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The following issue is dedicated to the bright memory of the prominent representative of Georgian legal science, Professor Emeritus Guram Nachkebia

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Risks and Corporate Management Problems Related to Them

The role of entrepreneurship in the international community is steadily rising, which is caused by economic conversions, with the constant growth and changing of consumer interests. This, along with many useful results, leads to an intensive competition between companies, irreversible renewal of business standards and additional normative regulations. Taken as a whole, legal corporative relations are becoming more complex, creating permanent risks for companies, business sectors, internal and external markets (including the states).

Absolute exclusion of the risks is impossible in business enterprise. Consequently, within the corporate management, risk detection/evaluation and management, is the most important prerequisite for business stability and growth. In addition, consistent and systematic implementation of this process is necessary, in order to minimize the negative impact of different types and scales on companies.

Considering the importance of the issue, the present article will discuss corporate risks and their types, analyze the specific cases of risk management and following consequences, as well as trends in different states and international markets.

The purpose of the article is to provide readers with information about the modern problems of risk management, to determine ways to solve them. A comparative-legal analysis method is used to achieve this goal.

Keywords: *Production conditions, Risk Management, Strategic, Compliance, Operational, Financial, Reputational, Value at Risk, Risk Management Officer, Risk Management System, International and National Standards of Risk Management, Financial Stability Board; Federation of European Risk Management Associations, Enterprise Risk Management Concept.*

1. Introduction

Risks are one of the driving force of the business, but their timely/complete assessment and management still remain problematic. Risk management problem is not so actual in companies where there are few partners, it mostly touches large companies whose shareholders are scattered in different countries (especially corporations).[1]

It is impossible to get revenue on the competitive capital market without taking risks, which is often accompanied by hidden illegal actions,[2] and this, along with many other risks, is a major problem of internal corporate governance. Risk misuse often leads to companies' financial losses, reputation losses, etc. The liquidation of the results needs years to spent and requires a great effort.

Naturally, in corporate governance, board's activities have a decisive impact on the quality of strategic decisions and the company's development,[3] which also includes the formation of the risk management system and its constant perfection. In the Legal literature, there is a perception that the risk of liability will force the leaders to fulfill their duties in the interests of shareholders, but the heads are also responsible directly to the company[4], this standpoint is testified for example: by the 2008 world financial crisis, cases of companies' financial fraud

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1 *Fernando A.C.,* Corporate Governance: Principles, Policies and Practices, Pearson Education, 2009, 52.

2 *Jonathan R.M.,* Corporate Governance. Promises kept, Promises broken. Princeton University Press, Princeton and oxford, 2008, Published by Princeton University press, 41 William Street. Princeton, New Jersey 08540, 47.

3 *Kenneth R.A.,* Rigid rules will not Make Good Boards, Harvard Business Review, November-December 1982, 35, 44.

4 *Chanturia L.,* Corporate Management and Responsibilities in Corporate Law, Tbilisi 2006, 68 (In Georgian).

(Olympus)[5], bribery cases reveal's (Siemens),[6] which was mainly caused by the corporate management of large-scale faults, when the risks were not properly assessed. Despite these and other widely rumored events, forced companies to pay more attention to risk management, still fundamental changes in companies management procedures have not been made rapidly.

It is noteworthy that the risk management policies of many companies focuses on internal control and audit, it implies an analysis and reaction to some of the outcomes[7], which is often delayed, expensive and less efficient. Therefore, there is a need for timely and effective prevention of risks.

One of the reasons for maintaining the growth and stability of the modern economy is corporative regulations. The principle function of the corporate law is to provide legal entities with legal and organizational forms,[8] in the same way, is important the companies' efforts to provide financial and non-financial, strategic and operational risks. In corporate management, it is necessary to develop risk assessment and management leverage[9] to enable companies with different profile and production volume, effectively manage risk in different situations.

