

The role of the organization's leadership in risk management according to norm ISO 31000:2018

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Abstract: The main aim of the article is to determine the role of leadership in risk management in the organization in accordance with the ISO 31000:2018. An additional goal of the article is to make an attempt to identify the risk factors occurring in business activities and to create management styles that take into account their existence.

The study shows that some various factors of a political, economic and social nature might be the source of risk. These factors create both opportunities and threats for the organization. It turns out that the normative approach to risk means the existence of two levels of supervision in risk management. There is a structural supervision implemented in relation to the organization's policy and strategy. There is also a task supervision, carried out in particular in relation to the level of operational activity. The research shows that according to the ISO 31000:2018 standard, management, regardless of the type of supervision exercised, is an element of the risk management framework and the principles of risk management are the basis of management's operations. The provision of resources and documenting risk management are the most important management tasks related to risk management.

Key words: organizational management, top management, risk management, quality, ISO standards

1. Introduction

In practical management, more and more attention is devoted to methods and tools enabling the organization to gain a competitive advantage. Acquiring a competitive advantage is usually possible when in a given company actions are done earlier than in competition. This is often associated with unconventional decision making. Sometimes this means making decisions based on unconventional premises. This behavior is associated with risk. Therefore, leaders who want to gain a competitive advantage consciously include risk in their decisions.

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The main goal of the article is to determine the role of management in risk management in the organization in accordance with ISO 31000:2018. The additional goal of the article is to make an attempt to identify risk factors present in business operations. The article also deals with the topic of developing warning systems in the organization. The study touches as well on the problem of shaping managerial leadership styles in the face of changes. It should be noted that in managing an organization, the risk aspect is often treated without due attention. Often unproven practices are used. Such activities usually do not allow full protection of the organization against the effects of risk.

This article is of a review and research nature. The semantics of risk-related concepts are examined based on selected literature sources. In turn, the content of the normative act was analyzed. Based on the analysis and based on the result of observation of the business activity market, conclusions are formulated.

2. Sources of uncertainty in the environment of the organization and their impact on the implementation of processes—selected preliminary concepts

In economic reality, there is no clear definition of risk. Often, the concept of risk is related to the fact that enterprises operate in a changing environment and are exposed to unpredictable factors that affect the effects of their activities. Most terms associated with defining risk relate to the relationship between uncertainty, its timing and objectives. In a significant number of risk opinions, risk is a quantified uncertainty (Emblemsvag and Kjolstad, 2002). According to Zachorowska (2013), uncertainty means the occurrence of specific, unknown effects. Uncertainty means the inability to achieve the intended goal. In the ISO 31000:2018 standard, which is the basis of the article, risk is defined as the impact of non-compliance on goals. At the same time, both the nature of the impact and the type of purpose are not limited. This definition also shows that the effect of this impact can be both positive and negative. Both effects of risk may occur at the same time. Circumstances for the existence of unpredictable effects may be: inside the organization, in the immediate environment of the organization and outside the organization in the so-called distant surroundings.

An overview of the causes of unforeseen phenomena is presented in Table 1. The division includes factors that are inside the organization and in the immediate environment.

Table 1. Overview of unpredictable factors affecting the functioning of the organization

Direct (closer) surroundings of the organization	Internal conditions of the functioning of the organization
<ol style="list-style-type: none"> 1. Conduct of ownership organs 2. Conduct of contractors 3. The organization's position on the local market 4. Social impact 	<ol style="list-style-type: none"> 1. Type of organization structure 2. The nature of operating activities 3. Property structure 4. Construction and architectural solutions

Source: Ząbek, 2013, p. 85.

The data presented in Table 1 shows that in the environment of the organization the occurrence of risk depends on the owners and contractors. Concluding poorly prepared contracts or using suppliers based on faulty criteria is a set of risk-stimulating factors. Bad asset structure and incorrect decision-making procedures increase the likelihood of unpredictable phenomena.

