RISK CULTURE, A NECESSITY FOR THE RISK MANAGEMENT PROCESS DEVELOPMENT IN PUBLIC INSTITUTIONS

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ABSTRACT
The profound economic and financial crisis that has globally manifested recently has highlighted the managers and systems management's inability to identify in the early stage, the existing dangers and to design strategies to reduce the negative effects.
Organizations that have developed a culture of risk awareness and a high level of risk, have survived in a changing economic environment by reducing waste, cost reduction and strategic flexibility.
In the post crisis period, many organizations are focusing all their energy to survive in an uncertain environment, trying to reduce losses, reduce costs and to achieve their objectives. When attention is directed to the risks, the concerns are often focused more for improving existing risk management system and less on developing a risk culture within the institution.
Leadership can support the risk culture to influence a proper behavior, which helps the organization to meet its goals and embody its values.

KEYWORDS: *financial control, internal audit, risk management, risk culture*

Introduction

The profound economic and financial crisis that has globally manifested recently has highlighted the managers and systems management's inability to identify in the early stage, the existing dangers and to design strategies to reduce the negative effects.

Under the impact of these realities, the exercise of a fully and comprehensive management, where the five managerial functions (planning, organizing, training, coordination and monitoring-evaluation) can be found, becomes a necessity. In the context of management cycle, the control and evaluation function provides real information to management, allowing interventions to correct errors. Control function represents a growth factor in the management quality, being an attribute of leadership.

Although progress has been made, there are still failures in the implementation and in the development of public financial control, failures generated mainly by the specific of organizational culture from public administration institutions in Romania. Thus, in the exercising of public financial

control, there is still the tendency to maintain certain centralization, which can be a source of administrative bureaucracy and politicization. Many managers from public institutions do not clearly understand the role, functions and internal control procedures, the consequence being the design of inadequate systems of internal control.

Concerning the public internal audit, many managers from public institutions are not convinced by the usefulness of this process, although, through recommendations, it contributes to the organization's capital gains. Exercising an advice activity given to management, internal auditors have a major role in risk management, internal control and corporate governance.

In the current context, marked by the global economic crisis, it is necessary to strengthen the internal audit control, for improving risk management and governance of the organization.

Professional standards I.I.A. 2100-1 places risk management as an major activity in the responsibility of internal audit in the sense that it has the task of assessing the quality of risk management. In the absence of such a process, internal audit can help create a system of risk management and risk control that can allow risk management, without getting involved in the decision of implementing it. While significant progress in implementing an effective risk management process have been made, it is still a long way to go before it can be said that all public sector organizations have an effective risk management system approached as a central element in the daily work of the organization.

"National and international rules for good governance reflect the same view of interconnectivity between internal control and risk management process within organizations.

The boundaries between these concepts may appear over time, not always clear when risk management is a subset of internal control or vice versa, but it is certain that risk management is an integral part of corporate governance"[1].

1. Risk culture, a necessity for risk management process development in public institutions

In the public sector, risk management is a process increasingly better understood, but the existence of a procedural framework, the knowledge of related components and processes does not guarantee an appropriate approach of risk within the organization. An effective risk management system requires an organizational culture that supports an integrated approach of risks identification and management throughout the organization. Risk management can be a part of planning processes and decision making, and a governance the organization as well.

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1 Neacşu Matei, P. „Risk management, essential condition for development of business continuity plan", *Review of International Comparative Management* Special Number. A.S.E. Publishing House, 2010

To be effective, this process must be adapted to the context, the control environment and organizational culture of each institution. The most efficient and effective public institutions in risk management will achieve superior performance than the others.

