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Contact person: Cosmin Ionut Băloi
Email: revista_management_marketing@yahoo.ro

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ETHICS RISK MANAGEMENT THROUGH THE LENS OF ETHICS RISK ASSESSMENT AND EVALUATION

Ionuț RIZA

University of Craiova, Faculty of Economics and Business Administration

Email: rizaionut@gmail.com

Adina Drăgolici NUȚOAIKA

University of Craiova, Faculty of Economics and Business Administration

Abstract:

During the last years, governments, companies and the different organisations have been the witnesses of a constant development of the assessment request of the ethics risk. Thus, it has become more and more obvious the fact that the management of an organisation cannot apply and put into practice the strategic evaluation and control of the ethics management, unless that particular organisation efficiently and righteously assesses the ethics risk. Within an organisation, the ethics management will never be considered as an isolated act. On the contrary, the efficient management of ethics supposes a strong connection with all the management functions within that organisation. Thus, in the case of an efficient assessment of the ethics risks, the involvement of the organisational risk management function is mandatory and has got a special significance. Starting with the special significance which has the connection between the ethics management function and the organisational risk management one, within this article it has been identified and presented the connections between the risk and the ethics, out of the perspective of assessment and control of ethics risk and of its approach on process-based management.

Keywords: ethics, risk, ethics management, ethics risk management, ethics risk assessment.

1. Introduction

Risk management and control are internal organization issues. Specialized literature ranges risk among the key mechanisms in the evolution of an economy, given the fact that the business environment, as well as the public sector present a significant number of risks, and the organization's ability to identify and analyze these risks can ultimately lead to the success or failure of the management activity (Crouhy et al, 2005). According to the International Audit Standards, risk is the possible occurrence of an event which is likely to have an impact over the achievement of the organizations' objectives. The essence of risk consists of the uncertain result thereof, be it positive or negative, due to an unexpected change of the control environment. Risk management, control and corporate governance consist of the policies, procedures and operations meant to ensure (Crouhy et al, 2005):

- The achievement of objectives;
- The proper assessment of risks;

- The credibility of internal and external reports;
- The existence of sanctions and rewards policies;
- The conformity with the legal regulation framework;
- The conformity with the organization's ethics and behavior standards.

Ethics is a system of moral principles which includes the methods which can be used to implement them. Thus, ethics provide the elements necessary to elaborate moral judgments. It consists of the language, conceptions and methods which enable the individual to make moral decisions.

Ethical risk management is the process of planning, organizing, adjusting and controlling the existing resources and operations in order to ensure that the management's ethics enable the achievement of the organization's objectives, regardless of any uncertain events. The purpose is to prevent the ethical risks which may hinder objective achievement. An efficient ethical risk management enables the organization to handle the probability of any ethical event which has not been foreseen and, should any such event occur, to limit the effect of its consequences, and to have a proactive attitude when facing ethical opportunities (La Rue Hosmer, 2010).

Leon van Vuuren and Rossouw (2013) suggest that ethical risk management can provide the organization with the following benefits:

- 1) A sense of acknowledgement for the interested parties of the organization, given the fact that their interests are constantly taken into consideration during an ethical risk assessment, which makes them participate to the creation of the organization's future.
- 2) The possibility of distinguishing between an acceptable and an unacceptable type of behavior.
- 3) The identification of the organization's specific ethical issues;
- 4) The possibility to manage these issues in a proactive way.
- 5) A proper management strategy implemented within a frame of reference.
- 6) Useful information regarding the success of the current ethical management systems established in view of promoting ethical or handling unethical behavior.
- 7) The specific ethical risks can be taken into consideration by the fact that they are properly addressed within the organization's ethical code and the existing ethical policies which add to it. Should the organization not have an ethical code or related policies, the ethical risks can be used to elaborate such documents.

The ethics of risk assessment is a planned and structured evaluation tool, applied by means of the regular update of the perspectives of the interested parties, in order to support the organization's effort to design an ethics risk profile (Moor, 1995).

An organization's impulse to assess the existing opportunities and ethics risks may have multiple origins, such as legislation, conformity requirements, corporate governance orientations, integrated durability requirements, business scandals, internal or external pressure on the interested parties or financial loss (incurred either by fraud or theft, etc.) (Richard, 2006).

The purpose of an ethical risk assessment is to identify the beliefs, practices and behavior which are either (a) counter-productive to the maintaining of the ethical principles and standards which provide for the desirable relations between the interested organizations or (b) favorable to the existence of such ethical principles and standards. When conducting an ethical risk and opportunity assessment, organizations must do so with the involvement of the interested

parties, be they external or internal, in order to determine (a) the perceptions of the organization's ethics and (b) the organization's expectations in terms of ethics (Moor, 1995).

