

# RISK MANAGEMENT – CULTURE AND STRATEGY

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**Abstract:** Nowadays, all firm believes is that is that, the number and the importance of the opportunities are directly proportional the size of the uncertainty that comes with the economic life. The speed of contemporary changes forces the firms to over prove their flexibility, adaptability and a high capacity of learning all the new things. On the other hand, an operational risk management appears as the main way for the firms to anticipate and adapt to uncertainty, regardless the size or sector belonging to.

Besides all this, behind every efficient operational risk program, lies its very strong culture. Thus, the existence of an operational risk culture will always serve as a background to build the components of the operational management of risk in the organizations.

Built on theoretical bases, this article tries to show a very accurate imagine of the four basic attributes of a strong risk and environment culture: leadership and strategy, responsibility and consolidation, people and the communication between them and the management of risk and infrastructure.

## **Risk as part of the organization**

An efficient management of risk does not occur automatically. Manager that aspires towards the success must admit that the path to an efficient risk management is a long, hard and sometimes spontaneous path. The start of the journey is not hard. It could start from a CEO directive that asks for de implementation of the practices in risk management. However, after the first step, the following get to be difficult.

It is interesting that even organizations that have incorporated some risk management processes on various operations cannot always determine the way that they can apply this in all their operations.

Of course, the management of the effective risk those not apply to a big part of the organizations. For example, evaluating risks was a way of living in the insurance branch ever since its beginnings, as shown in Hammurabi's Code (approx 18 centuries B.C.).

Other financial institutions sign long-term agreements with risk management. Banks take over the risk when they lend money. In high risk lending, they level up the interests. Stock investors analyze every occasionally the risk to determine the possibilities of investing before buying.

Surely, the managers are much more open today than in the past to the risk problems.

This growing interest is due to a large amount of problems that have affected them in the new millennium.

All these things started on January 1, 2000, when the computer systems from all over the world could have got damaged (Y2K case).

After Y2K, the managers of the corporations had to deal with another problem: dot-com and the entire telecommunicating industry got into collapse. And then, the suicidal attacks on World Trade Center on the 11<sup>th</sup> September 2001, and then, right

away, the Enron collapse, the seventh huge company from the United States, and, in the same time, the reputation dropped on Arthur Andersen 's accounting company, and it happened one of the most prestigious and professional services companies in the world.

Therefore, the idea that manager became more sensitive to risk management studies using this discipline procedure in the operations due to the new millennium challenges. The question is either the trend will maintain.

### **Structuring and organizing for an efficient management of risk**

The firm organization for application the management of risk has two dimensions: one inside of the organization and the other one outside it.

Outside the organization, a firm will learn the lessons of change if unpleasant events, which could affect it, would produce.

The risk inside of the organization visualizes a company that established a process of risk management. This includes the identification of those who risk in the organization, the risk management of processes and methods documentation, instructing the main personnel based on the principles of risk management, developing and building a new structure that could serve the organization concerning the management of risk demands.

Any organization can pick the way to create the culture of risk. It may select on formulate its own culture of risk, or it may allow to evolve during time. A company that will make the first choice must determine the nature of the four components, the process, the infrastructure and the environment.

- The strategy sets the general approaching way of risk management;
- The process describes the steps and decisions taken to administrate the risk;
- The infrastructure identifies the used instruments during the management process;
- The culture environment.

Related to the second choice, the practices inside the firm will establish the risk culture. This approach often leads to various risk cultures on a firm level or even on a department level or unit. Usually, those organizations that do not explicitly choose to adjust their own risk culture, allow it to evolve organically during time.

The risk culture is often seen as less elementally hard and less adaptable to risk management and is always considered as the right one.

But, the reality is different: the risk culture hits in the usual balance established between the qualitative and quantitative analysis, being more based on the up-to-down analysis than on the down-to-up in the structure of the firm, modifies the influence and dimension of the general view independently, modifies the way of reporting the observations and influences the degree of inclusion or risk management inside the central management practices.

The risk culture reduces the appetite and tolerance of an organization concerning the risk that could show up in daily activities and the decisions making process.

The appetite of risk represents the tendency of risk assuming and it is placed between risk opponents and risk neutrals, so that risk assuming belongs to the true "seekers" of risk.

The tolerance of operational risk represents the accepted or targeted level of a firm's uncertainty connected with the expected performances related to operational activities. An organization that has a strong risk culture is oriented towards establishing and communicating of standards, protocols, measurements of identification facilitating;

evaluation, management and monitoring of risks that show the uncertainties of operational performance.

Just in the same way that a strong risk culture administrates trades the risks and opportunities that occur in a fast changing environment, a reduced risk culture increases the vulnerability of the organization in risk occurrence, “almost failures” or lost opportunities.