It should be noted that, during risk assessment, the practice of various corporations differs according states: some consider the risk management is completely the board's activity. The second group believes that this is the audit's competence and others name special committees as an authorized body for risk management. This indicates a variety of risks management practices that may be natural, although the risk management errors are not resulted from these different approaches, they are mainly caused by companies' inefficient risk policies.

Due to the above mentioned, identification of risks faced by companies (especially corporations, as corporations are the most important organizational associations in corporate law)[10]; An adequate assessment of their economic, financial and social impacts and analyzing the corporate management problems generated from them, is an urgent issue. Moreover, the comparative-legal analysis of practices and trends in foreign states is interesting.

2. The Essence of Risk and Its Types

Generally defined, risk is the probability to fall into the disadvantage during an economic activity; possibility of market price reduction; chance of deterioration of production conditions; expectation of receiving sudden loss of income, property and monetary means. The risks arises from the transformation of economic relations, the permanent change of the national and international normative-legal basis, it follows to the accelerated tempo of

5 Six banks filed a lawsuit against the Japanese digital cameras manufacturer company Olympus. Banks requested 27.9 Yuan's (273 million US dollars) remuneration from the company, to compensate for damages caused by a 13-year fraud. As a result, in 2012 the court sentenced former CEO and two executive officials to imprisonment (on the grounds of covering the loss of Olympus since 1990), the company was fined the amount of 700 million yen, <https://www.bloomberg.com/news/articles/2014-04-09/olympus-sued-for-273-million-after-13-year-fraud>, [11/04/2017].

6 In 2006 an investigation held in the largest German engineering and electronics company Siemens, found that the company issued fake checks, paid a large amount of bribes to win contracts, created Shell Firms and fake funds that were used for unlawful transactions. As a result, in 2001-07 period the company won contracts cost of 1.3 billion Euro. For the long-term bribery and corruption scheme, Siemens was fined 1.34 billion Euro payment to American and European states, <https://www.theguardian.com/business/2008/dec/16/regulation-siemens-scandal-bribery>, <https://www.theguardian.com/business/2008/may/27/technology.europe>, [12/04/2017].

7 Corporate Governance Guide, Georgia, September 2010, IFC / International Finance Corporation, Consulting Program in Europe and Central Asia, 203, 204 (In Georgian).

8 *Makharoblishvili G.*, Implementing Fundamental Changes in the Structure of Capitalist Societies on the Basis of Corporate-legal Actions (Acquisition, Merger), Comparative Legal Analysis, Dissertation Thesis, Ivane Javakhishvili Tbilisi State University, Faculty of Law, Tbilisi, 2014, 12 (In Georgian).

9 Risk Management and Corporate Governance, Corporate Governance. OECD (The Organization for Economic Co-operation and Development) (2014), OECD Publishing, 8, <http://dx.doi.org/10.1787/9789264208636-en>, [11/04/2017].

10 *Maisuradze D.,* Corporate legal-defensive measures during the reorganization of capitalist societies (Comparative-legal research preferably on the example of Delaware state and Georgian corporate law), Dissertation Thesis, Ivane Javakhishvili Tbilisi State University, Faculty of Law, I., Tbilisi, 2014, 7 (In Georgian).

scientific-technological progress, the strengthening of competition, appears after the dynamic growth of consumer interests.[11]

In general, the following types of risk are allocated: **Banking, Currency, Credit, Investment Risks** and etc.[12] As regards to the corporate risks, its' important types are: 1. **Strategic risk**-when the company has an incorrect or less effective business strategy (e.g. the company leg behind the technological development and can not update the production devices). The classic example of strategic risk are the cases of companies - Kodak and Xerox. Kodak has been operating in the photography market for years. In 1975, one of its' engineers Seven Sasson invented a digital camera that provided a better photo shoot than a ordinary camera. However, the company thought that this innovation was a risky project that could endanger its business. Accordingly, Kodak did not develop this invention.

