ASPECTS OF RISK MANAGEMENT AT COMPANY LEVEL

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Companies belonging to the former communist states, when accessing a European or global market, a risk factor collides. It appears unexpectedly where you are not expecting! If the management team does not have information about the possibility of risk, at any time, in any form, it can not take effective measures to eliminate the risk. Consequently, the additional costs resulting from the planned reduction benefit. Programs developed by the companies highlighted, particularly in the last decade, the need for protection against business risk. These programs will include elements of risk management; they can be considered risk management tools, as in applications, the value resulting from the process must exceed the costs of it. The increasing complexity of business, changes in market and financial uncertainties in some markets (such as energy market, grain market, commodity market, the IT market) requires an increased awareness of the risk factor in time, and thus increase the need and importance of the Chief-Risk-Officers in the company. It is presence throughout the program creates the premises highlighting, synthesizing and undertaking risk to optimize the trials themselves. Overall analysis of how financial risk arises, the company points out that now must shift from an approach to the economy that seeks certainty and eliminating risks to accept uncertainty and risk taking as a contempt of uncertainty and that philosophy to stimulate progress.

Keywords: risk, Chief Risk Officiers, business risk.

INTRODUCTION

When accessing a market, any company is required to solve some problems caused by the emergence of risk and uncertainty. In the paper entitled "Limits of uncertainty", Giarini and Walter R. Stahel show that "any system that is meant to obtain a result in the future, operates by definition in a situation of uncertainty, even if the different situations are characterized by different risk degrees". If the management team does not have real and especially useful information about the possibility of risk, you may experience it at any time and of any form, or if the team does not recognize the risks manifestation possibilities, the team cannot take effective measures to eliminate the risk. As a result, at the end of that markets activity, additional costs that lead to the decrease of the expected benefit or even to entering the risk of bankruptcy of the company can occur.

Considering that between companies and banks appears an ever more active collaboration, the pressure of financial markets is increasingly felt in the sales markets where the main actors are the companies.

In Romania private property becomes the core element of market economy, free price formation in the market price and competition are elements that define more frequently the situations of uncertainty and risk in the market. They are amplified by the fact that external phenomenon of globalization becomes more intense, and that humans are increasingly less protected of borders. Peter F. Drucker shows, in a paper entitled "Post-Capitalist Society", that "... productivity and innovation will be crucial in creating wealth. As a result, situations of risk and uncertainty will gain new characteristic features, shades and new ways of asserting and therefore new strategies for risk prevention will be sought ".

IDENTIFIED RISKS IN THE COMPANYS' ACTIVITIES

Risks to the conduct of corporate activities may be included in the term "GLOBAL RISK". An overview of the overall risk structure highlights two risk groups:

1. The natural risk.
2. The country risk.

1. The natural risk is either naturally linked to the company's business profile, or to the ownership.

2. The country risk can develop as a bankruptcy risk or as a decision risk.

The decision risk may cover several areas: technical or technological risk, investment risk, innovative risk, social-economic risk, financial risk, liquidity risk, commercial risk, operational risk, risk related to human factor.

Decision-making risk measurement at existing structure level in a company, is usually coming down to a person or a group of people specialized in this field; known as Chief-Risk-Officers in the literature.

Interdependence of information and decisions-making system being permissible, risk measures are taken through conjugate analyzing of the two systems; at each of these two systems two states are recognized: centralized or decentralized for the decision-making system and formal and informal for the information system. With these components you can define three classes of decision-making risk: large, medium and small.

The decision-making risk is of particular significance because it covers not only business segments but also complete development strategies. Making a decision requires competence and responsibility, especially if the employed resources (time important resource) are irreversible.

The decision-uncertainty relationship is of special significance due to the fact that a number of factors generated by natural environmental conditions can not be predicted; so, the decision maker is forced to decide under uncertainty; fact that generates two alternatives:

A. – the decision-maker can use the best information available and his/hers own experience and judgment to:

a) identify and assign subjective probabilities of nature conditions, or

b) assess the consequences of the results for each strategy available in every state of nature;

B. – if the level of uncertainty is so high that the decision maker prefers not to issue assumptions on the probability of state of nature, he may neglect these probabilities, or consider them equal.

Strategies which are required to maintain and develop market access of a company should consider measuring and assessing risk at any time of the activity.

At company level there are several ways to act for preserving the competitive advantages and to minimize, this way, the risk emergence; we mention here:

1. Involvement of the whole system of values that the company has to diminish chance of developing risk in the business.
2. Applying the continuous improvement process to ensure the sustainability of the company's products in the expanding market segments.
3. Elimination of premises that determine sectoral risk: hazard of potential new clients on the market, the emergence of substitute products, negotiating with clients, and/or negotiating with suppliers.

