Ryszard Nowak

PhD, Institute of Public Admnistration and Business,
Faculty of Administration and Social Sciences,
University of Economics and Innovation in Lublin (Lublin, Poland)
** Corresponding author: e-mail: ryszard.nowak@wsei.lublin.pl*
ORCID: orcid.org/0000-0003-3426-6483

ENTERPRISE RISK MANAGEMENT IN THE POLISH ECONOMIC SYSTEM (SELECTED PROBLEMS)

ZARZĄDZANIE RYZYKIEM ORGANIZACYJNYM W POLSKIM SYSTEMIE EKONOMICZNYM (WYBRANE PROBLEMY)

Abstract

Risk is an inherent phenomenon associated with all forms of economic and social activity of people, both at the level of individual and organizational decisions. The degree of complexity and internationalization of economic processes, and consequently the internationalization of decision-making processes in the turbulent environment of the organization results with an increased risk of actions undertaken and difficulties in efficiently identifying various threats. A contemporary approach to risk management referred to as integrated risk management (ERM - Enterprise Risk Management). It focuses on integrating risk management with existing processes in the organization and determining future events that may have a positive or negative impact on the business. Integrated risk management defining the structure and scope of process management along with setting standards for assessing the effectiveness and efficiency of implemented activities in all levels of the organization and selecting the best solutions that increase these values.
Keywords: *risk, risk management, company economics, ERM*

Streszczenie

Ryzyko jest zjawiskiem nierozłącznie związanym z wszelkimi formami aktywności gospodarczej i społecznej człowieka, zarówno na poziomie decyzji indywidualnych, jak i organizacyjnych. Stopnień skomplikowania i umiędzynarodowienia procesów gospodarczych, a w konsekwencji internacjonalizacja procesów decyzyjnych w turbulentnym otoczeniu organizacji przekłada się na rosnące ryzyko podejmowanych działań i trudności w sprawnym identyfikowaniu różnorodnych zagrożeń. Współczesne podejście do zarządzania ryzykiem określane mianem zintegrowanego zarządzania ryzykiem (ERM - Enterprise Risk Management). Skupia się na integracji zarządzania ryzykiem z istniejącymi w organizacji procesami i określaniu przyszłych zdarzeń, które mogą pozytywnie bądź negatywnie oddziaływać na prowadzoną działalność. Zintegrowane zarządzanie ryzykiem określenie

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska

This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
International Journal of New Economics and Social Sciences, 1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

struktury i zakresu zarządzania procesami wraz z wyznaczeniem standardów oceny skuteczności i efektywności realizowanych działań we wszystkich poziomach organizacji i wyboru najlepszych rozwiązań powodujących wzrost tych wartości.
Słowa kluczowe: *ryzyko, zarządzanie ryzykiem, ekonomika firmy, ERM*

Article history: Received: 28.04.2019 / **Accepted:** 21.06.2019 / **Published:** 30.06.2019
JEL Classification: E 620, E 690

Statement of the problem in general outlook and its connection with important scientific and practical tasks.

Colloquially, the term "risk" is used when considering: unfortunate accidents, unforeseen events, the possibility of incurring a loss and the possibility that the obtained result will be different than expected. The terms "risk" and "uncertainty" often appear together or are even identified with each other, but they do not mean the same. The term "uncertainty" is defined as a state in which the possible future alternatives and chances of their occurrence are unknown. By contrast, the term "risk" is used when the result achieved in the future is admittedly unknown, but it is possible to identify its future alternatives, or the chances of these possible alternatives are known. Uncertainty, unlike risk, concerns changes that are difficult to estimate, or events which probability, due to the small amount of information available, cannot be estimated. Despite the fact that risk and uncertainty are defined differently in the majority of financial professional literature, both terms are identified and used interchangeably. Risk is an inherent phenomenon associated with all forms of economic and social activity of people, both at the level of individual and organizational decisions. The degree of complexity and internationalization of economic processes, and consequently the internationalization of decision-making processes in the turbulent environment of the organization translates into an increased risk of actions undertaken and difficulties in efficiently identifying various threats. The total risk, depending on the division criterion adopted, can be divided into systematic and specific risk, pure risk and speculative risk as well as financial and non-financial risk. Risk management is the identification, measurement, and control of risk in order to limit it as much as possible and to protect it against its consequences. The subject can adopt an active or passive attitude in this regard. The passive attitude consists of passively bearing the risk, without attempting to eliminate it or limit it. It may result from being unaware of the risk, inability to estimate its size or lack of knowledge of security techniques. A variation of the passive attitude may be the creation of reserve funds to offset the impact of potential losses by institutional investors. On the other hand, an active attitude consists undertaking by the entity such activities that may eliminate or limit the losses that could arise from the outcome of transactions (Crouhy M., 2014; Demidenko E., Sidorenko A., 2019). An important element in risk management is the ability to assess risk in the company's operations. Financial indicators only create an image of the organization's effectiveness - which - to effectively manage risk, is forced to constantly control and monitor the effectiveness of risk-taking. One of the necessary conditions of a rationally functioning organization is employing an auditor who confirms the credibility of

