

Risk Management

MGM 510

Prepared by
Dr. Hamed Almahadin

Lecture 8



The background features a series of vertical panels with rounded ends. The first panel on the left shows a person's hands typing on a laptop. The second panel shows a graduation cap icon. The third panel shows a play button icon. The fourth panel shows a target icon. The fifth panel shows an open book icon. The sixth panel shows a magnifying glass icon. The seventh panel shows a person icon. The eighth panel shows a bar chart icon. The ninth panel shows a line graph icon. The tenth panel shows a pie chart icon. The eleventh panel shows a scatter plot icon. The twelfth panel shows a bar chart icon. The thirteenth panel shows a line graph icon. The fourteenth panel shows a pie chart icon. The fifteenth panel shows a scatter plot icon. The sixteenth panel shows a bar chart icon. The seventeenth panel shows a line graph icon. The eighteenth panel shows a pie chart icon. The nineteenth panel shows a scatter plot icon. The twentieth panel shows a bar chart icon. The twenty-first panel shows a line graph icon. The twenty-second panel shows a pie chart icon. The twenty-third panel shows a scatter plot icon. The twenty-fourth panel shows a bar chart icon. The twenty-fifth panel shows a line graph icon. The twenty-sixth panel shows a pie chart icon. The twenty-seventh panel shows a scatter plot icon. The twenty-eighth panel shows a bar chart icon. The twenty-ninth panel shows a line graph icon. The thirtieth panel shows a pie chart icon. The thirty-first panel shows a scatter plot icon. The thirty-second panel shows a bar chart icon. The thirty-third panel shows a line graph icon. The thirty-fourth panel shows a pie chart icon. The thirty-fifth panel shows a scatter plot icon. The thirty-sixth panel shows a bar chart icon. The thirty-seventh panel shows a line graph icon. The thirty-eighth panel shows a pie chart icon. The thirty-ninth panel shows a scatter plot icon. The fortieth panel shows a bar chart icon. The forty-first panel shows a line graph icon. The forty-second panel shows a pie chart icon. The forty-third panel shows a scatter plot icon. The forty-fourth panel shows a bar chart icon. The forty-fifth panel shows a line graph icon. The forty-sixth panel shows a pie chart icon. The forty-seventh panel shows a scatter plot icon. The forty-eighth panel shows a bar chart icon. The forty-ninth panel shows a line graph icon. The fiftieth panel shows a pie chart icon. The fifty-first panel shows a scatter plot icon. The fifty-second panel shows a bar chart icon. The fifty-third panel shows a line graph icon. The fifty-fourth panel shows a pie chart icon. The fifty-fifth panel shows a scatter plot icon. The fifty-sixth panel shows a bar chart icon. The fifty-seventh panel shows a line graph icon. The fifty-eighth panel shows a pie chart icon. The fifty-ninth panel shows a scatter plot icon. The sixtieth panel shows a bar chart icon. The sixty-first panel shows a line graph icon. The sixty-second panel shows a pie chart icon. The sixty-third panel shows a scatter plot icon. The sixty-fourth panel shows a bar chart icon. The sixty-fifth panel shows a line graph icon. The sixty-sixth panel shows a pie chart icon. The sixty-seventh panel shows a scatter plot icon. The sixty-eighth panel shows a bar chart icon. The sixty-ninth panel shows a line graph icon. The seventieth panel shows a pie chart icon. The seventy-first panel shows a scatter plot icon. The seventy-second panel shows a bar chart icon. The seventy-third panel shows a line graph icon. The seventy-fourth panel shows a pie chart icon. The seventy-fifth panel shows a scatter plot icon. The seventy-sixth panel shows a bar chart icon. The seventy-seventh panel shows a line graph icon. The seventy-eighth panel shows a pie chart icon. The seventy-ninth panel shows a scatter plot icon. The eightieth panel shows a bar chart icon. The eighty-first panel shows a line graph icon. The eighty-second panel shows a pie chart icon. The eighty-third panel shows a scatter plot icon. The eighty-fourth panel shows a bar chart icon. The eighty-fifth panel shows a line graph icon. The eighty-sixth panel shows a pie chart icon. The eighty-seventh panel shows a scatter plot icon. The eighty-eighth panel shows a bar chart icon. The eighty-ninth panel shows a line graph icon. The ninetieth panel shows a pie chart icon. The ninety-first panel shows a scatter plot icon. The ninety-second panel shows a bar chart icon. The ninety-third panel shows a line graph icon. The ninety-fourth panel shows a pie chart icon. The ninety-fifth panel shows a scatter plot icon. The ninety-sixth panel shows a bar chart icon. The ninety-seventh panel shows a line graph icon. The ninety-eighth panel shows a pie chart icon. The ninety-ninth panel shows a scatter plot icon. The hundredth panel shows a bar chart icon.

