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THE PROCESS OF ASSUMING MANAGERIAL RISK IN CONTEMPORARY ECONOMY

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Abstract. Generally, managers are extremely reluctant in assuming risks; this reticence is based on manager's individual experience and on the influences of the specific risk factors. The process of undertaking managerial risk implies mitigating the manager's resistance as well as the elimination of the unfavorable context of decision making. The decision is an essential constituent of the management activity. Also the quality assessment of the management activity completed at company level is better if we analyze the decisions that were taken. The management decision affects directly not only individuals, but also the entire company.

Keywords: risk, management, process, strategies, decision, company.

Jel classification: G32

1. Introduction

The following article aims at highlighting in detail some of the most important issues concerning the process of assuming managerial risk within nowadays enterprises.

Research has shown that there are several categories or typologies of managers when speaking about their choice or preference regarding risk. On one hand, a particular category of managers has been noticed: those who tend to partially assume risk, by choosing to face the less important risks for the company. On the other hand, there is also the category of managers who fully assume risk, in the hope of substantial future profit.

Further research also shows the fostered impact that risk and uncertainty may have upon the companies' budgets. Moreover, a comprehensive part of this article is also dedicated to the processes of managerial decision making under high risk circumstances, and that of the methodology of implementing the principles-based managerial system. From this point of view, it is vital to offer a special place for discussion to the idea that within this complex system, the manager has a very important role, as he must be gifted with proper "skills" and "abilities" that must continuously be submitted to a process of improvement.

From the perspective of the article's object of research, we have considered very useful to state various opinions which come from some of the most important specialists in the economic field; these references are directly connected to the process of assuming managerial risk.

Following our analysis, you can find a brief presentation of the main types of risk found in the economic field, and some of the possible methods used to diminish risk.

The final part of the article comes with some particular strategies used for diminishing the negative aspects of risk in contemporary economy.

2. The process of assuming managerial risk

Risk and the uncertainty concepts are often taken into account when the budget of the company is made, because it is possible that the expectations bound to the future of the company may not be fulfilled. Also the income and the expenses included in the budget of the company may be different from the real results, for many reasons (Crouhy *et al.* 2006). Therefore, there is the possibility that the previsions regarding the future activity of the company might be wrong, namely:

- The volume of the sales may be inferior or superior to the expected level;
- The costs may surpass or may be situated under a certain expected level;
- The obtained productivity may be higher or lower than a certain expected level;
- The business environment may be favorable or unfavorable, compared to the level of the expectations;
- Buying new technology tools may influence in a positive or a negative way the income and the expenses anticipated initially in the budget;
- The prices of some goods may be different from the ones estimated beforehand;
- The rate inflation may be different from the anticipated one (Butler 2006).

Within the company, the activity of elaborating the budgets is very complex and important, this being based on the estimation of the profit that might be realized by a company over a certain period of time (Băileşteanu *et al.* 2004). If during this period of time unexpected events may occur, these will influence in a decisive way the course of the action. Under these circumstances, the manager will do his/her best to maintain the initial purposes (Băileşteanu 1997).

In the case of a financial investment assessment, the period of time for which the planning of the budget will be realized is between five and fifteen years (Burduş 1998). Obviously, it can be easily understood that, this period of time being long, there are chances that the results obtained in the end might be different from those expected.

The concept of risk, used for the assessment of the budgets reflects the phenomenon of uncertainty typical for the future (Crouhy *et al.* 2001).

In our opinion, the risk that exist within the process of adopting a decision is very important both within the theory of the decision process and within the management ideology. So, it can be easily seen that the empiric analysis of risk was not guided especially towards the manager's behavior (Băcanu 2007). The decision taking-process is an essential constituent of the managerial activity. Also the quality assessment of the management activity completed at the level of the company is better realized if we analyze the decisions that had been taken and applied. Thus, the decision can be considered the foundation of the management process, due to its active and dynamic character (Cechin-Crista *et al.* 2002).

This represents the way that was chosen in order to achieve one or more goals. In the field of management, taking a decision means that at least two people are involved: the manager, the one who takes the decision, on one hand, and one or more subjects that take part in its application, on the other hand. However, the manager's decision affects directly not only at an individual level, but also at the level of the entire group (Andronic 2000).