A prerequisite for achieving these goals is changing the organizational culture within public administration, which requires changes in behaviors, attitudes and relationships between employees and employee groups. Changes in behavior and attitudes are difficult to achieve, having the effect of creating barriers on the development of organization's culture. In time, the organization's culture can be changed under the influence of the external environment, but it may encounter obstacles in the internal environment. According to a recent study on the Romanian management, conducted by specialists in domain, in public administration institutions prevails the authoritarian leadership style that does not encourage employee initiatives, creativity and innovation. "Top-down leadership style does not lead to a higher level realistic and workable feedback, to allow higher-level managers to improve policies and strategies"[1]. The lack of a motivating culture in public administration makes clerks to avoid change, creativity and reform. Organizations resist change by force of rules, habits, the structural stiffness, which makes adaptation to new requirements late. In any organization, leadership is closely linked to organizational culture, which generally is a negative type in public institutions.

The culture operates with an implicit set of beliefs that can not be changed unless they are brought to the surface and analyzed (EH Schein, 1991, op. A M Wilson quoted, op. cit. pp. 353-367). Factors influencing organizational culture change are the external and internal environment, the leadership, management practices and socialization process, formal and informal. The manager's role is to identify and manage factors that influence organizational culture and which will motivate employees to review and change their values, beliefs and behaviors.

In public institutions, managers oscillates between tradition and desire for change, being forced to choose a middle way between the adoption of new concepts and ideas and the desire to retain some rules, the preference for compromise and avoiding the uncertainty.

In the world economic and financial crisis context, organizations that have developed a culture of risk awareness and a high level of risk, have survived in a changing economic environment by reducing waste, cost reduction and strategic flexibility.

In the post crisis period, many organizations are focusing all their energy to survive in an uncertain environment, trying to reduce losses, reduce costs to achieve their objectives. When attention is directed to the risks, most times, the concerns are often focused more for improving existing risk management system and less on developing a risk culture within the institution.

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1 Nicolescu, O., I., Verboncu, I., Profiroiu M. *The Romanian management health and getting out from crisis*, MEDIA Publishing 10, 2010

According to IIF, Final Report on Market Best Practices for Financial Institutions and Financial Products, August 2008, the consistent development of risk culture within organizations is the most important element in risk management process. "Risk culture represents the central element which governesses the decision making process within each organization, which is obvious for all employees of the institution, not only for those involved in risk management.

When also the economic pressure exists, there is no denying that a strong culture of risk determines the health of an organization and its performance. Thus, managers should pay attention primarily on the risk culture throughout the business cycle covered by the organization. Many managers have an intuitive understanding of risk culture, and they can not define it precisely and concretely.

Risk culture is "individual or collective norms of behavior within the organization, which determines the collective skills of identification and understanding, open discussion and action on current and future risks of the organization"[1].

In a strong culture of risk, these rules and features of the organization feeds and support a common set of standards which clarifies the organization's approach to taking risks. This sense of common purpose and understanding was described by author Edgar Schein as the "deeper level of basic assumptions and beliefs thar are shared by members of an organization, that operate unconsciously, and that define in a basic 'taken for granted' fashion an organization's view of itself and its environment."

Risk culture, an organizational culture component, is an interactive system of values and norms of behavior. Leadership can support the risk culture to influence a proper behavior, which helps the organization to meet its goals and embody its values.

Organization's leadership and senior management must ensure that the organization's risk policy inside the organization, risk assessment and procedures have been acquired by employees. This can be completed with the evaluation of the employee's views regarding corporate culture. A true culture of risk must focus on two areas:

- **Values and ethics** - the basic principles that determine their behavior. It is important that the values of the organization are clearly defined and communicated properly to know if the organizational culture fosters risk awareness;
- **Internal policies** and procedures to apply the values and ethics. Must be known whether the organizational culture is receptive to challenges and adopt new ways to achieve goals. It is necessary to create an environment where employees feel safe when expressing their views openly.

