Factors influencing the introduction of the risk management system in an organization

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Abstract: Several authors have highlighted that effective project risk management can be considered as a critical success factor (see e.g Blaskovics, 2014; Görög, 2013). Thus, an effective project risk management system both on project and organizational levels can help companies to achieve project success. In this way, this study summarizes the lead author's 15-year experience in the implementation of the risk management system. The authors specify the factors supporting and hindering the implementation of the risk management system. According to the lead author's intention, the specified messages may be helpful to practicing experts to avoid the detection, evaluation, and management of risks becoming administrative tasks. They must instead contribute to the long-term successful operation of the using organization.,

Keywords: project management; project risk management; organizational project risk management; effective project risk management

1 Introduction

1.1 Classification of risks into types

Several authors have worked on analysing them on a project or corporate level (see e.g. Hamza et al., 2022; Garai, Szemere & Csiszárik-Kocsir, 2022), or classifying the risks into types (Blaskovics 2014; Verzuh 2008; Vaidya, 2018). During the classification, however, these authors did not elaborate on how the establishment of groups may support efficient decision-making at the different levels. This is the

reason why – based on his research – the author recommends the following classification of the risks (Fekete, 2015):

- strategic,
- operational,
- financial,
- project.

Without getting into their detailed presentation, risks are strategic when their impacts appear later (in a minimum of three-five years). Such risk on the market may be the appearance of a new competitor or a change in the consumers' habits. The strategic risk must be obviously considered during strategy creation.

The next large group is the operational risks, the timeframe of which is shorter than that of the strategic risks, typically one year. Operational risk is a generic term including, for example, security risks, compliance risks, but risks arising in connection with the performance of daily routine activities also belong here. An example for the latter is a communication breakdown or failure of the IT system supporting the given activity.

The third large group is financial risks, which also includes different types of risks, including, but not limited to exchange rate risk, interest risk, partner risk, and liquidity risk.

The fourth group is project risks, which is in fact the special mixture of the above-listed types, which are, however, worth grouping separately. There could be special risks arising in connection with the preparation and implementation of projects, which must be managed differently from the other three listed types, again including, but not limited to the excavation of archaeological remains or extreme weather conditions, which are typical examples of project risks.

1.2 Concept of risk

According to MSZ ISO 31000:2018 (2018), risk is the effect of uncertainty on achieving goals. What does this mean translated to the language of practice? Uncertainty is due to the lack of information. In other words, if every piece of information was available, there would be no uncertainty and risk, either. There is lack of information because risks may arise in the future and the future may not be foreseen precisely.

According to Görög (2013), an important essential feature of solving any problem is the presence of uncertainties in the activity process.

Uncertainty in a sense is the same as lack of information, and uncertainties of different origins often appear in the form of some risk. Risk thus does not exist

without uncertainty. Uncertainty means that we do not know the occurrence – or not occurrence – of a given event (its time, place, manner) precisely. Accordingly, uncertainty is 'neutral', as we do not know yet if it will have positive or negative consequences for us. As opposed to this, risk generally means the quantifiable negative or positive consequences of uncertainty, while occurrence itself is also uncertain, yet its probability may be described. Consequently, risk may be measured in quantity – the extent of risking –, so it is the product of the probability of negative or positive occurrence and the related loss or gain (Görög, 2008). To evaluate the risk, the risk factors becoming the subjects of the evaluation must be defined first.

Other approaches focus on the 'side effects. In their case, the concept of risk generally refers to an uncertain event, which may have a negative or positive outcome (Hillson, 2002). There is an author, according to whom the level of a given risk may also be specified as the product of the probability of the related events and their size (Hopkin, 2012).

In harmony with MSZ ISO 31000:2018 standard, the definition of risk may be specified as follows (Fekete, 2015):

- Risk may be some event, activity, or failure of activity, which will take place in the future, and if it occurs, it will influence the reaching of the target positively or negatively.