The risks that can develop at a company's level can be generated by four factors operating within the company. At the same time, competition within the company is influenced by a number of issues arising from external suppliers, customers, level of competition (Figure 1).

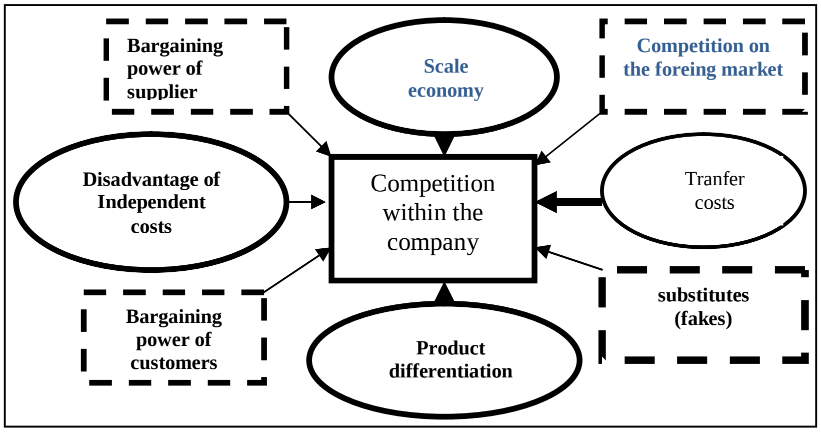

Figure 1. Components of the competitive environment in a company

In order to have an overview of the risk manifestation, external forces that put pressure on the company must be analysed, these are also known as "company entry barriers": scale economies (embodied of the amount of capital required to run a particular activity type), product differentiation and transfer costs incurred by it (direct access to distribution of products or through specially trained intermediaries), the negative effect of the independent production costs (research costs, design costs). Each of these elements generates a particular type of risk, which is reflected in the overall risk. The Chief-Risk-Officer's role is to identify these types of risks and to manage the process in such a way that the overall risk does not affect the overall economic efficiency of the company.

The following risk categories were identified at company level (Figure 2):

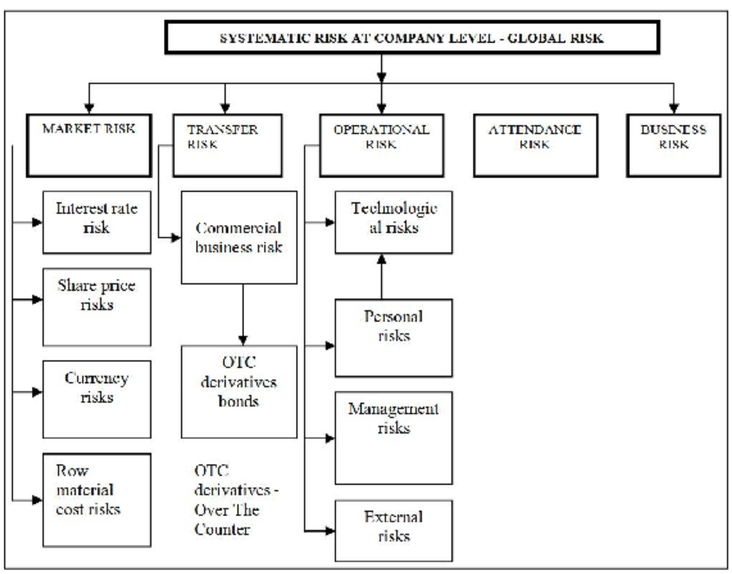

Figure 2. Categories of risk that may develop in the company

Methods of risk control at the level of companies, regardless of their structure or purpose, generally follow the same type of algorithm, which has the following steps:

1. **Identifying the risks**: Identifying and classifying risks according to their origin.

2.**Quantification, analysis and risk assessment**: Risk assessment based on quantitative and qualitative factors which generate them.

3. **Risk limitation:** Risk classification processing systems to limit quantifiable risks.

4. **Risk activities management:** Development of a strategy to avoid risks or if this is not possible, to minimize their effects

5. **Monitoring risk**: Control risk limits, the global and unquantifiable risk profile analysis.

6. **Risk reporting**: Establishing a reporting system regarding risk information.

THE CHIEF RISK OFFICER'S (CRO) ROLE IN THE COMPANY

After working as a manager for credit risk, market risk and liquidity for capital risk, James Lam introduced in 1993 the term "Chief Risk Officer".

The CRO is responsible for how the development of the overall business risk is intended to contribute to good corporate governance Not only the identification, measurement, risk analysis and risk reporting, are the CRO's responsibility; among his/hers skills there are risk control activities and opportunities. The CRO takes decisions based on the overview of business risks and opportunities for the development of company objectives; in these activities the CRO cooperates with other managers in the company.