The decision of investing moves/shifts between the option for the most productive but less sure investment, and the option for the safer but less productive investment (Popescu 2003). The identification and the assessment of certain forms of risk are mainly based on scientific methods (Popescu *et al.* 2003).

A decision may take the shape of a decisional act, if it takes place over a short period of time, usually in a few seconds or minutes (Carnall 1990). The decision act is practicable both in the case of decisive events that involve a reduced complexity and in situations that may repeat. The foundation of the decision acts is represented by the experience and by the intuition of the managers (Proctor 2000).

Unlike the decision acts, the decision process involve a longer time consumption (usually hours, days and even week), a period of time in which it is possible to collect and analyze information in order to establish the connections and to consult others people.

The basis of the management concept is focused on the process of efficient realization of the existing activities of the company (Daniels 2007). Therefore, efficiency expresses the way in which an activity may lead to the satisfaction of a necessity, to the fulfillment of a certain purpose or of a function. The concept of efficiency may be:

- Positive, if the established activity can be partially achieved;
- Null, if the established activity can't be achieved in a real way;
- Negative, if the results obtained are not those expected.

So, the process of achieving efficiency is typical to the functions of the company, this reflecting the way of fulfillment. Efficiency measures the results obtained from the activities in progress at the level of the company, comparing them to the efforts that were made (Andrei 1999). In general, being efficient means having a maximum of effects with costs as low as possible. There are in fact many meanings of the concept of efficiency, namely (Burnete 2002):

- In Physics, the efficiency reflects the turnover of using the energy.
- In the field of Economy, the efficiency means the existing proportion between the gain, on one hand, and expenses on the other hand. It is known that the efficiency is higher when the profit is higher and the expenses are low.
- In Sociology as well as in the field of management, the analysis of the efficiency process is more complex than in the field of Physics and Economy. This is possible especially due to many difficulties that spring from the comparison of the entrances represented by the products, because they use different units of measurement. So, the efficiency pursues the existing proportion between efficiency that indicates the rank of realizing the purposes, and the unit of costs/prices.

$$Efficiency = Effectiveness/Costs \qquad (1)$$

In nowadays society, the management system based on principles offers important solutions for the various problems that the enterprisers encounter, such as (Sandu 1997):

- How can a balance between work, family, personal ambitions and the professional ambitions be realized?
- How can the “balance of the company” in nowadays economy be maintained?
- How can a team of professionals, whose members are well trained and between whom there is a relationship of respect be made?
- How can the wish for change and modernization be challenged and encouraged?

This management system based on principles is applicable on four levels, namely (Druică 2006):

- Personal level reflected by the relationship of the manager with himself;
- Interpersonal level generated by the existing relationship between the manager and other employees;
- Management level based on the successful fulfillment of the tasks of the company employees.
- Organizational level, that deals with organizing the tasks for the company’s employees, forming the work teams and solving the problems.

The personal level and the interpersonal level have as an important principle - trust - that stands at the basis of the inter-human relationships.

We observed that the managerial level has as a central principle the delegation of authority, meanwhile the organizational level is based on the alignment principle, and namely it is necessary for a manager to cater for his employees good working conditions. In this situation, the manager of the company has enough time to elaborate its general strategy. So, the specific traits of a successful manager are:

- They are people who are very receptive, open – minded;
- They are able to learn from their own mistakes;
- They know that life itself is an objective;
- They are aware of how much they worth as individuals;
- They sometimes see the good/ positive part of things;
- They are optimistic;
- They do not overreact when criticized;
- They have a harmonious, moderate life;
- They do not always want everything or nothing, they do not judge everything in terms of right or wrong;
- They are certain that life always brings something new;
- They have no misconceptions or prejudices;
- They are creative and productive;
- They look for a continuous improvement.

