

NECESSITY OF THE RISK MANAGEMENT IMPLEMENTATION IN THE FRAMEWORK OF THE SOCIALLY RESPONSIBLE ENTREPRENEURSHIP

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Summary

The dynamic development of the global business environment raises a number of issues that require that managers should consider the possible negative impact of their daily decision-making. The erroneous decisions affect not only a company's stakeholders but also its further development. Therefore sustainable growth of the business requires that company managers should be able to anticipate potential risks, manage change and thus avert a possible crisis. This paper aims to make an analysis of the state of affairs with regard to corporate social responsibility and risk management abroad. It also aims to assess the flaws in implementing risk management in the framework of the socially responsible entrepreneurship. The conclusions arrived at suggest that a successful implementation of risk management in the enterprises is mainly dependent on managers' attitudes to risk and in the appropriately adjusted corporate culture.

Key words: risk, risk management, social responsibility of companies

JEL: M14, M15

Introduction

The importance of the socially responsible entrepreneurship is growing with the development of globalisation and informatisation of society. Nowadays companies can perform and develop their business activities anywhere in the world if they are provided better conditions for work (cheap workforce, low tax load, suitable infrastructure, political stability, etc.). The access to information and its utilisation requires that companies should perform their business activities in such a way so that their reputation is not tarnished (Assailly, 2012). The company starts to focus on the quality of life and the overall influence of the entrepreneurship on society.

Every operation of a company creates risks. Some risks emerge indirectly, while others pose a direct threat to the surroundings, people, environment and the material values (Belás et al., 2014). Although the process of risk management consists of a set of logical steps, in the opinion of several Slovak and foreign authors, its success is affected by the

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managers' stance on risks and corporate culture (Broll, Mukherjee, 2017; Kruliš, 2011; Buganová, Lusková, 2016). The attitude to risk determines people's responses to external stimuli, workload, decision making. It also impacts how they plan their activities and what danger they are prepared to face, among other things. All this affects their behaviour not only in the face of real threat but often in the normal and safe situations. As a rule, an undesirable event is exposed to a lot of accidentally performing factors. Such a situation can be perceived both individually and in a group in various ways (Brachert, Hyll, Titze, 2017; Pachur, Mata, Hertwig, 2017).

1. Critical overview of the current state of the corporate social responsibility and risk management in the enterprises

1.1. Research thesis and methodological framework

The article presents the first stage of the project **VEGA No. 1/0560/16. Risk Management of Small and Medium Sized Enterprises in Slovakia as Prevention of Company Crises** solution. The basic aim of this project is to carry out an analysis and make an assessment of the entrepreneurial risks affecting the quality of the small and medium-sized enterprises (SME) in Slovakia. Based on qualitative and quantitative research methods, it is necessary to identify and quantify the entrepreneurial risks for the SMEs in Slovakia, as well as the interdependences of the studied parameters and to compare the results achieved within similar research at the international level. An important part of the project is the methodology design on how to implement risk management in the SMEs with an emphasis on crisis prevention with determined tasks, managers' responsibility with regard to the timely identification of changes in the event of an unfavourable change in the business environment. If positive changes of the environment are identified, the aim is to help the SMEs utilise the opportunities and ultimately ensure the viability and competitiveness of the SMEs in Slovakia.

The objective of this article is to assess the flaws and shortcomings of implementing risk management in Slovakia and to propose recommendations with regard to risk management in the framework of the socially responsible entrepreneurship based on the analyses of the current state of the social responsibility and risk management abroad.

This paper is based on well defined research objectives and basic scientific methods. It is also based on observation and analysis during collection of data about the qualitative and quantitative aspect of the investigated problem. During their comparison and summarizing, the data were also synthesized. Together with these methods, results of other scientific attempts, such as the research carried out by other organisations and the recommended risk management methods, the analysis of the internal and external environment, assessment, risk management have also been taken into consideration.

1.2. Overview of the Current State of the Corporate Social Responsibility

Within corporate social responsibility or responsible entrepreneurship, business is regarded as an activity that is friendly to society. The main idea is that entrepreneurial activities are performed in such a way they will bring gains to the company's broader environment (stakeholders), namely employees, customers, owners, shareholders, suppliers, competitors, public administration offices, state and the local community (Mory, Wirtz, Göttel, 2017). These activities are carried out in compliance with the effective legal framework. Furthermore, they support the positive social and working atmosphere.