The specific functions of the CRO depend on the size and complexity of the company. Among the most important attributions we include:

- Development of a framework for highlighting the risk; implementation and control of risk management at company level.
- Development of corporate risk policy, including the establishment of risk tolerance and risk tendency.
- Informing the management structure of significant risks events.
- Ensuring compliance with regulatory risk requirements by identifying and monitoring significant risks.
- Ensuring business continuity in time through centralization of risk assessment, through planning, capital allocation, and risk transfer to the opportunities arising during the course of business.
- Development of alternative risk strategies, or strategies that make use of lower risks.
- Explanation about the company's management strategy risk understandable to investors.
- Education and professional training of the company's staff about the management policy risk and its structure.

The question is: **How widespread is the role of the Chief Risk Officer in the company?**

Important companies in the financial, energy and security fields established the CRO function, whose role increases because of the growing risk and increasing regulatory requirements.

A study, conducted in 2003 in the United States, analyzed the factors that determine the need for CRO. The basis for the study was the data from 26 U.S. companies that have published in the press, between 1997 and 2001 a job ad for the position of CRO. Survey findings reveal that at least one of the major companies in each sector, has in its organizational chart a CRO position, or collective which serves as a CRO; more than 58% of specialized financial services companies interviewed have in their organizational a CRO position; 41% of the energy companies have a CRO position provided in their organizational chart; most of them are companies with a significant capital loan (external), in this case the CRO's role is to reduce the risks associated with variable costs (Risk-Shifting-Problem).

In 2003, Switzerland KPMG conducted a survey on "How many companies have already established a CRO?" A number of 50 Swiss companies in the medium and large company sector were studied. The survey revealed that 60% of the interviewed companies provided in their organizational chart CRO position; each of these companies has over 2,000 employees; most companies operate in the financial sector.

A survey from Ernst & Young showed in 2003 that only 25% of U.S. insurance companies have had a CRO.

In 2004 "The II Research Foundation" investigates the presence of CRO in 175 large companies structured as it follows: 68% U.S., 10% in Canada and 5% in the UK, 17% in other countries. Companies, with high income (approximately $ 1.3 billion/year) particularly in the industrial field, finance, education institutions were interviewed. Study results showed that 33% of companies have already implemented CRO, 27% redistributed the CRO functions to other managers in the company's divisions, 22% of the company's general manager took over the CRO's full duties, at 18% of the companies the CRO's tasks have been taken over by the company's management council.

Deloitte conducted in 2010 a survey on "Global Risk Management". 131 large international banks and financial institutions in America, Asia and Europe with a turnover of over $ 17 trillion / year were interviewed.

The survey revealed that 73% of the banks and institutions have already introduced the CRO position in the organization. This represents an increase compared with the measured data in 2004, of 81%, and from 2002 of 65%. Over 8% of the respondents plan to establish the CRO position in the company; 19% of respondents did not intend to introduce CRO, its tasks are distributed to other vectors (reporting by executive management or access to company management - senior management).

According to a forecast made by Forrester Research Inc. in Cambridge in 2007, all the big companies in the financial and energy sector will have the CRO function 75% integrated. Figure 3 presents the CRO dynamic during the last eight years, in global banks, financial institutions and insurance institutions. From the figure it is observed that banks have introduced CRO to control the risks specific to financial flows. Insurance institutions responded with a lower trend to this objective(they started with 20%, and then stabilized at around 40%).

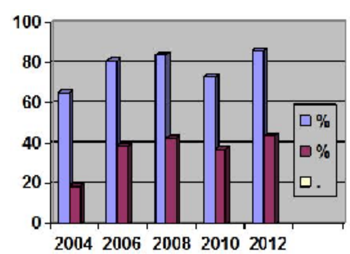

Figure 3. CRO dynamics during 2004-2012 in banks, financial institutions and insurance companies

CONCLUSION

Risk management at a company is a new concept, which is developing a highly dynamic trend. Risk management programs are among the most important tools of management if they are well applied, additional benefits outweigh the costs of implementation..

Implementation of a risk management program does not automatically mean just establishing a CRO, but the presence of a CRO is a sign of the existence of a risk management program in the company.

The beginning of the CRO era was in the financial sector. The CRO position was established precisely in this industry. In other sectors, such as energy and pharmaceutical industry the introduction of the CRO quickly gained in importance. The increasing complexity of business, changes in market or other financial uncertainties of the energy market require an increased awareness of the risk occurring and thus the need and importance of the CRO function in the company is growing.

Both now and in the future the CRO function will be connected, on one hand, to fulfilling the continuous growth of the legal and governed by specific legislation in various areas of business requirements, and on the other hand, to the dynamic risks of competition on the market. The continuous emergence of new risks such as the risk of over-regulation, globalization and expanding business strategy must be identified and monitored in time. The overview of risks and significant knowledge of the relationships within the company is an important prerequisite for the success of the company's activities in any field.

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