

CAUSES GENERATING RISKS IN THE BUSINESS MANAGEMENT

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Abstract: *The development of the business on the international markets amplifies the action and the consequences of all types of risks the company is exposed to, from the perspective of the diversity of forms under which they appear and due to the magnitude of the effects they generate. The present paper aims at clarifying the concept and meaning of risk within the business management, focusing upon the causes that create tensions within the international business environment and that generate major risks within business management.*

This study is a working instrument for theoreticians and practitioners who are interested in the modern approaches of the risks in business management domain.

Keywords: risk, business, management, globalization.

JEL Classification: M₁, G₃₂

1. The meaning of risk within the business management

At a conceptual level, the notion of risk received various meanings. As for the most spread one, most of the approaches refer to the possibility of facing an event that can negatively influence the accomplishment of the aimed objectives. From this point of view, the risk is regarded as “an uncertain, but possible, element that permanently appears within the process of the socio-human activities, with damaging and irreversible effects” (Ritchie, B., Marshall, D., cited by Dobre, R.C., 2006, p. 47). The risk is also defined as “a probable and future event that, if produced can cause

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certain losses” (Babiuc, V., 1982, p.10) or as “the possibility of facing a loss within an economical transaction (export, import or cooperation), as a result of several events or unpredictable phenomena”(Negruș, M., 1998, p. 62). Sometimes, the factors that could lead to losses can be foreseen but there are also situations where the risk is unpredictable, being determined by forced situations. According to a pessimist perspective, the business risk comprises the entire set of threats. Considering that the risk in business is a too complex and variable phenomenon as to be approached from a single perspective, several authors take into consideration its positive side. Nowadays, new theories have appeared; they have imposed a new perspective in approaching the risk in business, with a focus on the possibility of generating opportunities in the context of a correct management, based upon adequate strategies.

There are risks that managers assume hoping to obtain a future profit or risks that do not assume the possibility of winning.

When answering the challenges of a volatile and turbulent environment, the modern organizations must integrate in managerial decisions, more variables that are difficult to control. Taking into consideration the environment factors’ influence upon the managerial decisions, the business risk can also be defined as “the results’ variability under the environment factors’ pressure” (Nicolaescu, O., 2005, p. 28). The risk within the business management is being regarded, in this context, as a decisional risk, manifested in the moment of adopting and implementing a decision, being caused by the use of incomplete or damaged information, or by faulty reasoning of the decision making factors.

The risk within the business management, as well as the success, is a multidimensional notion difficult to quantify. Usually, the obtained results are proportional to the risks undertaken. The large gains are associated to high risks.

Theory and practice of modern management must approach in terms of strategies, of decision and informational system the risk affairs. Managers are forced to resume to the concrete realities generated by global dimension of businesses world. Many managers undertake risks as a condition for the success, assuming that a direct relation exists between risks and gains, therefore, in business “the highest risk is not risking at all”. The manager will manage the activity on principles of risk efficiency. Moreover, the staff as a whole will be trained to be aware of the importance of risk management in achieving their own objectives. The capacity of facing the challenges and of learning from any defeat is a component part of the successful manager’s personality. Moreover, the etymology of the word itself “risk” makes

reference to courage (the Latin word *riscare* means “daring”). Risks demand for courage, but the offensive spirit itself is not enough for success. Courage means responsibility for the accomplished actions and high demands regarding the quality of the final purpose.

2. Sources generating risk in the global business environment

The risk of business is the objective reality of contemporary world, reality which amplifies once with the globalization phenomenon. The amplification of the volatile dimension of the business environment makes the risks, with which the modern companies are facing, to increase and to be even more diverse. Acting in different cultures and environments, which, by their nature, accentuate the threats and the constraints, the risks strongly affects the international companies through the variations of the economic and political factors (lack of stability in the exchange courses, political actions and events etc.). Under these forces' pressure, the business operations are exposed to new types of risks that are rather difficult to evaluate and monitor. The global business risks should be viewed, analyzed from a systemic perspective, emphasizing the interrelationship between them, knowing that one can generate the chain production of other risks. From the point of view of the generated effects' diversity, the risks that the business in the international environment are exposed to present a higher degree of complexity than the ones affecting the national company.

The frame in which the economic businesses take place has become global together with the impressive increase of the international operations, with the intensification of the bonds between the national economies. The development of the business on the international markets amplifies the action and the consequences of all types of risks the company is exposed to, from the perspective of the diversity of forms under which they appear and due to the magnitude of the effects they generate.

The companies, regardless of their size, must face the global competition. Even if the business take place on local or regional markets, the competition they are submitted must take into consideration the global environment (Dragomir Ștefănescu, C., 2008, pp. 154-156).

In this battle wins the ones who are prepared to confront direct, with tenacity and courage problematic of managerial risks. The cognition of the risk generating causes and the correct risk management are perceived as factors that influence in a major way the economic performance of the

company, the development of the social behavior and its reputation in the business environment.

The modern companies are being exposed to uncertain situations and are strongly felt by their management. The managerial decisions become more complex, are being exposed to risks that are generated, for most of the situations, by the business environment and by the decision of making factors (managers, businessmen). Focused on the two different sides, the causes that generate risks in the business management can be grouped as follows (Figure 1):

- *objective causes*, respectively exterior, unpredictable events that are independent of the managers, events of which they cannot be blamed (natural or ecological disasters, political changes, rapid shifts of the technological process, modifications at the level of economical policies etc);
- *subjective causes*, generated by the lack of experience, by the incompetence or by the bad intentions from the persons making the decisions. In this category we can find many situations, among which we can mention: the insufficient knowledge regarding the clients and the market's needs, the quality, strategy development, the modifications within the competitive environment, the efficient funds' management, the events related to the personnel policy etc.

