

PERSPECTIVES ON RISK MANAGEMENT IN CRISIS TIMES

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Abstract: *In general, as well as from a theoretical perspective, the management process is designed on a certain level of predictability and is carried out through adaptation, integration, etc. to the specific context in the moment of implementation. But in the last 2-3 years the management has had to suddenly and abruptly reformulate the ways to manage the achievement of the assumed objectives, especially the reinterpretation of risks and their management, because the predictability of the environment has become almost impossible to determine. The structure and components of risk, on the one hand, and their identification, monitoring and treatment, on the other hand, have become the main challenges of current management.*

Keywords: *management, risk, forecast, adaptability, crisis*

1. INTRODUCTION

Normally, a realistic managerial “construction” is based on the correctness of forecasts across the spectrum of areas of the environment, so that the managerial strategy - the essential component of a successful management process – will be easy to apply, track and achieve. But a lot of forecasts, both in number and in structure and value, had to be updated at time intervals on more and more short. This phenomenon can put us in the situation of asking ourselves: "how much of the adopted strategy can be implemented and when do we need to change it?" The difference between the predictable value of the forecasts and the actual result obtained is determined by the risk management at the level of each organization. I believe that the delimitation and association of risks with the way of the management process is carried out entails a redefinition of their importance in the current approach to the development of all activities.



FIG. 1 Risk - an essential component of the objectives achievement process

It is obvious that risk is not a concept or an element of novelty for the management process, but the strong inclination of this period towards a very pronounced uncertainty generates a repositioning of it in this system.

2. ANALYSIS OF THE CURRENT ECONOMIC CONTEXT RELATED TO RISK MANAGEMENT

The analysis of the economic situation prior to the onset of the Covid-19 pandemic did not imply that managers had high concerns about an abrupt or unpredictable evolution of the specific environmental factors of their own companies. Because as can be seen in fig. 2, the general trend of gross domestic product (as a generic indicator) from 2016-2018 was on a steady growth, so management teams had to focus on ways to achieve their goals mainly by gaining competitive advantage in the industry/ sector/ segment of activity.

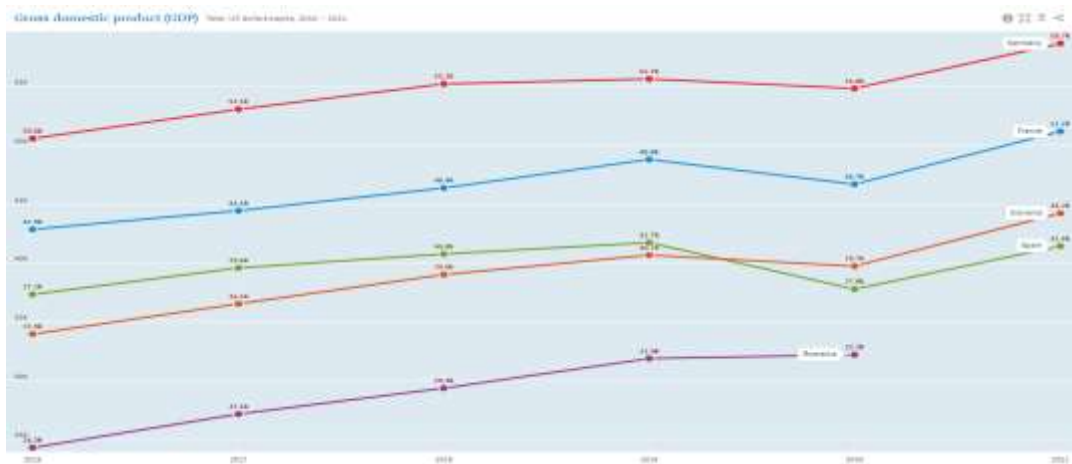


FIG. 2 Evolution of Gross Domestic Product 2016-2021 for several European countries [1]

But specific actions to maintain some control and limit the spread of the Sars-Cov-2 virus have led to a new crisis, fundamentally different from that of 2008-2010. A crisis that could not have been predicted before, and although analysts predicted a much shorter period, which extended to a similar period as the previous crisis. Looking at the same GDP indicator for the five selected countries (Germany, France, Slovenia, Spain and Romania), a sinuous and different evolution can be observed from country to country, being the result of the amounts of managerial decisions at the level of each company. It is well known that managerial decisions also include an assumed risk because they are based on future developments of various influencing factors, both internal and especially external.