A well – known American author, Stephen Covey said that the seven skills that a modern manager must have and form are:

- A proactive attitude – is the reverse of the reactive attitude that most people have. In other words, many people try to transfer their responsibilities blaming others, circumstances or environment. For a manager such an attitude is harmful, because this means lost time and the short fall of efficiency.
- The existence of the goal from the beginning of the action. The basis of the efficient management is the active consciousness of the goals and of the capacities to bring them to fulfillment with the help of imagination.
- Priority of the priorities. This means an orderly life, focused on the most important activities, not necessarily the pressing ones.
- Thinking gain/gain. Often, negotiations are based on a mentality gain/loss (“the opponent” must be outwitted, he must lose) or even worse, on a mentality loss/loss. Thinking gain/ gain means that each part that negotiates must have some advantage and must be pleased with dealing.
- Understanding and then being understood. Most interpersonal interactions do not mean paying attention to the other.
- Acting in a creative way. Most negotiations are bargains without leaving the initial positions, ending in a compromise. But through creative communication, the needs of both sides are understood and a better solution than those found by each side can be found.
- To update oneself in order to get over the disorder – is in fact the continuous training of the manager in every aspect (Covey 2002).

So, the manager habits can be formed in time, through an aware, continuous improvement of the sides of his personality. The appreciation of the efficiency of the activity settled by the managers can be realized only along a certain period of time.

The main stages covered in the field of the business management are the following (Flouzat 1992):

- Diagnosis stage;
- Prediction stage;
- Decisional stage;
- Organizational stage;
- Motivational stage;
- Control/evaluation stage.

Like we stated earlier, efficiency pursues the existing proportion between effectiveness and costs. Under these circumstances, the managers must have in mind to avoid bad habits. Often, people are not very well trained to assume the managerial responsibilities. In other words, the managerial activity has at its basis a construction realized in time, using a specific method. It may begin with avoiding the seven habits of those who are not efficient. Therefore,

- Being "reactive" - doubt yourself and blame the others;
- Working without a clear goal from the beginning;
- Doing first the things that are urgent;
- Thinking in terms of gaining/losing;
- Looking for sympathy and understanding first of all;
- If you can't win, make compromises;
- Fear the change and postpone the improvement (Covey 2002).

According, to the economists Arrow, Pratt and Ross, the individual decision factors are hostile to assuming any kind of risk. In other words, if there are two choices, one choice is more risky and the other one is less risky, but they both lead to the same result; obviously the managers will choose the less risky variant.

From our point of view the process of assuming risk is in close correlation with the personality of each person that takes part, in an active way, in all managerial activities of the company. In this way, it was often tried to combine the discriminating risk, on one hand, with the sizes of the personalities of the people, on the other hand, in order to obtain the motivation (Babeti 1993). Nevertheless, the global differences shown by those who are more willing to risk and those that do not want to risk are indistinguishable.

Certain moods typical for the person's personality (for example, the mood, the feelings, the way of solving things) can affect his preference for the risk and the attitude of assuming it. The economists Kahneman (1982) and Tversky (1982) have studied the phenomenon very carefully and they noticed that people tend to oppose risk, if there is no choice that involves notable financial results.

Still, there are many problems that couldn't be solved in a satisfactory way. But it is certain that the idea of assuming a risk, when the company has difficult financial problems, finds a certain excuse.

Many specialists consider that a manager who hesitate assuming risks that are close to the activity of the company shouldn't lead a company. According to a study realized for the managers (PricewaterhouseCoopers International Limited), these were respondent regarding their willingness to risk. Invariable, the managers of an average level said that the inclination towards the risk vanishes, when they advance on the hierarchic scale. The managers with special abilities of leading consider that most of managers must be acquainted to the process of assuming the risk. On the other side there are the managers against assuming the risks and who consider it a possible loss.

Another study that involved the executive managers (KPMG International), showed the fact that their preference for risk is based on three motivations, as follows:

- The first motivation is based on the idea that assuming risk is very important in adopting a successful decision. The majority of those who are questioned (over 87 %) consider that between risk and benefit, there is a direct connection.
- The second motivation refers to the fact that assuming a risk by the managers is seen as a task. They say that the risk represents a very important constituent of the management activity. The process of assuming risks is similar to adopting decisions in conditions of risk and uncertainty.
- The last motivation is based on the "emotional pleasure" generated by assuming the risk. Those that were questioned said that in certain situations, they prefer assuming the risk. According to them minimum risks should be assumed when the activity carried out at the level of the company is going very well and to assume maximum risks, when the company is going bankrupt.