Ch#8
Risk Assessment
Considerations

Chapter
08

Topics to Cover in Week 8

- Risk Assessment
- Importance of Risk Assessment
- Approaches to Risk Assessment
- Risk assessment techniques
- Nature of the Risk Matrix
- Attitude to Risk

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Risk Assessment

- Risk recognition and risk rating together form the risk assessment component of the risk management process.

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Risk Assessment

- Risk assessment involves the recognition of risks and the rating of them to determine the significant risks facing the organization, project or strategy.

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Risk Assessment

- It is defined in British Standard BS 31100 as the overall process of risk identification, risk analysis and risk evaluation.

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Risk Assessment



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Risk Assessment

- Because the risk management input into strategy focuses on improved decision making, risk assessment is the main risk management input into strategy formulation.

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Risk Assessment

- Risks may be attached to corporate objectives, stakeholder expectations, core processes and key dependencies.

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08

Risk Assessment

- Whichever of these features is selected as the starting point, risk assessment can be undertaken.
- The purpose of risk assessment is to identify the significant risks that could impact the selected feature.

Chapter
08**Importance of Risk Assessment**

- Although risk assessment is vitally important, it is only useful if the conclusions of the assessment are used to inform decisions and/or to identify the appropriate risk responses for the type of risk under consideration.

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08

Importance of Risk Assessment

- It should be considered as the starting point of the risk management process, and it is certainly not an end.

Chapter
08**Importance of Risk Assessment**

- An important feature of undertaking a risk assessment is to decide whether the identified risk is going to be evaluated at the inherent level or at the current (or residual) level.
- Assessment of inherent risk is undertaken without taking account of the controls that are currently in place.

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Importance of Risk Assessment

- This is the approach that has been recommended by internal auditors.
- An internal auditor will point out that two risks at the same current or net value may have significantly different inherent or gross values.
- It is important to know when this is the case.

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Importance of Risk Assessment

- The benefit of undertaking assessment of inherent risk is that the difference between the current level and the inherent level can be identified.

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Importance of Risk Assessment

- This will give an indication of the importance of the existing control measures and the information is used by internal auditors to help identify critical controls and set audit priorities.

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Importance of Risk Assessment

- Although this may be a useful approach, there can be considerable difficulties in identifying the value of the inherent level of risk.

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Approaches to Risk Assessment

- There are several approaches that can be taken when planning how to undertake risk assessment.
- One of the key decisions will be who to involve in the risk assessment exercise.

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Approaches to Risk Assessment

- Sometimes risk assessments are undertaken by the board of directors as a top-down exercise.
- Risk assessments can also be undertaken by involving individual members of staff and local departmental management.
- This bottom-up approach is also valuable.

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Top-Down Risk Assessment

Advantages	Disadvantages
Likely to result in an enterprise-wide approach – the risks at the top will have impacts throughout the business	Senior managers and directors tend to be more focused on risks external to the organization
The most significant strategic risks for the organization can be captured quickly and there will be a manageable number	Limited awareness of internal operational risks or interdependencies of risks within the business
Shows risk management buy-in from the top, resulting in acceptance of risk management activities at all levels	Danger that the approach becomes too superficial, because senior managers believe they can manage crises
Since it originates from the top, there is likely to be consistent methodology throughout the organization	New risks emerging from the operational activities of the organization might not be fully identified

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Bottom-Up Risk Assessment

Advantages	Disadvantages
Significant buy-in at all levels of the organization should be achieved	There will be little focus on external risks or strategic risks
Can be mirrored to an existing organization chart and risk impacts beyond immediate operational risks can be discussed	Time-consuming and may demotivate, if it takes longer to develop the overall enterprise results
Operational staff have great awareness of local risks and their causes, which might elude higher levels of management	Danger that the approach becomes too detailed and blinkered, resulting in a silo approach to risk assessment
Methodology can be varied according to local norms and culture and this is useful for a multinational organization	New risks emerging from the operational activities of the business might not be reported by operational staff