As mentioned earlier, also the further environment of the organization is a place where the unpredictable circumstances for the organization occur. This is because in this environment, interdependent factors related to the occurrence of economic crisis are activated. According to Kołodko (2010), there are at least five major sources of crisis and risk that affect the functioning of the organization. These are:

- recession spread from trading partners;
- global financial flows and capital transfers;
- currency crisis;
- migration;
- expectations.

Table 2 contains elements of economic reality in which threats to the stability of the managed organization arise. These factors are found in the further environment of the organization.

Table 2. The review of selected determinants of the business market broken down by the level of stability of conditions

Selected determinants of the economic market	Characteristics in conditions of stabilization	Characteristics in variable conditions
Economic cycle	Predictable	Unidentified
Economic growth	Specified (average every 7 years)	Unpredictable
Recession	Defined (average every 10 months)	Irregular phenomenon
Consumer preferences	Evolving in a uniform and predictable way	Containing elements of a sense of danger
Consumer awareness of purchasing rights	Constant	Evolving hesitantly towards a claim attitude
Economic policy	Predictable	Unpredictable
Implementing new technologies	Stable and uniformly evolving	Chaotic

S o u r c e: Author's own elaboration based on Kotler and Castione, 2009.

Table 1 and Table 2 show that there is a zone of unpredictable factors constantly affecting organizations within the functioning of enterprises. These factors depend on the complexity of the organization's environment. Factors determine decision-making processes. It should be emphasized that management is effective when no risk-based circumstances are ignored during the decision.

In the literature on management and finance, the concept of risk is treated as one of the most important in economic sciences (Jajuga, 2007). At the beginning of defining the relationship between uncertainty and decision-making, the financial and investment area were

considered. In other words, the phenomenon of risk was clearly related to the uncertainty of the capital management result (Nowak, 2010). The aforementioned uncertainty as to the result of capital management lay at the root of the Dźwigoł view (2011). He considered it necessary to have a system in the organization that triggers decision-making corrections (the so-called warning system). The consequence of introducing corrections is obtaining a risk of known nature and recognizable value (Buk, 2006).

The occurrence of uncertainty means disrupting the organization's ability to achieve its goals. Under changing operating conditions, this ability depends on the organization's adaptability. Uncertainty may affect the financial result. It can also affect product development and offer diversification in a timely manner. In other circumstances, uncertainty determines the pace of business expansion or other similar ventures. The consequences of the lack of corrective impact on risk are presented in Table 3. They have been presented in terms of factors conditioning decision making.

Table 3. The impact of uncertainty on the implementation of processes in the organization

Level of processes carried out in the organization	Areas of potential effects of uncertainty in the course of individual processes
Operational processes	<ul style="list-style-type: none"> – Business continuity – The importance of the product on the market – Environmental impact – Implementation of operational goals
Supervisory processes	<ul style="list-style-type: none"> – Transposing strategic goals to operational level – Image of the organization – Structure of staff roles and responsibilities
Auxiliary processes	<ul style="list-style-type: none"> – Selection of contractors – Management of material assets – Migration of employees – Shaping systems for updating knowledge and skills at every level of the organization – Selection of data for analysis

Source: Author's own elaboration based on Stasiuk-Piekarska and Koliński, 2015.

Table 3 identifies three levels of decision-making: managerial, operational and supportive. It should be noted that the presented catalogue of uncertainty does not contain all possibilities. This means that prediction of specific results by decision makers of individual processes is difficult. The excessive level of uncertainty before decision-making bodies means the inability to predict the effects of decisions and the inability to estimate the effects of events occurring in the environment (Jędralska, 2010). At this point, it should be clearly noticed that their essence is very often associated with the probability of accurate predictions of the future during making decisions (Bizon-Górecka, 2002). In the reality of unpredictable events identified in such a way, one of the solutions is to use tools that allow taking into account existing risks. Their selection depends on the specifics of the organization and its size (White and Fortune, 2002; Bryde, 2003). An important remedy in such a situation is the ability to adapt the organization to changes occurring in its environment and the ability to capture signals that imply taking specific pre-emptive actions (Kozakiewicz, 2008).