International research has come up with a wealth of definitions of corporate social responsibility. For instance, according to the Canadian Centre for Philanthropy, this notion refers to "a set of management procedures which will ensure that the organisation will **minimise the negative effects** and simultaneously will maximise the positive ones of its behaviour on the society". According to the Business for Social Responsibility, the term suggests "doing business in such a way that the company meets the ethical, legal, commercial and public expectations of the society". The Corporate Social Responsibility Newswire Service claims the term pertains to "integration of the company practices and values which includes the interests of all interested agents, including consumers, employees, investors and the environment". (Bussard et al., 2005).

Corporate social responsibility is based on sustainable development determined by three basic pillars: the **economic, social and environmental** pillar (ISO 26000). These pillars comply with the characteristics called 3P (the triple-bottom line principle), i.e. profit, people and planet. The economic pillar is based on building fair relations between company and stakeholders, the social pillar – on creating and developing relations with employees, and the environmental one – on a responsible approach to the environment. It is essential that the current situation should be analyzed in terms of the pillars but also in relation to stakeholders. Thus comprehensive examination of the current state of the enterprise will be made.

The EU interprets socially responsible entrepreneurship as an integral part of a country's competitiveness. The evaluation and comparison of the socially responsible entrepreneurship across countries exposes the links between economic performance and the achieved level of the responsible entrepreneurship. The countries that implement the socially responsible entrepreneurship usually reach a higher level of the economic performance efficiency and at the same time they invest more in its individual sectors and areas (Sakál, 2013).

In **Slovakia** the support for social responsibility has become one of the aims of the National Programme of Quality of the Slovak Republic for the Years 2017 – 2021. The Office for Standards, Metrology and Testing of the Slovak

Republic has called a competition – *National Award of the Slovak Republic for Social Responsibility* – for the public administration organisations and business agents. It is based on the self-assessment through the model ZET (a Slovak abbreviation for responsible, effective and transparent). The model ZET of the social responsibility in turn draws on a system of indicators created by the organisation GRI – Sustainability Reporting Guidelines, the model of excellence EFQM – European Foundation for Quality Management and the methodology of the self-assessment in compliance with the model CAF – Common Assessment Framework.

Various standards of a recommendation character, e.g. *ISO 26000:2010 Guidance on Social Responsibility* serve as a **support** for an effective implementation of socially responsible entrepreneurship. This standard enhances the optimisation of the internal processes and the integration of the management systems aiming to encourage the company's sustainable development, taking into account stakeholders' expectations. There is also the international standard Social Accountability 8000, issued by the organisation SAI – Social Accountability International. It is globally acknowledged as a reference standard for the area of the social responsibility and has been set for certification.

Currently the basic assumptions of corporate social responsibility (Omazic, Calace, Vukic, 2017) are: the triple-bottom line, part of corporate culture, its voluntary character, cooperation with stakeholders, the systemic approach, the **proactive approach** and development of the quality of life. Corporate social responsibility (CSR) departments are becoming an integral part of the contemporary business organisations. This change is the result of an evolving business paradigm that integrates economic performance, social accountability and environmental impact. Investors, customers, shareholders, local community, among other key stakeholders, have been calling for more responsible ways of doing business, following the triple-bottom line approach.

Emphasis is put on the proactive approach in the framework of the socially responsible entrepreneurship, its support for safe business and other advantages of this approach. It opens space for a larger implementation of **risk management in entrepreneurship** (assessing and managing risks in the area of HR, quality, environment, which enables the company to prevent expensive lawsuits, damages of reputation, etc.).

1.3. Overview of the Current State of Risk Management in Companies

Risk management can be assumed to be a comprehensive system of risk assessment and its subsequent application with a view to minimising threats and maximising opportunities or as a methodology of risk management, its individual phases and processes (de Oliveira et al., 2017). The implemented risk

management is a condition for the success of the entrepreneurial activities with regard to security, safety and sustainable development.

Publications in the field abroad have established the positive effects of risk management on the quality of the provided information, on making risk-related decisions, on increasing company value, on ensuring the competitiveness, on achieving the process of sustainable improvement and on prevention in the framework of ensuring a continuous operation of the company (DeLoach, 2000; Lam, 2003; Hudáková et al., 2016, Urbancová, Hudáková, 2015; Varcholová et al., 2008; Hopkin, 2013).

In 2015, the American institution Enterprise Risk Management Initiative in collaboration with the statutory Global Management Accountant worked out a report about the **global state and supervision of the risk management** from the point of view of the trends and opportunities for improvement (Global Management Accountant – Global State of Enterprise Risk Oversight, 2016). About 1,300 companies worldwide were addressed. The research results confirmed a growing interest in the risk management in the SMEDs and a positive perception of risk management as a method of influencing the strategic success of the enterprise. A lot of enterprises have started setting up systems for risk monitoring within the whole company (Xavier et al., 2016).

