

# The Need to Foresee Risk and Uncertainty within Organisations based on Change

**Ion GHEORGHE**

The Bucharest Academy of Economic Studies, Romania

E-mail: alexandra\_ion007@yahoo.com

## *Abstract*

*In real economy any activity is growing up under uncertain and unsafe circumstances, providing a serious reason for the managers to develop the necessary means, in order to find the adequate solutions for each case and to diminish the negative impact upon the organisation. The risk and uncertainty are approached within reference documentation both from theoretical and practical point of view. The theoretical approach has exceeded the practical one by a long shot, whereas the ways to use all the theoretical knowledge haven't been found yet, because they are unpredictable and have unexpected effects in any domain.*

**Keywords:** *risk management, organizational culture, quality, strategic management*

**JEL Classification:** M12, M14

## **Introduction**

The implementation of risk management, within the context of an existing organisational culture, susceptible to be capable of motivating employees in order to ensure the protection of the organization through personal contribution to risk management, represents an up-to-date requirement for all the organizations that are passing through a full process of transformation. In the absence either of a unitary values' assembly or a quality interpreting system, the concepts of risk and opportunity, which are the main operational and management processes besides the control measures and possible interventions, can not be entirely achieved.

The education and awareness of people with authority regarding both the risk and control opportunities, are key factors in modern management attempts to adjust the organisational processes within an organisation to the characteristics of a change-based organization. The organizational culture can be a real support for reaching a goal by boosting and training each employee in assuming the responsibilities concerning risk management and risk identification, during a change process, whatever state the organisation might be in.

In order to facilitate these values to be passed forward, the management must gain and then keep the trust of the employees, to ensure the material and informational background, the necessary training and the necessary demand either through direct dialogue or surveys, or even by collecting the employees' suggestions and impressions.

Management can stimulate organizational communication by giving each employee the opportunity to carry an open dialogue with top management. Under these circumstances, education and awareness processes must be permanently supported by all staff.

Alongside the measures mentioned above, the payment system provides a way to encourage the staff involvement in organizational risk management. Wage earnings incentives correlated with the performance, initiative and loyalty both of individuals and teams, aim to motivate the employees, but also to attain balance between risk engagements and opportunities' fructification.

An example regarding to the interaction between organizational culture and strategic risk management, is rendered in the book „Straight from the good” by Jack Welch, CEO of General Electric for twenty years until 2000. The description of the experience related to the purchase of the investment bank Kidder and the failure that followed after that purchase simply highlights the cultural incompatibility between the two organizations. The message received from the CEO was „at Kidder employees could win while the bank could lose. At the end of a financial year with negative results, managers support the idea of offering bonuses to employees at least for the previous year, naming the reasons for these actions as a measure of protection against fluctuations of the employees in favour of competition.” This incompatibility has been the central reason that finally led to the sale of the purchased business.

### **1. The role of communication in improving risk management**

The improvement of risk management can be achieved by connecting employees with the organizational vision via means of communication.

Important part of a manager's profession and talent, with direct and significant influence upon the success of an organization is the creation and management of the expectations and attitudes of all concerned parties (shareholders, suppliers, customers etc.) with regard to the organization and its future.

An organisation whose external perception is of high financial dependence and economic weakness will be affected by the attitudes of shareholders that will withdraw their investments and will redirect them to other attractive options. At the same time, the negative perception concerning the financial security and the future of the organization among rating agencies and funding financial institutions, will induce either a growth in the cost of external capital or a lack, that can be fatal in certain circumstances.

The analysis of a change-based organization might begin by studying the communication and the external perception of the factors that can influence the stages through which it passes upon the organisation. Moreover, the perception upon internal

communication, through formal and informal channels of communication might be an important strategic component, because only a positive organizational climate, based on understanding the most convenient position of the organization at present and future, will stimulate and lead to the attraction and especially the retention of talent inwards - the major activity of modern organization in which the human resource plays a primary role in the organizational resources.

Frequent studies upon capital market have proven that the perceptions and expectations of investors, not always caused by concrete facts or events, but mainly by the organizational message and perception, may determine success or failure in business.

Management communication is a basic tool of change strategies. In many organizations from competitive economies, are being revealed a lot of trends, such as: the decentralization trend of the organizational structure (the transition from a vertically-hold organizational structure to a horizontally-hold one), the growing trend in assuming TQM (Total Quality Management) principles, the idea of authorization and last, but not least, the employee's involvement trend, both as individuals and as teams. Internal communication becomes a key factor for the strategy of the organization through which the good understanding of the objectives is ensured and the standards are established in such a manner that could prevent the appearance of the risks to which the entity is subjected to, when deciding to shift from one state to another.