A special situation is when the manager of one company is open to assuming the risk in an unconditional way because his job is in danger. So, almost 90 % of those who were questioned said that they would assume the risk only if the company is facing bankrupt.

The behavior of a successful manager, that has a strong position at the level of the company, is a conservative one, but he analyses the role and the importance of risk (Constantinescu *et al.* 2000).

Some studies have shown the fact that the managers of the companies tend to avoid assuming the risk than assuming the risk, this behavior being more as a reflex. Also many studies about accepting the risk have started from the idea that the managers who try to avoid the risk consider it an object that can be controlled. So, it can be stated that the managers are those people that can assume the risks of company's operations, act upon them and change them, by diminishing them, in order to assure a certain success; many managers questioned had as an aim to adjust the effects generated by the production of the risks, idea launched by the economists MacCrimmon and Wehrung

(1986). From a different point of view, they opted for the expulsion of the unknown things and controlling the risk.

In our opinion the five constituents of the strategic planning process are:

- Direction ("What is wanted to be done?");
- Resources ("What is necessary in order to achieve the goals?");
- Acting ("With the help of what process we can obtain the estimated results?");
- Measuring the performance ("How can it be measured?");
- Improvement ("How can real ways of improvement are found?").

It is sure that any process with an innovating character implies the existence of risks. So, any successful innovation means improving the image of the company, thing that is very beneficial to the company.

In the case of a failure the causes may be:

- A financial control that was not proper;
- The lack of a strategic planning process;
- Deficient management.

It can be said that any company has the possibility of choosing its own "way".

3. The main categories of risks and their mitigation strategies

From our point of view, here are some of the major risks and possible solutions to diminish their effects:

- Natural risks:
  - Unfavorable land for buildings;
  - An unfriendly climate for individuals.
- Solutions for diminishing the negative effects:
  - Making statistical analysis;
  - Calculating risk probability based on previous information;
  - Putting into practice personal experience in the field or other individuals' experience.
- Risks concerning the quality of goods:
  - Important errors in the product composition, errors leading to major prejudice.
- Solutions for diminishing the negative effects:
  - Planning;
  - Withdrawing the goods from the market;
  - The existence of risk insurance;
  - Typical elements of the management of quality.
- Technical risks:
  - The new engineering;
  - The existence of inefficient production activities or of a process that needs to be updated or revised.
- Solutions for diminishing the negative effects:
  - Supplementing the company's budget;
  - Prototype making;
  - Periodical reexamination.
- Commercial risks:
  - Lower level of customers' trust in a certain field of the market;
  - Existence of unsatisfied customers;
  - Financial loss.
- Solutions for diminishing the negative effects:
  - A better managerial activity in the company;
  - Admitting limitations specific to the company's management;
  - Improving evaluation and planning activities;
  - Notifying possible deficiencies that may occur.
- Personnel/staff risks:
  - Some employees may leave the company;
  - Social conflicts among personnel.
- Solutions for diminishing the negative effects:
  - Introducing contractual obligations;
  - Offering good conditions in order to keep the specialists in the company;
  - Agreements prohibiting strikes;
  - Budget supplementation.
- Psychological risks:
  - The project coordinator's fear that the negative effects of his/her work may affect his/her career;
  - The employee's misconception that he/she was offered the actual job in order to be underestimated from the point of view of experience or professional competence.
- Solutions for diminishing the negative effects:
  - Consulting a good "guide" or advisor;
  - Not adopting measures that may foster possible uncertainties or weaknesses.

The best known procedures of managing with the risk are the *hedging* procedures - avoiding the exposure to risk by adopting positions of compensation, by using the stock exchange market tools - *forward* contracts, *future* contracts, contracts with *options*; diversity – reducing the risk by having many and different assets; insurance – the transfer of the risks from the protection against possible losses by using insurance contracts with the payment of a bounty insurance (Holliwel 1997).

