Continuity of Entrepreneurial Activities and Enterprise Risk Management

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An enterprise performs its activities within micro-, macro-and internal environment. The characters are subject of these environments and their consequences are many times in contradiction to defined enterprise objectives. The specific items are generally called risks. The risk is quantified as the multiplication of likelihood and the consequences of the specific event.
There is optimal level of risk (generally) what is a compromise between the amount of risk and return/ invested capital. Intuitively this assumption is clear but the problem in practice is to answer/solve following questions: How to establish optimal level of risks? Is there only one level or is there a hierarchy of enterprise risks? How to evaluate/quantify risks and their consequences? Is there a set of relevant/irrelevant risks and under which criteria to define them? How to proceed to establish organizational structures responsible for/focused on risk management?
Nowadays, an enterprise is facing to the following risks: globalization, loss of reputation, shortening of a product life cycle, new technologies, catastrophic events (natural catastrophes, catastrophes as the impact of man-made activities), different economic and non-economic risks active in interaction between an enterprise and its environment. Risks mentioned above are complex, while specific situation of an enterprise can be characterized by political, social, technological, technical and other features. All this says about "downsizing of entrepreneurial world" and "acceleration of the development", those threats existence and operation of an enterprise.

1. RISK

There are many definitions of risk. In the article we use the definition from [1] - effect of uncertainty on objectives.

Currently developing approaches to risks - the risk perception as a negative phenomenon to targeted risk-taking from a passive attitude to risk to a proactive, intuitive risk management to a systemic approach.

Risk perception as a negative phenomenon does not develop an entrepreneurial culture in the company, which is determined by the strategy. The business culture is based on a risk aversion and investment does not allow full development of business activities, which are implicitly linked to the risk. Passive and silo risk approach means that the enterprise and its components react by taking measures to the risk ex post. After the occurrence of risk specific measures to minimize/eliminate it are applied. The usual (silo) approach is the applications associated with isolated solutions – e.g. marketing deals with „their own risk" and production deals with "their own risks" alternatively. The approach explicitly defined is based on the postulation to enterprise risk management as a whole (also holistic approach). Strategy, competencies, methods of evaluation, monitoring, communication channels and competencies are distinct. Intuitive approach to risk management is based on an decision maker experience. The system approach has the ambition to tackle not only the risks anthropogenic (human activity-dependent) as well as natural hazards with application of quantitative methods. Therefore the development of applications is performed within the enterprise risk management (ERM) and business continuity management (BCM).

2. RISK CULTURE

The statistical survey [2] was carried out in 2009. The objective was to answer the following questions:

- • Is there a framework of risk management in a company, and if yes, what kind ?
- • Do you take the organization framework of risk management as an opportunity?
- • Who is responsible for risk management in various organizations?

The survey interviewed a total of 89 organizations in Czech Republic. The results have shown that 76% of respondents manage the risk intuitively; 43% is processed to identify risks, using set systems (36%) contingency plans (33%) and is designed for a specific person for risk management (24%). Risk management in business was 79% perceived as a source of competitive advantage. The establishment of risk management department was preferred by big enterprises and for small enterprises external specialists were applied.

In another survey, carried out in Slovakia in 2009 [3] was found that 96% of organizations believe that there is a potential to improve quality of risk management within a company. About 50% of the questioned organizations recognize that risk management will increase their competitive advantage. The survey conducted among 500 top managers showed that the slowdown in economics has created a need of greater awareness concerning enterprise risk management. About 2%of them plan to reduce investment in risk management and 61% plan not to invest in time period of 12 to 24 months. n overall framework for enterprise risk managementis still missing, and responsible structures in the Slovak enterprise management risks are not adequately connected and operate without a link to the wider business strategy. Effective enterprise risk management provides benefits: easier disclosure of key risks, improvement of the company economic performance (99%), greater level of assets protection (98%), improvement of decision making process (98%) and greater compliance with the regulations (98%).

3. RISK MANAGEMENT STANDARDS

The most famous standards are:

- Risk Management Standard IRM 2002
- AS/NZS 4360:2004
- Enterprise Risk Management – Integrated Framework – COSO: 2004
- ISO 31 000:2009 Risk Management

The risk management process based on the latest standard is:

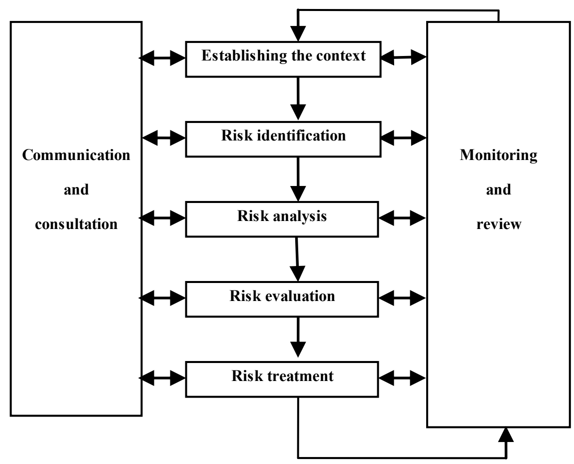

Fig. 1 Risk Management process [1]

The risk management process should be implemented within every managerial decision. The decision with high impact on an enterprise strategy should be a part of risk management process.