Elaborating on the concept in more detail we may state that during the identification of risks attempts must be made to direct the specification to the future, to have it interpreted in line with some target. It is also very important that we generally interpret risks in everyday language with negative outcomes, however, the outcome of a risk may also be positive. A good example of this is exchange rate risk, when the exchange rate may also change positively. Risk itself, of course, may also be positive. An example of this is the appearance of much higher-than-expected demand when a new product/ service is introduced. Even positive risks may have negative consequences/outcomes if we are not ready for them in time (for example disappointment due to unsatisfied demand).

Finally, after the brief overview of the standard, the key messages are worth summarizing.

- The operation of the risk management system will only be efficient if it is supported by the top management of the given organization. Verbal statements are not sufficient, the necessary human and technical resources as well as methods and procedures based on a professional foundation must also be provided.
- The integrated nature of the risk management system must be ensured, which, on the one hand, means that it covers every activity of the given organization, and, on the other hand, in addition to legal compliance, it ensures the efficient support to decisions to be made at strategic, project

and operational levels, including the examination of interactions between the different types of risks.

- It is important that risk assessment must always be performed in the context of the targets, and attention must be given to identifying and evaluating risks meeting the definitions in the relevant academic literature only.
- The availability of information in appropriate quality and in time for risk assessment must be ensured, and its result must reflect the opinion of every unit.
- It is of key importance that risk management actions specified according to the result of the risk assessment must be implemented – with the considerations of cost efficiency fully considered, of course – and the efficiency of the implementation of the action must also be backtested.

2 Factors supporting and hindering the implementation of the risk management system

The lead author is participating in several projects related to the establishment and operation of the risk management system at different organizations – at large companies particularly. Based on reviewing these more than 50 projects and assessing the risk management documentation, the authors summarize the factors supporting and hindering the implementation of the risk management system.

2.1 Factors supporting the implementation of risk management system

The factors supporting the implementation of the system are the following

- Attention must be continuously called to this: the first and outstanding factor is the support of the top management. It must be emphasized repeatedly that this support must cover more than just communication. The necessary human and technical resources must be provided together with a professional procedure for the implementation. It may help greatly if the top managers show a good example in the exploration and management of the risks. (Richter, 2011)
- In connection with the previous point, the requirements of the owner concerning the establishment of the system, including the advantages of the system's implementation for the employees, must also be emphasized clearly.

- Implementation may be significantly facilitated by the close cooperation of compliance, internal audit, and integrated risk management. This partly concerns the very precise definition of the tasks of the three areas as well as the clear specification of the connection points. This cooperation may only be successful if it is set up among three equal parties and coordinated appropriately by the top management. (Vaidya, 2018)
- Furthermore, it is important to mention that the established system must be integrated. It means that focusing on the exploration, evaluation, and management of the compliance risks only is not sufficient, the system must cover the examination of every type of risk having regard also to the potential interactions.
- It may help the implementation significantly if a procedure is clear to everyone and a methodology facilitating its implementation and easy to use in practice is elaborated.
- Easy learning of the contents of the methodology description by the persons performing the risk assessment and management must be ensured via examples of cases customized for the given organization, if possible.
- No system implementation may be efficient if it is not supported by the staff affected by the process. Therefore, at the beginning of the system implementation, the key staff providing continuous control by giving their opinion, comments, advice, and feedback must be selected to establish a system customized for the given organization supporting the achievement of the targets specified by the organization. (Wysocky, 2014
- Another supporting factor may be the implementation of a motivation system covering every manager and subordinate staff member participating in the establishment and operation of the risk management system, guaranteeing the successful implementation and operation at the given organizations. One key element of the motivation system is naturally the bonus payment, which is for example tied to the achievement of the targets specified by the given organization. Motivation, however, may not be limited to this only. It may help significantly if the staff is given the opportunity to participate in training related to the topic. Another possibility is to ensure participation at foreign and Hungarian conferences, which is at the same time an excellent opportunity for the participants to do networking. (MSZ ISO 3100:2019)
- The provision of IT tools to facilitate the operation of the risk management system may also be mentioned among the supporting factors. Note must be taken of the fact that the use of MS Office (Excel, for example) is not sufficient for the performance of the task. If the target is indeed the establishment of an efficient risk management system, several IT tools may