In 2014 the company FERMA in collaboration with XL group, EY, Zürich insurance, AXA Corporate Solutions and Marsh carried out research titled **Risk Management Benchmarking**. This research identified the biggest risks that European managers see as the most serious ones. They include the risks resulting from the political environment, legal and regulation changes, economic competition, economic conditions, market strategies, HR, damages of the reputation and brand, strategic planning, level of the cash-flow management, product quality as well as design, security and safety of the products. The research results provide evidence about the heightened need for informing top management of the state of risk management, increased interest in a top risk manager at the top management level, increased interest in the risks which gradually get into the process of the management decisions (European Risk and Insurance Report, 2016).

Slovakia is not in good shape with regard to the implementation of the risk management system in companies. The approach to risk management is less systematic in many companies compared with the developed countries and it is implemented with certain reserves. Companies have not yet established a comprehensive framework of risk management that functions without any links to the company strategy. Even though the majority of enterprises is aware of the possible entrepreneurial risk, the latter's relevance is not seen as so high. Some companies tackle only financial and investment risks and largely ignore the one pertaining to production, quality, failing the human factor, etc. (Hudáková et al., 2014, Kozubíková et al., 2015). In large companies risk management is

implemented in terms of entrepreneurial interests, strategic goals, experience, international activities and stakeholders' demands. The SMEDs approach risk management in a more intuitive experience-based manner. Risk management is only part of contingencies and unexpected circumstances in some enterprises (Hudáková, Buganová, 2015; Havko et al. 2016; Betakova et. al., 2014).

Various standards support the effective implementation of risk management in companies. In Slovakia the standard ISO 31 000:2009 Risk Management – Principles and Guidelines (STN ISO 31000:2011) is generally preferred. With regard to risk assessment the standard IEC/ISO 31010:2009 Risk Management – Risk Assessment Techniques is most utilised. Both standards as well as the majority of risk management standards utilise the risk management ISO Guide 73:2009 Risk Management – Vocabulary as a uniform terminology.

According to several authors, and as our experience shows, the most frequent errors managers make in respect of company risk management (Varcholová, 2008; Kruliš, 2011; Buganová, 2012; Assailly, 2012) are as follows:

- 1. Managers' inappropriate stance to risk:** In a lot of enterprises we have established that managers **tend to downplay risks**. Decision-making is often based only on widely held assumptions or generally accepted prognoses (especially those pertaining to economic, market and financial ones). As a result, management does not pay sufficient attention to other possible scenarios.
- 2. Inappropriate corporate culture with regard to risk:** Effective processes related to corporate culture should be one of the priorities of every company and should be paid everyday attention. According to Kuliš (2011), this is not the case. The situation is similar with regard to the advancement of values that should be an inseparable part of corporate culture, such as a positive stance to risks, effective communication, interpersonal relations, etc.
- 3. Insufficient process management in the company** – Every employee who asks for and accordingly receives and utilises the results of work from another employee has the right to receive them in the required quality and on time. Similarly he/she has to fulfil the obligations in this regard. In most cases problems arise when we fail to cope with the procedures of identifying the internal customers, suppliers and owners of the individual processes, when there is dysfunctional communication among the process managers and when there is no interest in the company exerting control over the support of the process managers.
- 4. Failure to identify the sources of risk** – Every failure of the process has a root cause. Risk identification does not involve only the detection of the main causes, i.e. the risk sources (e.g. the technical errors, the failures of

a certain employee, failing to keep the procedure, etc.) but also the root causes (such as an employee's fatigue or workload, among other things).

5. **Insufficient focus on the preventive approach to risk management** – Lack of information and knowledge necessary for making decisions, lack of stimuli to make the necessary changes, solving only the current problems and not the causes and postponing the changes even in the case of serious flaws, are among the frequent cases when companies have no preventive approach to risk management.

2. Recommendations for increasing the attention of the risk management within the framework of the socially responsible entrepreneurship

Currently it is essential that risk management is focused on more comprehensive conceptions, given the broader opportunities that risk management creates and improving the quality of the decision-making processes. Furthermore, risk management should be an integrated system focused on the negative and positive deviations from the planned state, active and proactive, continual, based on the values and aimed at managing processes in the whole enterprise. According to Kurliš (2011), it is not sufficient that the company has a mission, policy and strategy with regard to risk. The company has to adopt a **pro-active approach**, that is, it has to establish a monitoring system to find out if the set goals are fulfilled and to identify the **risks that can possibly jeopardize their fulfilment, even in terms of socially responsible entrepreneurship.**

Risk management should be associated with some basic assumptions such as voluntary character, orientation on the economic, environmental and social area, development of quality of life, systematic long-term management, incorporating corporate culture and wide-spectrum approach to stakeholders.