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska
This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
*International Journal of New Economics and Social Sciences,*1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

the financial statements. It helps the organization achieve its goals and improve the effectiveness of risk management processes. The complexity of procedures, external and internal changes, as a result of which uncertainty as to future events and the effects of actions taken, accompany every economic entity, regardless of its organization, type of ownership, country of origin. The key to the relative control over the processes taking place in an organization is the awareness of the possibility of an event causing damage. The catalog of risks depends on the industry, the size of the organization, the level of consciousness is associated with uncertainty, which should be properly managed. When analyzing management activities in any given entity, one thing is certain - managers collide every day with the issue of risk management. But are they always doing it consciously? Are their decisions analyzed through the prism of a unified management system? Are individual events within the organization, in a given environment and time perceived as sources of risk affecting other mechanisms? Risk management is a key issue for all organizations, both in the public and private sectors. This process is the result of a debate about the organizational order that has been taking place especially over the last decade. Recent failures by companies and organizations in the public and private sectors around the world have drawn the organization's attention to the need for effective risk identification and management. However, being aware of the need for better risk management does not automatically mean better risk management. Many public and private sector organizations regularly perform risk management activities on an annual basis for the needs of regulators or irregularly, independently of other activities. Unfortunately, none of the above methods makes it possible to achieve goals and is not consistent with the idea and sense of the concept of corporate governance, while both of them have contributed to the failures of companies and organizations (Free risk management book: guide to effective risk management 3.0& Lam J., 2014 & Jajuga K., 2008).

The concept of risk is perceived through the prism of the category of uncertainty, which is mainly opposed to the concept of certainty. It can be said that any situation that cannot be said in terms of certainty is an uncertain situation. The term "uncertainty" is defined as a state in which possible future alternatives and chances for their occurrence are unknown (e.g. the result of research on time or space, implementation of new inventions). The following forms of uncertainty are distinguished:

• Individual - may result from the lack of full guarantee of the means necessary to achieve the goals, reluctance to act and dependent behaviors, preferred by specific groups and communities, and the inability to predict the effects of the choices made and actions taken.

• Social - is associated with the individual's lack of knowledge about how to behave in a socially desirable and acceptable way. Social uncertainty is the result of a limited feeling of being able to make choices related to meeting needs and achieving social goals.

• Organizational - involves elements of psychological and social uncertainty, type of behavior, problems, situations, resources, and information. Organizational uncertainty is the state of an organization in which there are discrepancies between:

- information necessary to make a decision, and information available to decision-makers;
- an assessment of the effectiveness of actions taken as a result of decision makers'

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska
This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
International Journal of New Economics and Social Sciences, 1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

decisions, and an external evaluation of these activities;
- the risk of acting in accordance with the regulations and the organization's activities that are acceptable in practice;
- the theoretical influence of decision-makers (in accordance with the rules and system rules) on the functioning of the organization and their practical impact.
• Random - occurs in economic institutions in which the results of operations are strongly dependent on natural conditions (e.g. agriculture, transport, communication, and construction).
• Development - caused by technical and organizational innovations, i.e. technical and organizational progress (in the long run it is impossible to predict what innovations will take place and what their consequences will be).
• Market - originates in unpredictable changes in market parameters (prices, wages, interest rates, demand, supply, etc.) and the phases of the business cycle.
All economic entities operate in conditions of uncertainty (the longer the time horizon, the greater uncertainty), and therefore the challenge for management is to determine the level of uncertainty that the organization is willing to take in increasing its value. Uncertainty is an inseparable element of risk, as well as a stimulant of new opportunities, and has the potential to destroy or increase the value of the organization. Value is created, maintained or diminished due to management decisions in all areas, starting with establishing a strategy, through daily current (operational) tasks. The value increases if the optimal balance between growth and assumed profits and the risk is achieved, and the management uses the resources usefully and efficiently to meet the organization's assumed goals. It is necessary to analyze risk and potential opportunities in making all decisions, which includes information about the internal and external environment, ways to implement valuable resources, as well as the flexibility of adaptation activities. Enterprises operate in conditions where factors such as globalization, technologies, restructuring, market changes, competition, and regulations cause permanent uncertainty. The result of uncertainty is the inability to accurately determine the probability of an event and its possible effects. Uncertainty as opposed to risk concerns changes that are difficult to estimate, or events whose probability, due to the small amount of information available, cannot be estimated (Kaczmarek T.T., 2010; Matkowski P., 2006; Hickson D.J., Pugh D. 2003).

Aims of paper. Methods

Social sciences use typical methods encountered on the basis of social sciences and humanities, i.e. research on documents, comparative methods (expert opinions, legal opinions, analyzes resulting from linguistic, grammatical and historical interpretations) and case studies. The results of cognitive research are new theorems or theories. On the other hand, the results of research for the needs of business practice are to determine whether and if the existing theorems and theories regarding risk management are useful for solving specific economic problems in the activities of business organizations. Induction was used as the main research method. It consists in deriving general conclusions or establishing regularity based on the analysis of empirically identified phenomena and processes. This is a type of inference based on details about the general properties of the phenomenon or object. The use of this method requires the assumption that only facts can form the

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska

This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
International Journal of New Economics and Social Sciences, 1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

basis for scientific inference. These facts are real situations (economic and legal). Inductive methods include various types of legal acts, analyzes, expert opinions and scientific documents used in social research. The aim of the article is to present an innovative framework for risk management. The scheme proposed below dedicated to various organizations not only defines the risk and management of corporate risk but also contains basic definitions, concepts, categories of objectives, components, and principles assimilating the concept of broadly understood corporate risk management. Many of the presented aspects of the new view on risk management coexist in the whole organization and codepend on each other, so it is impossible to omit them in the preparation or subsequent verification of goals, achieved effects and accompanying procedures.

