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

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

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

1. Introduction

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

- The achievement of objectives;

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

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

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

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

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

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

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

The purpose of an ethical risk assessment is to identify the beliefs, practices and behavior which are either (a) counter-productive to the maintaining of the ethical principles and standards which provide for the desirable relations between the interested organizations or (b) favorable to the existence of such ethical principles and standards. When conducting an ethical risk and opportunity assessment, organizations must do so with the involvement of the interested parties, be they external or internal, in order to determine (a) the perceptions of the organization's ethics and (b) the organization's expectations in terms of ethics (Moor, 1995).

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

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

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

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

2. The specialized literature

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

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

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

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

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

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

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

3.Research methodology

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

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

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

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

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

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

Table 1

Potential operational problems of ethical risk management

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

Source: the author's own concept

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

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

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

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

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

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

wherein:

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

The risk grading scale is shown in table 2.

Table 2

Ranking of the levels of risk

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

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

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

Table 3

Summary of the level of importance of ethical risks

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

Total level of importance	127	87	94	93	99
LEVEL OF RISK	3.52				
ETHICAL RISKS RELATED TO PROCESSES	**Level of importance**				
	1	2	3	4	5
1. Lack of organizational processes	3	5	7	15	20
2. Methodical or model errors	7	4	5	16	18
3. Complex models	16	17	10	7	0
4. Improper process control	34	5	6	5	0
5. Models which do not relate to the company's objectives	9	13	15	11	2
6. Insufficient corporate governance in this field	14	12	10	8	6
7. Execution errors	22	11	9	8	0
8. Registration errors	25	12	8	4	1
9. Improper data and information management	16	13	15	5	1
10. No distinction between rights and duties	17	15	16	1	1
Total level of importance	3	5	7	15	20
LEVEL OF RISK	2.58				
ETHICAL RISKS RELATED TO SYSTEMS / TECHNOLOGY	**Level of importance**				
	1	2	3	4	5
1. Improper system of technology and security management	3	5	7	15	20
2. Lack of development and testing methodologies	7	4	5	16	18
3. Insufficient processing capacity	16	17	10	7	0
4. Breaks in the functioning of cyber systems	34	5	6	5	0
5. Breaks in the provision of services by external providers	9	13	15	11	2
6. Improper systems	14	12	10	8	6
7. Improper data protection	22	11	9	8	0
8. Disaster recovery risks	25	12	8	4	1
9. Improper testing of disaster recovery	16	13	15	5	1
10. Improper systems of technological update	17	15	16	1	1
Total level of importance	3	5	7	15	20
LEVEL OF RISK	2.17				
ETHICAL RISKS RELATED TO THE EXTERNAL ENVIRONMENT	**Level of importance**				
	1	2	3	4	5
1. Loss due to catastrophic events / natural disasters	3	5	7	15	20
2. Loss due to people or factors outside the organization;	4	7	5	16	18
3. Breaks in the provision of services by external providers;	17	16	10	7	0
4. External fraud and criminal activities;	34	5	6	5	0
5. External exposure of security systems	9	13	15	11	2
6. Classical or electronic terrorist attacks;	14	12	10	8	6
7. Economic or electronic criminality;	22	11	9	8	0
8. Power failures	25	12	8	4	1
9. Improper services of external system support.	13	16	15	5	1
10. Legislation changes	17	15	16	1	1
Total level of importance	3	5	7	15	20
LEVEL OF RISK	1.73				

Source: the author's own concept

The analysis revealed the fact that the managers who have been interviewed estimated that the *ethical risks related to the employees* are the most important in ranking, the most significant ones being related to the employees' failure to comply with the company's procedures or working instructions, as well as the employees' insufficient experience and training (figure1);

