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THE RISK MANAGEMENT PROCESS IN CORPORATE GUVERNANCE

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Abstract: *In this paper I want to present the place and role of risk management within an organization in corporate governance. Thus, the risk management of an organization consists of defining the risk, identifying and evaluating the impact and probability of materialization and, subsequently, establishing appropriate ways to manage the significant risks. According to some authors, the risk management of an organization is among the newcomers in the context of the concept of corporate governance, which brings a holistic perspective, as an integrating factor of the parts of a whole, which is the organization. At the same time, it can be emphasized that, according to the standards regarding strategic risk management, risk management should become an integrated part of the way any organization works; and in other ideas, being the basis of management approaches, it should not be separated from the daily activities of any organization. In corporate governance, in any entity, risk management is necessary because both in the company and in the environment in which it operates, there are uncertainties about the nature of the threats in achieving the objectives, or the nature of the opportunities. Any manager must pose the problem of managing the threats, because, otherwise, not reaching their objectives, they would be disqualified, or to take advantage of the opportunities for the benefit of the organization, proving their efficiency. If uncertainty is an everyday reality, then the reaction to uncertainty must become a permanent concern.*

Keywords: *risk; risk management; corporate governance; organization; uncertainties.*

JEL Classification: *G30; M40; M41; M42.*

1. Generally Introduction

Each public entity is obliged to systematically overview, at least once a year, the risks related to the conduct of its activities, to draw up appropriate plans in the direction of limiting the possible consequences of these risks and to appoint responsible persons for the application of those plans.
Under corporate governance, under any entity, risk management is necessary because both in the company and in the field in which it acts, there are uncertainties of the nature of threats in the achievement of objectives, or the nature of opportunities. Any manager must consider the way of managing the threats, because otherwise, not touching its objectives, it would disprove itself, or to use the opportunities for the benefit of the organization, proving its effectiveness. If uncertainty it is a daily reality, then the reaction to uncertainty must become a permanent concern.

The risk-based decision has always been important in business. Enterprise risk management is the latest approach to risk management faced by an organization from the view of a system (Wu et al., 2015), probably becoming the main objective of the strategic management of organizations, mainly due to multiple factors - the aversion of representative personnel to uncertainty, the volatility of the current market and the mandates of compliance, as the authors said Arnold et al. (2015).
The risk management of an organization is to define the risk, identification and assessment of the impact and likelihood of materialization and subsequently laying down appropriate ways of managing significant risks (Ghiţă, 2008: 239)
As the author said, the risk management of an organization is among new arrived in the context of the concept of corporate governance, which brings a holistic perspective, as the integral factor of the parts of a whole, which is the organization. So was Oliva (2016) mentioning, that the enterprises risk management was a recurring theme on the organizations daily issues and as Fraser and Simkins (2016) said, was generally recognized as an expectation of good management and good corporate governance. Moreover, as the authors of Bromiley et al. (2015) said, risk management suggests integrated management of all the risks faced by an organization and which inherently require alignment of risk management with corporate governance and strategy, which can lead, as the authors claim, to the conclusion that a critical review of risk management research allows us to identify certain limitations and shortcomings that management specialists are more entitled to solve them.
With regard to the above authors Gordon et al. (2009) come up with a very plausible point of view when a paradigm shift has occurred in recent years in terms of how organizations consider risk management; the tendency being a holistic view of risk management, which implies, we may add– in general terms, an "idealistic metaphysical conception that supports the principle of the whole of the parties and its irreducible ness to the sum of the component elements (<fr. holisme)". As the authors argue this holistic approach to managing an organizations risk is commonly referred to as enterprises risk management (ERM). Indeed, the authors argue, there is growing support for the general argument that organizations will improve their performance by using the concept of risk management. The main argument being that the correspondence between risk management and the performance of organizations depends on the appropriate match between risk management and the following five factors affecting an organization, namely: environmental uncertainty, competition in industry, organization expansion, organization complexity and management board monitoring. In conclusion, the authors mention that organizations should consider implementing a risk management system together with contextual variables around the organization; and in addition, as Brossman (2016) claims, a proactive risk strategy should be managed at the same level throughout the organization.
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As the author said, the risk management of an organization is among new arrived in the context of the concept of corporate governance, which brings a holistic perspective, as the integral factor of the parts of a whole, which is the organization. In the same way, quoting Treasury, Ghiţă (2008: 242) underlines that, according to standards on strategic risk management, risk management should become an integral part of how any management approaches should not be separated from the organization's daily activities.
Enterprise Risk Management focuses on developing, placing risk management at the centre of an organization's strategic activities, and risks are treated both as exposures to be managed, as well as opportunities to exploit. (Farrell and Gallagher, 2019)
In Romania each public entity is obliged to systematically overview, at least once a year, the risks related to the conduct of its activities, to draw up appropriate plans in the direction of limiting the possible consequences of these risks and to appoint responsible persons for the application of those plans.
Moreover, understanding the making of knowledge in state-owned enterprises (SOEs) is an ever-growing problem in academic debate and on the political agenda; but, as Landoni (2020) says, there is still a comprehensive theory missing, despite the large number of research published so far. Thus, as the author states, there is a lack of a new theoretical framework for creating knowledge in state-owned enterprises, by studying innovation and from the perspective of entrepreneurial company theory and knowledge management theory, which together provides new perspectives explaining the factors enabling innovation in state-owned enterprises and public entities. These factors are managerial autonomy and government coordination. In this respect, as the author considers, theoretical development is important, as it considers state-owned enterprises as public firms and entities, a dual nature that combines the advantages of state ownership and corporate governance.
In the context of the performance of an entity's activity is indicated by a technique for measuring the added value, i.e. economic value added (EVA), the authors of Shad et al. (2019) states that a effective implementation of risk management has a significant positive impact on the overall performance of enterprises. But as the authors say, however, there are limited studies carried out on the implementation of risk management and how sustainability reporting could influence the performance of organisations through risk. Thus, many world-level organisations do not incorporate sustainability initiatives into their corporate strategy, while they should be an essential contribution to strategic management and corporate planning.
At the same time, the authors Arnold et al. (2015) mention in the elaborate article, that a strategic approach based on risk management in an organization improves flexibility and strengthens the coordination between flexibility and performance. The authors also argue that there is clear evidence that improved IT integration is the mechanism by which risk management strengthens both flexibility and performance in an organisation.
As Callahan and Soileau (2017), including The Committee of Sponsoring Organizations of the Treadway Commission (COSO), the Entity Risk Management Framework (ERM) - (COSO-ERM) states, that the development of a risk