3. Leadership in risk management—practical task schedule in the light of ISO 31000:2018

In the marketing literature, there are many views on the role of management in risk management. In Kaczmarek's opinion (2010), the risk in the organization is managed by a person examining and analyzing the probability of accidental damage that may affect a given company. According to Kaczmarek, the task of this person is to develop a system enabling the identification of a given risk and minimizing it. In turn, according to Jedynek and Szydło (1997), conscious risk management means employing a risk manager in the organization. The risk manager will accurately recognize the risk and provide relevant information for decision making. The manager's action will limit the possibility of failure and will enable the determination of the likely result.

It is increasingly recognized that the optimal determination of the role of management in risk management and defining management tasks is possible through a systemic approach. Anyway, this idea is consistent with the view that a particular department or unit should be devoted to risk management in the organization. In Kendall's opinion (2000), a Risk Management Board should be established in the organization. The board's responsibilities should be strictly defined, unchanged and focused on risk management. It should be noted that the essence of the functioning of this council in Kendall's intention should only apply to those areas of the organization's operation that relate to risk management. On the other hand, according to other views, all problems related to risk in the organization are addressed directly to the president of the management board of the organization (Pikett, 2006). According to this theory, the president of the board owns all risk management processes implemented in the organization. Other members of the management have supportive functions in relation to risk in accordance with the defined powers and competences. According to Pikett, senior executives perform an auxiliary role in four groups:

- analysts—dealing with the analysis of individual types of risk and assessment of the size of potential threats;
- regulators—dealing with the development of procedures used in the process;
- methodologists—examining the effectiveness of the tools used in the process;
- department managers—dealing with the entire entity's risk assessment.

However, the most optimal solution in terms of sanctioning management's attitude towards risk occurring during organization management is presented in the ISO 31000 standard published in 2018.