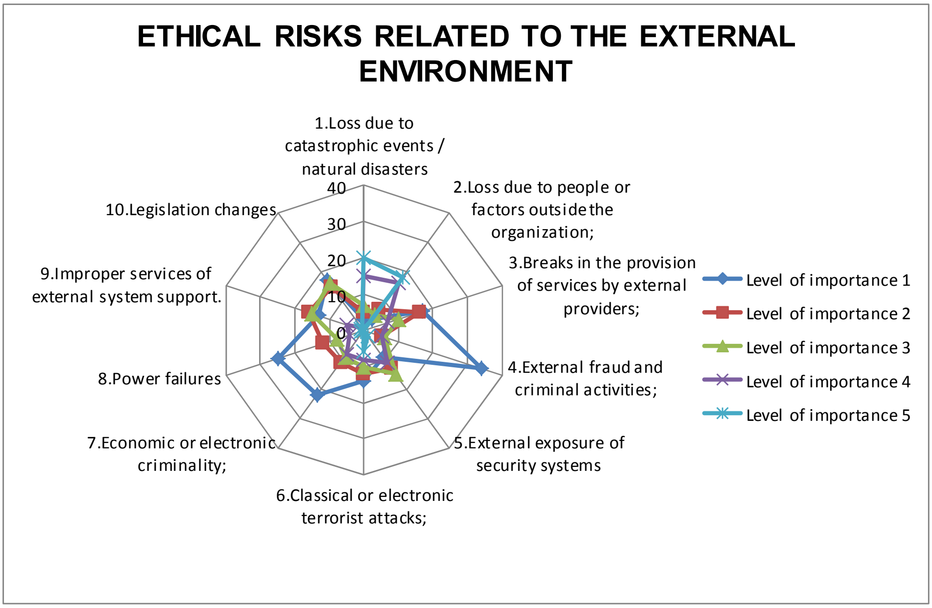

Figure 1. Ethical risks related to employees
Source: the author's own concept

The global level of importance of the *ethical risks related to employees* is 3.52, which ranges into the high-risk category; The second most important risks were those *related to processes*, the most significant factors within this category being the lack of organizational processes, improper process control, models which do not relate to the company's objectives (figure 2).

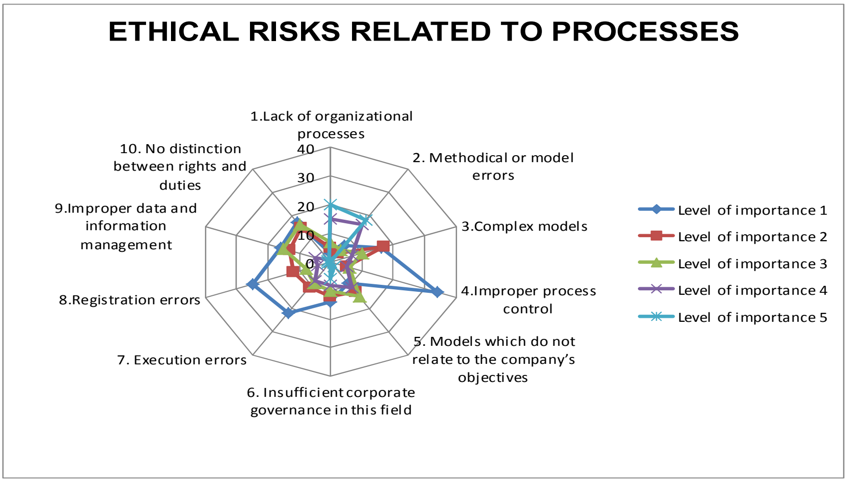

Figure 2. Ethical risks related to processes
Source: the author's own concept

The global level of importance for the *ethical risks related to processes* is 2.58, which ranges into the high-risk category. *Ethical risks related to systems /*

technology – a major factor is the lack of development and testing methodologies, as well as improper disaster recovery management (figure 3).

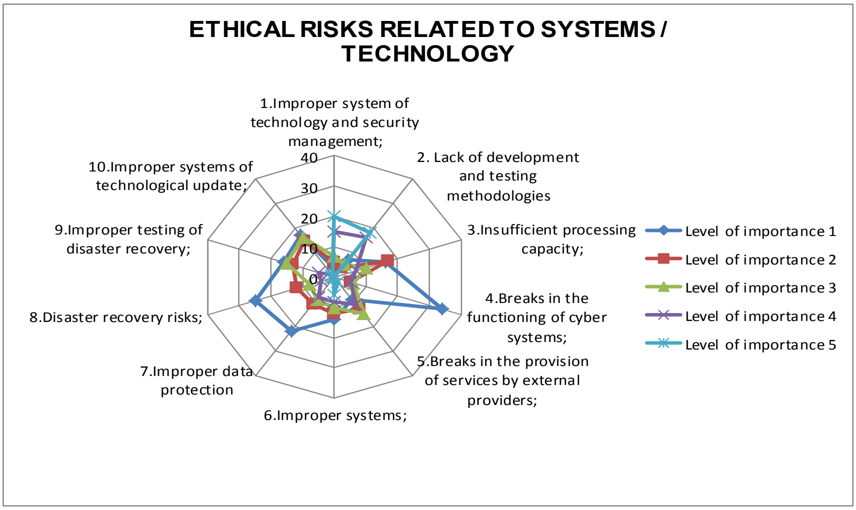

Figure 3. Ethical risks related to systems / technology
Source: the author's own concept

The global level of importance of the ethical risks related to *systems / technology* is 2.17, which ranges into the low-risk category.

The least significant ethical risks were those *related to the external environment*, the first of them being the loss due to catastrophic events / natural disasters, and to people or factors outside the organization (figure 4).