In this case, if strategic risk were entirely assessed (its financial and social effects analysed, technical development prospects foreseen, etc.) the company should have concluded that the digital camera would soon be invented and manufactured, which could lead to rival competitiveness and market dominance. Exactly, underestimation of this strategic risk led Kodak to bankruptcy. Although the company still exists today, it operates with much smaller scale. One of the giants of digital printing technologies-Xerox,[13] acted in a different way. Xerox knew that the development of laser copy technology was a strategic risk, but managed to adapt to new technology and changed the business model. The company has made a laser copy a multi-billion business and a strategic risk succeeded.[14]

2. **Compliance Risk**-is related to legislative regulations, standards in various fields, as well as investment practices.[15] Compliance risk has different Sub-categories (**risks associated with environmental protection, workplace safety, health care, corruption practices, social responsibility, quality and procedural activities**)[16] Naturally, the majority of successful corporations are in line with current legislation, regulations and different standards, although these norms are often changing and the company may be subject to additional regulations in the future. That's why business needs to correspond with the new regulations. For example, California-based Farm sells products within the state's gastronomic shops, if it decides to enter the European market, it will challenge the compliance risk, as European countries have their own rules of food safety, different tax and accounting regulations, which can cost the company more expensive.

For assessing and managing compliance risk, it's necessary to analyze legislation and regulations in force, entrepreneurial and trade traditions of the country or administrative territory, where the company aims to operate. This action significantly reduces the compliance risk and defines the company's action plan.

3. **Operational risk -** includes internal corporate governance procedures and systems. It often relates to the quick decision made by the corporation on how to operate the company and what is its priority in a specific time or circumstances.[17] The following subgroups of operational risk exist: 1. Regulatory penalties, 2. Terrorism, 3. Information technology (IT) failure, 4. Employee hiring and their maintenance 5. Participation of third parties

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11 The problem of Enterprise Risk Management, 2017, (In Russian), <http://arbir.ru/articles/a_3902.htm>, [11/04/2017].

12 The Essence of Risk, the Causes of Risk Creation, National Parliamentary Library of Georgia, <http://www.nplg.gov.ge/gsdl/cgi-bin/library.exe?e=d-01000-00---off -0ekonomik - 00-1 ---- 0-10-0 --- 0 --- 0prompt-10 --- 4 ------- 0-11 - 11-ka-50 --- 20-about --- 00-3-1-00-0-0-11-1-0utfZz-8-00 & a = d & cl = CL2.13 & d = HASH6bac00dbf13ee602739cac.3.fc>, [11.04.2017], (In Georgian).

13 Xerox Corporation - an American corporation. Produces digital printing technologies and delivers services to over 160 countries worldwide. In 2016 the company's annual revenue amounted to 10.77 billion, US. dollar. The company employees 131, 800 persons, <https://en.wikipedia.org/wiki/Xerox>, [11.04.2017].

14 <https://business.tutsplus.com/tutorials/the-main-types-of-business-risk--cms-22693>, [11.04.2017].

15 <http://smallbusiness.chron.com/types-business-risk-99.html>, [11.04.2017].

16 <http://simplicable.com/new/compliance-risk>, [11.04.2017].

17 <http://www.investopedia.com/terms/o/operational_risk.asp>, [11.04.2017].

in company activities (Outsourcing), 6) organizational changes, 7). Combat Money laundering (AML) and Anti-Terrorist Financing (CTF), 8. Behavior of companies and employees, 9. Cyber-risk.[18]

4. Financial risk - includes company's expected financial losses. It is mainly caused by the instability of the financial market, which in turn is provoked by the changing of share prices, currency and interest spheres. Financial risk is a priority for all kinds of businesses and can be divided into following types: Market, Credit, Liquidity and Operating,[19] which is already mentioned above. Separately should be noted about the Diversifying Risk, which involves the danger of losing patent or license by the company; also contains possibility of reserve reduction. In order to avoid this outcome, oil companies typically try to distribute assets to different regions and countries, ensuring diversification of risks. [20]

