Social Economic Debates
Volume 5, Issue 1, 2016
ISSN 2360-1973; ISSN-L 2248-3837

The risk associated to public enterprises - between probability and reality

Nicoleta Moise, PhD
Dimitrie Cantemir Christian University, Faculty of Marketing
Email: moise_nicoleta82@yahoo.com

Abstract: The risk management process is made and established by the management of the public enterprise and it is implemented by all staff. In this process is important to identify and to evaluate risks and to establish the risk tolerance that can be accepted depending on the probability of occurrence of the risk and the consequences that may occur.

Key words: management risk, local public enterprises

JEL classification: L32, M40

Responsibility, in accordance with the legislation in place[1], in terms of management and monitoring risks, is determined in charge of management of the pub enterprise.

Implementing the risk management process, in local public enterprises, it is imposed firstly because of uncertainties of threatening nature in achieving the objectives and the environment in which the enterprise works, and secondly because of the fact that the management of risk represent the fundamental element of the corporate governance.

The management of risks is a continuous and structured process in a public enterprise, whose purpose consists in identifying, evaluating, solving and controlling threats that affect the achievement of objectives.

In this respect, the overall objective of risk management is to manage risk and to ensure efficient and effective use of public resources and to protect the public interest and employees by minimizing threats and ensuring the achievement of objectives.

According to this objective, the risk management process implies the following:

a) Risk managing is part and responsibility of the management of the public enterprise;
b) Culture towards risk should be a positive one;
c) Threatens that forbid achieving the objectives must be handled;
d) Decisions on risks are primarily applied.

1 Order no. 946/2005, republished, for approval of the Code of internal control, including management and internal control standards in public enterprises and the development of managerial control systems, published in Official Gazette no. 675/2005

To achieve these requirements, the public enterprise establishes responsibilities, measures to be implemented and reporting systems in the departments. The implemented measures on managing risks long to restrict occurrence of risks and of their impact on objectives of the enterprise.

In the same context, we specify that the purpose of risk management is to identify significant risks associated with the settled objectives and to evaluate and appreciate the capacity of intern control system in maintaining risks in accepted limits.

Properly implementing risk management process leads to:

a) *efficient and effective use of public funds;*
b) *change of leadership style that outside risk treatment measures will design and implement internal control devices to limit their level;*
c) *efficient and effective achieve of objectives;*
d) *building a healthy intern control/managerial system with adequate and functional control measures.*

In the sense of classic theory risks are defined as events, threatening events that can forbid achieving goals or opportunities that can be used in the interest of the company. Regarding the concept of risk, we point out that it has experienced in its evolution, several meanings according to experts in the field, for example:

- James Tobin and Harry M. Markovitz, advocates of separation theory \claim that risk should be addressed by separating assets in risk-free assets and risky assets;
- Nicklas Luhman, German sociologist, notes that "risk is a general form through which society decides its future." Thus, according to Luhmann „future is totally dependent on present decisions”. In this context, risk is a problem related to the decision-making process.
- K. H. Spencer Pickett considers that risk is “choice, not fate” (Pickett, 2006) and that „we are *permanently exposed to risk, it is important to have control on it”.*

Considering the different opinions on the risk concept, so far everyone failed on formulating a definition of risk, generally acknowledged to be unanimously accepted by all specialists in the field. Thus, in practice there are used more risk concepts:

Social Economic Debates
Volume 5, Issue 1, 2016
ISSN 2360-1973; ISSN-L 2248-3837

Risk is everything that can interfere with achieving goals, being in a certain degree a cause of failure and a financially loss (Cohen, 2005). Seen through objectives context risk presents disadvantages, meaning that its existence presumes a potential loss, depending on its impact on activities.

Risk represents threatening for an event or for an action with unfavorable impact on the capacity of the enterprise to succeed on achieving its objectives (Vicenti, quoted by Renard J., 2008). The definition highlights that risk represent a threat that something may happen, an event that follows to be produced if it's not enough controlled and that will have an impact on the enterprise.

Risk is the threaten that an action or an event will negatively affect the ability of one organization to achieve its goals and to successfully execute its strategy. This plain, easy to understand concept considers risk as the chance that a positive or negative event to happen and to affect achieving the objectives.

[1]Phil Griffiths – Risk-Based auditing, Gower Publishing Limited, England, 1998, definition by Economist Intelligence Unit, departament of Britain's government, pp. 17.