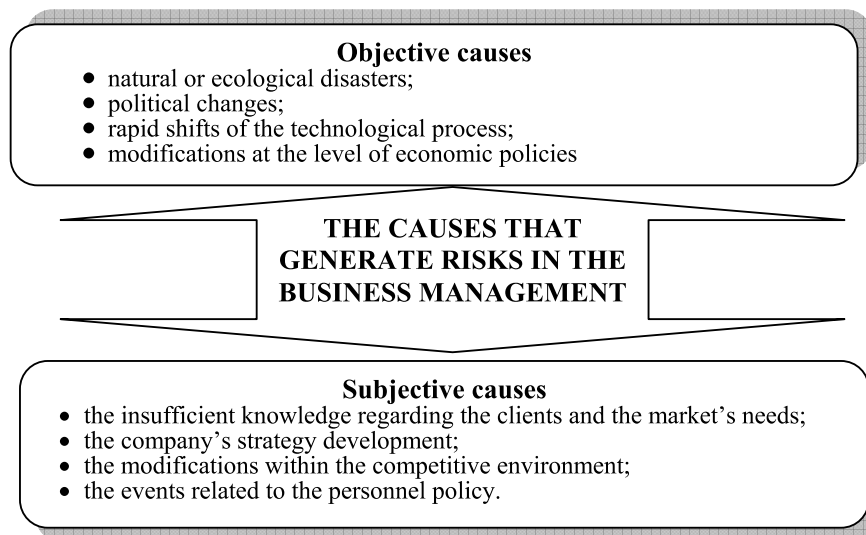


Figure no. 1. The causes that generate risks in the business management

The causes that can create tensions within the international business environment mainly aims at (Figure 2.):

- *amplifying the globalization process* with all its specific aspects: focusing upon the transformations within the structure of the international commerce, encouraging the long term investments and accelerating the capital flux; the creation of an independent “symbolic economy”, generated by the exchange speculations and by the success of the transactions with derived products; redefining the competitively determinants, changing the way in which businessmen perceive their own goals; the globalization of the productive, investment and commercial products;
- *incompatibility situations between the integration policies and the national ones*, a fact that often leads to controversies and tensions, especially at a decisional level;
- *modernization versus underdevelopment*, a process that represents the basis for certain severe risks generating tensions (inequalities in the economical development, in the income distribution at a regional and interregional level, competition lack etc.)

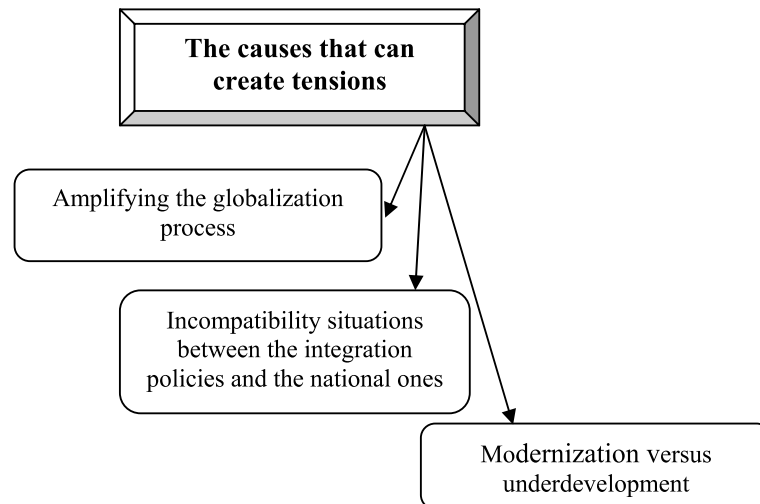


Figure no. 2. The causes that can create tensions within the international business environment

The way of overcoming these risk generating situations is represented by the alternatives' reconciliation, by combining the regionalism with the multilateralism and launching several new efficient strategies that aim special anti-risk situations (Bernstein, C.F., 1996, p. 105).

Together with the globalization, the European single market development can generate, at its turn, alongside numerous benefits, certain situations of uncertainty and also risks at the level of the community business environment and for the companies that operate in this environment.

In the specific literature the theorists (Dan, V. et al., 2004, pp. 19-21) include in this group of risks several generating causes as follows:

- the different dynamics of the economic growth at the level of the member countries due to the structural particularities of the economics;
- pressures applied upon the companies in order to reduce their costs and decrease the profits and the prices;
- the apparition of the oligopoly market structures, even monopole;
- the possibility of triggering "pervert" mechanisms that finally lead to income decreasing, reduction of the social protection and augmenting the difficulties to the employment;
- social protection and increasing of difficulties refers to labour.

An appropriate risk management ensures the company the ability to identify, quantify and monitor the risk profile and to avoid them and finance them. These items are actually found in each type of risk management, but they acquire a new dimension at a global level (Panzaru, S., 2011, p. 126).

3. Conclusions

Under the pressure of major changes imposed by the economic globalization, the business world has become a space of the unpredicted and the modern management must adequately respond to the risk and uncertainty of situations. Risk and uncertainty can be associated to each and every type of business and also, they can be traced, so that the level of these ones should be enframed within manageable bounds. It is necessary that managers manifest a strong enterprising spirit, to adopt decisions in a short time, to elaborate anti-risk measures, in the face of the multitudes of the tensions which may appear in managerial activity.

Knowing the sources generating risk within the global business environment, the analysis and the correct evaluation of their impact upon the business viability and implementing an efficient risk management are essential features in order to survive and develop companies that operate on the international markets.

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