assessment and management process at the level of the entire entity is designed to "provide reasonable assurance as to the achievement of the entity's objectives." In this respect, the authors conclude that entities with more developed risk management processes with higher levels of maturity of processes must achieve higher operational performance than those with less developed risks, i.e. with lower levels of process maturity.

So does Florio and Leoni (2017) show that entities with advanced levels of risk management implementation are performing higher, both in financial performance and in terms of market assessment; and, as the authors claim, the authors here expect, on the one hand, that more efficient risk management systems lead to greater performance by reducing risk exposure, and on the other hand, the authors argue that the reverse causality between risk management and performance is not present in the short term.

We also believe that it is appropriate to state that in corporate governance, in any entity and in any type of entity, risk management is necessary because both in the company and in the environment in which it acts, there are uncertainties of the nature of threats in achieving objectives, or the nature of opportunities. Any manager needs to question how to manage threats, because otherwise by not achieving his goals, would disqualify, or capitalize on opportunities for the benefit of the organization, proving its effectiveness. If uncertainty is a daily reality, then the reaction to uncertainty must also become a permanent concern.

The above general motivation could justify the need to implement risk management by itself, but there are also some specific motivations, such as:

a) Risk management requires modification of management methods:

The managers of an organization shall not be confined to treating, every time, the consequences of events that have occurred. Handling the consequences does not improve the causes and therefore the already materialized risks will occur in the future also, as a rule, with a higher frequency and an increased impact on the objectives. Managers must adopt a reactive management method, which means that it is necessary to devise and implement measures that are likely to mitigate the risks. The future-oriented reaction enables the organization to control, within acceptable limits, the risks that have passed, that is the same as increasing chances of achieving its objectives. In conclusion, risk management excludes expectative and promotes action and foresight.

b) Risk management facilitates efficient implementation of the organization’s objectives:

Clearly knowing the threats allows a ranking of them depending on the situation of their materialization, the extent of the impact on the objectives and the costs of measures aimed at reducing the chances of developing or limit unwanted effects. Setting the positions constitutes the support of introducing a number of priorities in the allocation of resources, in most limited cases, following a ”cost-benefit„ analysis or, more generally, ”effort-effect”. It is essential that the organization focus its efforts towards what is really important, not to disperse its resources in non-critical areas for its purposes. At the same time, periodic risk review, as set out in standards, leads to reallocations of resources, in line with the modification of positions and, implicitly, the priorities. In other words, risk management involves concentrating resources in areas of current interest. In other words, risk management involves disposing resources in areas of current interest, and as the authors Caron et al. (2013) manage the risks of enterprises are aimed at minimising the negative effects of uncertainty over objectives, while promoting the potential positive effects.

