

Efficient Management of the Entrepreneurial Risk by Implementing Risk Management ISO 31000:2009

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Abstract: The contemporary economy is characterized by a high level of entrepreneurial risk. The risk is that the entrepreneur's tool offers various opportunities for development and the lack of a risk management system leads to business failure. Therefore, this can be avoided by implementing a standard-ISO 31000: 2009.

Keywords: risk; risk management; entrepreneurial risk; risk management system

The unstable pace of the entrepreneurship development in the Republic of Moldova in the last decade and the changes that have occurred in the national economy under the influence of global trends require us to analyse deeper the business environment by applying the complex methodologies that would ensure a veridical degree in the companies' diagnosis.

Until the 21st century, the domestic enterprises did not perceive the importance of the implementation of risk management in the company's management, namely in the decision-making process. Nowadays, the understanding of the fact that the risk can be prevented has led to the implementation of the risk management methods and techniques to:

- ✓ enhance trust and confidence of the staff, suppliers and all stakeholders that the company is concerned with the prevention of risks of any kind,
- ✓ reduce losses,
- ✓ improve the performance of environmental protection, health and safety,
- ✓ enlarge odds of achieving the established objectives,
- ✓ minimize the negative impact,

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- ✓ get a solid foundation of arguments in the decision-making process, and as a result, to increase the management efficiency of the entrepreneurial activity.

The effective risk management is vital in ensuring the economic growth of the entrepreneurial activity. The analysis and evaluation of the unstable business environment and risk identification in the enterprise ensure fair and effective decision making, and enable the entrepreneur to respond or take action to prevent risk. Although the risk is not only associated with the loss, the entrepreneurs do not see the risks as an opportunity. Any activity means taking risks. The entrepreneurs' risks have specific features, and namely: to give up the idea of a stable job as an employee, for an insecure workplace (at least at the start of the business); it can happen to invest money from one's own pocket in a business, and in case of failure, to no longer be able to recover it; to have debts and be unable to pay them; the competition can be too strong regarding the chosen market sector; and to encounter difficulties in finding and hiring competent people¹

To manage the risks within an enterprise, it is necessary to know these risks. In the field of entrepreneurship, the **risk** consists of all the activities of some subjects of the entrepreneurial activity aimed at overcoming the uncertainty in terms of evaluating and selecting the best variant for achieving the desired results or the minimum planned deviations for each selected variant. (Gheorghita, 2013, p. 115)

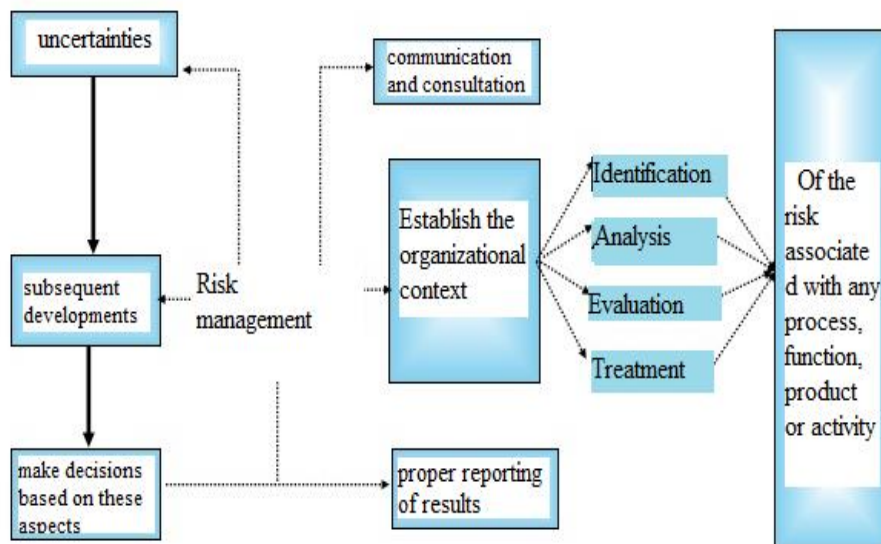


Figure 1. Contextual position of the risk management

¹ http://194.169.191.252/grantantrep/faces/resources/doc/events/Bazele_Antrep_Manual.pdf, p. 11.