Analysis of latest research where the solution of the problem was initiated.

There are many different risk classifications in the subject literature, which are very useful from a practical point of view because they help to answer the question of how and when the risk is revealed.

The most general division of risk is distinguished by (Jajuga K., 2008; Lam J., 2003; Pritchard C.L., 2002):

• specific risk - related to the law of large numbers, refers to catastrophic events (random events, disasters, fires, floods, etc.);

• subjective risk - associated with the "defectiveness" of a person who subjectively assesses the probability of certain phenomena in the future (predicting decision makers in the company);

• objective risk - an absolute form of uncertainty related to the lack of predicting the development of certain phenomena (unpredictable events).

The division of risk is possible from the point of view of various classification criteria. All these criteria can be considered in three dimensions:

1. Subject, which allows the separation of those types of risk that depend on the course of the decision-making processes of the risk takers.
2. Subject, distinguishing types of risks related to the subject of activity of risk takers.
3. Attribute, under which the risks are distinguished on the basis of the reason for the risk subject.

Another risk classification can distinguish two types of risk related to the company's functioning:

1. Permanent risk - concerning the entire economic system (war, economic crises, hyperinflation, etc.).
2. Variable risk - regarding a specific organization (e.g. lawsuits, strikes, etc.)

Another classification refers to the risk directly related to decisions regarding the development of the enterprise:

1. Project risk - related to the technical conditions of its implementation (e.g. technology tested in experimental conditions did not prove to be effective on an industrial scale).
2. Company risk - resulting from an erroneous assessment of future market conditions, incorrect calculation of manufacturing costs, or an overstated forecast of sales of new products.
3. Owners' risk - resulting from the lack of showing the interest of the owners in diversifying the directions of the company's development (its products), which allows minimizing the threats of cyclical economic development.

From the point of view of the criterion of the effect, it stands out:

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska
This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
International Journal of New Economics and Social Sciences, 1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

1. Systematic risk (market risk) - determined by external forces not subject to control by the organization. This type of risk cannot be eliminated by the investor, and its main sources are changes in interest rates, inflation, tax regulations or the political and economic situation.
2. Specific risk (unsystematic, internal) - can be controlled by organizations through actions undertaken by the recruiting staff. The reasons for this risk are found in the improper management of the company or competition.

Another criterion according to which the risk can be classified is the criterion of time horizon. It divides the risk into (Solarz J.K., 2008; KPMG 2011; ISO 2009):
1. Operational risk - short-term risk related to the entity's operations.
2. Strategic risk - which is a long-term risk related to making long-term decisions.

Two further types of risks are distinguished: the risk of choice and the risk of necessity. The first is also referred to as motivated risk and as a non-motivated risk. The risk of choice is when an enterprise makes the determined decisions as a result of a conscious and voluntary way of actions resulting from the analysis of the advantage of a given variant. It concerns the choice of production technology, investment directions and the introduction of new products to the market. The company takes the risk out of choice, actively seeking new development opportunities, both in the company itself and in its environment.

The risk is necessary when the decisions it concerns are made and executed to ensure the survival of the enterprise. The undertaking taking the risk out of necessity operates under the conditions determined by objective factors (e.g. natural conditions) or organizational and structural interdependencies (e.g. high organizational hierarchy). The risk classification can also be made on the basis of progress, uncertainty and insurance criteria. The risk criterion for progress includes not only the changing environment but also the impact of scientific and technical progress as a risk factor. The appearance of the uncertainty criterion is connected with the lack of the possibility to determine the place and time of risk occurrence. On the other hand, the insurance criterion, closely related to insurance practice, distinguishes personal and property risks. In insurance, the risk refers to undetermined future situations and events that may lead to losses. For an insurance premium, the risk is transferred to the insurance company, and the insurance cost is distributed to all insurance companies. Another classification of risk is a classification based on the source of risk criterion. According to this criterion, we divide the risk into external and internal risk.
1. External risk - is a risk independent of the enterprise. External risk includes natural hazards (e.g. floods), political risk, lack of financial liquidity of suppliers and recipients, and threats occurring in the near and distant surroundings of the enterprise.
2. Internal risk - is related to the functioning of the enterprise. We can distinguish the risk of fire, theft, machine breakdowns, electric damage of bad managerial decisions, accidents at work, etc.

In the financial area we distinguish risks:
• exchange rate - it can be defined as the danger of deterioration of the financial situation of the bank and other business entities due to an unfavorable change in the exchange rate. The currency risk is related to the profit from securities or bank deposits denominated in a currency other than the investor. Exchange rate risk is the burden of enterprises that conduct an international exchange of goods and services, especially in the case of transactions financed with loans. On the other hand, currency exchange risk