The risk culture is strictly connected to people; the most successful organizations are the ones that can capture the hearts, minds and energy of the employees, heading towards the same purpose. Once established and implemented the “right” culture can be the ground of the “proper” structure of the risk management successful implementation that is strictly connected to obtaining the objectives of the organization and creating value.

Accepting the importance if the risk culture, an organization has to evaluate the actual state of own culture to establish if every employee has the same value. By closely examining the risk culture and the environment, an organization can identify the gaps and the managers can focus on solving the incoherencies and on creating of a new explicit and viable culture of risk.

### **The questionnaire**

A long the culture and behavior do not lead to a precise measurement; we must find the way to determine a basic risk culture evaluation. One of the most efficient methods is the questionnaire that, by capturing every employee’s vision regarding the risk culture and the environment, creating a clear image for the firm.

The Employees always respond easily to questionnaires, especially when they are anonyms, using the comments section to for explanations and comments. This free way of expressing supplies a context for the employee’s answers and gives an extra image to the answer revisers.

These questionnaires give a strong message to the firm management, as long as they transmit everyone’s vision of organizational risk culture and the way that this culture can be strengthened.

Although the results vary with every organization, the questionnaire can influence the organizations differently, and can show the strengths and weaknesses of the risk culture and triggers the lines between areas that need attention and assistance.

The results of the questionnaires can be anywhere between excellent the unsatisfying, depending on the organization and its risk culture. The same way, the responses rates may vary between 30% (weak) and 65% (high).It is interesting to notice the correlation between the total score of the questionnaire and the response rate, indicating the fact that the organizations that have a strong risk culture get involved through the personnel that answers the questionnaire and suggests the methods of improvement.

- The company results can be compared with the results of successful companies’ questionnaires, underlining the strengths, lacks and the improvement possibilities.

- These questionnaires examine the four key attributes of a strong risk culture and of the environment :

- The leadership e strategy attribute demonstrates the ethical values and elements in a firm and communicate the mission and the objectives.

- The consolidation and responsibility attribute reveals the ability of the organization to establish the individual’s responsibility at the organization to establish and rewarding in the same time the performances.

- The people and communication attribute reveals the ability of the organization to share the knowledge and information and to promote and contribute to employees' competency development.

- The management of the risk and infrastructure attribute requires information about the ability of the organization to evaluate and measure the operational risk and to do the necessary steps in order to establish the processes and the means of measurement and control.

Every attribute is split during the attribute analysis. As they become more detailed, they can be divided in key indicator, accompanied by interpellations that stand on the base of every indicator's evaluation.

### **Key actions**

Creating a questionnaire represents the easiest part of the analysis. The theme challenge is sharing the results with the people that responded and, the most important thing acting based on discovered elements. This is the way that an organization can obtain the best benefits of focusing on the risk culture. The next steps are the ground of creating a solid and positive culture in the organization.

### **Establishing the tone in high levels**

The tone in high levels establishes real hopes about behavior. The management and the employees must have an adequate behavior in any situation. Everyone must have a clear sense of direction that the things are heading towards and must understand their role in achieving the firms' objectives. Management must act according to the appetite and desired risk policy.

### **Defining responsibilities for the risk management**

In some organizations, while the responsibilities and daily burdens are defined, there are no personal objectives to accomplish the objectives. This thing gets to be an important omission. Employees often get to be a difficult situation if they do not know where they are heading to and what they are expecting from themselves.

Just as important, they must be sure that their objectives correspond to firm objectives and that they and the firm are heading towards achieving common purposes.

### **Investment in infrastructure**

Many organizations report constraints of the infrastructure for people, processes or technology. Other ones report the existence of the infrastructure but with inefficient features of its own concerning fulfilling the continuously changing needs of the organization. Moreover, the information and communication are seen very often as elements that do not support the firm's need, as they should.

### **Communication**

Establishing a model of the information flux represents an efficient way to facilitate the communication flux and informing process at the firms' level. Managers are often opened to communicate about risk, although there is no formal structure, process or instrument that guides the identification, management and operational risk reporting.

It is true that operational risks are often administrated based on a project as a response to a specific initiative or a crisis.

### **Training**

Training should cover the technical elements that concern the way to administrate the firms' risk and culture.

The training could cover the firms' policies and value and should be improved based on case studies and examples.

### **Sharing the results**

Every department can learn from other department experience. The most important element of results' analysis of a questionnaire is establishing the evidence that all departments have the same risk culture inside an organization. By comparing the results of various segments, they support managers in evaluating the firms' operational risk culture and determining the sectors that need more attention. In addition to that, the best practices- internal and external- should be shared to learn some things from others' experience.

### **Establishing of the elements that measure the performances**

All operational risk appearances need specific measurement elements that could help in reporting and reviewing their actual state.

Behind every efficient operational risk program, lies its own strong culture.

Therefore, the existence of an operational risk culture will always serve as a background to build the operational risk management components of an organization.

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