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ACHIEVING OPTIMAL BUSINESS PERFORMANCE AND THE RISK MANAGEMENT SYSTEM

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ABSTRACT. The goal of the present study is to determine if there are relationships between achieving optimal business performance and the risk management system. Dickstein and Flast stress that anyone can experience the often catastrophic consequences of operational risk mismanagement. Spencer Pickett explains that internal auditing is firmly rooted in the risk management, control, and governance agenda. Parker maintains that state ownership frequently involves day-to-day intervention by ministers and Civil Servants in the detailed or micromanagement of enterprises.

Keywords: optimal business performance, risk management system

1. Introduction

Geradin explains that prior to liberalization, network industries were generally dominated by public monopolies. Regulation places restrictions on their behavior and generates implementation costs. As markets become increasingly competitive, sector-specific rules should progressively disappear. Dickstein and Flast observe that setting the risk environment should be performed while setting business goals and designing business processes. The active management of an identified risk requires the analysis of the impact of such management on a business process. Organizations and the people who work in organizations can create operational risk. A risk management organization is necessary to identify, assess, and mitigate operational risk. Systems are among the tools that we employ to manage risk and business processes.

2. Designing and Managing Business Processes

Oakland and Tanner aim to identify the critical factors reported by organizations in their quest to manage change successfully. Management should encourage people to be dissatisfied with the way things are currently done. Leaders identify and select priorities for change. Oakland and Tanner point out that leadership has a key role to play, both in setting direction, inspiring change throughout the organization and ensuring that change is implemented.[1] Geradin claims that liberalization has significantly modified the regulatory framework applicable to network industries and has introduced many significant changes in the organization of network industries. Full unbundling of the network is the preferable solution from a competition standpoint (it eliminates incentives to discriminate). Liberalization has stimulated the creation of new products and services, generating a range of new markets populated with new firms. Liberalization and privatization should not mean a complete withdrawal from the State in network industries markets. Geradin remarks that national authorities seem poorly adapted to deal with cross-border issues.[2] Dickstein and Flast stress that anyone can experience the often catastrophic consequences of operational risk mismanagement. There are “no excuses” when it comes to managing operational risks and business processes. Dickstein and Flast affirm that designing and managing business processes is a critical factor to develop and implement successful operational risk management. The principles of effective business process management should be applied to the design and implementation of the operational risk management process. The management of operational risk is essential to the preservation of business. The use of *risk management information systems* (RMISs) is typical in insurance-related businesses. The basic notion of insuring against a risk is not uncommon in companies. Dickstein and Flast note that managing operational risk should be a normal part of everyday management that encourages an open discussion of risks. The process of setting the risk environment is recurring. The operational risk and business process management life cycles are initiated and grounded by the organization’s strategies, goals, and objectives. The study of accidents and safety is relevant to the subject of operational risk and business process management. It is important to identify and manage control deficiencies and operational risks as they occur. Dickstein and Flast emphasize that integrating business process management with operational risk management will increase an organization’s chances of achieving optimal business performance.[3]

3. Monitoring and Enforcement of the Behavior of Commercial Companies

Majone discusses the credibility problems created by the expansion of Community competences and by the Community's limited external powers. The new European agencies are expected to become the central nodes of networks including national agencies as well as international organizations. Majone addresses two specific threats to credibility: the mismatch between the Community's highly complex and differentiated regulatory tasks and the available administrative instruments; and the problem of credible commitment caused by the increasing level of politicization and parliamentarization of the Commission. The solution to both sets of problems may be found in a more far-reaching delegation of powers to independent European agencies embedded in transnational networks of national regulators and international organizations. Majone affirms that the enforcement of European law does not depend exclusively on Commission supervision. The EC policy process has always been to some extent politicized. The policies of the current majority can be legitimately subverted by a new majority with different and perhaps opposing interests. The progressive politicization and parliamentarization of the Commission raise the issue of credibility at the European level. The delegation of powers to regulatory bodies distinct from the Commission itself may provide a feasible solution to the credibility problem under the new political conditions prevailing in the Union.[4] Levine et al. distinguish between three types of problems facing central banks, regulators and other public authorities: (i) the credibility of commitment; (ii) asymmetric information in relation to the private sector; (iii) non-benevolence arising, for example, from electoral pressures or capture by special interest groups. Countries which are more inflation averse or which place more weight on having a sound economic policy choose to have an independent central bank. Protecting the rights of investors reduces investment risk premia and the cost of capital. The underlying rationale for an independent utilities regulator and an independent central bank is extremely similar (there may be similarities between the proposed ways of creating an institution which can establish and maintain a credible reputation for making and keeping commitments in a way that governments find difficult to do). Levine et al. hold that clear and open regulatory procedures are the essential foundation of fair and effective regulation by telecom and other utility service regulatory agencies. Regulatory agencies should operate by simple rules and have no (or minimal) discretion. It is rare to find countries with independent telecom regulatory agencies that do not also have independent CBs operating monetary policy. Regulation is inherently about the monitoring and enforcement of the behavior of commercial companies according to licence conditions or equivalent obligations.[5]

4. Risk Management and Governance Agenda

Spencer Pickett explains that internal auditing is firmly rooted in the risk management, control, and governance agenda. Spencer Pickett writes that the audit role will change when the workforce is fully conversant with an established risk process. Controls seek to mitigate risks to achieving objectives. Spencer Pickett explains that internal auditing is firmly rooted in the risk management, control, and governance agenda. Risk is inherent in the way global events shift in the economy. The risk management framework is driven by what the organization is trying to achieve. Operational risk affects the day-to-day operational objectives. The concept of risk appetite holds a central role in all risk management frameworks. Spencer Pickett thinks that reasonableness sits firmly within the definition of risk management. Risk appetite should drive the risk management system. Most project management systems tend to have a risk assessment aspect built into the way they are set up and run. An overall risk appetite needs to be translated into risk tolerance for different parts of the business. Risk-based plans reinforce the concept that planning cannot be done in a vacuum.[6] Parker provides a better understanding of regulation for policy makers, academics and managers in countries currently considering utility privatization, and looks at the specific role of regulation in bringing about efficiency improvements. The UK experience reveals that regulation is a complex balancing act between advancing the interests of consumers, competitors and investors. Parker maintains that state ownership frequently involves day-to-day intervention by ministers and Civil Servants in the detailed or micromanagement of enterprises. Compared with direct state ownership and control, the transaction costs of regulating monopolies are reduced. The evidence from the UK confirms that under privatization with regulation real economic gains can be obtained. Where political risk is high, the cost of capital raising in the private sector is increased. In the USA transparency is achieved through public regulatory hearings. US regulation is more deeply embedded in the legal system than is the case in the UK.[7]

5. Conclusions

Spencer Pickett asserts that a framework is needed to capture the essence of risk and risk management. Risk management is part of mainstream corporate life that touches all aspects of all types of organizations. Auditors have an historical association with risk-based activities. Auditing needs to evaluate and improve the risk management process. The audit role reflects the degree of risk maturity. The audit role changes in response to developing risk maturity. Parker holds that privatization is expected to lead to lower costs of production and a higher quality of service to consumers. Natural monopolies exist where there are important economies of scale in production. A natural monopoly might exist where there are appreciable economies of scope. Two or more activities are more economically supplied by one firm than by competing firms. Telecommunications, water and sewerage, gas, electricity and railways are associated with some natural monopoly characteristics.

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