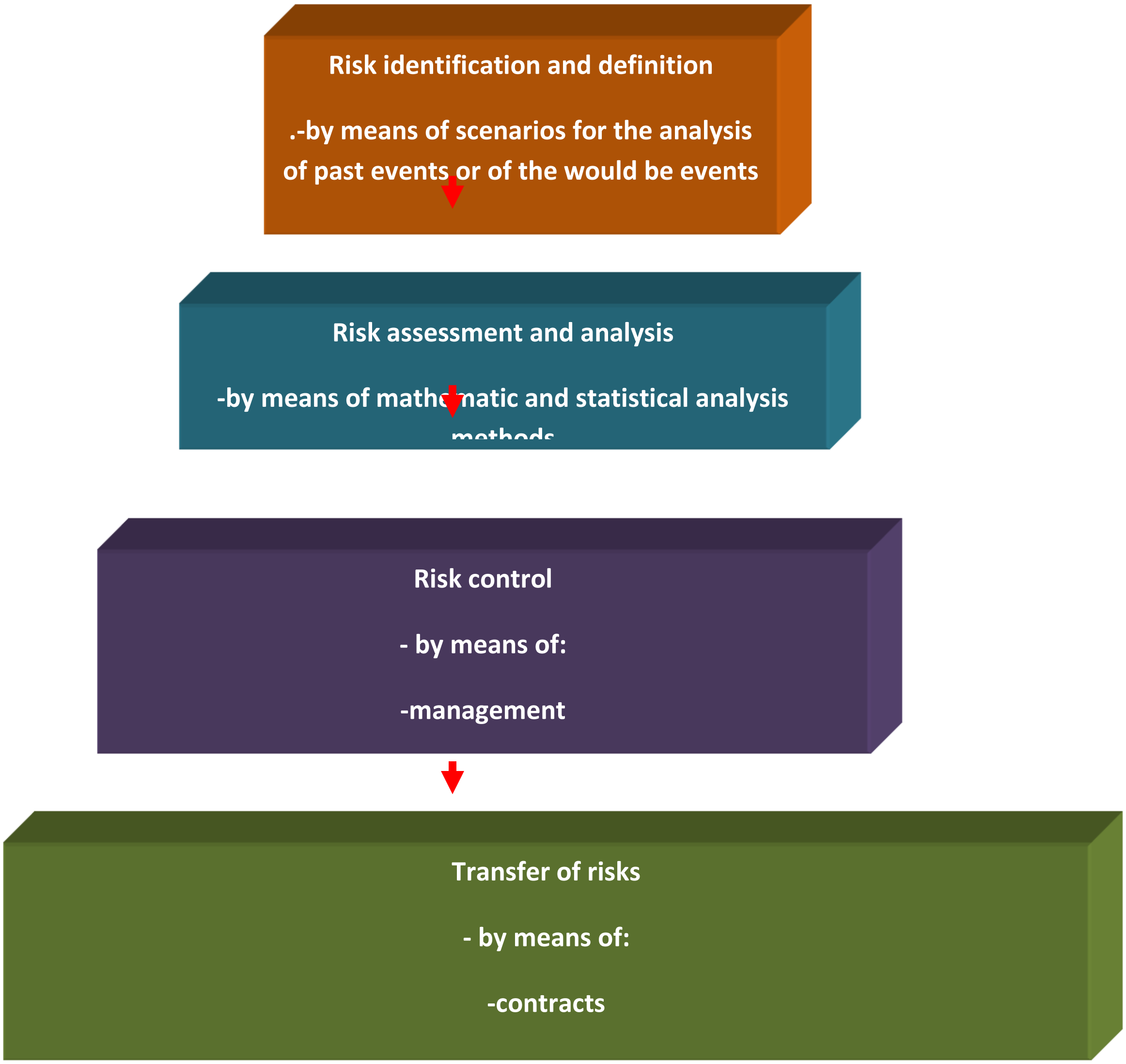

Figure no. 1. Fundamental steps in risk management

• *Identification and definition of risks*

A first step in risk management is identifying the risks that could affect the business environment, companies, individuals. In order to ensure a comprehensive analysis of the carried out work and of the resulting risks, it is necessary to involve the staff of all the departments of the entity, in order to accurately identify the possible risks, as the business dynamics cause new risks.

Identifying and defining risks is an integral part of the strategic planning of the organization that will provide the necessary visibility and strategic focus. Strategic planning is so important in the economic and financial organizations, as virtually this plan "invents" the future, it is a road map that sets forth the future directions towards which the organization is heading. Strategic planning involves four fundamental steps: historical performance assessment; setting precise targets; developing action plans; comparing current and planned performance.