5. Reputational risk-is the credibility of losing trust of the company, brand or entrepreneur group. It may

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18 Since operational risk is a serious problem for corporate governance, attention must be focused on it's several sub-categories, namely: **1. Regulatory Fines** - As a result of low guarantees of real estate assets and global financial manipulations on currency markets before financial crisis, legal sanctions become frequent. It pressed heavily on financial companies. E.g. fines imposed by US Securities and Currency Exchange Commission in 2009-14 have increased by 50%; Banks and brokers participating in the London Interbank Offered Rate (LIBOR) Scandal, were ordered to pay 9 billion Euro. In 2015, banks: Barclays, Citi, JP, Royal Bank of Scotland and UBS were penalized for participating in financial fraud in the Foreign Exchange Market (Forex Market), they paid 5.6. billion euro to Britain and the US. This number of fines forced companies to evaluate operational risks and to take appropriate measures. **2. Terrorism** – In 2015, terrorist acts took place in Ottawa (Canada) and San Bernardino (USA), the Russian passenger plane crashed in Egypt, in the same year on November 13th terrorists committed attack in Paris. These events caused a widespread international response, including from the companies. After establishing the Islamic State (IS), financial companies are exceptionally prudent, because terrorists often target big financial centers. Naturally, such events are threatening not only states and societies, but also businesses. The survey conducted by Institute for Economics and Peace estimated the value of terrorism. It is considerable that, if the value of terrorism in 2000 was 4.93 billion dollar, this figure reached \$ 52.90 billion in 2014, that exceeds an index of 2001 after the 9/11 terrorist attacks in the US (\$ 51.51 billion). **3. Information Technology (IT) Failure** - Many trading companies have complex electronic platforms, which complete thousands of transactions per minute, respectively, during online trade arises high risks of safety. Banks are also facing these risks, as they frequently complete non-cash transfers. E.g, the largest bank in Germany-Deutsche Bank was fined 7.8 million Euro by the UK regulatory body, for misrepresentation of transactions fulfilled in 2007-2013 period. This fact indicates how important it is to manage IT risks and how expensively software failures are eliminated**. 4. Employee hiring and their maintenance**-At present, many industries find hard to select appropriately qualified staff and employing them in the company. This especially refers to PR managers (including sales and investment managers, so-called ''front office staff'') as well as risk managers. **5. Participation of third parties in company activity (Outsourcing)** - In the financial industry, delivering the auditory, legal, financial, lobbying and other services are wide spread practice for companies. Although this process creates additional risks (called "Third Party Risks") and needs adequate management. During the management of such risks, the company must identify the service provider at the initial stage; must determine how absolute, reliable, timely, and protected information is provided by it; How qualitative its service is**. 6. Organizational changes**-The risk of organizational change is often arising from changes in regulations, such as the introduction of a new legislative norm which establishes increased capital for banks. At this time banks with small capital have to restructure, otherwise they will lose a license. It is difficult to predict legislative changes in advance, but according ongoing market trends, and analyzing the state's economic policies, companies can identify the organizational risks and act adequately beforehand (e.g. reflecting extra charges in the company's operating budget, etc.) 7. Cyber Risk-In 2014, 83 million customer's personal information, was stolen from American company GP Morgan, which is still considered the largest cyber attack until today. After this and other similar attacks, companies started to arrange cyber systems and tightened security measures because they could not function properly anymore and lost the trust of the society. In 2015, the Georgia State Institute of Technology conducted research on Cyber Security. It found that in the financial sector, the highest number of **Senior Information Security Officers** (Cisco) are employed, than in other sectors. This indicates on increased attention to cyber risks, <http://www.risk.net/risk-management/2441306/top-10-operational-risks-2016#top>, [11.04.2017].

19 <https://www.simplilearn.com/financial-risk-and-types-rar131-article>, [11.04.2017].