In this case, the risk was generated by the multitude of current decisions taken in each country, based on the number of daily illnesses, leading to decisions within companies that were mostly reactive and less proactive as desired in a normal management process. In this context, managers have been forced to take more action to limit losses caused either by temporary cessation of activities, or by the reduction in the number of employees who were able to work normal hours, or by blocking or reducing supplies of raw materials or materials. or product distribution, etc. and less for pursuing the efficiency of the planned activities.

Moreover, the previous elements underlying the analysis, identification and determination of risks were no longer fully valid, the specific situation generating an exponential increase in new factors that had to be analyzed in a very short period of time and based on some vague or highly volatile information.

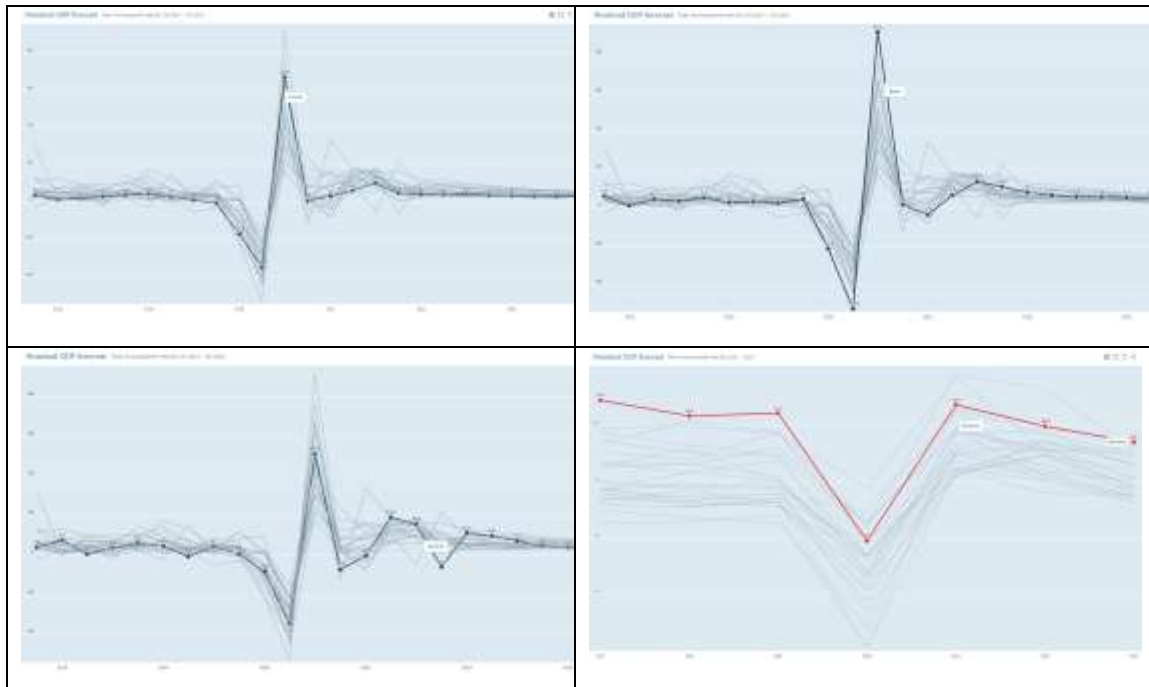


FIG. 3 Annual GDP growth rates until 2023 [1]

And the short-term predictions about GDP growth rates, as can be seen in fig. 3 for France, Spain, Austria and Romania, are not encouraging because the growth rate is inconsistent and with lower values than in the period before the pandemic.