Thus, the essential characteristics of the change-based organization are:

- *Communication must take place continuously and by any means;*
- *Communication must operate at an intellectual level.*

Management communication includes complex issues related to the change process, both related to internal communication (with employees), and external communication (with suppliers, investors, etc.). External communication requires effort to develop managerial skills of communication between different organizational cultures and nations.

There are fundamental changes both in media behaviour and in audience of the organization:

- *The emergence of highly complex issues such as the responsibility of the organization towards the environment;*
- *The need for transparency of the decision system;*
- *The need to communicate everything and immediately;*
- *Internal and external credibility of the organization's management;*
- *The need to change investors' perception of the organization;*
- *The need for partnership with unions.*

The manager must acquire certain skills, behaviours and techniques. It is well known that there are differences between the skill and ability (skills can be formed, developed and improved in time, while abilities are an innate attribute).

Fundamental techniques of communication can be divided into:

- *Techniques for receiving messages;*
- *Techniques for the interpreting messages;*

- *Techniques for rendering messages.*

In modern organizations, the high sensitivity of management communication is supported by specialized departments which carry out studies and develop communication plans relating to:

- *Financial position and dividend policy;*
- *Market and product strategy;*
- *Feedback on market development and market situation;*
- *Significant changes at management or shareholder level, including the communication channels for:*
  - *Annual reports;*
  - *Meetings with shareholders and investors;*
  - *Discussions with financial institutions and rating agencies;*
  - *Press releases;*
  - *Ad-hoc postings to the capital market;*
  - *Other publications, Internet and intranet pages.*

This way are being mentioned just some of the messages and channels of communication that aim both domestic and foreign receptors at the same time.

At organizational level, communication is usually broad, formal and structured. Besides the formal channels of obtaining information (upward, downward and horizontal) there is also a network of informal channels within the organization.

One of the promoters of the organizational communication concept was Chris Argyris, who, in his *"Personality and Organization"*, published in 1954, presented a reaction against the postulates of scientific management developed by Taylor, who promoted a radical disruption between managers and workers, such as *"managers know better while workers are stupid and lazy, always opposed to managers"*.

This shift point in the science of management psychology propelled the requirement to improve organizational communication, that becomes one of the basic purposes of the organizational development interventions.

In current management practice, when talking about organizational communication, each person in the organization understands something else, having a different perception (personal and subjective) of what it means. It is hard to identify and define a problem within an organization that faces deficiencies in organizational communication or within an organisation in which communication deficiencies are an aggravating factor. Therefore when they use phrases such as *"we have communication problems in the organization"*, *"need to improve organizational communication"* or *"objective is to increase interdepartmental communication"*, rather involuntary it is created a difference in understanding the nature of problems and implicitly the understanding of goals and intentions of optimization.

It should not surprise that, in certain cases, is being used the phrase *"flow of communication"*. This way is created a clearer perception of the communication concept as a dynamic process, easily identifiable between two defined entities that

can be designed and managed and, moreover, this way, it is easier to determine the quality and desirable frequency of feedback.

There were identified several items related to communication. Thus, the research has revealed both that the openness in communication is directly linked with organizational effectiveness and open communication between the chief and subordinate is crucial to the organizational climate.

A specific feature of subordinates is that they distort the information that they send to their managers and they fear the punishment in case they send unfavourable information. Although the employees prefer the council style, when they deal with their superiors, they still think it is unlikely that this style can lead to obtaining better results than direct threat when they are the bosses.

As in the case of interpersonal communication, the manager must consider the desired impact and strategy when you communicate through organizational channels. Intentions of a manager may not be disclosed in the memos or in the messages sent, while the message, in turn, can be distorted or misunderstood even if it is clearly presented.

## **2. Methods of assessing and measuring the degree of implementation of the strategy and risk management**

A special importance is being paid to the methods of assessing and measuring the degree of implementation of the strategy and risk management.

The very definition of the full implementation of this process is a delicate issue even for professionals. Studies in this respect demonstrate the existence of some considerable differences in company practice, between the adoption of the initiatives and the basic processes dedicated to risk management and also the full and proper implementation of this process.