In general, risks must be carefully analyzed, taking into account some aspects, namely (Băcanu 2006):

- The factors of the cause and their consequences;
- Decide the period of time for the application of the strategy;
- The application of certain strategies to reduce the risk;
- Their effectiveness.

Analyzing the circumstances in which they can be practicable, the practice imposed five strategies very important in order to reduce the risks (Ciobanu *et al.* 2005):

- The strategy of accepting risks;
- Strategy of avoiding the risks;
- Strategy to monitoring risks and preparing the strategic plan for unknown situations;
- Strategy of transfer and distribution of risks;
- Strategy to diminish systematic the risks.

The first strategy – the strategy of accepting the risks – refers to the way in which the manager of the company is used to the concept of risk and with the possibility of its existence. This strategy is used, mostly, when the chance of apparition of risk is minim.

The second strategy – the strategy of avoiding the risks – can be used in order to minimize the risks, but it doesn't mean that the manager of the company won't assume the responsibility of his managerial decisions.

The third strategy - strategy to monitor the risks and preparing the strategic plan for unknown situations – is based on using a set of indicators that should be traced during the entire period of time. In case of unexpected situations the manager has a real alternative of responding in order to avoid the risk - strategic plans of action.

The fourth strategy - strategy of transfer and distribution of risks – refers to the fact that the development of certain activities with a risk that may be high implies their insurance to a specialized institution in this field. In this way the transfer of risks from one company towards a specialized insurance company is realized. This company owns for sure, superior capacities of monitoring and controlling the risks.

The last strategy - the strategy of systematically diminishing the risks – is made of an asset of methods and strategies meant to reduce the level of the risks, up to a certain level considered acceptable. Although each strategy was presented individually in practice, they do not act separately but a combination of all is used in order to obtain a complex strategy.

The strategy of mitigating risks is a fundamental constituent of the general managerial strategy frame of the enterprise (Bărbulescu 2000).

The decision making process is based on the concept of "choice"; this implies a permanent shift between risk, on one hand, and benefit, on the other hand. The managers reticent to risk will always assume low risk activities, while, one the contrary, there are managers who will assume high risks, taking into consideration substantial gain (Dinu 2000).

The decision making theory starts from the premise that managers first estimate the risks and afterwards choose the most favorable risk-gain proportion. Nevertheless, in nowadays managerial practice, managers tend to deny the existence of risk or, worse, consider that it can be completely ignored. This fact implies accepting a risk-calculated reality (Faulkner *et al.* 2000).

The individuals' view on the random character of events is that they are manageable from the perspective of cause (Marrison 2002).

All in all, it is possible to identify the risks of the business by using a method based on the answers to the following questions: "What are the possible variants?", "What are the due risks?", "What are the known opportunities?", "What is the probability for these risks to appear?", "How can the right decision be chosen?". This method means analyzing carefully each variant (Popescu 2000).

In our opinion, the strategy of controlling the risks must take into consideration a series of important aspects: if the concepts of risk and strategy were correctly defined, the excluded risks and the reasons for doing this, the presence of a strong strategy for diminishing risks that should be a real part in the general strategy of the enterprise.

4. Conclusions

The main motivation for us, the authors of this article, for choosing this topic is the extremely great importance of the risk factor in modern enterprises, taking as a starting point the fact that risk is a universally acknowledged concept in the economic theory. As proven in our study, a part of the managers systematically avoid assuming risk in their business. Moreover, the degree of fulfilling the managerial tasks is strongly connected to economic risks; this fact is explained through the process of decision making, which is, in fact, the main leading tool of the managerial body. This process undergoes a certain risk level. Risk, as a particular issue, springs from the very existence of choice among several options, which may have unpredictable consequences.

Discussing the process of assuming managerial risk is also important from the point of view that the entire contemporary business system works under the impulse of ”a permanent threat” of risks. Thus, an efficient risk management allows the enterprises to successfully cope with any challenge that might occur.

Moreover, it was noticed that lately, more and more companies started to admit the need of an efficient risk management process; this means “broadening the open-mindedness“ of the managerial mentality.

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