After risk assessment (it includes: risk identification, risk analysis and risk evaluation) the risk treatment is possible to apply. Risk treatment should be applied in context of economical analysis – to compare costs of consequences to costs of risk treatment.

There are principles of risk management. I would like to point out the most important principles (in the context of the paper) tobe followed [1]:

- Risk management is an integral part of all organizational processes
- Risk management is a part of decision making
- Risk management is systematic, structured and timebounded.

Risk management framework deals with organizational arrangements to implement risk management into an enterprise. Therefore its application means to change culture of an enterprise – the change means adoption to all organizational processes. The objective is to modify responsibilities, competencies and motivation of all decision makers in a company.

4. RISK MANAGEMENT – PRINCIPLES

The basic principles applied in an enterprise from international risk management standards are:

- Risks in an enterprise have their risk owners
- An enterprise culture should support risk management process, what increases its competitiveness
- There should be link/relation between enterprise strategy and risk appetite
- Risk management is formalized via applied methods and institutionalized via relevant organizational structure
- There should be implemented early warning systems in an enterprise
- Enterprise risk management (risk appetite) is oriented to risk/return optimization; risk is an integral part of the decision making process.

Within the risk management framework the specific assignment of roles/their objectives is performed:

- Board – approves risk appetite (amount of risks accepted by an enterprise), approves and update enterprise risk management strategy and risk passport and approves the organizational structure of risk management for enterprise
- Chief executive officer (CEO) – determines risk appetite of an enterprise, defines strategy in relation to the defined risk appetite and creates conditions for effective operation of risk management bodies within an enterprise
- Chief risk officer (CRO) – defines risk management tactics taking into account strategy, manages structures responsible for risk management and communicates with all relevant structures within an enterprise.

5. RISK MANAGEMENT – APPROACHES

Risk management is a part of corporate governance, which development and application is based on the above motioned facts.

In the USA the Sarbanes-Oxley act was approved. The reasons behind are in collapses of big business corporations and their political-economical consequences what significantly undermined financial market and trust of investors. Many measures have been oriented to applications of risk management in corporations as well as systems of internal audit and its independence.

As the most important measures are (within the content of the paper):

- Personal responsibility of CEO and CFO (chief financial officer) for providing reliable, accurate and trustworthy financial statements
- Establishment of a regulatory body to monitor accounting companies with the ability to assign/ cancel license and control of accounting companies
- Declaration of company's management approving effective internal control in a company and obligation of external audit to approve this declaration
- The strong obligation to provide correct, accurate data to external auditors
- The personal responsibility in case of legal investigation (destroying data and information sources)

There are other approved measures that create mechanisms of an independent control via non executive managers. The list of applied bills in the UK is [based on 4]:

Cadbury Report	– 1992
Greenbury Report	– 1995
Hampel Code	– 1998
Turnbull	– 1999
Myners Review	– 2001
Smith Report	– 2003
Higgs Report	– 2003
Tyson Report	– 2003
The Combined Code	– 2003

Applied bills have adopted the most important measures:

- Board – there was split responsibility between head of the board and the chief executive officer and has been underlined the role of effectively operating board

- Executive officers – the contract period of executive officers was restricted to 3 years and conditionalprolonging of the time will be approved by shareholders
- Non-executive officers – their function is an independent control of executive managers
- Internal control and informational obligation – establishment of audit committee, which substantial objective is the internal control of processes and members activities
- Committee for financial stipulation – company's managers' financial stipulation should be controlled by this committee.

Slovak enterprises are active due to pro-export business orientation of Slovak economy. The environment can be influenced by its activities in a very limitedway.

Substantial business competencies of owners and managers are defined in the Business bill (OZ) [5]. There are expressed obligations of owners and managers in strategic management of an enterprise.

Management (including control) in a shareholder company is defined in the line management – general assembly – board – supervisory board. The control is applied according to:

- Shareholders - § 180
- General assembly - §187
- Board - § 191
- Supervisory board - § 197-201.

In §194 part.6 of the bill is explicitly expressed the obligatory responsibility to cover losses performed to non- enterprise members, if this loss can not be achieved because of illiquidity. Under this part is undermined all members of the board, who violates their obligations.