be necessary. There are targeted software tools on the market (for example @ Risk, Szigma Integrisk), and it is worth selecting one of them with the precise requirements of the given organization considered. It must also be emphasized, however, that none of the IT tools may be magic tools; they may not replace human knowledge and experience. (Hopkin, 2012)

2.2 Factors hindering the implementation of risk management system

The factors hindering the implementation of the system are the following

- The conclusion may be drawn that the added value represented by the implementation of a formalized risk management procedure is not clear, either, for the managers or the subordinates. Many people are convinced that they know the potential risks even without the use of a formalized procedure, and if these risks occur, they will find a way to manage them, therefore it is not necessary to provide serious human and technical resources to perform this task. (Chapman – Ward, 2003, Hopkin, 2012, Ohtaka, 2010)
- There are only a few managers who know the result of risk assessment may directly be built into the decision-making process, and – even if there is formal risk assessment – its result is less considered during decision-making.
- Another factor worth mentioning among the hindering factors is that There are only a few managers who know the result of risk assessment may directly be built into the decision-making process, In connection with this the negative risks, for example, the exploration of risks concerning legal compliance, reputation, security, fraud is shifted to the foreground. These activities include the production of business continuity and disaster recovery plans, which often end up at the bottom of the drawer. These are doubtlessly important areas, however, in the meantime, there is no attention and energy for the exploration, evaluation, and management of risks that may directly influence the achievement of the strategic targets of the given organization positively or negatively. The opinion of the author is that in the long run only organizations exploring, and assessing, (Verzuh, 2008)
- Another hindering factor is that currently there is no higher education training in Hungary, the expressed purpose of which is the training of risk managers. It means that anybody may work in the exploration, assessment, and management of risks, which does not necessarily guarantee professional performance and the possibility of using the result of the risk assessment in effect and managing these risks – where the result becomes

an integrated part of the decision-making process – will be able to operate successfully. (c.f. Loosmore, 2005)

- Although there are more and more academic books, articles, and other publications in Hungarian language, these generally stay at a theoretical level. Only a few of them provide professionals with methods that are easy to use in practice, or present success stories that serve as positive examples and provide the necessary motivation to perform the risk management activity in higher quality. (c.f. Lind, 2011)
- The number of companies offering risk management advice to potential customers in good professional quality is also low in Hungary. Furthermore, there is no classification criteria system to identify incompetent organizations on the market. Some thought should be given to the establishment and implementation of an objective classification system, if possible. This would result in the fact that companies meeting these criteria would offer authentically high-quality services, which may indirectly contribute to the operation of more and more successful companies and institutions in our country. (c.f. Summer, 2000)
- Another hindering factor is that the number of IT tools to be used by the potential users to perform professional risk assessment, to monitor the implementation of risk management actions, and to backtest their efficiency is limited in Hungary. The offer must be increased, and the existing tools must be popularized. (c.f. Hillson, 2002, Nakatsu, 2009)
- Finally, another hindering factor may be the readiness and willingness of Hungarian organizations to require risk assessment and risk management performed at a professionally higher level according to the approach presented in the present study, too.

Conclusions

In connection with this, it is worth considering the establishment of professional forums that would be suitable for the presentation of best practices and for the risk management experts to share their experiences. By presenting the good practices, every decision-maker must be encouraged to view risk management not as an administrative task, but as an opportunity to receive help for successfully performing the work in the long run. This may be the real added value of risk management. The specifies messages that may be helpful to practicing experts to avoid the detection, evaluation, and management of risks becoming administrative tasks. They must instead contribute to the long-term successful operation of the using organization.

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