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1 Mc. Kinsey "Reform in the Financial Services Industry - Strenghening for More Stable Industry Practices" (December 2009)

A strong culture of risk is demonstrated by several decisive elements which are mutually reinforcing:

- A clear and well communicated strategy risk;
- High standards of rigorous analysis and communication of information within the organization;
- Concern about the rapid escalation of threats;
- Visible manager role model for desired behaviors and the existence of standards;
- Incentives to encourage people to make 'the right thing "and be concerned about the health of the entire organization;
- Continuous and constructive challenge to the actions and mindsets.

As in every domain, the risk management process needs to attract the organization's personnel, and the solutioning of problems requires the intellectual contribution of an always growing number of people, with various groundings and from various activity fields. This is justified by growing tendency to move from the individual deciding person to a group, taking into account the latter''s performances.

The integration of risk management in decision-making processes is based on a philosophy and a culture that drives all employees to be concerned about the risks faced by the organization, being facilitated by several factors:

- Achieving excellence in the management of the organization and by default in risk management;
- Nomination of Senior managers as responsible (supporters) of the risk management process;
- Encouraging the innovation, advice and support when results are not favorable;
- Supporting the employees in improving knowledge and skills in risk management;
- Assess employee performance based on risk management;
- Establish a system of awards and encouragement;
- Establishing the capacity and expertise in risk management as a criteria for recruitment.

Organizational culture in public administration should be developed to encourage involvement and experience of each employee's contribution to the collective intelligence, to stimulate constructive ideas. Knowledge, information and communication are new factors of development. In this context there are significant the issues concerning the transition to the knowledge-based economy and society, the understanding of the concept of knowledge-based economy, due to the impact that it has on the functionality and performance of the organizations. The economical mutations, the problems which decidents are confronted with, concerning risk, are similar to the current challenges generated by the managerial activity.

Continuous training represents the fundamental key of a decision process fundamentally and proactive. This allows to better administrate the risk, it

strengthens the organization's capacity and facilitates risk management integration in the organizational structure. To ensure continuous training in risk management field, the following results must be obtained:

- The knowledge acquired through experience must be exploited and information must be disseminated;
- The preparation plans are integrated into risk management procedures;
- The results of the risk management process are evaluated to encourage innovation, capacity consolidation;
- Experiences and best practices can be found both within the organization and across the entire public administration

A risk management developed process and integrated at all levels of the organization facilitates the adaptation to unforeseen events that can be positive or negative. To adapt to these unforeseen situations, organizations must establish a climate favorable to learning process. A real learning process is essential to the innovation development so that the organization can focus on what must be done to bring expected performance or improvements necessary to increase the quality and effectiveness.

An organization demonstrates that it practices a continuously practice in risk management if:

- Supports the development of an adequate risk management culture;
- The preparation is correlated with the organization's risk management strategy;
- The responsabile assumption of risk and continuous training are encouraged and supported;
- Decisions are based on information disemination;
- Decisions are taken having regard to member's opinion;
- Suggestions and comments are analyzed to be used in determining the follow-up measures.

In the current context marked by the global economic crisis, to improve the risk management becomes essential. An effective risk management can help the organization to identify some potential risks that may arise in implementing the strategy. Based on the assessment of potential risks, the organization is able to identify a number of strategic options to maximize benefits.

A prerequisite for achieving these goals is changing the organizational culture within public administration. ,,The organizational culture of public institutions should be reshaped through a professional approach that uses tools and concepts of professional management. It is a comprehensive, long-term and costly process, but it is essential to modernize the Romanian public administration to be in line with the dynamism and complexity of domestic and international developments."[1]

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[1] Nicolescu, O., I., Verboncu, I., Profiroiu M. *The Romanian management health and getting out from crisis*, MEDIA Publishing 10, 2010

Conclusions

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Taking into account the economic pressures, there is no denying that a strong culture of risk determines the health of an organization and its performance.Risk culture, an organizational culture component, is an interactive system of values and norms of behavior. Leadership can support the risk culture to influence a proper behavior, which helps the organization to meet its goals and embody its values.

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