20 Specific corporate risks of capitalization, <http://proizvodim.com/specifichnye-korporativnye-riski-kapitalizacii.html>, [12.04.2017] (In Russian).

arise directly as a result of actions of the company employees or third parties. To manage reputation risks, the Company must take social responsibility, be transparent, determine the impact of its activities on the environment and society.[21] One of the worst incident of bad management of reputation risk is the Brazilian state oil giant Petrobras's case. The company's managers, its related service/products supplier companies and politicians have accused to deliver the services and goods with inadequately increased price, which was carried out according to the special plan. Increased earnings from contracts were distributed as a bribe to participants in the corruption scheme. Following the scandal disclosure, the company's reputation seriously disgraced, which was added to financial losses - alone in 2016, the company lost 358 million U.S. dollars.[22] during 2 years many employees have remained without jobs, small companies dependent on the company went bankrupt. An investigation still continues on this case. The company has hired **Compliance Officer** to rectify the results, who leads the company's compliance program.

Due to the severe consequences, it is clear that hiring the special officer is not enough. In addition, it is recommended to review the company management model and launch a long-term strategic plan for risk management, which requires more complex measures. This will facilitate the management of operational, reputational, financial and compliance risks of the company in the future.

3. Risk Management Standards and Mechanisms

An important phase in the risk assessment, control and management sphere was the 1990s, when a method of financial risk assessment - ''Value at Risk'' (VaR) was developed, it was recognized by the large financial institutions, followed by the trust of financial market regulators. The largest American bank J.P. Morgan has already used VaR method during risk management process in 1994. From the 90s there has been a tendency of risk management-standardization, which was distributed at the domestic and international level, contributing to the development of a common risk management method. Important from these international standards are: the Risk Assessment Technic (ISO/IEC31010, 2009); Manuals for Risk Management Standards (ISO/IEC Guide 73); Enterprise Risk Management (USA); Risk Management Standard (ALARM 2002). Significant national regulations are: British, Australian, Canadian, and Japanese standards.[23]

According to the **Federation of European Risk Management Associations (FERMA),**[24] risk management is the strategic direction of any company, serving timely identification and management of various impacts on those. It is a continuous and developing process that should be incorporated into the company's action policy, relevant goals and tactical actions should be written. In addition, it's important that any employee of the company, within his/her competence, should bear the responsibility on risk management, not only head officials and bodies. Risk management is divided into the following stages: risk assessment (includes identification and description of risks); response to risks (determination of hazards and capabilities, decision making, risk management, report, monitoring). Risk identification should be done methodically to ensure that all existing risks are

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21 Reputation Risk. A Set of Economic and Financial terms, <http://investocks.ru/reputacionnyx-risk-reputational-risk/>, [12.04.2017] (In Russian).

22 <http://www.ethicalcorp.com/business-strategy/corruption-reputation-risk-and-opportunity>, [12.04.2017] .

23 International Standards of Risk Management: according to Basel unit - Alexander Baranov, Deputy of General Director of the Assets Management Chamber, Chairman of the '' ПАРТАД'' Committee for Internal Control and Risk Management, 2015, 25, 26, 30, (In Russian), <http://partad.ru/UploadFiles/GetUploadedPdfFile?uploadFileId=113>, [18.04.2017].

24 Federation of European Risk Management Associations (FERMA) unites Spain, Great Britain, Luxembourg, France, Italy, Portugal, Czech Republic, Belgium, Germany, Denmark, Turkey, Finland, Holland, Norway, Poland, Russia, Slovenia , Switzerland, Malta Risk Management Associations. The Federation cooperates with various trade and business organizations, it develops risk management methodology, organizes special seminars and reviews, publishes editions. FERMA is a leading organization across Europe in the field of risk management, <http://www.ferma.eu/about/mission-and-objectives/what-is-ferma/>, [18.04.2017].

identified. During risk identification the following methods are used (fill the questionnaires, study of different business sectors, investigation of incidents, conduct audit and inspection). The risk description has a special significance, it's aim is to convert already identified risks in the structural format, for example show them in graphs. This allows to allocate priority risks and relevant responses (e.g. strategic, tactical, operational).