Ethical codes attempt to solve various conflicts of interests both in the internal environment and in the external relations of the respective organization, and to determine a set of principles and requirements which would make the managers more sensitive to ethical issues. They are more than a set of purely theoretical concepts; they also have practical elements, which can be used by all members of the organization. This does not mean that an ethical code is a guarantee of moral behavior or that it can cover any real-life situations which may occur in the organization's activity (Roşu-Hamzescu, 2007).

One way to prevent business delinquencies would be to employ ethical people as managers. Only an ethical management and human resource system can lead to a higher ethical responsibility of the respective company (Solomon, 1996).

Management ethics represent the management, legal and moral standards employed by the managers of trading companies in order to conduct their business. Employee ethics represent the set of working, legal and moral standards used by the employees within their work process, which constitute the essence of the activity conducted by the trading companies (Melé, 2011).

The main objective of this piece of research is the critical analysis of the connection between risk and ethics from the perspective of the assessment and control of ethical risks and its approach within the process-based management system.

2. The specialized literature

The last decade has witnessed the emergence of a series of orientations, frames and standards which impose a broader scope of risk management. Obviously, one of the most frequently mentioned, yet rarely examined aspects of these documents is the statement according to which risk management should be in line with an organization's culture and values. While this statement is yet to be fully explained, it seems to imply a broader approach of risk management as a fundamental change within the organization, and the organization's opposition to such change if it runs against its own culture and values.

Rossouw and Leon van Vuuren (2014) mention the fact that the ethical culture in business is based upon an alignment between the formal processes and structures and the informal acknowledgement of heroes, stories and rituals which inspire the members of the organization to behave in an ethical way. This includes personal moral development and authenticity display by the leaders. In developing and maintaining ethical culture, organizations must be willing to approach not only the formal conformity requirements, but also the corporate values, and to align them to the other element of its culture.

According to Jacob (2007), an ethical culture presents two distinctive languages. One is defined by imposed values; the other is defined by the respective values put into practice.

The concept of dual values, both formal (adopted, stated) and informal (values put into practice) is not of recent date. Formal values are those embraced by the organization, in order to influence behavior and to define its own objectives (Jacob, 2007).

In a different perspective, Holden (2000) tried to discover whether or not values actually lead to risks, which implied taking into consideration the concept of "ethical risks". It is still unclear whether ethical risks represent a distinctive category or if they constitute one aspect of the existing categories. However, apart from understanding the way in which risk management reflects the organizational values, Holden also maintained that it is useful to consider the social, cultural and organizational values as a medium risk source.

The current academic activity in the field of risk management appears to anticipate a certain connection to organizational ethics, but it fails to present the easy, obvious ways for this to occur. Equivalently, the concept of ethical organizational culture anticipates the inclusion of risk-related perspectives, but it fails to provide the language necessary to design a systematic approach to the assessment of ethical risks (Leon van Vuuren, 2006).

Hansson (2013) provides a ground for the introduction of ethical consideration in risk assessment, but the second aspect, "assessment of the risks and values at the basis of the organization's objectives" is a little more problematic.

3. Research methodology

The purpose of the method of ethical risk assessment is to identify the beliefs, practices and behavior which are either counter-productive to maintaining the ethical principles and standards which regulate the desirable relations between the interested organizations or enable the existence of such ethical principles and standards.

The research included 50 company managers (27 men and 23 women), from various Romanian companies. The method was based on the use of questionnaires sent via email and the size of the study sample was random sampling. The research was conducted between 03.01.2018 and 10.03.2018.

In order to determine the accuracy of the questionnaire, it was used the calculation method for the alfa-Kronbach quote, the value of which amounted to 0.86.

In order to analyze the resulting information, the study involved statistical methods, such as Spearman, Pearson and Friedman.

Ethical risk management must be based on the planning, organization, regulation and control of the available resources and operations in order to achieve the given objectives, inspite of the uncertain future events. An efficient ethical risk management enables the organization to cope with any unforeseen events which may occur and to limit the consequences thereof, while having a proactive reaction to opportunities. This means that the organization is more able to achieve its plans – in other words, to fulfill its organizational objectives, inspite of the uncertainty of events within its working environment.

Within the process of ethical risk management, it was analyzed and assessed the entire range of potential operational problems, divided into four categories: employees, processes, systems / technologies and external environment (table 1).