In assessing and analyzing the degree of implementation of the strategy and the risk management process in the business, it is advisable to take into account the following aspects:

- *The concerns regarding the organisation process of risk management;*
- *The existence of organizational structures and processes which are dedicated to internal risk management;*
- *The legislation dedicated to staff responsibilities in risk management and to all other participants;*
- *The organizational and procedural interdependence with other management activities, integration within the general management of the organization;*
- *The risk categories monitored by the organization;*
- *The policy measures, regulations and practical ways of managing risk;*
- *The tools and methods which are used in risk management;*
- *The documentation and support materials (manuals, procedures);*
- *The costs associated to risk management;*
- *The training and retraining porcesses.*

In the vision of the PriceWaterhouseCoopers company, a suitable implementation is found when the following activities are simultaneously and completely realised:

- *Management has the necessary information for aggregated organizational risk management;*
- *Existence both of a common terminology and of a set of standards devoted to risk management;*
- *Existence of a standardized informational support such as a type of form or questionnaire used in collecting, recording and processing information about risk;*
- *Risk management is fully integrated in the strategic planning process;*
- *Data referring to risk is measured and processed optimally (using the appropriate statistical - mathematical methods);*
- *Risk management covers all functions and business units of the organization;*
- *Each member of the organization understands the importance of its task in managing organizational risk;*
- *The organization records and covers all costs of the risk management activity, monitoring the effectiveness of this process;*

Achieving these activities implies a proper structural and procedural organization, while the organizational culture has a crucial role in implementing this management process. The role of risk management is crucial in this phase.

Among the critical points that can cause problems in the implementation of risk management, there can be mentioned the following:

- **Human resources** are an important element in the assumed risk because people perceive the information available in different ways and make different decisions. Removing the human factor, by implementing software that can learn (cybernetic neural networks, etc.) do not lead to a secure result because always may take place situations that can not be converted into data. The human resources, through their essence, will make decisions that may lead to a favourable result, while a system makes decisions based only on the accumulated knowledge. This theory has been heavily debated in the work of Alvin Toffler, specifically in "Third wave", where the author tries to explain the consequences of the informational era in decision making process in informational systems' attempt to reduce the risk of human error;
- **Available information.** Information that underpins the decision should not be obsolete. Also, it should not be considered that the more information available, the more accurate the decision-making process is. It must be taken into account that a lot of information can be proceeded with high efforts, while the time period in which the decision is taken increases significantly with processing a large number of information and, as a consequence, the decision might not be the best. Therefore, first, there must be done a selection of the information on the

subject under consideration and then should be started the processing activities;

- ***Up-to-date information.*** As for the point exemplified above, it may be made clear that the more up-to-date the information is, the more useful it is in making a decision. This information, correlated with the time factor, should be analyzed according to the period in which the analyzed subject (in our case the organization) is flexible to changes. Each stage the organization is in, determines a particular set of information necessary in decision-making process;
- ***External environment.*** Constraints in the external environment can cause actions with a high degree of risk. Relations that are established between the external environment and the organization are very important, especially if we take into account that the stages in which an organization is situated can be influenced by external factors. In relation to the time factor, the organization can be at two different moments in different stages in terms of characteristics, but everything can be influenced by external factors. For example: A company which has hired 50 people for seasonal work for a period of 3 months. Due to climatic conditions work which should be done with this people, in fact, needs a two times lower workforce. This leads to decreased business profitability, generated by a factor which could not be quantified. The assumed risk has been the employment of a number of people without knowing the weather;
- ***Discrepancy between management expectations and business practices;***
- ***Competition;***
- ***Organizational structure;***
- ***Technology;***
- ***The investment involved.***

Strategy implementation and specific implementation process also entails providing the material and financial conditions, a partial remodelling of the management system, such as the informational system, organization structure, or in some cases, even involves restructuring the entire management system.

Implementing this strategy may lead, in some cases, to a conflict at organizational level, that may be caused by different views of the same issue or by material factors, such as the distribution and availability of resources. In this predicament the manager must use the methods for management conflict to solve and control the situation.

### **3. Assessing the current situation of Romanian organizations**

In assessing the current situation of Romanian organizations, it is useful to examine how they have been managing to cope with a series of changes and constraints which are characteristic to the transition period. Also, it is useful to examine how they adapt themselves to the global standards evolved with a tradition

in strategic planning, management and control risk forecasting. In many cases, the organizations present a strong inconclusiveness, and often the lack of experience and necessary structures limiting the prospects for the future.

Transition assumed structural change both at macroeconomic and organisational management level (unsuitable to global dynamics and often located in the stage of industrial capitalism, inappropriate economic and social responsibilities, the performances characteristic of the modern global economy based on knowledge, information and an innovative organizational attitude, proactive - preventive) in which risk management has a primary role.

