ENTERPRISE RISK MANAGEMENT AND ECONOMIC CRISIS IN THE SLOVAK REPUBLIC

Jozef Klučka[1]

Abstract: Risk management is essential part of managerial activities. There are different risk management standards.In the paper are compared the basics of application in risk management. The results are compared between UK, USA and the Slovak republic.

1. INTRODUCTION

An enterprise performs its activities within micro-, macro-and internal environment. The changeable character of these environments and their consequences are many times in contradiction to defined enterprise objectives. These specific items are generally called risks. The risk is quantified as the multiplication of likelihood and the consequences of the specific item.

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 risk level ?
- 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 ?

An enterprise is faced to different risks:

- Globalization
- Loss of reputation
- Life cycle of a product is shortening
- 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 environment.

Risk management is essential part of managerial activities. The incorporation of risk management into the culture, decision making processes and organizational structure is therefore very actual objective of management.

[1] Associate professor Dipl. Ing. Jozef Klučka, PhD., Faculty of Special Engineering, Dept. of Crisis Management, University of Žilina, Slovak Republic. Jozef.Klucka@fsi.uniza.sk. Tel.: +421 41 5136706.

There exist repetitive and again new reasons (Enron, Parmalat, WorldCom and others), that supports legislators, regulators, managers and others to develop and apply risk management in entrepreneurial and non-entrepreneurial bodies.

2. RISK MANAGEMENT - INTERNATIONAL STANDARDS

The necessity to manage risk is expressed by the fact, that there are different standards that define risk management process, framework as well as organizational context of risk management in an enterprise.

The most well-known standards:

- 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:

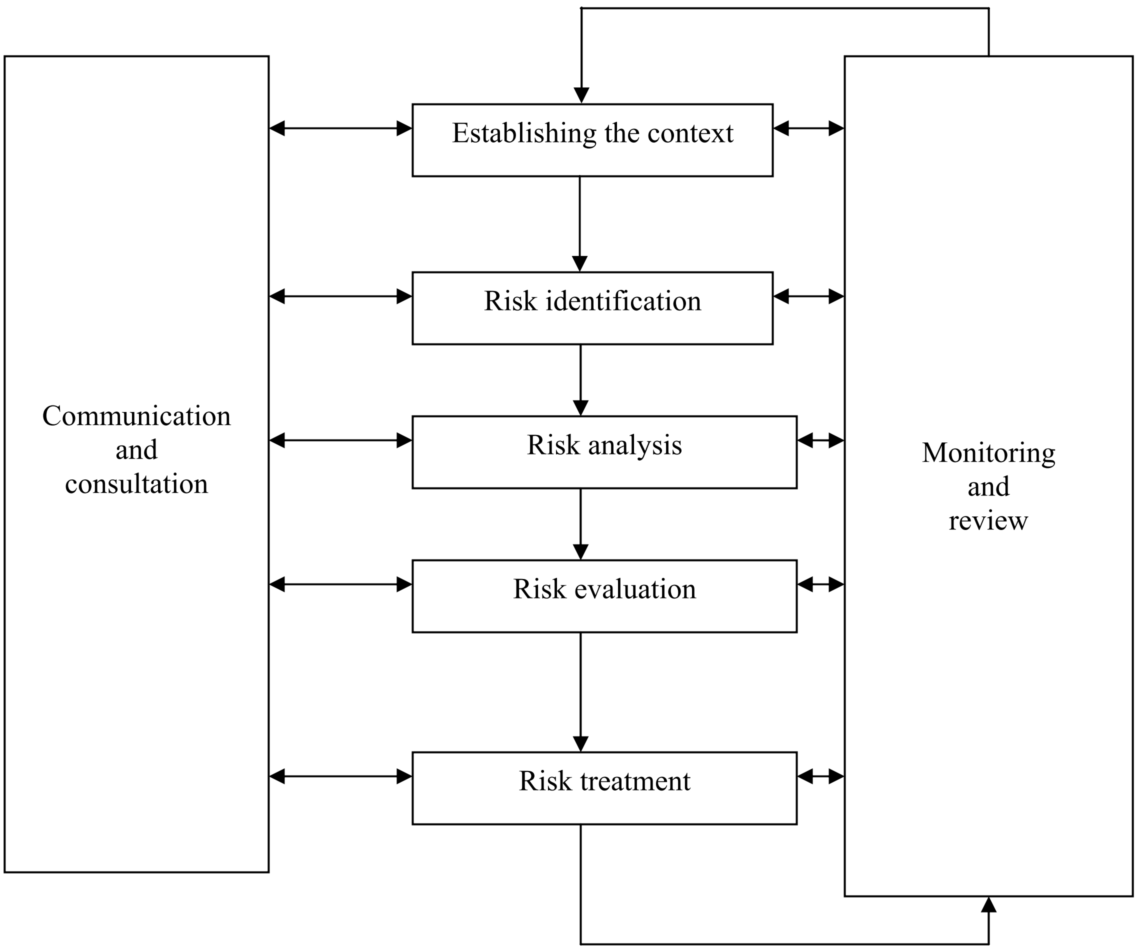

Fig. 1 Risk Management process [9]

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

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

There are principles of risk management. I see (in the context of the paper) as the most important the following to point out [9]:

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

On the basis of these standards and within the recommendation of BASEL there was applied Regulation of National Bank of Slovakia called "About risks and risk management system" (2004) in the Slovak republic. In this document there are defined different risks, process of risk management in a bank, strategy and risk management organization.

Within the risk management framework and assignment of roles/their objectives can be said:

- Board – approves risk appetite (amount of risks accepted by an enterprise), approves and up date enterprise risk management strategy and risk passport and approves the organizational structure of risk management for enterprise
- Chief executive officer – 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 – defines risk management tactics taking into account strategy, manages structures responsible for risk management and communicate with all relevant structures within an enterprise.

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.

3. RISK MANAGEMENT IN THE USA AND THE UK

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

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 (chief executive officer) 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.

Sarbanes-Oxley act caused the increase of indirect costs for relevant companies. According to [6] many American companies decided to move their booking from New York to countries in EU (mainly Frankfurt am Main).

The list of applied bills in the UK is [based on 2, 5]:

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 prolong the time will be by conditional approval of 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.

4. ENTERPRISE RISK MANAGEMENT IN THE SLOVAK REPUBLIC

A Slovak enterprise is active due to pro-export business orientation of Slovak economy in the environment, that is risky and also in the environment that can be influenced by its activities only very limited.

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

Management (including control) in a shareholder company is defined in 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.

5. CONCLUSION

According to AON [7] the prediction of risk management 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 is the philosophy to improve competitiveness of an enterprise via application in its business culture.

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