

RISK IN A NEW PARADIGM OF MANAGEMENT

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Abstract: *Changes in the environment of enterprises cause the necessity of adjusting the managerial instruments to the new conditions. Many issues require a new verification and adaptation to the arising transformations. In the article the considerations on that matter were limited to the role of risk in a changed scientific paradigm, searching for an answer to the following research problems: In what ways do the increase in complexity and turbulences of environment have influence on uncertainty and risk in an enterprise?, Are the previous scientific trends concerning uncertainty and risk in an enterprise adjusted to the arising changes in the contemporary enterprise and its environment?, What directions should the research on uncertainty and risk be lead in a new paradigm of management sciences?*

Keywords: *risk, risk management, new paradigm in management sciences*

JEL Classification: *M10*

1. INTRODUCTION

The causes for changes in the current paradigm of sciences concerning management may be found in the growing complexity and level of turbulence in the environment of enterprise. This complexity is manifested in three basic phenomena: industrial revolution, globalization and hypercompetition [1]. Industrial revolution is related to the widespread computerization of societies as well as growing access to the internet. Globalization means ‘increase in the number of relations of different kinds between various subjects of the international life and increase in the quantity and types of interactions between those subjects’ [2], and results in the internationalization of production and services, multiculturalism and transnational competition. Hypercompetition, related to the latter, is based on extremely fast and rapid changes in products and offers of enterprise that intensify the struggle for achieving competitive advantage on the globalized markets [3]

As a result of the presented phenomena occurrence, the current paradigm of the sciences on management has proved to be insufficient [4]. Its basic postulates that assumed the points listed below were negated.

1. There is one correct way of managing the enterprise and a universal model of organization.
2. The rules of management can be used only in enterprises.
3. There is one way for managing human resources.
4. Management is based on available technologies and markets of the final recipients.
5. Each branch of industry uses different manufacturing technologies and their target market are disjoint.
6. The extent of management concerns assets as well as employees of the organization only and it is legally defined.
7. Management is focused on the inside of the organization.
8. The extent of management is politically determined and economics is the ‘ecology’ of the enterprise and management [5]

2. BASIC ASSUMPTIONS OF THE NEW PARADIGM

The change and modification of the existing assumptions proved to be necessary. Their extent in relation to the current paradigm is presented in Table 1.

Table 1 Traditional and new paradigms in management

Traditional paradigm	New paradigm
Reduction of direct manufacturing costs as an area of interest in management.	Reduction of indirect enterprise costs while at the same time improving competitiveness.
Operations characterized and analysed as being stable.	Flexible operations, constantly improved.
Line of products basing on one, particularly important piece of technology, long product lifecycle.	Product lines based on multifocal technology, short lifecycles of products.
Managers treated as decision-makers, subordinates as passive executors of commands.	Managers are treated as trainers, making work easier, while subordinates as knowledge workers.
World markets divided according to the national criteria; domination of domestic enterprises on national markets.	Global world markets; attention focused on international economic and political structures.

Source: D. Jamali, 2005, p. 108

The extent of the introduced changes and modifications is very wide [6]. The subject and object extent of management, that may be used not only in enterprises but also in other organizations, is changing. Not only people and assets are now being managed but also entire processes as well as material and immaterial resources engaged in them [7]. The enterprise, in order to adapt to the changing conditions of environment has to be characterized with a large level of adaptability and flexibility [8]. In management, functionality is the priority, not politics and economy. The enterprise does not only try to meet economic goals, it also exists in order to meet social goals and fulfill social needs. As a result, the approach to human resources is changed. Managers become trainers and partners of employees. Employees on the other hand become providers of knowledge and skills that contribute in a significant way to the development of the enterprise [9]. All those changes occur in the open network and globalized organizations. In

effect, in management the approach begins to shift from determinism and causality in favor of holism [10] and the chaos theory [11].