This concept, as a whole, involves the development and adjustment of the organization in changing environment, and survives as a dynamic and costly process that develops itself throughout the permanent interaction of the management with employees or external stakeholders.

In seeking balance between opportunity and risk, it is considered that the variability and alternate situations of risk and opportunity can be best judged by assessing the degree of environmental turbulence. In defining environmental turbulence there can be considered the following:

- *The complexity of environmental elements;*
- *The rate of emergence of new challenges to the organization;*
- *Rapid organizational change - regarded as the ratio between speed of development challenges and speed of response of the organization;*
- *Future visibility - the predictability of the future information available to management decision-making process.*

To the turbulence term may be assigned a positive connotation, since it may be essential for innovation (the creative systems being the major beneficiaries of the environmental turbulence phenomenon). Thus, the birth of new business and the organization's portfolios is restructuring and expanding.

Environmental analysts have focused their attention on determining the degree of organizational turbulence of the environment, because it influences the development and communication strategies, organizational planning and organizational management of risk.

In recognizing and exploring the opportunities offered by the change and turbulence of the environment, management is using planning, organizing, coordination, training and awareness of the organization's processes in relation with the environment. This process is possible under the circumstances of the organization's management ability to act and react flexibly, to increase the reaction speed, through a strong environmental awareness, for opportunities fructification, and to focus, simultaneously, on minimizing the threats and risk in real time.

The ability of the organization to effectively manage the crises and surprises they face and to adjust to them is also a significant factor that ensures the effectiveness of the organization in a turbulent environment. Such a stage of organization, consisting in an organizational system characterized through a quick adaptability, may also be discussed.



At any time, a component of the environment may change offering the organization the opportunity to practice the capacity to transform, to self regulate and to be in synergy with the environment. Thus, the ability of self regulation, factor of safety of the organization's effectiveness in terms of environmental conditions, which is an organizational feature that develops on the basis of programs and strategies under which there is no shortage of continuous exploration, environmental research and effective organization of available information - supported by modern information systems and study, and knowledge-based processing by competent individuals.

The modern organization is under the influence of many economic and social changes expanded to the integration scale and the impact generated by financial-monetary flows, changes and social interactions. Under these circumstances, the organization is subjected to a universal integration process in new world structures, characterized by increasing convergence of economic systems and civilizations. Environmental organization is a wellspring of opportunities, but also a source of risks and controversies.

Economic analysts are looking to link the success of law firms in the environment context, using both the comparisons with events and past economic cycles, and innovative scenarios characterized by diffuse and complex dimensions for supporting development mechanisms of the organization which are increasing, at the same time, their degree of mobility in relation to changes in environment. In order to be able to perceive global transformations experienced by the current organizational environment, the companies, especially those operating on foreign markets, organised specialized departments in risk analysis of organizational environment. This activity, which is devoted to industry analysis of the environment, aims to determine further changes which may influence the development of the organization. These departments play a strategic role and are often subordinated to general management.

In current conditions, with free access to information, organizations are under the influence of competitive intellectual capital, which plays a decisive role in the analysis and interpretation of environmental changes. The success or failure of organizations depend on the implementation of analysis projects and the simulation of environmental and feasibility studies.

It was identified a more and more high interaction and integration of risk management with the analysis of the organizational ambient environment. Among the objectives of environmental analysis, with high interaction and applicability in risk management, we may include:

- *Determining the strategic position and the development cycle in which the concerned industries are situated;*
- *Market segmentation and identifying its structure determined by the existence of a small number of companies with high market shares or its fragmentation among its many small, medium and big companies;*
- *The existent unexplored / unused capacity;*
- *Measuring the volume of its market share;*

- *Assessment of entry and exit barriers from the market;*
- *Analysis of competition in terms of: price, process management, customers;*
- *The identification and analysis of characteristic market factors, and also the determination of the major trends;*
- *Identification and analysis of the many sector regulations, and the intentions of amending the legislative framework.*

In order to achieve such an analysis, either the leading organizations have specialized departments, or, in some cases, they resort to consulting firms. Moreover, several studies conducted periodically by the Chamber of Industry and Commerce, associations and financial institutions, ratings firms like Standard & Poors, Moody's or AM Best, organizations and industrial associations, and even conducted by market players themselves, are available to analysts, the results being disseminated through symposia, press conferences and shareholders meetings.

Global environment, which is the main subject to rapid change, correlated with the existence of networks and innovative alliances based on knowledge, requires that the strategic organizational management have a proactive attitude towards the environment and its changes. The emergence of new needs, requirements, technologies and new competition is not a surprise for the organization, but it always have an immediate effect upon the strategies, even on those freshly prepared. The transition from information to knowledge is one of the key elements that determine the influence of change and makes possible to exercise a proactive management.