Table 1

Potential operational problems of ethical risk management

Operational problems	Types of ethical challenges	Level of importance				
		1	2	3	4	5
Ethical risks related to employees	1. Failure to comply with procedures or working instructions	1	2	3	4	5
	2. Insufficient staff knowledge, experience and training	1	2	3	4	5
	3. Insufficient number of employees	1	2	3	4	5
	4. Dependence on key workers	1	2	3	4	5
	5. Lack of communication and cooperation between employees	1	2	3	4	5
	6. Negligence in reporting errors or mistakes	1	2	3	4	5
	7. Self-contentment	1	2	3	4	5
	8. Fraud	1	2	3	4	5
	9. Suspicious activities, such as money laundry or terrorism financing	1	2	3	4	5
	10. Failure to comply with international sanctions	1	2	3	4	5
Ethical risks related to processes	1. Lack of organizational processes	1	2	3	4	5
	2. Methodical or model errors	1	2	3	4	5
	3. Complex models	1	2	3	4	5
	4. Improper process control	1	2	3	4	5
	5. Models which do not relate to the company's objectives	1	2	3	4	5
	6. Insufficient corporate governance in this field	1	2	3	4	5
	7. Execution errors	1	2	3	4	5
	8. Registration errors	1	2	3	4	5
	9. Improper data and information management	1	2	3	4	5
	10. No distinction between rights and duties	1	2	3	4	5
Ethical risks related to systems/ technology	1. Improper system of technology and security management;	1	2	3	4	5
	2. Lack of development and testing methodologies	1	2	3	4	5
	3. Insufficient processing capacity	1	2	3	4	5
	4. Breaks in the functioning of cyber systems	1	2	3	4	5
	5. Breaks in the provision of services by external providers	1	2	3	4	5
	6. Improper systems	1	2	3	4	5
	7. Improper data protection	1	2	3	4	5
	8. Disaster recovery risks	1	2	3	4	5
	9. Improper testing of disaster recovery	1	2	3	4	5
	10. Improper systems of technological update;	1	2	3	4	5
Ethical risks related to the external environment	1. Loss due to catastrophic events / natural disasters	1	2	3	4	5
	2. Loss due to people or factors outside the organization	1	2	3	4	5
	3. Breaks in the provision of services by external providers	1	2	3	4	5
	4. External fraud and criminal activities	1	2	3	4	5
	5. External exposure of security systems	1	2	3	4	5
	6. Classical or electronic terrorist attacks	1	2	3	4	5
	7. Economic or electronic criminality	1	2	3	4	5
	8. Power failures	1	2	3	4	5
	9. Improper services of external system support	1	2	3	4	5
	10. Legislation changes	1	2	3	4	5

Source: the author's own concept

The level of risk is calculated as the weighted average of the levels of importance for each ethical risk.

In order for the result to reflect reality as accurately as possible, the pondering element is the ranking of the risk factor, which equals the level of importance.

Thus, the factor which has the highest level of risk shall be the one with the highest ranking.

It is thus eliminated the possibility of extreme compensation which occurs in any statistical average, and mark the presence of the highest ranking risk factor.

$$N_r = \frac{(N_1 \times 1) + (N_2 \times 2) + (N_3 \times 3) + (N_4 \times 4) + (N_5 \times 5)}{N_1 + N_2 + N_3 + N_4 + N_5}$$

Source: the author's own processing of N.R.D.I.E.P. BUCHAREST

wherein:

- Nr – the global level of importance for the ethical risk
- N1 = the number of ethical challenges assessed as level 1 risks
- N2 = the number of ethical challenges assessed as level 2 risks
- N3 = the number of ethical challenges assessed as level 3 risks
- N4 = the number of ethical challenges assessed as level 4 risks
- N5 = the number of ethical challenges assessed as level 5 risks

The risk grading scale is shown in table 2.

Table 2

Ranking of the levels of risk

Preset risk category	Classification of the risk group
0	1
0.5 or less	Minimal
Between 0.5 and 1.5	Very low
Between 1.5 and 2.5	Low
Between 2.5 and 3.5	Average
Between 3.5 and 4.5	High
Between 4.5 and 5.5	Very high
More than 5.5	Inacceptable

Source: the author's own processing of I.N.C.D.P.M. BUCHAREST

The centralizing situation of the importance level for the ethics risk is shown in Table 3

Table 3

Summary of the level of importance of ethical risks

ETHICAL RISKS RELATED TO EMPLOYEES	Level of importance				
	1	2	3	4	5
1. Failure to comply with procedures or working instructions;	7	6	8	15	14
2. Insufficient staff knowledge, experience and training	34	5	6	5	0
3. Insufficient number of employees	5	13	15	15	2
4. Dependence on key workers	6	7	8	16	13
5. Lack of communication and cooperation between employees		2	10	15	23
6. Negligence in reporting errors or mistakes	10	13	12	8	7
7. Self-contentment	21	12	9	8	0
8. Fraud	23	13	9	4	1
9. Suspicious activities, such as money laundry or terrorism financing	16	13	14	6	1
10. Failure to comply with international sanctions	17	14	16	1	2
Total level of importance	127	87	94	93	99
LEVEL OF RISK	3.52				