3. EVOLUTION OF VIEWS REGARDING RISK

Risk in the old paradigm of sciences concerning management was considered in one of three basic trends: offensive, defensive and decision theory (rational and psychological). In the defensive trend negative results of risk were emphasized and from their perspective, risk was defined. According to the definitions propagated in this trend, risk is a possibility, a probable event that may cause negative consequences in the form of making incorrect decision, an adverse deviation from the assumed goal or in the form of suffering a loss [12]. Risk is defined in a different way in the offensive trend. Risk may be a source of threats but it may also constitute a source of opportunities for the enterprise. Risk accompanies all of the actions taken. The result of these actions is not known but may have both negative and positive character [13].

A positive character of risk is also clearly emphasized by P.F. Drucker. According to him, each enterprise should determine which opportunities it wants to take and what risk related to it this enterprise is able to bear. P.F. Drucker considers risk in the enterprise in four approaches:

- risk that has to be taken because it is in the nature of the enterprise, this is the risk specific for a given type of activity, necessary for activity to continue,
- risk which one can afford, that is: loss of money and efforts to seize an opportunity,
- risk that one cannot afford, which is the opposite of risk that one can afford,
- risk that one cannot afford not to take, accompanying all breakthrough opportunities that change the basic economic features of the enterprise as well as its potential [14].

According to P.F. Drucker's assumptions, risk is an attribute of all actions in the enterprise and it has an active character. Actions of the enterprise are preceded by a process of making a particular decision. Therefore, risk to a large extent influences the way of making decisions in the enterprise. Rational and psychological decision theory deals with this issue.

In terms of the rational decision theory, there the factors examined which influence the process of making certain decisions. Furthermore, methods of choosing optimal solutions are being searched for. This theory constitutes an expansion of the views presented by F.H. Knight. Its creators determine certainty as a condition in which when we make a decision, we know its result. Uncertainty, on the other hand, is a situation in which while making a decision we are unable to determine all possible results and/or the distribution of probability of specific results. Risk is an intermediate state in which while making decision the set and probability of certain results is known [15].

The issue of risk and uncertainty in the psychological decision theory is examined in a bit different way. Considerations regarding those terms concern the process of making decisions. The results of making decisions *ex post* are often different than the ones that were assumed. When the decision is being made, the decision-maker feels that his

decision is correct. The passage of time verifies this feeling as it turns out that the choice made was not the best possible one. Therefore, the decision is being made in the conditions of uncertainty, which means that at the stage of making the decision makes it is impossible to predict what is going to happen and we may only predict and formulate hypotheses. Furthermore making decisions is accompanied by risk, i.e. the probability of achieving the result which does not fit the scale of alternatives and preferences accepted by the decision-maker.

In the rational and psychological decision theory the relationship between risk and the way of making decisions is emphasized. The rational decision theory that belongs to the area of economy abstracts from the psychological features of the decision-maker assuming that he will always try to maximize the number of accurate decisions. However, in the psychological decision theory, the personality factors in making decisions are emphasized which in practice means that the decision-maker will not always choose the rational decisions. Apart from the rationality he is influenced by a number of individual psychological conditions.

4. RISK AND THE NEW PARADIGM

Returning to the main thread of the hereby considerations, which are the essence of risk in the activities of the enterprise in the new paradigm, it is worth to make an attempt to answer the following questions:

1. In what way did the increase of the complexity and level of turbulence influence uncertainty and risk in the enterprise?
2. Are the current research trends concerning uncertainty and risk in the enterprise adapted to the changes that occurred in the contemporary enterprise and its environment?
3. In what directions should the research on uncertainty and risk in the new paradigm of management sciences be continued?

The first of these questions may be relatively easily answered. As the result of the increase of complexity and level of turbulence in the environment, the area of uncertainty of conditions in which the enterprise is operating has increased. Consequently, the extent of uncertainty was expanded even more. Due to appearance of new phenomena in the form of industrial revolution, globalization and hypercompetition new sources of risk were revealed that required identification, assessment and pointing out measures for such type of risk as well as for controlling it. The area of probabilistic factors was therefore expanded. As the result of coexistence and interactions of the current and new sources of risk the already existing and recognized sources of risk were also intensified. In the light of the circumstances presented, managing risk is still an important issue in the management sciences. In the conditions of increased vulnerability to crisis situation of economies and enterprises functioning in them, the rank of this issue has particular significance as successful managing risk makes it easier for the enterprise to survive and develop in a turbulent environment.