#### **4. The technology of information supports the achievement of any economic activity**

Currently, information technology supports the achievements of any economic activity, and aims to stimulate proactive behaviour and to obtain a competitive advantage based on knowledge, while the organization needs more than simple data elements, they need the elements of analysis or information which is given by context. The resources that allow organizations to differentiate are both the knowledge, and the ownership of the information, and their significance in the context of its own organizations.

Among the items available to management, that are used to stimulate learning and knowledge in the organization, we may mention:

- *Promoting the understanding of the mechanism and organisational managerial model;*
- *Development of the innovation and performance based organizational culture;*
- *Corporate education;*
- *Forwarding organization vision and strategy;*
- *Clarifying the importance of change and development of any imbalance in the system;*
- *Providing access to information;*

- *Promoting the diversity of opinions;*
- *Removing anxiety and promoting direct communication;*
- *Promoting transparency and free expression of opinion;*
- *Promoting the "spirit of ownership" over the tasks and activities of each employee;*
- *Encouraging learning and acquiring new knowledge useful for the organization.*

Thus, organizations will receive, besides the benefits and contribution provided by the teams which are specialised in risk analysis, the environmental opportunities and benefits from the contribution of each individual organization to recognize changes in the environment and the impact they can have on the organization.

Therefore, one can say that environmental analysis is a strategic and continuous management activity still necessary to define, underline and adapt business strategies. The process of targeting strategic organizational activities, aimed to understand and anticipate the environmental trends, is designed to fructify opportunities and reduce the high risk of threats from the organization's environment.

After minimal exposure of theoretical principles that underlie the program of scientific research, there should be pursued practical aspects of the results and effects, especially positive ones, resulting from their implementation within a business.

Any management action must be assessed as significant in terms of success, in terms of immediate goals, and in terms of the effect upon the organization. This contributes to the accumulation of organizational values needed either in a future change or degradation. Organizations specialized in innovative change, emphasize the learning and collaborate with allies and partners to achieve objectives. The question one may ask is "*What is the risk that must be assumed for these actions?*".

Achieving the objectives and projects of the organization involves identifying and taking multiple risks such as: environmental changes or internal changes, designing unrealistic strategies, errors and omissions in design, etc.

The hypothesis of the aversion against economic risk, which all financial theories are based on, has the consequence of needing to define a clear link between risk size and investment earnings: as the risk an investor assumes are great, the greater will be the expected gain from it. In this way, each investor either seeks the highest level of earnings for a particular risk that is assumed, or to pay the lowest possible risk in order to obtain a determined benefit.

## Conclusions

Currently, the risk management has become a conventional mean of protecting an organization and ensuring its performance over long term. The increasing concentration and increased formalization of risk management, as a business process, has created for the experienced practitioners and innovative researchers, the opportunity to harness the latest technologies and to overcome the barriers in developing business solutions. In this environment, so risky but at the same time so challenging, *Enterprise Risk Management (ERM)* becomes the more intense fundamental and essential approach to risk management. In this way, we assist to the opening of a new field of risk management that requires new and specialized expertise, and makes other forms of risk management to seem incomplete and to appear much less attractive. Based on this argument, it becomes clear that an approach of risk management from both perspectives, theoretical and practical, is preferred against an individual approach.

## Bibliography

1. Toefler, A., (1984). *"The third wave"*, Technical Publishing.
2. Burduș, E., Căprărescu, G., et al., (2008). *Organizational Change Management*, Third edition, Editura Economică.
3. Begg, D., Fischer, S., et al., (2004). *Economics*, Fifth Edition, McGraw - Hill Book Company, London.
4. March, J., Shapira, Z., (1987). *Managerial Perspectives on Risk and Risk-taking*, Management Science, vol 33.
5. Sullivan, J., (1999). *Exploring International Business Environments*, Pearson Custom Publishing, 1999.
6. Nicolescu O., Verboncu, I., (2003). *Fundamentals of management organization*, Editura Tribuna Economică, Bucharest.
7. Nicolescu, O., (coordonator) (2000). *Modern approaches in managing the economy and organization*, vol 1, Economic Publishing House, Bucharest, 2000.
8. Welsch, J., (2001). *Straight from the good*, Warner Books, New York, 2001.
9. Sharpe, W.F., Bailey, J.V., (1995). *Investments*, 8th edition, Prentice Hall, 1995.