In order to effectively manage risks at internal level, the company related subjects need to own different categories of information. The board of directors should know the most important risks, their expected effects, as well as how the company manages the situation, how the confidential information is protected, how to proceed in relationship with the investors. The ordinary employees of the company should also be aware of the individual risks, and recognize their own role in the risk management. They should systematically and urgently inform the management about new or newly revealed risks and possible control mechanisms. Publicity is also extremely important during risk management - the company must regularly provide information to its shareholders on the company's existing or expected risks.

Risk management system, especially in the banking industry, was criticized at the state, European and international levels, which reflected on the basic principles[25] of the British corporate governance code. According to these principles, the company board should, at least once a year, review internal control and risk management system.[26] Effective corporate governance requires that the executive team's role in risk management must be clearly defined. Since 2013, European ''Listing Companies'' whose shares have been placed on different stock exchanges, are obliged to reflect annual and relevant information on risk management. The board is responsible for identifying, evaluating and managing all risks. It should be taken into consideration that the risk scale differs not only according the business type and size, but also according the stages of business. As a rule, the new or growing business confronts more risks than the older business.[27]

Usually, the board of directors carries out the risk management, although this function may be partially assigned to the audit committee. The role of internal audit is different in various companies, and practically its function may be: identification and assessment of risks; training the company employees in risk management and control procedures; internal audit of risk management process; coordinate with the board of directors and various committees. Depending on the company's size, risk management can be performed by one or more full-time/part-time employee, or by risk management department.[28] In analytical publication of the **Organization for Economic Co-operation and Development (OECD) -** "Risk Management and Corporate Management", it is suggested that not only banks, but also other companies may employ a **Chief Risk Officer** or his/her equivalent personnel, who directly operates risk management[29]. According to the **Basel III**[30] **Framework Document,** large banks, banks operating in the international banking market and other financial companies are obliged to have a separate senior executive, with seperated responsibility on risk management (e.g. Risk Management Officer). These companies must also have a risk management guide. It is important that the functions of the risk manager should be separated from functions and responsibilities of other executives, i.e. **Dual Competences** should be

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25 The UK Corporate Governance Code, FRC/Financial Reporting Council, April 2016, 9, 16-18.

26 The Corporate Governance Review-Reproduced with permission from Law Business Research Ltd. This article was first published in The Corporate Governance Review, 4th ed., (published in march 2014, Calkoen J.L.W. ed.), Published in the United Kingdom by Law Business Research Ltd. London, 87 Lancaster Road, London W11 1QQ, UK, 2014, 85.

27 A Guide to Corporate Governance Practices in the European Union – IFC (International Finance Corporation, World Bank Group) 2121Pennsylvania Avenue, NW, Washington, DC 20433, 2015, 64.

28 A Risk Management Standard – Federation of European Risk Management Associations. AIRMIC, ALARM, IRM: 2002, translation copyright FERMA: 2003, 3, 5, 7, 11, 13, 15.

29 Risk Management and Corporate Governance, Corporate Governance. OECD (The Organization for Economic Co-operation and Development) (2014), OECD Publishing, 12, <http://dx.doi.org/10.1787/9789264208636-en>, [11/04/2017].

30 Basel III – An International Agreement, which enhanced regulations, supervision and risk management procedures in the banking sector. The first version of the agreement was published by the Basel Committee of Banking Supervision in 2009, which determined banks with a three-year term to meet new regulations. <http://www.investopedia.com/terms/b/basell-iii.asp>, [18/04/2017].

eliminated. Banks are especially needed to properly ensure risk management officer (planning and finance of risk management mechanisms; provide with personnel; access to the information technology system; and so forth.) Naturally, the risk management officer is required to have high qualifications and experience; especially, awareness in the company, the market and products; thorough knowledge of risk management disciplines.[31]

From the issues discussed in this chapter it becomes clear, that the effective risk management requires not only reasonable governance but also the existence of effective analytical structures. They will evaluate how precisely the risks are determined, ascertain the compliance of companies' standards with the internal and/or international requirements, supervise the correct implementation of risks management standards. The constant and active implementation of these measures is crucial, since companies are dynamically developing and constantly changing environmental conditions, which in turn are linked with new risks. As already mentioned, it is not necessary the risk management officer to perform these functions solely, it's possible to attach such competence to other structural unit. The main thing is to keep the quality and duration of the process.