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Risk Assessment Techniques

Technique	Brief description
Questionnaires and checklists	Use of structured questionnaires and checklists to collect information that will assist with the recognition of the significant risks
Workshops and brainstorming	Collection and sharing of ideas at workshops to discuss the events that could impact the objectives, core processes or key dependencies
Inspections and audits	Physical inspections of premises and activities and audits of compliance with established systems and procedures
Flow charts and dependency analysis	Analysis of the processes and operations within the organization to identify critical components that are key to success

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Risk Assessment Techniques

Technique	Advantages	Disadvantages
Questionnaires and checklists	Consistent structure guarantees consistency Greater involvement than in a workshop	Rigid approach may result in some risks being missed Questions will be based on historical knowledge
Workshops and brainstorming	Consolidated opinions from all interested parties Greater interaction produces more ideas	Senior management tends to dominate Issues will be missed if incorrect people involved

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Risk Assessment Techniques

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Risk Assessment Techniques

- Risk workshops are probably the most common of the risk assessment techniques.
- Brainstorming during workshops enables opinions regarding the significant risks faced by the organization to be shared.

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Risk Assessment Techniques

- A common view and understanding of each risk is achieved.
- However, the disadvantage can be that the more senior people in the room may dominate the conversation, and contradicting their opinions may be difficult and unwelcome.

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Risk Assessment Techniques

- In order to have a structured discussion at a risk assessment workshop, several brainstorming structures are in common use.
- These may be qualitative or quantitative, depending on the level of analysis of the risk that is required.

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Risk Assessment Techniques

- The most common of the qualitative brainstorming structures are the SWOT and PESTLE analysis.
- SWOT is an analysis of the strengths, weaknesses, opportunities and threats faced by the organization.

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Risk Assessment Techniques

- The SWOT analysis has the benefit that it also considers the upside of risk by evaluating opportunities in the external environment.
- One of the strengths of the SWOT analysis is that it can be linked to strategic decisions.

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Risk Assessment Techniques

- However, because it is not a structured risk classification system, there is a possibility that not all of the risks will be identified.

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Risk Assessment Techniques

- The other common qualitative approach is the PESTLE analysis that considers the political, economic, social, technological, legal and ethical (or environmental) risks faced by the organization.

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Risk Assessment Techniques

- PESTLE is a well-established structure with proven results for undertaking brainstorming sessions during risk assessment workshops.

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Nature of the Risk Matrix

- When a risk has been recognized as significant, the organization needs to rate it so that the priority significant risks can be identified.

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Nature of the Risk Matrix

- Techniques for rating risks are well established, but there is also a need to decide what scope exists for further improving control.

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Nature of the Risk Matrix

- Consideration of the scope for further cost-effective improvement is an additional consideration that assists the clear identification of the priority significant risks.

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Nature of the Risk Matrix

- An organization will need to establish the measures of risk likelihood and risk impact that will be used throughout the organization.

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Definitions of Likelihood

Likelihood	Frequency
Unlikely	Can reasonably be expected to occur, but has only occurred 2 or 3 times over 10 years in this organization or similar organizations
Possible	Has occurred in this organization more than 3 times in the past 10 years or occurs regularly in similar organizations, or is considered to have a reasonable likelihood of occurring in the next few years
Likely	Occurred more than 7 times over 10 years in this organization or in other similar organizations, or circumstances are such that it is likely to happen in the next few years
Almost certain	Has occurred 9 or 10 times in the past 10 years in this organization, or circumstances have arisen that will almost certainly cause it to happen

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Definitions of Impact

Descriptor	Definition
Small	No impact on patient health; minor reduction of reputation in the short run; no violation of law; negligible economic loss which can be restored
Moderate	Minor temporary impact on patient health; small reduction of reputation that may influence trust for a short time; violation of law that results in a warning; small economic loss that can be restored
Severe	Serious impact on health; serious loss of reputation that will influence trust and respect for a long time; violation of law that results; large economic loss that cannot be restored
Catastrophic	Death or permanent reduction of health of patient; serious loss of reputation that is devastating for trust; serious violation of law; considerable economic loss that cannot be restored

Chapter
08**Attitude to Risk**

- Figure 10.1 provides an empirical illustration of risk attitude using a standard risk matrix.
- It represents the risk attitude of a risk-averse organization.