The establishment of supervisory board is in the competence of general assembly (§ 200 OZ). Supervisory board creates the substantial part of a control in the enterprise.

Explicitly there is in no part of OZ defined obligation to take care of the agenda – enterprise risk management. The responsibilities of enterprise risk management are not assigned to the board or other part of the organization (supervisory board, general assembly). This activity is assumed (as many others) mainly in the board agenda within fulfillment of objectives approved by general assembly.

here are the following approaches to the risk (excluded financial sector)in the Slovak entrepreneurial practice

- Substantial differences are between financial sectors and other business and non-business sectors
- Silo approach is applied
- The framework of risk management is applied – intuitively, without institutional sources; risk management is not an integral part of managerial activities
- The application of specific methods to assess risk is very limited
- Communication with all stakeholders (they have relations to managerial decisions and activity of an enterprise) is weak
- The classic tool of the risk elimination/minimization is insurance.

6. RISK MANAGEMENT APPLICATION IN AN ENTERPRISE

Within the framework of business continuity management an enterprise should consider the following risks (their modification depends on the type of business, localization of an enterprise and other specific items of micro and macro environment). It follows (see lit. [6] – modified):

- Management of significant reduction of employees
- Management of evacuation of the company
- Management of unexpected loss of electricity, gas and water
- Management of unavailability of oil and fuel
- Management of loss telecommunication infrastructure
- Management of loss or disruption of IT systems
- Management of loss or disruption of key suppliers

Management of significant reduction of employees – this situation can happen in case e.g. pandemic flu. The enterprise should identify critical activities and on its basis to define minimum number of employees to operate them. Within the framework of analysis is defined the flow of material and are identified competencies in the decision making process and other tasks, that are relevant with performance of critical activities of the company.

Management of evacuation of an enterprise – within this task it is necessary to identify sufficient number of persons responsible for evacuation activities, elaboration of plans, communication plans. The relevant bodies are not only employees but also important customers and suppliers. Within the evacuation is also important to establish remote control centre to fulfill all basic objectives – personnel, material, communicational and financial.

Management of unexpected loss of electricity, gas and water – loss of electricity must be analyzed especially from a time period point of view and its impact on the critical activities and necessity to identify measures for recovery. Within this objective is important to identify human recourses and to define equipment that support critical activities and will be not operating during the loss of electricity. Within this period it is useful to identify secondary effects as the consequences of loss of electricity (e.g. water, computer systems, financial systems, petrol stations). The loss of water can be crucial in a specific technological process eit is vital to identify alternative possibilities as well as secondary effects of unexpected losses.

Management of unavailability of oil and fuel – for critical activities there must be defined conditions of crises period, identified back-up deliveries and their initialization. Loss of petrol and fuel will support measures like (possibility to work at home), rationality of existing fleet execution (sharing of vehicles and planning of cruises) and also public transport can be important source of transport capacity for entrepreneurs.

Management of loss of telecommunications infrastructure – the most important is to secure alternative support for various services - internet, mobile communications, fixed lines, video conference. Telecommunication infrastructure is very important item of internal and external communication with key customers and suppliers and therefore it is important to identify these subjects and to propose alternative communications systems (provider, data carrier).

Management of loss or disruptions of IT systems – many activities are based on framework 24/7. This creates a problem of functionality of computer systems and it is mixed with the objective to identify assets that are a part of thecritical enterprise activities. That way the problem of back-up (hardware, software) and problems with data security are vital for entrepreneurial activities of an enterprise.

Management of loss or disruption of key suppliers – key supplier is a supplier, whose position on the market is strong or its amount of supply creates significant danger for continuity of business activities in case of not holding agreements. Because of that there must be identified back-up suppliers.

7. CONCLUSION

The approach of risk management can be described by the following sequence:

- Identification of relevant items within an enterprise (taking into account its mission and objectives)
- Identification of enterprise risks
- Definition of relations among these risks (risk portfolio)
- Definition of likelihood (to apply various methods and techniques)
- Definition of risk strategy to enterprise – identify “risk appetite”
- Definition of organizational framework – with defined competencies concerning risk management
- Definition and application of early warning systems that allows to recognize the possible crisis phenomena and activating specific measures, structures in the enterprise with competencies and know-how.

Despite relative long history of risk management implementation in financial sector there is a gap identified in the following areas [7]: governance and risk culture, risk appetite and risk tolerance, the role of CRO and risk management functions, risk models and integration of risk management areas and new product policy and process.

According to AON [8] the main features of risk management in the near future will be:

- Enterprise risk management will be focused on managing opportunities in addition to threats
- Chief executive officers will become more involved in risk management and the solutions in addition to managing costs
- More companies will appoint Chief risk officers.

Risk management is the part of managerial activities and it is the philosophy of how to improve competitiveness of an enterprise via application in its business culture.

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