

## THE ECONOMICAL DECISION AND THE MANAGEMENT OF RISK

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**Abstract:** The decision process as we know it today is influenced by many factors, especially by the important changes that appear in the economical environment. A good decision can be taken only after analyzing all available data and information, but, at the same time, after identifying and, if possible, reducing the influence of any possible risks that may appear. In this article, we refer to some aspects of the decision and the decision process and, in the second part, to elements regarding risk management.

**Key words:** decision, risk management

The manner in which managers develop their activity today differs substantially from that in the past – or at least it should differ. More and more organizations consider the knowledge and the competence that they have as being the most priceless asset; without these, the financial and material assets would be almost worthless. In the perspective of contemporary management, the competitive advantage moves more and more its center of weight towards participation, responsibilities and decisional power of the managers and employees at inferior levels. In this perspective, it is considered that these ones know what to do (have the necessary competence), they are eager to succeed and their interests correspond to the goals of the organization.

On the background of globalization process and openness towards a common market, the society and inherently the business environment will be put, more and more often, face to face with some events that will change part of the background needs existing today. We can even talk about a “shock” of the market, materialized by the penetration on the market of the different new technologies and expensive information, carrying value. It is the reality that will change the vision of the actors on the market, of the society in general, but which will intensify even more the existing relations between the internal and the external environment of a company.

The decisional processes developing today in companies are being characterized by the evolution in a contrary way of two of their defying elements: *time* and *the amount of processed information*. To have as result a well – founded and opportune decision, any decisional process must acquire process and interpret a larger amount of information, in a shorter period of time.

The business professionals understand very well that the enterprises, starting right now, or in full ascending process, need to obtain everything possible from the data they have and from the knowledge of the employees in order to successfully fulfill their goal. The persons and the technologies that will transform data into valuable ideas will be more searched, that will transform data into true “insights” by means of the diverse analysis, the strong advantage and the differential key being the comprising and depth of technology and the experience in analyzing statistics and data, data bases, which make possible strategic and predictable analysis and, out of this, the best decision in a certain context.

We must understand and accept that the business environment is a true challenge, summing up a more and large range of activities in more and more diverse areas, out of which some know today a true “explosion” in development (services and commerce). We will see how a growing number of organizations will explore these activities in which operate economical, political, legal as well as cultural factors, which influence more or less this environment. The impact of each factor and its interaction with the other ones varies from one country to another, in this way the behavior of the companies will alternate correspondingly to the action of these forces. The individual characteristics of each firm, like its property, the capacity to predict changes and that belonging to the human resources management, will be unique according to the reactions of the other companies towards the change of the environment, thus, in similar conditions, the final decisions not only they will not be similar, on the contrary, it may exist the situation of some diametrically opposed decisions.

Through all the decisions that a firm implements in order to develop the internal environment in the context of the whole business environment, this one only attracts important sources for the process of continuous support and development.

Efficient managers must make decisions to solve the problems which appear inside organizations. The decisions must be made inside environmental changing and complex conditions, that significantly influence upon decisions by the amount of available information, by the organizational goals and the individual ones of the deciding factor, by the system of values of the manager and organizational culture and also by a series of other internal and external environmental conditions.

The decision can be considered as the most powerful instrument in the manager’s arsenal, being the main mechanism used by management in order to reach the strategic goals of the organization. We must also consider the fact that the decisional process and the type of decision vary between the management levels of the organization. At tactical level, the decisions are complex and used the amount of information is large, at strategic level the decisions emphasize on problems related to the organization’s performance, the macro resources assignment and the strategic developing directions, and at operational level short – term decisions which sometimes have reiterative character.

Some of these decisions have to be delegated to allow managers to use their time to solve the most important problems for reaching the organizational goals. The managers are the ones who must decide when and to what depth they will involve their subordinates in the making decision process, and if it is well – organized, implicating subordinated in the decisional process can lead to growth of decision quality and of participation level in implementing them.

Making decisions represent the main activity of a manager; all the other activities develop in order to ensure making the right decisions or, if the decision has already been adopted, for its efficiency monitor and implementation. But, in the present environment in continuous change, the complex process of decision making becomes more and more difficult and the ones who make decisions are being compelled by the environment in which they act, thus the decision making represents a dynamic and permanently developing process.