Source: adapted by the author based on the information from (Nisipeanu, 2010, p. 14)

All the activities at the phase of identifying the risk must answer the questions: **from where, when and how the risks may arise**. The quantitative and qualitative analysis of the external and internal factors of the environment requires a certain action plan for short and long term in order to ensure the achievement of the objective / mission.

The main **internal risks** are:

- ✓ operational risk;
- ✓ financial risk;
- ✓ bankruptcy risk;

When the financial risk is defined and well-directed, it helps to reduce the risk of bankruptcy. In turn, this depends on the operational risk. That is why any enterprise requires effective management of all kinds of risks.

“The risk management refers to the practice of identifying potential risks in advance, analyzing them and taking precautionary steps. The risk management has to plan minimum expenses for necessary and sufficient financial resources in order to control, eliminate, mitigate or transform the risks so as to reach an optimization of the resources of the enterprise (Decottighies. *Revue Financiere*, no. 5). So, the effective risk management means knowing the general optimization techniques in the domain of finances. The effective risk management also means acting in two directions, and namely, **risk prevention** by eliminating or reducing the risk and **the management of the risk itself** by supporting the financial costs related to the residual risks through withholding or reducing the risk. The effectiveness of the risk management lies primarily in the correct identification of risks. Any attempt to identify the risks assumes decomposition. The chosen classification criterion has a major impact on the understanding and management of the risk. To properly manage the risks, it is necessary to define the three constituent elements, and namely:

- ✓ risk identification;
- ✓ probability of risk occurrence;
- ✓ outcome evaluation (Gheorghita, 2013, p. 116).

The research on these three components allows distinguishing, on the one hand, the risks related to uncertainty, and, on the other, the risks whose realization is linked to the emergence of a generator factor that can be identified. The definition of the risk, the estimation of the probability of risk occurrence and the evaluation of the outcomes depend on the likely impact of the risk. Each company, depending on its size, its way of organization, its specific product, its commercial strategy and its possible hedging techniques, can define the field that is open for risk mitigation.

So, the risk management within the company requires a set of processes and activities that are focused on the identification, evaluation and assessment of risks as well as the establishment of responsibilities, taking steps to mitigate or anticipate them, and also the periodic review and the monitoring progress.

Nowadays, the effective risk management in the modern enterprise can be carried out by implementing and maintaining a risk management system according to the ISO 31000 family of standards.



Figure 2. Risk Management of the ISO 31000 family¹

These standards have been developed and agreed internationally in 2009, but taken over in Romanian language in Romania in 2010 and in the Republic of Moldova in 2012. During 2015, they will be subject to revision and be replaced by a new edition.

From the family of standards, taken over and approved in Romanian, which refer to the risk management system, one can mention:

- ✓ **SR ISO 31000:2010 (SM SR ISO 31000:2010²) - Risk management. Principles and guidelines.** This standard was designed for all types of organizations and institutions of different sizes that want to effectively manage the risks in their work. ISO 31000 provides principles, work frameworks and processes for managing any form of risk in a transparent, systematic and credible way within any domain of implementation and in any context [8].

¹ Source at: <http://www.qualified-audit-partners.be/index.php?cont=616>.

² Moldavian variant of the standard.