Risk represents the possibility or the chance of something to happen that will have an effect on achieving the objectives. The concept highlights the fact that risk can have a negative impact on achieving objectives, in the case in which it represents a threaten, but can also have a positive side that can be exploited.

[2]Phil Griffiths – Risk-Based auditing, Gower Publishing Limited, England, 1998, definition by the Risk Standard of Australia and New Zealand

Social Economic Debates
Volume 5, Issue 1, 2016
ISSN 2360-1973; ISSN-L 2248-3837

In the practice of public enterprises of our country, the definition of risk can be accepted and adopted is as it follows[2]: 'risk represents an issue(situation, event, etc) that hasn't occurred yet, but it can appear in the future in which case obtaining already set results is threatened or maximized'. Also, from the analysis it is found that in the first case, the risk is a threat, and in the second, the risk is an opportunity. The risk is uncertainty about the desired results and should be regarded as a combination of probability and impact.

In conclusion, from the analyze of risk-related concepts, we can say that generally risk managing requires an identification, evaluation, administration and control process of the potential threats, implemented in order to ensure the achievement of the objectives of public enterprises. Also, from the analysis there can be identified some essential characteristics of risks, namely:

a) Risks represent an uncertainty regarding a possible event;
b) Risks manifestation has influence on achieving the objectives of the enterprise;
c) Risks regard both present, influencing managerial decision-making, and the future, influencing the implementation of the decision made;
d) Risks induce the idea of potential loss;
e) Once the risks have manifested, their effects or consequences can't be stopped.

In this respect, it is imposed to specify that, even though the presented concepts are different, they also contain similar element, namely each one of them address risks in terms of likelihood and impact, such as:

- *The probability* represents the degree of each risk, objective or subjective, and can be appreciated as high, medium or low probability. There is a high probability when risk is not controlled, and its manifestation can not be prevented by the public enterprise. Low probability can be attributed to risk given that it is well managed by the enterprise; respectively the implemented internal controls maintain risk at accepted levels.
- *The impact* of the risk represents its consequence on the results (objectives) if the risk materializes. If the risk represents a threat, the consequence is a negative one, and if the risk represents an opportunity, the consequence is a positive one. The risk impact can be appreciated as high, medium or low impact. High impact assumes that risk materializing involves a high level of severity. Medium impact, involves a moderate level of risk for the enterprise. Low impact involves a low severity if the risk occurs

Conclusion

In relation to the above, it appears that the risk is a result of enterprise vulnerability or of its failure to adapt to the environment in which it operates. In practice, the most important aspects on risk are the ones related to the possibility of risk occurrence and the ones concerning the severity of the consequences and the period of time they hold, if risk occurs. In our opinion a series of factors outside of internal control operate on the public enterprise, influencing the achievement of objectives and influence the achievement of objectives. The consequence of these factors is the emergence of typical risks faced by the public enterprise.

2 Implementation methodology ICS - Risk Management, Ministry of Finance, 2007, website: www.finante.ro

References

Griffiths Phil, 1998, *Risk-Based auditing*, Gower Publishing Limited, England

Pickett KH Spencer, 2006, *The Internal Auditing Handbook*, Second Edition, Publisher John Wiley & Sons, III, River Street, Hoboken, USA

Munteanu V., Coordinator, 2009, *Internal Audit at enterprises and public institutions, theory and practice*, Pro Universitaria Publishing House, Bucharest

Niculescu O., coordinator, 2001, *Managerial Information System of Organizing*, Economic Publishing House, Bucharest

Niculescu M., Vasile N., et al, 2011, *Epistemology. Interdisciplinary Perspective*, Bibliotheca Publishing House, Targoviste

Ristea, M., 2004, *Accounting of the firm*, Publishing House Lilly

Ristea, M., Dumitru LP, 2003, *Accounting thorough*, University Publishing House, Bucharest

Roman Constantin, 2004, *Financial management of public institutions*, Vol. I and II, Economic Publishing House, Bucharest

Roman Constantin, 2006, *Financial management of public institutions. Accounting of public institutions*, Issue II, Economic Publishing House, Bucharest

Salmi, J. and Hauptman AM, 2006, *Resource Allocation Mechanisms in tertiary education: a typology and assessment*

Săcărin, M., 2003, *Groups of companies and consolidated accounts of the enterprise benchmarks*, Economic Publishing House

Scarlat C., D. Popescu, 2002, *Romania's EU accession implication on public institutions*, European Institute, Iasi