The launch of Russia's invasion of Ukraine has not allowed the economic situation in the eurozone to recover, but rather exacerbates the evolution of certain factors of influence, especially those with far-reaching consequences in ensuring stability, at least in the short term. And the future is not too rosy: *”The realisation of the key working assumptions underpinning them – regarding the evolution of the geopolitical situation and its reverberations in e.g. commodity markets and trade – is subject to high risks. Namely, further increases of import prices could strengthen the stagflationary forces unleashed by the war. Greater than expected second round effects could amplify them. In addition, strong inflationary pressures could lead to tighter financial conditions than those underpinning the forecast, with negative impact on domestic demand and strains on public budgets and the banking sector. A stronger-than-expected deceleration of economic activity in the US and China would further dent growth in the EU. Finally, COVID-19 remains a risk factor. At the same time, private consumption could prove more resilient to increasing prices if households were to use more of their savings for consumption.”*[2]

And when we talk about risks, they are not unique and involve a series of interconditioned events with different degrees of probability, which can multiply the losses, especially in the short term.

3. RISK MANAGEMENT - WHERE TO GO?

As stated above, the objective-risk correlation needs to be redefined, at least for a short period of time, so that managerial decisions can continue to ensure the proper functioning of the organization. "Strategic risk management is really about preparing for the worst but hoping for the best." [3] This statement would be realistic if we were in a normal situation, but the current context cannot be included in this category, so I consider that the long-term approach to the issue of risks is very dangerous.



FIG. 4 Current crisis management solutions in times of crisis

Risk management in an organization should address the following:

- a. *Establishing a specialized risk management team.* The pronounced and, in some places, uncontrollable dynamics of the factors that influence the activity of a euro area organization, with contradictory information in many situations, require a relevant, fast and accurate analysis of both the list of risks and their treatment solutions. Today's risk decisions need to be fast and very accurate, so managers need adequate support for these actions.
- b. *Achieving an integrated risk management.* The team specialized in risk issues should address them in a complex, systemic way. The current sources of risk are located in the area of raw materials (cereals, oil, iron, etc.), the elements of entry into specific processes and it is absolutely necessary to track the connections between effects in each compartment of the organization. The cascading effect is the most dangerous in terms of risk because the losses can often be insurmountable.
- c. *Reducing the length of supply channels.* Time is the essence of monitoring and dealing with risks and if it can be reduced it would be a great advantage in achieving the proposed objectives. During the pandemic time and now during under the conflict in Ukraine, links in the supply channels are blocked or there is an increase in waiting times on various logistics platforms. If it is possible to eliminate the intermediate elements of the supply channels, then the sources of manifestation of related risks can also be eliminated.
- d. *Reducing the length of distribution channels.* In the opposite direction to the previous solution, the reduction of the length of the distribution channels contributes to the control of the sources of manifestation of the risks related to this

activity. Providing products and services in the most condensed time is one of the ways to achieve a high level of consumer satisfaction and therefore reduce the risks that may arise on the road from producer to beneficiary can be achieved by reducing distribution time.

The complexity of the risk management process in the overall management process of an organization requires actions specific to the context and timing of the planned activities. That is why I do not consider the solutions presented to be exhaustive, but they are solutions available to every management team to reduce the occurrence of risks and their effects.

CONCLUSION

Risk is an intrinsic component of any economic activity and is currently managed in optimal conditions by most managers. The specific conditions of a crisis period, regardless of its nature (economic, social, political, military, etc.) generate a constant pressure on the decision-making process in any organization, with obvious implications on risk management: redefining the typology of risks, resizing the speed of reaction or reconsideration of their treatment capacity etc. leading to more or less advantageous results for the entities concerned.

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