In order to achieve performance and a forecasted profit, risk management analyzes the ratio of risk and output. This action shall include sector-specific instruments and procedures. Neither is the uncertainty neglected, which requires large capital consumption, because it cannot be managed by traditional techniques.

The importance of risk arises from the action of two factors:

• the severity of occurrence of events or actions with adverse impact, which we avoid by developing a protection policy;

• the probability we avoid by developing a prevention policy;

The activity of risk identification differs from one stage to the next in the development of the economic society, also differing according to the size of the organizations. All businesses take into account a risk element that will provide them a potential profit. The way the company treats the different types of risk and the way it decides to manage is an important criterion in establishing the organizational structure of the company and of the approach to act on the market, in customer’s relations and in competition.

However, it is noteworthy that not all have the same appetite for risk. Risk appetite is a general term designed to measure the tendency of individuals to a higher or lower risk. It is determined by a combination of two main factors: individual experience and natural, genetic cast of taking or not taking risk.

If risks are better understood and managed, performance increases in the continuous operation, without any unexpected loss. In the same way like little caution can spare a long treatment. The challenge faced by each society on the very unstable market today is to find time to locate and manage the whole set of risks and then to carry out an effective coordination process.

• *Risk assessment and analysis*

Risk analysis and assessment must be a continuous process. Even if a large number of risks are identified at first, some of them are more important than others. It is important to analyze and assess which of the exposures to the risk have the potential to prevent the company from achieving its objectives.

The analysis is done by:

- identifying all situations that may lead to financial loss;
- developing loss scenarios for the identified events;
- allocation of different risk exposures for each identified item;
- analysis of the historical frequency of producing the same or similar risks;
- frequency comparison with the size of the risk;
- aggregating the level of risk for each identified product or operation;
- when launching a new service or product, its risk is analyzed from the point of view of market demand, cost, and promotion.

Risk assessment is a complex process that uses mathematical and economic techniques and tools. In the case of risk assessment in managerial financial projections, there are various methods of analysis and measurement in risk assessment. Following the analysis, it is possible to note that some of the risks are already well controlled, a fact which should be taken into account in determining the impact they may have on the company. After risk analysis, the risk assessment system is established. There are various methods of risk analysis and measurement in the assessment system. Risk measurement methods vary according to risk categories.

• *Risk control*

In order to conduct a business, the potential risks of the business need to be identified, depending on the attitude towards risk, in which it is desirable to take higher or lower risks. The manager of the company decides how to manage risks. It is conceptually well known that business success depends on taking risks. Without taking a risk, the profit can be quite low. Taking more risks increases the chances of gaining more profits, but also the possibility of equal losses. It's all about keeping a good balance between risk and gain. In fact, it is one of the clearly outlined features of managerial quality. In any activity there is a risk element that cannot be anticipated. For example, when a credit is granted, the bank takes the risk of not receiving the borrowed money and the associated interest. Also when investing in a company by buying shares, the investor assumes the risk that the company will incur future losses or bankruptcy. Assuming a certain risk involves its correct management and is followed by the expectation of a result of: a benefit, through the interest obtained in the case of a bank loan, an additional gain by obtaining dividends in the case of investments in shares, a stronger position on the commodities market and of other stock exchange products.

Risk management requires a unique, centralized, systemic approach. A well-known fact in business is that there are intense pressures in maintaining competitive advantages. Risk is often measured retrospectively, with direct losses serving as a financial unit and planning framework. Risk control starts from the first strategic projection and never ends, because it needs to be done permanently throughout a company's life.

• *Transfer of risks*

The transfer of risks is done through the insurance system, through capital markets, or through syndicated lending centers (for example in the case of bank loans).

Conclusions

Risk identification is a process that differs from company to company being directly related to their size. The sector of medium and small Romanian business faces another issue. They differ in their nature to the big businesses. They often operate with less developed structures, without having a risk manager or a dedicated expert for that purpose. Responsibility for risk is shared at the management level, the financial director being the one who usually deals with all aspects of business risk.

Multinational organizations have risk compartments dealing with risk management, staff coordination, recruitment, employee health and safety, and e-mail. Medium and small businesses have limited resources that lead to a certain position of risk. Business leaders are not in a hurry to implement a risk identification and mitigation system, although they are aware of the risks to which their business is exposed. The fatalist approach to risk can have negative consequences on the financial plan but not only there. The unitary, centralized approach is important in dealing with issues related to business risk. Every company has its own dynamics and is always in a process of change.

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