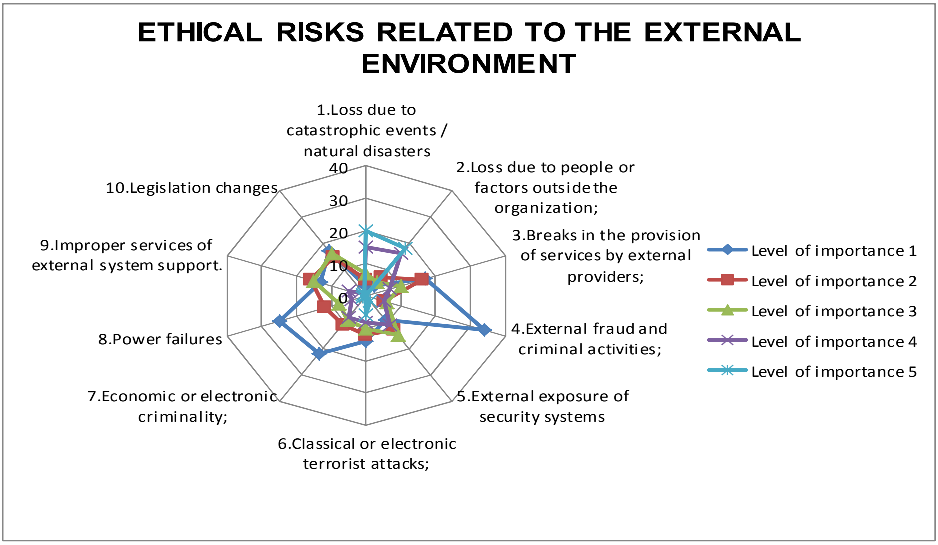

Figure 4. – Ethical risks related to the external environment
Source: the author's own concept

The global level of importance of the ethical risks related to the external environment is 1.73, which ranges into the low-risk category.

Given all of the above, it is recommended that the process of identifying, analyzing and assessing ethical risks be updated constantly or whenever it is necessary: when the business model of the organization changes, when the organizational structure and the activities or the working instructions of the organization are modified, when the data processing technology changes, when the system changes dramatically, when incidents occur, when risk controls are applied, etc.

Ethical risk management must involve all factors, both those with decision-making responsibilities, and those who implement such decisions within the organization. Clear responsibilities must be set for all organization and decision structures. Ethical risk management is a permanent, iterative process which is part of the current activities within the organization.

The tangible benefits of risk opportunity management include projects and activities which are delivered in a timely fashion and fit the set budget; no negative impact upon the interested parties (including the work force, the environment and the society), such as physical or environmental damage; and no exposure to financial or other type of penalties for the respective organization.

4. Conclusions

Proper risk management is necessary not only for developing various techniques and processes, but also for taking into consideration the “human nature” at the organizational level. Also, the organization must set proper mechanisms in order to reconcile “public interest" with “risk management”. Therefore, the definition, implementation and improvement of a series of processes and the provision of guidelines to managers will always prove imperative. As important are: the improvement of the methods of risk analysis, the development of training in the field of risk management, provided to the numerous interested factors, a clearer legislative component and the foundation of professional risk management upon ethical principles.

We have seen a steady increase in the demand for ethics risk assessments over the last five years. One can speculate on the reasons underlying this increase in demand. Amongst the prominent reasons for this increase are the introduction of social and ethics committees through the new Companies Act and the introduction of the Integrity Management Framework in the public sector. Both of these governance reforms have placed the strategic oversight of the ethics performance of organisations on the radar of governance bodies and executive management. It is simply not possible to exercise the governance duty of strategic oversight of ethics management without organisations conducting proper ethics risk assessments.

Ethics management in an organisation is never an isolated exercise. On the contrary, effective ethics management involves close collaboration with governance structures and other management functions in organisations. In the case of ethics risk assessment, the obvious governance structures that come into play are the ethics committee and the risk committee of governing bodies. As far as management functions are concerned, collaboration with the organisational risk management function is not only unavoidable, but of crucial importance in effective ethics risk assessment.

Best practice governance guidelines suggest that an organisation's governing body should ensure that ethics risks and opportunities are incorporated in the (enterprise) risk management process. However, to date most organisations have applied risk management and ethics risk management separately and as only somewhat complementary interventions. Since ethics risk is a dimension of risk that is on an equal footing with any other type of risk, it cannot be divorced from organisational risk. In fact, risk management and ethics risk management may be viewed as converging interventions that can be designed and implemented in an integrated manner. Although ethics risk ownership may eventually be proportionally allocated to the organisation's risk function and ethics risk function respectively, ethics risks need to be integrated, in the form of an ethics risk register, into the organisation's risk register.

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