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08

Attitude to Risk

- It is becoming more common for a risk attitude matrix to contain four sections.
- These sections can be represented by the 4Cs of comfort, cautious, concerned and critical.

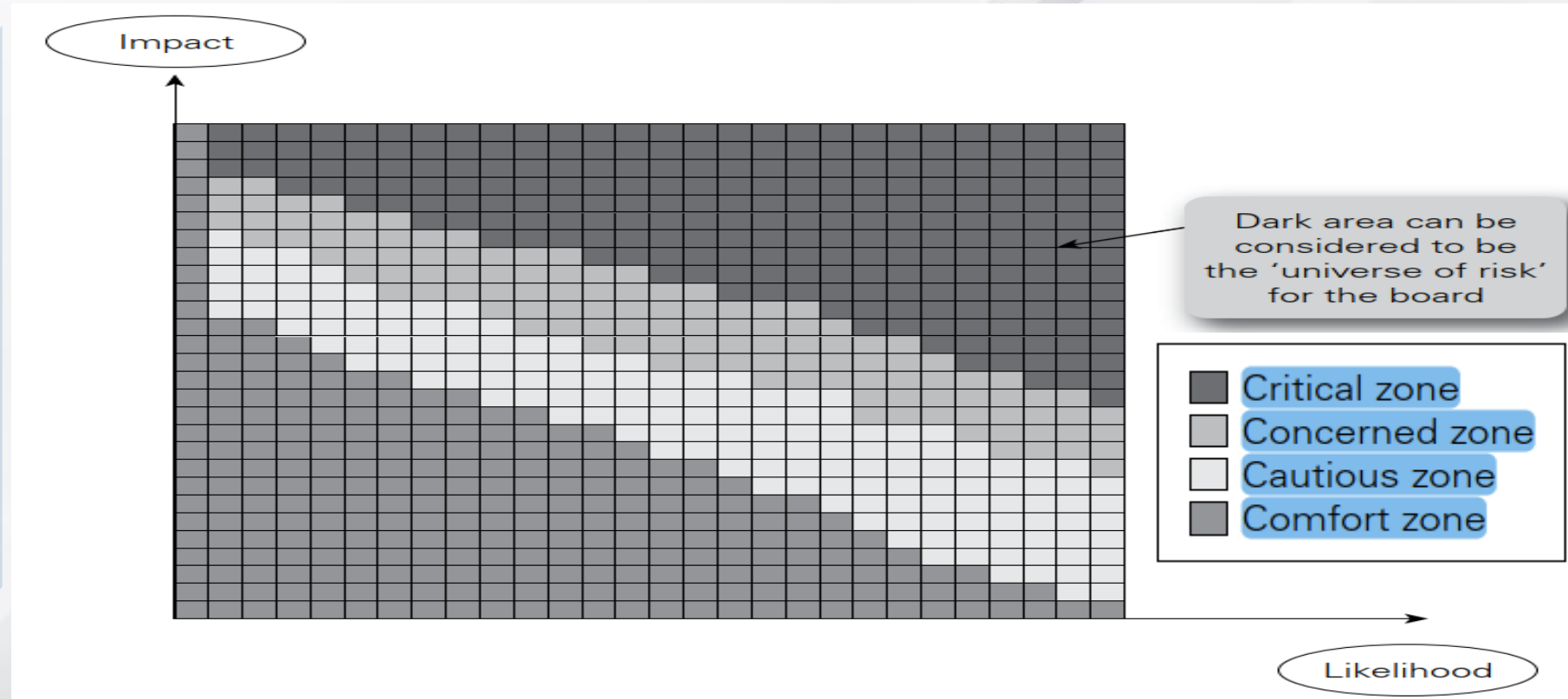
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Attitude to Risk

- Risk attitude represents the long-term approach of the organization to risk.
- These descriptors can also be attached to the four sections on a risk appetite matrix to describe the approach to short-term risk taking.

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Attitude to Risk





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Thank You