- ✓ **SR EN 31010:2010 - Risk management. Risk assessment techniques.** It provides guidance on the selection and application of the systematic risk assessment techniques. The risk assessment carried out in accordance with this standard contributes to the risk management. This standard is not intended to be used as a regulation, for certification or contractual requirements [9].
- ✓ **SR Guide ISO73:2010 - Risk management. Vocabulary.** This guide contains the definitions of the risk management generic terms. The guide was designed to encourage the mutual and constant understanding, the coherent approach to the description of the activities related to the risk management, the use of a uniform risk management terminology in the processes and organizational framework that deal with the risk management. The main sections of this guide are: *the risk; the risk management; the risk management process; communication and consultation; the context; the risk measurement; the risk identification; the risk analysis; the risk assessment; the risk treatment; monitoring and measurement.*
- ✓ **SR ISO/TR 31004:2013 - Risk management - Guidance for the Implementation of ISO 31000 / the risk management. Guidance on the implementation of ISO 31000 standard.** This standard provides recommendations for the detection and efficient management of the risks through the implementation of ISO 31000, and it can be applicable to organizations of all types and sizes. It also provides:
 - ✚ a structured approach that enables the organizations to adapt their provisions concerning the risk management to be compliant with the ISO 31000, taking into account the characteristics of the organization;
 - ✚ explanation of the concepts specified in ISO 31000;
 - ✚ recommendations on the issues related to the risk management principles and framework described in ISO 31000¹;
- ✓ **SR BS 31100:2013 - Risk management. Code of practice and guidance for the implementation of SR ISO 31000.** This standard is of British origin, and offers a set of recommendations for implementing the principles and guidelines of BS ISO 3100:2009 to the organizations. It also provides information on the organizational framework and risk management process. The standard is designed for people who are involved in one of the following activities:
 - a) ensuring the achievement of the organization' objectives,

¹ <http://www.asro.ro>.

b) providing proactive risk management in certain areas or activities,
c) coordinating the risk management in the organization,
d) ensuring the effectiveness of the risk management in the organization,
e) reporting to the stakeholders, for example, by publishing in the annual financial statements, in the reports for corporate governance or for corporate social responsibility¹

The author has analysed in detail the standard ISO 31000:2010 - *Risk management. Principles and guidelines*. This standard can be used by the company throughout the lifecycle, and it can also be implemented to a wide range of activities, including the strategies and decisions on operations, processes, functions, projects, products, services and goods. The standard can be applied to any type of risk, no matter whether it has positive or negative consequences on the business activity.

Although ISO 31000:2010 provides guidance, it is not intended to promote the risk management uniformity in the organizations. The design and implementation of the risk management plans and frameworks will need to take into account the different needs of the organization, its specific objectives, context, structure, operations, processes, functions, projects, products, services, assets and specific practices used. It is used to harmonize the risk management processes in the existing and future standards. It offers a common approach to support the standards that deal with certain risks and / or sectors, and does not replace those standards. The standard is not intended for certification.

According to Kevin Knight, the Department of ISO/TC 262, “*ISO 31000 has been adopted as a national standard by more than 50 standards organizations covering more than 70% of the global population. It has also been adopted by a number of UNO agencies and national governments as a basis to develop their own standards related to risk and policies, especially in the areas of disaster risk reduction and disaster risk management*”².

In order to effectively implement this system, it recommended to consider the following principles and to know that the risk management should:

- create and protect value;
- be an integral part of all processes;
- be an integral part of the decision-making process;
- be used to manage uncertainty;
- be structured, systematic and updated;
- be transparent, complete and relevant;
- be adapted to the environment of the organization;
- deal with human and cultural factors;
- be based on the best information;

¹ <http://www.asro.ro>.

² www.iso.org.

- be dynamic, responsive and repetitive;
- facilitate continuous improvement¹.

ISO 31000 is a practical document that seeks to assist organizations in developing their own approaches related to risk management. Thus, for the implementation of the Risk Management System, the company will have to undergo several stages (Table 1).

Table 1. Stages of the Risk Management System implementation

Standard steps:	
Step 1:	Analysis – the organization’s diagnosis, identification and assessment of risks
Step 2:	Training of the project leaders/team
Step 3:	Analysis and responses to the risk
Step 4:	Establish clear policy and objectives
Step 5:	Implement restraint actions of the risk and their consequences
Step 6:	Review and report the risks

Source: created by the authors of the paper

In conclusion, one can mention that it is absolutely important that the modern commercial societies realize the importance of the efficient management of the risk management system.

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