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska
This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
*International Journal of New Economics and Social Sciences,*1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

includes foreign exchange inventories as well as currency liabilities and receivables that will be converted into other currencies in the future. We divide these types of risks into:
a) economic risk of a change in the exchange rate - it informs that shifting the exchange rate change may permanently affect the competitiveness of the company and its value.
b) foreign exchange risk - this applies in particular to transnational companies operating on international markets, whose assets are located in many countries and is located in various currency areas.
c) interest rate risk - is considered to be equal to exchange rate risk. The risk of changing interest rates generates the risk of price changes. This type of risk can be expressed as the sensitivity of individual components of the balance sheet, income received and own funds to changes in interest rates.
• Credit risk.
• Financial risk - related to the risk of operations of financial institutions, companies, and private investors. It takes into account unexpected changes in cash flows resulting from activity on financial markets or operating activities. The financial risk is based on making financial decisions regarding the methods of financing business operations. The financial risk is borne by entrepreneurs using debt financing, because financing a company with indebtedness may adversely affect the ratio of equity to the size of the debt. This type of uncertainty also affects the possibility of not covering financial costs (interest on loans and credits) and the lack of funds necessary to pay the debt. Borrowing leads to additional dangers related to interest rate fluctuations. The measure of financial risk is the amount of net profit per share. Financial risk has a huge impact on the company's results in a short time, and in the long-term decides about the increase or decrease of the market value of the entity and its development (Solarz J. K., 2008; Lam J., 2003; Lam J., 2014).
• HR risk - is the most sensitive type of risk. It must be the subject of concern for the owners and management of the organization, both during the selection phase and during the period of employment.
The risk problem is most widely associated with commercial activities. There is strong market competition in the trading activity, which means the possibility of incurring a quick and financially damaging loss and the risk of bankruptcy and elimination from the market. The functionality of the market is the dominant factor in commercial activity. The definition of commercial risk is also wider than market risk because it also includes:
• Risk related to the creation and implementation of technical, organizational and financial innovations in commercial activities.
• Risk related to the process of moving goods.
• Risk related to the loss of goods in the results of commercial operations.
Trading risk can be divided into:
1. Operational risk, which includes risks related to the operating profit. It is also known as the risk of incurring losses due to inefficient systems, insufficient control, human error or inadequate management. Operational risk is related to using resources (operational aspect), reliability of information (the aspect of reporting), and compliance with requirements (compliance aspect).
2. Financial risk means the possibility of unpredictable events, independent of the entity, related to, among others:
- concluded commercial transactions (transaction risk),

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska
This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
International Journal of New Economics and Social Sciences, 1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

- changes in the company's market environment (market risk),
- goods or products sold by the entity (commodity risk),
- the economic and political activity of the countries in which the enterprise operates (country risk).

These are risks that the company cannot fully prevent, and which, in turn, by increasing operating costs or causing losses negatively affect the financial position of the company. From the point of view of the commercial activity of enterprises, the best understanding of financial risk seems to be in the proposed way. The risk arises when the decision maker is not able to predict with full confidence future events, but he knows not only the various results of the decision made but also the dangers associated with each of the risk factors. The goal of any entity, whether profit-making or non-profit or a governmental body, is to bring benefits to its stakeholders. This basic assumption of the company's activity consists in increasing or in a slightly less optimistic version of allowing its own value to be maintained. Enterprises operate in conditions where factors such as globalization, technologies, restructuring, market changes, competition, and regulations cause uncertainty. Often this uncertainty also results from the strategic choices made by the organization. Therefore, the loss of the ability to precisely determine the probability of occurrence of certain events results in serious consequences. The body at the head of the company exercising power and control in the enterprise is the management board. Among many strategic tasks, the board appointed for action also undertakes challenges defining the level of uncertainty and therefore the risk that the organization is ready to adopt in the way of building its value. At the same time, management is responsible for the value of the company through its decisions in all areas, from strategy setting to daily current tasks. In connection with the above, taking risks applies to the entire crew of the company and its complicity in achieving the set goals. Goodwill increases as a result of the commitment of resources involving people, capital, technology, and brands if the benefit obtained are greater than the funds used. The value is maintained, among other things, by the high quality of the product, production capacity, and customer satisfaction, and decreases if the set goals are not achieved due to the wrong strategy or poor implementation. Without risk analysis and potential opportunities, it is difficult to make decisions that require taking into account information about the internal and external environment, the involvement of valuable resources and adaptation of activities to changing conditions. The value of the organization increases if the management builds the strategy and goals to achieve the optimal balance between growth and assumed profits, and the risk and effectively and efficiently use resources to achieve the organization's goals. Corporate risk management covers many important aspects, but management should primarily set a strategy and assess the level of probable and acceptable risk by specifying the so-called company's appetite for risk. Initially, this is done by evaluating strategic alternatives, and then goals and risk management mechanisms should be established. The innovative approach to corporate risk management presented in this paper explains that it constitutes a certain framework for identification and selection among various risk responses. Therefore, the decisions made should be enriched with appropriate responses to the risk. It is well known that better ability to predict potential events, assess risks and prepare reactions reduces surprises and operational losses and related

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska
This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
International Journal of New Economics and Social Sciences, 1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

costs or loss of repair schedules. In addition, companies should identify and manage individual types of risks that can occur throughout the enterprise. It should be understood as the fact that each company is exposed to thousands of risks related to all parts of the organization. Therefore, the management not only has to manage individual risks but also understand the associated effects. In the context of the company's mission, the management sets strategic goals that determine the strategy to be adopted at a later time. In the end, he puts them in a cascade before the entire organization. Some goals are specific for a given organization, others are common for a large group of enterprises. Certainly, common goals for all organizations are to achieve and maintaining a good reputation in the business world and among clients, presenting reliable reports to stakeholders and acting in accordance with laws and regulations. The framework structure proposed in this paper distinguishes four categories of organization goals, which include (Crouhy M., 2014; Demidenko E., Sidorenko A., 2019; Jajuga K., 2008):

• Strategic goals - connected with goals at the highest level, supporting the company's mission,
• Operational goals - related to effective and efficient use of the organization's resources,
• Reporting - referring to reliable reporting of the organization,
• Legal purposes - resulting from compliance by the organization with laws and regulations.