c) Risk management ensures the basic conditions for solid internal control: If internal control is all the measures established by the management in order to obtain reasonable assurances that the objectives will be achieved, it follows that risk management is one of the important means to achieve this, because risk management is precisely pursuing the threat management that could negatively impact the objectives. From other point of view, if the strengthening of internal control is pursued, it is indispensable to implement the risk management. The action plan (activities to be carried out in order to achieve the objectives) must be seconded by the plan encompassing measures that mitigate the risk manifestation and by the plan of handling difficult situations (materialized risks).

However, in risk management, not the examples and techniques are the most important, but the attitude towards risk and this is, first of all, an aspect of the organizational culture that is formed over time, and not a result of imperative rules.

In another context, as Chen et al. (2019) states, adopting risk management in a company significantly helps the company improve its revenue and cost efficiency; and the analysis taken by authors in the financial industry subsector shows that banks and insurers adopting risk management generate more advantages in cost savings and the efficiency of their incomes.

So do the authors Eckles et al. (2014), testing the hypothesis that the implementation and development of enterprise risk management (ERM) reduces the costs of businesses related to risk reduction, considers that the adoption and risk management represents a radical change in the paradigm from the traditional method of individual risk management to collective risk management, allowing entities that adopt risk management to prioritise coverage activities to the risks most contributing to the entity's total risk and optimise the assessment and selection of available hedging instruments. At the same time, the authors discover that entities that adopt risk management have a reduction in the volatility of stock return; it becomes stronger over time. In addition, the authors finally note that operational profits per unit of risk may increase after the adoption of the risk management by an entity.

Theorists in the field of risk recommend that it is very important to understand the culture of an entity Thus, as Griffiths said (2005: 21-22) there are several benefits of incorporating risk management into the culture of the organization, such us:

-greater attention to issues that really matter;
-reducing the time lost by the entity's leadership with disputes;
-fewer surprises;
-more satisfied customers;
-protecting the reputation;
-more attention to do the right things in a correct manner;
-greater possibility of achieving the entity's objectives;
-fewer complaints;

-increased possibility of changing initiatives and achieve project benefits/drafted;

-risk-taking and more informed approach of decisions;

-support for innovation;

-lower insurance costs.

The objectives of approaching the risk management of any entity are to ensure that:

-risk management is a key part of the strategic management of the entity;

-there is a positive approach for taking the risk

-the risks are taken into account when taking any decision;

-opportunities are maximised by actively managing risks and threats that can hinder the emergence of success.

According to Ghiţă (2008: 219), in order to achieve these objectives, entities must consider the following approaches:

-clear liabilities will be set up and maintained, within all positions and departments, roles and reporting lines for risk management;

-introducing training programmes and opportunities for learning to ensure managers acquire and develop the skills and expertise necessary for risk management;

-risk analyses will be incorporated and considered part of decision-making, business planning and entity process revisions;

-the measures undertaken to manage individual risks will be appropriate to the potential occurrence and impact of these risks on the achievement of the entity's objectives;

-an updated register that can be easily accessible to all those who may need it will identify all strategic and operational risks, provide an estimate/retention/appreciation and registration of ongoing measures whose role is to manage these risks;

-performance of risk management activities will be measured in relation to company goals and objectives;

-an understanding of the risk and its management at all levels of the entity, with the majority partners and shareholders, combined with risk handling within the organisation, will be tried.

As the author said, for the management of an entity it is very important to identify risks, assess them and establish acceptable risk tolerance, in order of probability of occurrence and imminent impact that they may produce, by applying the appropriate control tools and analysis for their reporting.

In the same way, and in our view, given that from the point of view of an internal auditor, for example, the risk can be considered as the pulse of the entity, which may be perceived as a number of challenges, we believe that for any entity it is important that, before risk identification, it, the entity, has the objectives well established according to the actual and possible risks.

In corporate governance, the possible or inherent risks are identified on the objectives and within them on activities or operations, and, as the author said, by exercising various forms of internal control limiting/diminishing risks, entities remain to manage only potential or residual risks.