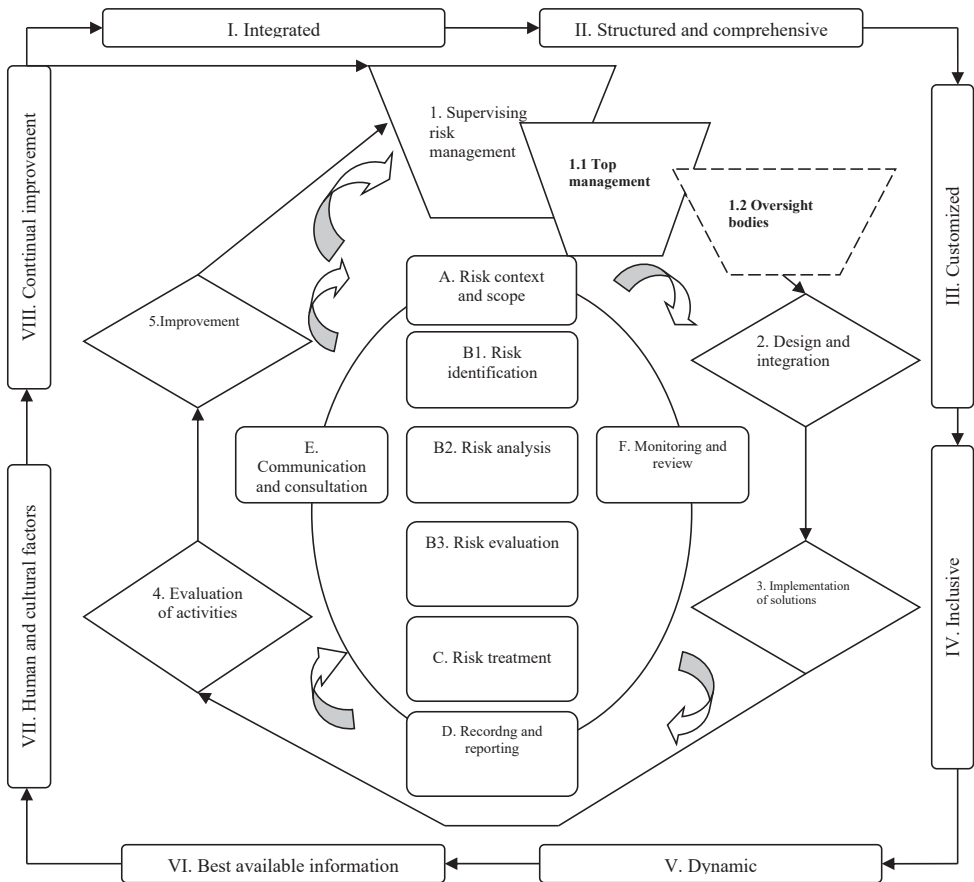


Figure 1. Ideogram of risk management according to ISO 31000:2018

Source: Author’s own elaboration based on ISO 31000:2018.

Figure 1 presents the ideogram of risk management implemented in accordance with ISO 31000:2018. The ideogram presented shows the existence of three dynamic spaces for conscious risk treatment in the organization. The first area shows the principles of risk management, which are marked with Roman numerals in the figure. The rules reflect premises that are taken into account when managing an organization keeping risk in mind. The second area for shaping a conscious understanding of risk is the risk management framework. The standard defines the term *framework structure*. Elements of the frame structure have been marked in the drawing with Arabic numerals. The layout of individual elements of the frame structure is presented in the drawing in the appropriate order. This is the order in which individual actions regarding the risk are activated.

Management relevant to risk management belongs to its management framework. According to ISO 31000:2018, supervision plays an important role in management regarding risk. Supervision makes top management as a basic statutory/ organizational body. Oversight bod-

ies support the supervision of risk management. The analysis shows that the repetitive cyclicity including planning, implementation, evaluation and improvement clearly refers to the essence of the Deming cycle. This feature of the framework structure results in the constant adaptation of its elements to the changing conditions of the organization's operations referred to in point 2. In turn, capital letters in Figure 1 identify the individual stages of risk management.

There is a clear division of roles and tasks for the two management groups identified. The essence of the demarcation of these roles is presented in Table 4. The data presented in Table 4 shows that the top management is responsible for the functioning of the entire organization. In the context of risk occurrence, this is related to the responsibility for the organization's accomplished goals. In addition, Table 4 shows that a lot of tasks in relation to risk can be assigned to either the body appointed to oversee the risk management of the so-called supervisory body or directly to top management. It turns out that adjusting elements of the framework structure, developing policies for implementing risk management, and allocating resources can be under the responsibility of both top management and oversight bodies. Similarly, performing risk management reviews and documenting risk management is an area of top management or oversight bodies.

Table 4. The structure of management tasks in relation to risk management (based on ISO 31000:2018)

Management group supervising risk management	List of tasks assigned to be performed by top management
Top management	Strategy and supervision level: – Responsibility for overall risk management in the organization and its effects from the point of view of the plant's objectives – Appointment of oversight bodies
Top management or oversight bodies	Strategy and supervision level: – Constant customization of individual elements of the frame structure – Developing and implementing risk management policies Operational level: – Commitment to risk management – Assign roles and responsibilities – Provision of resources – Carrying out measurements and documenting risk management – Reviewing the risk management system and continuous improvement
Oversight bodies	Operational level: – Ensuring adequate communication in the field of risk management – Determining risk management at an operational level in relation to the organization's goals – Ensuring effective functioning of individual elements of the risk management system – Ensuring the adequacy of the risk management approach used in the context of the (variable) operating conditions of the organization

Source: Authors' own elaboration based on ISO 31000:2018 Risk Management—Guidelines, Williams et al., 2006.

The management's schedule of tasks presented in Table 4 shows that the existence of oversight bodies is an important management representative in the area of selected risk management tasks at the operational level. The oversight bodies are responsible for communicating the effects of risk management in the organization. The oversight bodies are also responsible for applying adequate risk management solutions and correlating operational objectives with the organization's objectives, taking into account risk existence.

Nevertheless, the observation of the business market and the analysis of the ISO 31000:2018 standard show that the existence of the oversight bodies depends on many factors of the organization's functioning. In particular, it has to do with the external and internal context of the organization's functioning. For this reason, in the ideogram shown in Figure 1, this body becomes a dashed line. In the case of organizations in which the oversight bodies have not been appointed, the tasks referred to Table 4 are carried out directly by top management.