Such categorization of goals allows focusing on particular aspects of risk management. Clear, but overlapping categories meet the different needs of the enterprise and can be under the direct competence of different people. This division also allows us to distinguish between what can be expected from particular types of goals.

Some organizations apply one more category of "resource security" goals, also known as "asset protection". In a broad sense, this category refers to the prevention of loss of property or organization resources due to theft, wastage, poor performance or simply as a result of making wrong decisions, e.g. selling a product at too low a price, losing key employees, not respecting or infringing patent rights or creating unforeseen obligations . These are all operational objectives, although some aspects of hedging may also fall into other categories. If legal or regulatory requirements apply, they become compliance issues. In the context of public reporting, a narrower definition of asset protection is often used, preventing or quickly detecting unauthorized purchases, use or regulation of assets that could have a significant impact on the financial statements. Corporate risk management can provide a reasonable level of certainty of achieving the objectives regarding the reliability of reports, their compliance with laws and regulations. The organization has control over achieving these goals and depends on the quality of activities undertaken by the organization. However, achieving strategic goals, such as acquiring a specific market share and operational goals, such as launching a new product line on the market, is not always under the control of the company. Corporate risk management will not prevent misjudgment or bad decisions, or external events that may prevent the achievement of operational goals. However, it increases the likelihood that management will make the right decisions. For these purposes, managing corporate risk can provide a reasonable level of certainty that management and management in their supervisory role are informed in a timely manner about their progress in achieving their goals. Among the many issues that certainly have a significant impact

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska
This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
International Journal of New Economics and Social Sciences, 1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

on risk management, and in particular corporate, a number of interrelated elements have been selected. They result from the way the company is managed and are closely integrated with the management process. The most important of them are (Free risk management book: a guide to effective risk management 3.0.; Matkowski P., 2006; Monkiewicz J., Gąsiorkiewicz L., 2010):

• The internal environment, according to which the management sets the risk philosophy and the level of risk appetite. The internal environment is the basis for understanding the risks and controls and how people behave in the organization. The basis of every business is people and their individual characteristics, such as honesty, ethical values and competencies and the environment in which they operate.

• Setting goals. Goals must exist before the management identifies potential events affecting their achievement. Corporate risk management ensures that management has procedures to set goals that correlate with the mission and vision and match the level of risk allowed by the enterprise,

• Identification of events. The assumption of this risk element is that potential events that may affect the organization must be identified. Identification of events consists of determining potential internal and external events that affect the achievement of goals. It also includes a clear distinction between potential events that represent risk, opportunity or both. Chances that are the driving force of the process of creating and striving for a goal, which is why they are included in the management strategy and in the goal-setting process.

•Risk assessment. The identified risks are analyzed in order to take further steps. Risks are associated with goals that can be influenced and assessed in both internal and external categories. The assessment includes the likelihood of both the occurrence of the risk and its effects.

• Responding to the risk. In this element, employees identify and evaluate possible reactions to the occurrence of the risk, such as avoidance, acceptance, reduction, and sharing of risk. Management chooses a set of activities to link risk with its acceptable level and risk appetite.

• Control activities. The procedures are set and implemented in order to effectively implement the risk response determined by management.

• Information and communication. Relevant information is collected and transmitted in such a form and time frame to enable people to perform their duties. At every level of the organization, information is needed to identify, assess and respond to risk. Effective communication must also take place in a wider scope - down, through and up the organizational hierarchy. Employees must receive clear information about their role and responsibilities.

• Monitoring. The entire corporate risk management process must be monitored, if necessary, it should be modified. In this way, the dynamic response is possible, adapted to the situation. Monitoring is carried out through permanent management actions, independent assessments of corporate risk management or a combination of both.

Exposition of main material of research with complete substantiation of obtained scientific results. Discussion.

The basic objective of risk management is to improve financial results, and at the same time to ensure the conditions protecting the institution from incurring losses larger than

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska
This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
International Journal of New Economics and Social Sciences, 1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

assumed. Risk management involves identifying the types of risks that the company may face, its control and measurement. In practice, we can distinguish the following phases of activities in the risk management process: risk recognition, risk measurement, risk control, and risk communication. Risk management is a system of making optimal decisions to reduce the impact of risk on the functioning of an economic entity. Detailed recognition of the nature and scope of potential risk allows for efficient selection of tools and actions that reduce or reduce its impact on organizations or limit potential side effects. Corporate risk management is a process implemented by the government, management or other personnel of the company, included in the strategy and throughout the enterprise, the purpose of which is to identify potential events that may affect the company, keep risks within set limits, and ensure reasonable achievement of the company's goals. Corporate risk management includes such elements (stages) as (Free risk management book: a guide to effective risk management 3.0.; Matkowski P., 2006; Monkiewicz J., Gąsiorkiewicz L., 2010):