The most often element inside manager decision is the risk, under any of its forms. Risk in a company’s activity refers to probability of not respecting the established goals in terms of performance (not achieving the quality standards), program, (not respecting the execution moment) and cost (exceeding the budget). It can

be considered as risk element any element that has a measurable probability to deviate from the intended plan. The firm's strategies, plans and programs make up the elements that allow prefiguring of the reality and afterwards confronting the real achievements with the anticipated results.

Considering risk existence, the managers' activity has registered a new activity that they have to develop, the management of risk, a cyclical process, with many distinctive phases: identifying the risk, analyzing the risk and reaction towards the risk.

Identifying risks must be regularly done. It must consider internal as well as external risks. Internal risks are the ones which the managerial team can control or influence, while external risks are not under its control. In this phase, the potential dangers are being evaluated, the effects and probabilities of risk emergence, the purpose being deciding which of the risks must be prevented. At the same time, the discordant risks are being eliminated, meaning those risk elements with reduced emergence probabilities or with insignificant effect.

Analyzing risk takes into account the risks identified in the first phase and does a thorough quantization for them, for this being used a diverse mathematical instrument, from probabilistic analysis to Monte Carlo analysis. Choosing the mathematical instruments must be adapted to the analysis needs and to consider the accuracy of the available data.

The last phase of the management risk process is represented by reaction towards the risk, meaning the action phase, in which risks try to be eliminated, reduces or distributed.

Eliminating risks means removing the risks, but most of the options eliminating risks tend to remove the organization from business. An organization with a too greater aversion towards risk will not survive for long and should invest its capital somewhere else.

Reducing risks can be achieved by means of several instruments like *programming* (for example, the schedule of production execution can reduce risks to reasonable limits), *coaching* (for example, through coaching programs in the work security area can reduce the probability of accidents and their effects) and *reevaluation* (many time, risks can be reduced by a judgmental reevaluation of the working teams, material flaws, equipment and work force use).

Distributing risks is also a performing instrument of the management of risk, which refer to the parts that will accept part or whole responsibility for the risk consequences. Distributing risk must be done taking into account the behavior towards the risk of the different implicated organizations. In this sense the general rule of distributing risk is to place the risk on the part that will best support and control it.

A formalized process of the management of risk will give positive results only if it takes into account all its effects. Performance in the risk management process is given by the quality of the managers and the implicated personnel, meaning the weakest link inside it. The firm's managers must be sure that the risk management team is competent and has found a middle way between process excessive technicity and action based on intuition.

At the same time, another fact must be considered. If risks are improperly assessed and prioritized, time can be wasted in dealing with risk of losses that are not likely to occur. Spending too much time assessing and managing unlikely risks can divert resources that could be used more profitably. Unlikely events do occur but if the

risk is unlikely enough to occur it may be better to simply retain the risk and deal with the result if the loss does in fact occur.

Prioritizing too highly the risk management processes could keep an organization from ever completing a project or even getting started. This is especially true if other work is suspended until the risk management process is considered complete.

The limitations of risk management, as in any management process, should be clearly recognized by the management team. First of all, risk management will not make decisions for the business; it can only assist a manager to make decisions. However, these decisions will be limited by the depth of the research and analysis of risk, the individual (s) involved in the risk assessment, their relevant experience and exposure to risk management and, most importantly, who has not been involved.

Second, risk management will not guarantee freedom from all risk, as it is impossible to be able to predict all negative consequences to a business. In this case, risk management can help a business owner to be prepared for an adverse consequence. Error is human and where humans are involved there is always the possibility that a mistake may happen that will lead to an incident. In this case, the risk assessment should attempt to identify all significant risk but it will be limited by the resources available, including information at hand, time and budget.

That is why we recommend that, before starting any process of economical decision, any company must fulfill an analysis of the main economical, technical, sociological, juridical and managerial aspects. This analysis is done in order to see the strong and weak elements in the firm's activity, as well as the causes of the probable weak elements of the future firm's activity, the final purpose being formulating recommendation of valuing the present strong elements and eliminating or reducing the weak elements, in other words preventing or reducing the causes of probable risks which the developed activity is submitted to.

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