4. Summary and conclusions

The study shows that risk is an important factor affecting the functioning of any organization. It should be recalled that a variety of political, economic and social factors are the source of risk. They create opportunities and threats for the organization. In decision-making priorities, prevention of the negative effects of risk usually has priority over actions to take advantage of existing opportunities. The hierarchy demonstrated also applies to the treatment of categorized sources of risk that are in the environment of the organization. The area located in the closer surroundings of the organization or inside the organization is removed from risky sets by current organizational activities.

With regard to many elements creating the uncertainty of the organization's functioning in its further environment, the effects of this "independence" of the factors from the organization require a systematic approach to the problem of generated risk. Research shows that such systematicity guarantees compliance with the requirements of ISO 31000:2018. It turns out that the three-dimensional approach to risk enables comprehensive mapping of managed areas. It enables full protection of the organization against uncertain operating conditions affecting the achievement of its goals.

The paper demonstrates specific sanctioning of the role of leadership in the risk management system in the organization. To sum up, it should be stated that the standard provides for two-level supervision in risk management. These are:

- for structural supervision, implemented in relation to the organization's policy and strategy, performed by statutory/ organizational bodies, e.g. in the form of top management;
- task supervision, carried out in particular in relation to the level of operational activity, performed in the event of appointment by oversight bodies (purposeful) or in the absence of such bodies being established by statutory/ organizational bodies, e.g. in the form of top management.

Based on the research carried out, it should be stated that the normative approach to risk management according to ISO 31000:2018 in any organization situates management in the following formula of activity:

- leadership, regardless of the type of supervision exercised, is part of the risk management framework structure;
- risk management principles are important factors in undertaking tasks by leadership;
- providing resources, including identifying responsible people with responsibility assignments, are the basic leadership tasks occurring at the operational level of each organization, regardless of the industry represented and the size of the organization;
- existing responsibility for documenting risk management and ensuring relevance to changing circumstances as a result of improvement.

The introduced risk management standard sanctions a specific formula of implemented leadership in an organization. At all levels of the organization, the role of leadership is defined; the adequacy of these attachments in relation to the circumstances is ensured. This is valuable because the management's activity that determines the effectiveness of management is achieved as a result of awareness of the issues without additional expenditure.

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Rola kierownictwa organizacji w zarządzaniu ryzykiem zgodnie z normą ISO 31000:2018

Abstrakt: Celem głównym artykułu jest określenie roli kierownictwa w zarządzaniu ryzykiem w organizacji zgodnie z normą ISO 31000:2018. Dodatkowym celem artykułu jest próba identyfikacji czynników ryzykogennych występujących w działalności gospodarczej i kreowania stylów zarządzania uwzględniających ich istnienie.

W pracy wykazano, że źródłem ryzyka są różnorodne czynniki o charakterze politycznym, gospodarczym i społecznym stwarzające dla organizacji zarówno szanse, jak i zagrożenia. Z przeprowadzonych rozważań wynika, że w normatywnym podejściu do ryzyka

przewiduje się dwupoziomowy nadzór w zarządzaniu ryzykiem. Jest to nadzór strukturalny, realizowany w stosunku do polityki i strategii organizacji, oraz nadzór zadaniowy, realizowany w szczególności w stosunku do poziomu działalności operacyjnej. Z badań wynika, że według normy ISO 31000:2018 kierownictwo, niezależnie od rodzaju sprawowanego nadzoru, jest elementem struktury ramowej zarządzania ryzykiem, a istotnymi czynnikami podejmowania zadań przez kierownictwo są zasady zarządzania ryzykiem. W obszarze najważniejszych zadań kierownictwa związanych z zarządzaniem ryzykiem znajdują się zapewnienie zasobów oraz dokumentowanie zarządzania ryzykiem.

Słowa kluczowe: zarządzanie organizacją, najwyższe kierownictwo, zarządzanie ryzykiem, jakość, normy ISO