- Reconciliation of risk appetite and strategies - the management calculates the acceptable level of risk when assessing strategic alternatives and then setting objectives and implementing risk management mechanisms.
- Enhancing risk response decisions - we distinguish different forms of risk responses incorporate risk management: avoidance, limitation, transfer, and acceptance.
- Reduction of surprises and operational losses - the company obtains better ability to predict possible events, assess risk and prepare reactions to them, thus minimizing costly surprises and losses. For example, the implementation of specific repair schedules in a production company based on previous and diagnosed failures.
- Identification and management of many types of risk throughout the enterprise - there are various types of risks in the company that the company has to deal with. Therefore, the management task is not only to manage individual risks, but also to see related effects.
- An integrated response to many types of risk - corporate risk management enables the integration of business processes with many types of internal risk. For example, integrating the wholesaler system with the supplier system allows keeping up to date on inventory and sales, reducing the cost of excessive inventory.
- Exploiting opportunities - by considering the full range of possible events, not just the risk itself, the management can determine the opportunities. For example, thanks to the analysis of potential events, the company is able to recognize the previously emerging market trend and meet new requirements.
- Better use of capital - having certain risk information allows the board to effectively assess capital needs and to better allocate resources.

The above features are a coherent part of corporate risk management, supporting managers in achieving their goals and profits and avoiding losses. Risk management is a process (Crouhy M., 2014; Demidenko E., Sidorenko A., 2019; Jajuga K., 2008; Kaczmarek T.T., 2010; Matkowski P., 2006; Monkiewicz J., Gąsiorkiewicz L., 2010):

- Organizations and employees managed by the management;
- Based on creating a strategy and an internal control system;

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska
This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
International Journal of New Economics and Social Sciences, 1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

• Designed to identify and manage potential events that may affect the organization;
• Implemented in a way that provides rational assurance about the ability to achieve the organization's goals.

Risk management is to ensure management:
• Awareness of the existence of risk;
• Information on the dependence of risks and their impact on the organization;
• Detailed information on the occurrence of individual risks;
• Risk management capability in individual units and throughout the organization;
• Reconciling a common language of risk and facilitating communication on risks;
• Strengthening the possibility of creating added value.

Risk management is a central element of any organization's strategic management. It is a process in which the organization methodically solves the problems related to risk, accompanying its activities, in such a way that this activity - both in specific areas and treated as a whole - brings lasting benefits. Risk management should be a continuous and constantly improved process, which includes the organization's strategy and procedures for implementing this strategy. Risk management should methodically address all issues related to threats to the organization's activities that have occurred in the past, are present and - to the greatest extent - may occur in the future. Risk management must become - as a result of a specific policy of strict management – an integral element of the organizational culture (i.e. the style of the organization's functioning). As part of this process, strategic assumptions must be translated into specific tactical and operational goals, as well as a strict definition of the responsibility of all managers and employees who deal with risk management as part of their duties. In addition, the introduction of risk management entails determining responsibility for results, assessment of achievements and proper remuneration for them, thus promoting the efficiency of operations at all levels of the organization. Properly designed and implemented risk management systems are the basis for building a competitive advantage in the market, securing the company and facilitating its further development. The benefits of a well-managed risk management process are:
• Prevailing common, transparent criteria for assessing, comparing and dealing with risks related to completely different areas and functions of the company (customer loss risk and IT network failure risk);
• The described clear relationships between the effectiveness of risk management and the achievement of business goals;
• the management team prepared for the actual occurrence (so-called implementation) of dangers because all tasks and scenarios have been implemented to reduce the likelihood of a threat and the consequences of its occurrence;
• The organization will have an internal ability to return to balance after the crisis and will be relatively quickly able to restore operational resources and profitability;
• The company will increase its competitive advantage.

Risk management should ensure:
• Continuous and effective control of the risk of activity of strategic organizational units of the company;
• Provide reliable analysis and control in all phases, processes and business elements of the company;
• High quality of the information provided to management in the area of ongoing business operations.

The concept of risk management should be considered at the company's strategic level. On the one hand, the strategy defines the form of the company's behavior in terms of

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska
This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
International Journal of New Economics and Social Sciences, 1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

risk, opportunities, and threats coming from the environment, while determining the personal capabilities of the organization's members. The concept of risk management refers to the risk located in the external environment of the organization. The company's ability to counteract threats and exploit opportunities coming from the environment will depend on its ability to identify changes in the environment. The basic role in the formulation of risk management is played by the organizational culture and business philosophy, which determines its strategic orientation and the level of readiness to take risks. Risk management aims at limiting the extent of damage and preventing risks. It should take into account all possible measures that are applied in the risk situation and those that are anticipated before the risk arises. The company has many methods of dealing with risk (Free risk management book: guide to effective risk management 3.0.; Matkowski P., 2006; Monkiewicz J., Gąsiorkiewicz L., 2010; Hampel Committee on Corporate Governance, 2003):

• Ignoring risk - as a passive attitude towards reality. It is assumed to ignore the problem as if it simply was not there, because it is assumed that the problem is only a "transient" problem, which will be solved by itself. It can be said that this method is unworthy of propagation and potential risk for each company.

