

EDITORIAL

Risk and Uncertainty, Decisions and Managers

The future is risky – as it is under influence of future factors and circumstances; less known they are, higher the uncertainty, and higher the risk (or probability to fail). On the other side, the decisions are always looking to the future situations.

Then *decisions are always risky*. (The debate about decisions made under certain conditions – and how much they can be automated and computerized, and how less they are associated to the rationale, human nature – even challenging, is another topic, for another discussion, at another time...).

Hence the key-role played by decision makers at all levels – policy makers, strategists, organization managers.

The recent global financial and economic crisis was having a significant impact on companies, regardless the country, business sector, or size of the company. However, depending on how strong, how sophisticated or how much a national economic system is connected to the global economy, the crisis impact largely varied – mainly as strength and lag time. The crisis has brought not only painful turbulences for most of the world economies but stimulated theoretical research as well. Nassim Nicholas Taleb has written wrote „The Black Swan” in 2007 (before the start of financial crisis in 2008!) warning the bankers about using in excess probabilistic models and missing the possibility of catastrophic events (i.e. „black swans”; the metaphor of „black swans” is used just to define highly improbable events). As Taleb is arguing, the risk models are inherently flawed because they did not and even could not consider the existence of such „black swans” which are „almost impossible to predict [events]. Instead of perpetuating the illusion that we can anticipate the future, risk management should try to reduce the impact of the threats we don’t understand” (Taleb, N.N. *et al*, 2009). The unfamiliar, difficult-to-predict events make the decision process significantly more difficult. However, beside Taleb’s, there were other voices who predicted the financial apocalypse.



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Many of the elements of the crisis were being signalled pretty long before the crisis happened.

What they did not see was how the elements were inter-related; they were simply blind to the risk that the whole system would collapse.

One of the major lessons learnt is that risk management is currently switching to risk managers (CRO = Chief Risk Officer): „clearly, risk officers have a huge role to play, but we don't want to transfer the responsibility for risk from operating general managers to CROs and then feel that the problem is solved” (Kaplan, R.S., *et al*, 2009).

The risk management profession has evolved from a protective function to one that can create value for an organization. The Risk Management Society in its report „The Evolving Role of the Risk Professional” emphasizes that the need for determined and adept risk managers to build risk management capabilities at every level of an organization has become an essential component to organizational success.

This pioneer number of *FAIMA Business & Management Journal* is assembled around the risk idea, from the managers' perspective, as it is discussed by FAIMA scholars and researchers as well as their PhD students, partners, collaborators or invited personalities.

Prof. dr. Cezar Scarlat,
Senior Editor

ABSTRACTS

MODELS FOR MANAGING THE RISK OF A PORTFOLIO OF SECURITIES

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The goal of this paper is to present how two models that relate risk and return, namely the Capital Asset Pricing Model and the Arbitrage Pricing Theory, apply on the Romanian Capital Market and to compare the two models applied. Two are the objectives of the comparison: to determine which model holds better for the Romanian Capital Market and to determine which model explains more accurately the variation of a certain portfolio of specifically chosen securities. The models can be subsequently used for making investment decisions, taking into account the models' assumptions and the decision-maker's interpretation skills.

Keywords: risk, capital market, regression analysis, CAPM and APT models



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LIMITING THE CONSEQUENCES OF ACCIDENTS

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The study represents the result of a scientifically research effectuated on contract basis. The main goal is to determine the needs and identify the best way of briefing for civilian population in order to prevent and limit the consequences of major accidents caused by dangerous substances.

Keywords: market research, sampling process, dangerous substances

PRINCIPLES FOR EFFECTIVE RISK GOVERNANCE AND CONTROL

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The paper presents the major organisational components of Enterprise risk management (ERM) that together aim to raise the level of risk management effectiveness across the organization.

These organizational components cover: Risk management processes – including risk identification and prioritization, risk strategy, and governance and control, Elements of organizational structure, Tools, methodologies, and systems and Skills. Managing the risks effectively is not only a fiduciary duty of executives and boards, it has also become key to value creation.

As a particular case, the paper presents Transelectrica – the Romanian Electricity Transport and System Operator that develops and implements an integrated program – Enterprise Risk Management Program, that effectively integrates the risks across the entire Company, allowing tailoring imaginative and cost-effective options for risk reduction and risk transfer, in order to minimize and control the critical risks and to determine the strategies on processing, maintaining, transferring, recovering and restoring the Company's assets with the view of their being protected.

Keywords: risk management processes, risk identification, risk strategy, value creation, risk reduction, risk transfer

RISK MANAGEMENT OF NUCLEAR POWER PLANTS

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In today's global energy environment, nuclear power plant (NPP) managers need to consider many dimensions of risk in addition to nuclear safety-related risk. Nuclear power plants are considered critical infrastructures by most countries. As a consequence there are a lot of efforts spent for identifying and implementing the appropriate measures to eliminate or reduce as much as possible the risk impact involved in their operations. In order to stay competitive in modern energy markets, NPP managers must integrate management of production, safety-related, and economic risks in an effective way. This paper presents the steps of the risk management process: identifying risks (list, measure, and rank); identifying techniques/strategies to manage the risk (reduction, retention, and transfer the risk); implementing risk management strategies; and monitoring the effects of implemented actions.

Keywords: critical infrastructure, risk management, nuclear power plant, strategy

DECREASE OF THE NUMBER OF RISK DRIVERS IN THE SUPPLY CHAIN

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Today, meeting customer requirements is a key factor for organization's survival. Supply-chain management not only considers delivering the end product to the customer as an effective factor, but believes that a set of hierarchical suppliers should be engaged in order to integrate involving organizations and coordinate all materials, information and cash flows. These processes are complicated, so that managers deal with many challenges in decision making of Supply chain. In this paper, these challenges are categorized into three levels; then Balanced Scorecard is introduced as an approach to integrate visible and intangible assets for organization's financial growth and Performance measurement, SCOR model is a tool assisting BSC in translating strategic objectives into operations and ultimately; FMEA is introduced as a tool for helping managers in selecting the safest approach with minimum risk.

Keywords: Supply-chain management, Balanced Scorecard, Strategy map, SCOR, FMEA



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A STRATEGIC PERSPECTIVE OF SERVICES

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This paper explores service sector and its potential to take into account different opportunities

offered by traditional customer service and product related services. In order to meet the increasing more complex needs of customers and respond to decreasing product margins, product-oriented firms have developed a growing interest in extending their service business.

Based on both literature and also the author's experiences through observing firms in Romania and Europe, this paper proposes a simple framework to aid practitioners and academics to better understand how the product-oriented firms must consider the ever increasing expectations of consumers and develop services that respond to them. The presented here also suggest as maintaining competitive advantages and achieving service-based growth advantages are becoming increasingly challenging for the most product-oriented companies.

Keywords: service sector, customer service, product-oriented company, customization



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TRENDS IN THE ROMANIAN ADVERTISING INDUSTRY

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All Central and East-European countries have experienced significant economic growth over the last 20 years. Romania has lagged behind for several years but is currently experiencing privatization and economic growth. As the Romanian market has spawned many local entrepreneurs and attracted many global marketers, likewise an advertising industry consisting of many local and international agencies has developed to serve their needs. The present paper summarizes and classifies the different stages of the industry and its competitiveness.

It extrapolates the findings to the competitive advantages created by advertising and the competitiveness of the advertising industry clients.

Keywords: advertising, competitiveness, market, industry