We consider it important to emphasize here the idea expressed by the authors Wang et al. (2018) that in organizations where the risk management systems implemented are less performing, they can signal certain insufficient control mechanisms which, as the author said, may attract additional control by investors, thereby causing managers to resort to handling revenues, which may result in damage to the value of company in the long term.

Finally, in corporate governance, we are also of the opinion that the implementation of a risk management system contributes or should contribute to improving the performance of the entity, the company, but, in this respect, the management of the company is the identify risks, organise the risk management system and at the same time follow their progress.

With regard to the risk management process, it can be defined as the systematic application of management policies, procedures and practices for establishing the context, identification, analysis, evaluation, solution, monitoring and communication of risk. (Ghiţă, 2008: 239)

The risk management process is a systematic approach to risk analysis and solution. Thus, as Zoicaş-Ienciu says (2013: 197) there is a logical scheme in the process of risk management and which in our opinion and corporate governance presupposes the following steps:

Risk identification: consists of a systematic analysis of the entire entity's activity and identification of all relevant risk exposures. This stage involves the analysis of the entity's economic and financial-tax documents and records, the flow of operations and that of information, the division of risk questionnaires to employees, the verification of the existence of risks based on check-in lists as detailed as possible, more comprehensive etc. Here we consider it to be noted that in most cases the relevant exposures are evident, but a specialised analysis can reveal both important omissions and false exposures at risk.

Risk assessment and measurement: it is necessary to be able to appreciate the potential impact on the entity's financial situation. As a rule, in the case of each risk are considered several steps of materialization, but, as the author says, for each of these steps, two variables should be estimated, i.e. the probability of realization and the costs of loss involved. We are also of the opinion that it would ideally be that the probability is numerically quantified but most of the time, management uses a qualitative assessment based on categories such as: quasi-null probability, low, medium, or quasi-safe probability. Following assessment the risks can also be classified according to the potential impact in critical risks (threatening the entity's survival), important (requires attracting funding) or negligible (minor losses that can be absorbed by the entity).

Selection of risk management techniques: is mainly a problem of managerial decision influenced by the entity's objectives and strategy, as well as the risk aversion of management; the criteria envisaged is the overall objective of maximising the value of the entity. As the author says there are four major categories of risk management techniques: avoidance (risk-generating situations are avoided; but the manoeuvre space for managers is reduced), prevention and control (preventive behaviour, conduct of investments and training courses to avoid eventual losses), retention (risk is assumed and damage is covered by own resources accumulated in this respect in the form of reserves) and transfer (insurance, coverage, diversification).

Implementation: requires technical details related to the practical implementation of the selected management technique: development of prevention procedures, specific investments, accumulation of reserves, selection of insurer or stock market, contracts negotiation, hedging strategies formation etc.

Monitoring: consists of periodic verification and review of previously implemented risk decisions, identification of new exposures, change in probability of occurrence and character of risks, emergence of new techniques for cheaper coverage. At the same time, at this stage, we also believe that internal audit and control activities should also be considered to avoid fraud that may arise when employees responsible for the implementation of risk-covering techniques exceeds the transaction duties and limits.

But from the point of view of the system's functioning, in the same terms, also Ghiţă (2008: 239) states that risk management is a dynamic process, which in order to function involves the completion of a risk management cycle that incorporates several steps as follows:

-identification of risks, process involving all parts of expertise and responsibility, which must contribute to the detection of all existing and possible risks, as well as their registration,

-assessment of the importance of the risks identified from the two elements, i.e. probability and impact,

-risk management, which implies knowledges regarding the importance of risks and the development of a strategy for their management. Moreover, the purpose of this activity should be to ensure that all key risks are under control,

-the risk assessment requires a supervision of the entire risk management process and the outcome of this activity should contribute to updating the risk management strategy applied throughout the organisation.

2. In conclusion

Over time, risk management should be incorporated into the organisation's operations and procedures and become a component of its culture but also its decision-making processes and structures, with substantial possibilities for performance monitoring. (Ghiţă, 2008: 240)

Also in corporate governance when carrying out the risk management implementation process a special role lies with the audit committee which rigorously needs to assess the contribution of risk management to streamlining operations and increasing the values of the organization.

In another context, according to authors, as, Pérez-Cornejo et al. (2019), corporate reputation research has generally claimed that the reputational risk or risk of loss of a company's reputation stem from all company's risks. As companies use business risk management systems (ERM) to manage all their risks, after analysing the quality effect of the risk management system on corporate reputation, the authors concluded that the risk management system is a useful tool for managing the corporate reputation.

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