• Avoiding risk - is part of the passive risk mitigation method. "In practice, this means that companies do not take certain actions, which in its opinion are burdened with too much risk." In the case of a commercial transaction should take into account all activities occurring before or during the conclusion of the contract and making it possible to avoid or reduce the risk. In this case, businesses can avoid entering into transactions with unpredictable companies that have unsecured their property and income against loss. A company with an active management policy is, therefore, a more reliable partner for its contractors, recipients or suppliers. One can also avoid risk at the company's location stage, or choose its profile or technology, for example by replacing flammable products with others. So, if it is possible, we try to minimize the risk.

• Prevention of risk (risk reduction) - considered as an active attitude method. "It does not eliminate the risk but reduces the probability of its occurrence and mitigates its effects." The prevention method is prevention against random events and preventing their occurrence. In a commercial transaction, this is done by choosing the right partner, precise contract terms, determining the optimal payment terms and other activities. Another example is the prevention of theft risk, installing appropriate control and observation systems, and the threat of fire - through the use of a modern fire protection system, etc.

• Risk-bearing (risk retention) - we bear in case if performed risk analyzes indicate a low probability of risk occurrence and the cost of risk (compensation) can be included in the cost of the undertaking. To this end, various types of funds should be set up to "provide insurance". Many companies in this way determine in advance their potential liability to contractors only up to a certain financial ceiling. Entities create financial provisions, which is associated with the freezing of financial resources and the possibility of covering potential losses. Companies use forms of self-insurance themselves and use the help of insurance institutions. Risk retention may be aware or unconscious and passive or active when combined with risk control, preventive or diversification activities or the allocation of future losses

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska
This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
International Journal of New Economics and Social Sciences, 1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

• Transfer of risk (risk transfer) - it is a final action and should refer to risk as extraordinary losses or amounts exceeding the possibilities. This method allows transferring problems related to risk assessment and costs to someone else, which does not mean that the transfer of risk must always be complete and reliable. The important thing is that the choice of a particular behavior is connected primarily with the human decision. Conducted research indicates that people in this manager, in their assessments of chances are usually not guided by principles of logic and probability, but rather easy-to-use rules that often seem insufficient, although they can also lead to errors. There are several ways to transfer a significant range of risk:

a. Hedging - commercial transaction consisting of securing against unanticipated changes in the prices of financial instruments. It is a "term" transaction technique that allows simultaneous purchase and sale of selected goods to avoid the consequences of price movement in the market. Such operations can also be made on capital markets to protect against the risk of inflation and the exchange rate.

b. The legal and organizational form of the company - In a one-person company, the owner replies with all his assets taking the total risk on himself. On the other hand, in various types of companies, creating separate enterprises (outlets) dealing with fragments of the company's general activity, part of own risk can be transferred to them.

c. Contractual agreements - including guarantees for the life of the device or the mileage of the car sold, in order to transfer certain types of risk again to the producer or seller; Storing the product together with professional service and responsibility for the condition of the product or its loss; conclusion of a rental and lease agreement (leasing); surety, the obligated person is responsible for the risk of non-payment of the guarantor's obligation.

d. Risk insurance - by concluding an insurance contract, the risk is transferred from the enterprise to the insurance company in whole or in part in exchange for paying the insurance premium. Currently, many insurance companies operate in the insurance market, such as life insurance, fire, car insurance, etc. The essence of the insurance company is to reduce the risk related to the activities of other entities by compensating the effects of potential losses during the insurance accident. The following risks exist in the company's operations, which may be covered by property insurance: about the effects of fortuitous events that cause loss or damage to property; about the consequences of fortuitous events, which are the consequence of loss of health or death of employees; for burglary; for robbery and vandalism; the effects of events that cause losses through the use of new technologies; about civil liability in respect of conducted business activity; about civil liability for the product being manufactured; for loss of profit etc. All risk insurance is insurance for small and medium enterprises from all types of risks. It consists in specifying unprotected events instead of calculating threats. For example (flood of the century) if the entrepreneur insures only against theft and fire, and not insured against the flood, they suffer huge losses. However, those who have benefited from insurance for all types of risks have been compensated for flood damage. Financial insurance - the subject of this type of insurance may be a collateral transfer. Financial insurance also reduces the costs of running a business and improves the financial liquidity of the company, they also offer insurance against insolvency and insurance guarantees. Reinsurance - an instrument limiting the risk at

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska
This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
International Journal of New Economics and Social Sciences, 1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

the same time as regards the product, but also the liquidity of the insurer. Reinsurance is a contract in which one insurer resells a certain percentage of risks and transfers part of the liability for the risk to another insurer. Mutual guarantee funds - is the granting of credit collateral to selected economic entities. Insurance of receivables for exported goods and services - market economy includes commercial and political risks related to receivables for exported goods and services. The most common forms of commercial risk for which one can get insurance in most countries include: for full or partial loss of credit claims in the case of the almost-confirmed statement of insolvency of the debtor and repayment of the debt within the specified period in the concluded contract; failure to meet the buyer's credit liability towards the supplier. (intentional failure to collect or refusal to pay); failure by the buyer to pay a national currency deposit in a given period, if there is no possibility of selling. In contrast, non-trading risk including opportunity, including political risk and catastrophic risk - insurance of goods - transport insurance, consisting of several types of insurance that are independent of each other. It falls on different types of transported goods including diversified risk. The risk is a broader concept that takes into account the risk of the entire transport cycle, which means from going on the road to reaching the destination. In practice, the agreement on the division of responsibility between the delivery and the recipient is usually established. The methods of operation of the company in risk conditions were aimed at presenting ways to behave in risky situations. It is important for enterprises to be aware of the possibilities of using these behavioral models and to be able to find the most effective solution in conditions specific to a given entity. Risk awareness is the expression of the company's most active attitude to risk. At the strategic level, it is necessary to implement the concept of risk management understood as a set of methods aimed at facilitating making optimal decisions regarding development directions as well as means and methods serving to meet the set strategic goals of the company (Crouhy M., 2014; Demidenko E., Sidorenko A., 2019; Jajuga K., 2008; Kaczmarek T. T., 2010; Matkowski P., 2006; Monkiewicz J., Gąsiorkiewicz L., 2010).