By analysing the current trends of research on uncertainty and risk in the activities of the enterprise, in the new paradigm of sciences concerning management one may consider the offensive and psychological approaches to be

the most useful ones. In the offensive trend, apart from the negative results of realizing risk, benefits coming from making risky decisions are also taken into consideration. Therefore not only threats but also opportunities are related to the issue of risk. Such approach is presented in many contemporary scientific publications dealing with the areas of uncertainty and risk. S. Ward and Ch. Chapman consider a defensive definition of risk to be restricted [16]. Perceiving risk only in the context of threats and losses causes one only to focus on avoiding it or on decreasing its size [17]. In this way the enterprise misses chances and opportunities. It manages risk but not the possibilities for development. Furthermore, opportunities and threats are interdependent. They are the two sides of the same coin and cannot be analysed separately [18].

At present the increase of significance regarding uncertainty coming from new phenomena occurrence and increasing volatility of the environment of the enterprise is also emphasized. The determination of possibility and probability of their occurrence is very often simply impossible as these are phenomena not appearing up to that point and therefore unknown. Because of the above, the area of uncertainty is increasing significantly. Consequently, there are postulates of spreading the term 'uncertainty management' or even replacing 'risk management' with 'uncertainty management' [19]. This is also supported to a certain degree by a subjective ascription of probability to the particular sources of risk. This probability does most often stem from predictions based on the historical data or expert's forecasts. An objective determination of this probability would require knowledge of the future which, as it is known, is impossible. Nevertheless, it has to be emphasized that a precise value of probability of occurrence of a given risk factor is not always a result of risk assessment, sometimes it is enough to state that appearance of such factor is possible which causes the likelihood of its occurrence to be in the range between 0 and 1 [20]. Such approach makes it possible to keep the term of risk management related to an identifiable probabilistic (*ex post* or *ex ante*) phenomenon, while managing uncertainty is deemed to be infeasible, due to a lack of knowledge of the management subject. It is also worth noting that the correct identification of risk in the activity of the enterprise decreases the area of uncertainty and makes it possible to proceed with further stages of risk management [21] that is: assessment, acting in the area of risk and risk control [22].

Apart from the offensive trend of understanding risk presented above, the psychological trend also fits the contemporary paradigm of managing enterprise. In this trend the way of making decisions, and therefore risk accompanying, is also influenced by psychological parameters of the decision-makers, in particular by their inclination for taking risk. This is supported by emphasizing the role of human resources as well as psychological and sociological aspects related to this resource, present in the contemporary management. By treating the employees as carriers of knowledge and skills and by decreasing the distance between them and managers, their empowerment and significance for the enterprise is being emphasized [23]. However, it has to be noted that the change in the approach to human resources and strong psychological approach to

the decisions made one could observe other, unidentified or up to this moment less significant, sources of risk. These resources, as well as the decisions made by them or with their participation would require more attention in the process of risk management in the enterprise.

5. SUMMARY

The circumstances presented above allow one to state that risk and risk management are still issues that are up to date and important in the new paradigm of management sciences [24]. However, changes occurring in the environment of contemporary enterprise imply the need for seeking new methods of risk management adapted to the current conditions of functioning of enterprises and therefore, to the modified paradigm of management sciences. Further directions of research should include or intensify considerations about:

1. holistic perception of risk in the enterprise, making it possible to examine all of its sources and their influence on sustainable development of the enterprise,
2. individualized approach to managing risk, assuming that there is no one optimal solution for risk management,
3. taking into consideration managing risk of the added value created in the enterprise thanks to sustainable engagement of material and immaterial resources,
4. identification and assessment of new sources of risk related to unknown phenomena and processes appearing in the external and internal environment of the enterprise,
5. risk management in relation to immaterial resources, particularly to human resources in the new paradigm of management sciences,
6. taking into consideration social, psychological and environmental aspects in risk management in the enterprise,
7. risk management in organizations different from enterprises,
8. risk management in network organizations.

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