4. Problems Related to Risk Management

In 2011, American, British, Swiss, Australian, Belgian, Danish, French, German, Greek, Czech, Israel, Hungarian, Italian, Irish, Japanese, Norwegian, Saudi Arabian and other countries' **Listing Companies** were researched. According to the study, only 14% of the business time was spent on business risk management and only 14% of respondents knew what kind of risk confronted their companies.[32] Today, in a number of companies, Risk Management Systems is managed by computers and is mainly aimed at external risks. Normally, only a few internal risks are allocated in the companies and attention is drawn to them (such are: IT malfunction, regulatory violations, industrial cases, fires, etc.). It is also problematic that the company top management neglects risks. Often, the company's lower structure employees do not even attempt to detect the expected/obvious risks and inform about them, because they are afraid of negative response from the top management.[33]

The research conducted by the **Financial Stability Board (FSB)**[34] in 2013, found that most of the company boards did not pay enough attention to the risks (e.g. did not have the Risk Management Committee) did not conduct a thorough analysis of the company's risky conditions, so most of them did not use risk management plans. In addition, internal standards of corporate governance inadequately regulated risk management. A research conducted in 60 countries with 760 interviewed, showed that negative trends in risk management process still existed-banks had short-term risk management levers, priorities often changed in the banking sector, that caused development of ''reactive'' risk management model.[35] Nowadays, in response to these challenges the regulatory bodies are reviewing the risk management norms, an attention is paid to modernization of enterprise risk management models.

According to a survey by the **American Institute of Public Accountants (AICPA)**[36] in 2015, companies

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31 <http://www.chief-risk-officer.com/>, [18/04/2017].

32 From Companies to Markets, Global Developments in Corporate Governance - International Finance Corporation. Copyright 2016, All rights reserved., 2121 Pennsylvania Avenue, NW, Washington, DC 20433, 30- 32, 34.

33 <http://www.agcs.allianz.com/insights/expert-risk-articles/looking-forward-future-risks/the-risk-management-system/>, [24.04.2017].

34 **Financial Stability Board (FSB)** an international organization founded in 2009. Its function is to facilitate global financial stability as a result of coordination of financial and supervisory sectors. Member states are: France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Holland, Russia, Saudi Arabia, Singapore, Spain, Switzerland, Turkey, Great Britain, USA and other countries, <http://www.fsb.org/what-we-do/>, <http://www.fsb.org/about/fsb-members/>, [18/04/2017].

35 Key Risk Management Challenges for 2013/2014, <https://www.sungard.com/resources/capital-markets/white-papers/adaptiv-key-risk-management-challenges-for-2013-2014-sungard>, [24.04.2017].

36 American Institute of Certified Public Accountants (AICPA), an attorney organization of certified public accountants.

are increasingly managing industrial risks. According to the survey, 59 percent of interviewed 1000 companies think that the complexity and scope of risks have greatly increased in recent years, 68% of the board of directors requests the involvement of higher officers in the risk oversight process. This figure is even higher for large companies (86%) and public companies (88%). Accordingly, at this moment the situation has changed; many of the codes, including corporate governance principles, of the Organization for Economic Cooperation and Development (OECD), have established and strengthened risks management standards.