Conclusions

The response to risk results from its assessment and may affect the control activities and emphasize the need to consider the company's information and communication needs or its monitoring activities. Therefore, corporation risk management is not a purely serial process, in which one element only affects another element. It is a multi-directional, interactive process in which almost every component can affect other components. Corporate risk management is not and should not be implemented in the same way in various organizations. Enterprises and their abilities, as well as needs in the area of corporate risk management, differ significantly depending on the sector, size, management philosophy and culture. Therefore, while all components should function and operate in every company, the specific application of corporate risk management, tools, techniques, and division of responsibilities will be different in different companies. The most important components of the framework structure presented in this paper, significantly influencing the

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska

This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
International Journal of New Economics and Social Sciences, 1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

later results of the organization, are helpful in managing the enterprise and other organizations and in better coping with the risk when achieving goals. However, corporate risk management means different things for different people, has many names and meanings, which prevents common understanding. An important goal is, therefore, to integrate various risk management concepts into a single structure within which a common definition will be established, components and key concepts will be identified. The proposed framework takes into account most points of view and provides a starting point for the assessment and improvement of corporate risk management in individual organizations, for future legal initiatives and for science. From the perspective of the past time and the experience gained, it seems correct to say that even proper planning and conducting risk management, especially in the financial sector, in many organizations certainly did not guarantee to protect against the painful effects of the 2008 crisis. However, continuous verification of the internal control structure of enterprises together with defining the acceptable level of risk that it is ready to adopt in its operations is certainly one of the most important challenges facing the management of each organization now and in the future.

References:

1. Crouhy M., (2014). *Essentials of Risk Management*, MCGROW-HILL Professional, London.
2. Demidenko E., Sidorenko A., (2019). *Free risk management book: guide to effective risk management 3.0,* https://www.researchgate.net/publication/323254437_FREE_RISK_MANAGEMENT_BOOK_GUIDE_TO_EFFECTIVE_RISK_MANAGEMENT_30 [accessed May 23 2019].
3. *Free risk management book: guide to effective risk management 3.0*. Available from: https://www.researchgate.net/publication/323254437_FREE_RISK_MANAGEMENT_BOOK_GUIDE_TO_EFFECTIVE_RISK_MANAGEMENT_30 [accessed May 23 2019].
4. *Hampel Committee on Corporate Governance* (2003). The Combined Code on Corporate Governance. London Stock Exchange, London. http://www.londonstockexchange.com.
5. Hickson D.J., Pugh D., (2003). *Management Worldwide. 2nd ed.*, Penguin Global, London.
6. *International corporate governance network* (2005), ICGN Statement on Global Corporate Governance Principles. http://www.icgn.org.
7. ISO (2009). *Risk management - principles and guidelines. International Standard 31000.* First edition 2009
8. Jajuga K., (2008). *Zarządzanie Ryzykiem*, PWN, Warszawa.
   Kaczmarek T.T., (2010). *Zarządzanie ryzykiem. Ujęcie interdyscyplinarne*, Difin, Warszawa.
9. KPMG. (2011). *Risk Management. A Driver of Enterprise Value in the Emerging Environment.* http://www.kpmg.com
10. Lam J., (2014). *Enterprise Risk Management*, John Wiley & Sons, Inc., New Jersey.
11. Lam J., (2003). *Enterprise Risk Management: from incentives to controls*, John Wiley & Sons, Inc., New Jersey
12. Matkowski P., (2006). *Zarządzanie ryzykiem operacyjnym*, Oficyna Ekonomiczna, Kraków.

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska

This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
International Journal of New Economics and Social Sciences, 1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034

13. Monkiewicz J., Gąsiorkiewicz L., (2010). *Zarządzanie ryzykiem działalności organizacji*, CH.Beck, Warszawa.
14. Pritchard C.L., (2002). *Zarządzanie ryzykiem w projektach. Teoria i praktyka*, Akademia Zarządzania Projektami, Warszawa.
15. Solarz J.K., (2008*). Zarządzanie ryzykiem systemu finansowego*, PWN, Warszawa.

ISSN 2450-2146 / E-ISSN 2451-1064
© 2019 /Published by: Międzynarodowy Instytut Innowacji Nauka-Edukacja-Rozwój w Warszawie, Polska
This is an open access article under the CC BY-NC license (http://creativecommons.org/licenses/by-nc/4.0/)
Nowak R., (2019) Enterprise Risk Management in the Polish Economic System (Selected Problems)
*International Journal of New Economics and Social Sciences,*1 (9) 2019: 77-93
DOI 10.5604/01.3001.0013.3034