In the framework of the pro-active approach the companies can realise also the risk management and it should be fulfilled by every socially responsible organisation, see the figure 1.

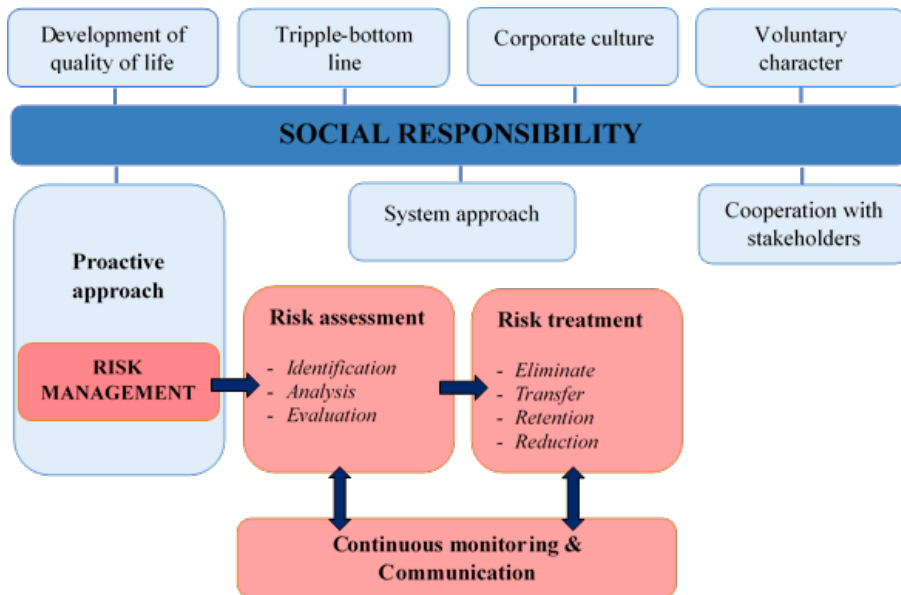


Figure 1: Risk management as part of corporate social responsibility

As it has been shown in the previous chapter, the successfulness of implementing the risk management in the companies is affected by the stance of the managers to the risk. They have to face the current challenges of the entrepreneurial environment and corporate culture. Therefore **we suggest recommendations for effective implementation of the risk management in the framework of the socially responsible entrepreneurship:**

- The top management should create **values in the framework of the corporate culture** that will create a positive attitude of managers **to risks and risk prevention**. Corporate culture has a big influence on managers' attitude to risks and risk management. The goal of top management should be a steady increase of the prestige of risk management in the company.
- Important factors that shape managers' attitude to risks are **awareness of risks and their own experience in negative events**. In general the fact that we know the risks and are informed sufficiently about their possible implications improves managers' ability to recognise the actual danger in time and to cope with it successfully. The knowledge of the long-term existing risks can have a negative impact too, especially when the prevention in the given company is not taken into account.
- The values for correct **motivation, mutual cooperation (team management) and consultancy** regarding the risks should be adjusted for all company managers. The area of the risk management is very extensive

and to master it requires exerting large efforts consisting especially in **training and educating the managers who want to deal with the risks.**

- In the framework of the corporate culture it is necessary to adjust the **communication about the risks** containing important information for the stakeholders but also the company employees. This communication about the risks is important to ensure for those who are responsible for realising the risk management in the company as well as the responsible managers of individual processes to be aware of the need and importance of the particular measures.

Taking a positive stance to risks forms a positive attitude to the environment and processes in the enterprise. It respects the intelligence of an individual and provides a feedback about attitudes and behaviour. Therefore it is important that top management should create a positive stance of managers to risks and risk prevention in the company, Managers will thus be prepared to take action in the event of a crisis situation and have confidence that they will cope with it.

Conclusion

The changes in the business environment in Slovakia and across the world are the sources of a whole range of risks that managers should be aware of and manage. Owners' increasing demands with regard to effective risk management are also factors in this state of affairs. As a result, new requirements have been set whereby managers should know how to assess all the key risks in both the company and in the framework of the socially responsible entrepreneurship. Based on this finding, there has been a growing need for top management to change managers' attitude and create a positive mindset towards the risks that the enterprise may face. On the company level, it is necessary to be aware that the establishment of a risk management system is a gradual process that should be integrated within the company's strategy and corporate culture. Furthermore, it is unlikely that the results from the implementation of the risk management system should become evident in the short term. It is worth noting that risk management cannot possibly be implemented in the whole company as a universal solution to all problems. This implementation varies across companies and enterprises and is largely dependent on the character of the business.

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