However, the situation in the banking sector differs to a certain degree, for example, the **Basel Committee on Banking Supervision** has ascertained that even after the financial crisis, banks have inadequate control over senior officers, have very complex organizational structures and do not properly manage risks. The situation is similar in Russia's small and medium-sized banks, where problematic are: **1. Not having the integral system of risk management -** consequently banks don't have a full picture about diverse risks; **2. Ignoring the instructions of the Central Bank of Russia -** in small banks risk management is often carried out by less effective internal regulations and not according to the Central Bank's instructions; **3. Conflict of interest -** Sometimes risk manager does not obey the decision of the bank's head, because the decision itself is risky; **4. Insufficient information on risks assessment -** banks experience deficit of internal and external statistical information, which hinders the adequate assessment of risks. In contrast, for example, in the United States companies' statistics and datas are regularly published in different directions of the economy, which promotes risk management. **5. Uncertainty of the functions of the Risk Management Unit -** sometimes the risk management unit has to perform the functions of other units; **6.Copying the Western models of banking risks management -** usually, small and medium sized banks in Russia lend risk management models from Western companies without adaptation them to actual situation; **7. Inadequate development of information technologies for risk management -** as a rule, the IT divisions of banks are carrying out routine activities: personnel computer services, management accounting, etc. They are less likely to cooperate with the risk management department.

To settle the problems discussed above, it is advisable to use the concept of **Enterprise Risk Management (ERM)**, its implementation completes the bank's strategic and operational objectives, intensifies communication between the bank's management and risk management units.[37]

The difficulties of managing corporate risks, still remains in the US. Years after the US mortgage market damage, some company directors and executives are still responsible for the past decisions and actions. This generally affected the legislators who developed new legal approaches and introduced appropriate regulations. As a result, today's directors and executive officers are under strict observation, actively is being used the **"Foreign Corrupt Practice Act" (FCPA)**, which was adopted in 1977. It is important that nowadays the largest financial institutions of the United States have been established **''Enterprise scale Risks"** management mechanisms at all levels of the company, that helps correct and stable risk management. In 2011, the Global Risk Management Survey found that 79% of financial service companies have "enterprise-scale risks" management programs.[38]

Establishes standards for private company auditors, produces manual and training materials for members, and monitors the compliance with accountants' professional and technical standards, <http://www.aicpa.org/About/MissionandHistory/Pages/default.aspx>, [18/04/2017].

37 Usually, when using traditional methods of risk management, risks are considered as internal threats; they are identified and assessed unsystematically; risks are being restricted; company employees avoid risk management responsibility. **Enterprise Risk Management/ ERM** has developed an advanced risk management method that differs from the traditional risk management system. Accordingly the risks are considered as part of the bank's strategy; risk portfolio is drawn; they are optimized; risk management strategy is written; management of specific risks entrusts to the relevant persons; the process is regularly monitored and evaluated; responsibilities of risk are imposed on everyone. Risk management in small and medium-sized banks: problems and prospects - Evgenevna G., Associate Professor of Chair of Economic Analysis, Statistics and Finance, Kuban State University, Banking Management, Financial Prospect No. 2 (6) 2012, 8-10 (In Russian).

38 Financial Institution Risk Management Issues - White paper, January 2014. sponsored by AIG. ADVISEN LTD (Insurance Intelligence), 2, 6, 7.

5. Conclusion

As a result of the financial crisis of 2008, it became clear that the lack of a complex approach to risks, directly affected companies, industries and economies of the states. naturally, this has led to the creation of new problems in the management of corporate risks, the solution to which proved to be a long-term process.

Risk management policy has been defined; risk management methodologies, action plans, and recommendation proposals have been developed due to financial crisis, rumored corporate scandals, companies' financial losses and consequent negative social-economic events. For companies of many industries, risk management is a priority at this moment. In addition, risk management is urgent at national, regional and international levels.

Viewpoint is spread that the correct management of risks should create a stable and reliable reputation of the company (which ultimately results in material profits); the circle of entities interested with company should increase; risk management should be an integral part of decision making. Regrettably, until recently risk management has been seen as an extra cost for many entrepreneurs, but it should be noted that expenses arise only when risk management is incoherent. This process not only decreases the costs of the company; but also reduces negative financial, economic and/or reputational impacts, risk management benefits the company, increases its competitiveness and profits. Considering this, risk management should be considered not only as an important direction for corporate governance (as systematic preventive activity) but also as a common dividend for companies, markets and states. Therefore, it can be said that the concept of ''risk management'' has acquired a new meaning.

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