

Risk Management

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Lecture 4

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التعاوني ويقدم العلم مقابل العمل للتنمية وبناء المجتمعات.

MGM 510

Risk Management



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Topics to Cover in Week 4

- Scope of risk management.
- Importance of risk management
- Specialist areas of risk management
- Representation of risk management
- 8Rs and 4Ts of [hazard] risk management
- Enterprise Risk Management
- Levels of risk management sophistication



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Scope of risk management

Risk management is the set of activities within an organization undertaken to deliver the most favourable outcome and reduce the volatility **التقلبات** of that outcome.

Historically, the term risk management has been used to describe an approach that was applied only to hazard risks.

The discipline is now developing in a way that will enable risk management to make a contribution to the improved management of control risks and opportunity risks.



- Managing the organization
- Variable cost or availability of raw materials
- Cost of retirement / معاش / pension / تقاعد / social benefits
- Desire to deliver greater shareholder value



- Greater transparency required from organizations.
- Pace وتيرة of change in business ever increases.
- Impact of e-commerce on all aspects of business life
- Increased reliance on information technology (IT) systems



- Increasing importance of intellectual property (IP) الملكية الفكرية (IP)
- Greater supply chain complexity/dependency
- Reputation becomes more and more important
- Reputational damage ضرر سمعة – especially to worldwide brands



- High-profile losses and failures ruin reputations تدمير السمعة
- Regulatory pressures الضغوط التنظيمية continue to increase
- Changes/variation in national legislative requirements
- Joint ventures becoming more common



- Changes in the marketplace
- Changing commercial and marketplace environment
- Globalization of customers, suppliers and products
- Increased competition in the marketplace



- Greater customer expectations, often led by competitors
- Need to respond more rapidly to stakeholder expectations
- More volatile markets الأسواق المتقلبة with less customer loyalty



- Diversification تنوع leads to working in unfamiliar areas
- Constant need to make bold strategic decisions
- Short-term success required, without long-term detriment
- Product innovation and continuous improvements



- Rapid changes in (consumer) product technology
- Threats to world/national economy
- Threat of influenza or other pandemics
- Potential for international organized crime



- Project risk management;
- Clinical/medical risk management;
- Energy risk management;
- Financial risk management;
- IT risk management.



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Representation of risk management

Risk management has well-established stages that make up the risk management process, These stages build into valuable risk management activities, each of which makes an important contribution.

There are many ways of representing the risk management process, and each of the standards mentioned in provides a slightly different description.



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8Rs and 4Ts of [hazard] risk management

1. Recognition or identification of risks and identification of the nature of the risk and the circumstances in which it could materialize.
2. Rating or evaluation of risks in terms of magnitude and likelihood to produce the 'risk profile' that is recorded in a risk register.
3. Ranking or analysing the current or residual level of risk against the established risk criteria or risk appetite.



4. Responding to significant risks, including decisions on the appropriate action regarding the following options:

- tolerate; تحمل
- treat; علاج
- transfer; نقل
- terminate. انهاء



5. Resourcing controls to ensure that adequate arrangements are made to introduce and sustain necessary control activities.
6. Reaction planning and/or event management. For hazard risks, this will include disaster recovery or business continuity planning.



7. Reporting and monitoring of risk performance, actions and events and communicating on risk issues, via the risk architecture of the organization.
8. Reviewing the risk management system, including internal audit procedures and arrangements for the review and updating of the risk architecture, strategy and protocols.



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The activities associated with risk management

- recognition of risks;
- rating of risks;
- ranking against risk criteria;
- responding to significant risks;



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The activities associated with risk management

- resourcing controls;
- reaction (and event) planning;
- reporting of risk performance;
- reviewing the risk management system.



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Enterprise Risk Management

Enterprise Risk Management ('ERM') is a strategic business discipline that supports the achievement of an organization's objectives by addressing the full spectrum of its risks and managing the combined impact of those risks as an interrelated risk portfolio.



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Enterprise Risk Management

Enterprise Risk Management ('ERM') is the process of identifying and addressing methodically the potential events that represent risks to the achievement of strategic objectives, or to opportunities to gain competitive advantage.



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Enterprise Risk Management

Risk management is an essential element of the strategic management of any organisation and should be embedded in the ongoing activities of the business.



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Enterprise Risk Management

The fundamental elements of ERM are the assessment of significant risks and the implementation of suitable risk responses.

Risk responses include: acceptance or tolerance of a risk; avoidance or termination of a risk; risk transfer or sharing via insurance, a joint venture or other arrangement; and reduction or mitigation of risk via internal control procedures or other risk prevention activities.



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Enterprise Risk Management

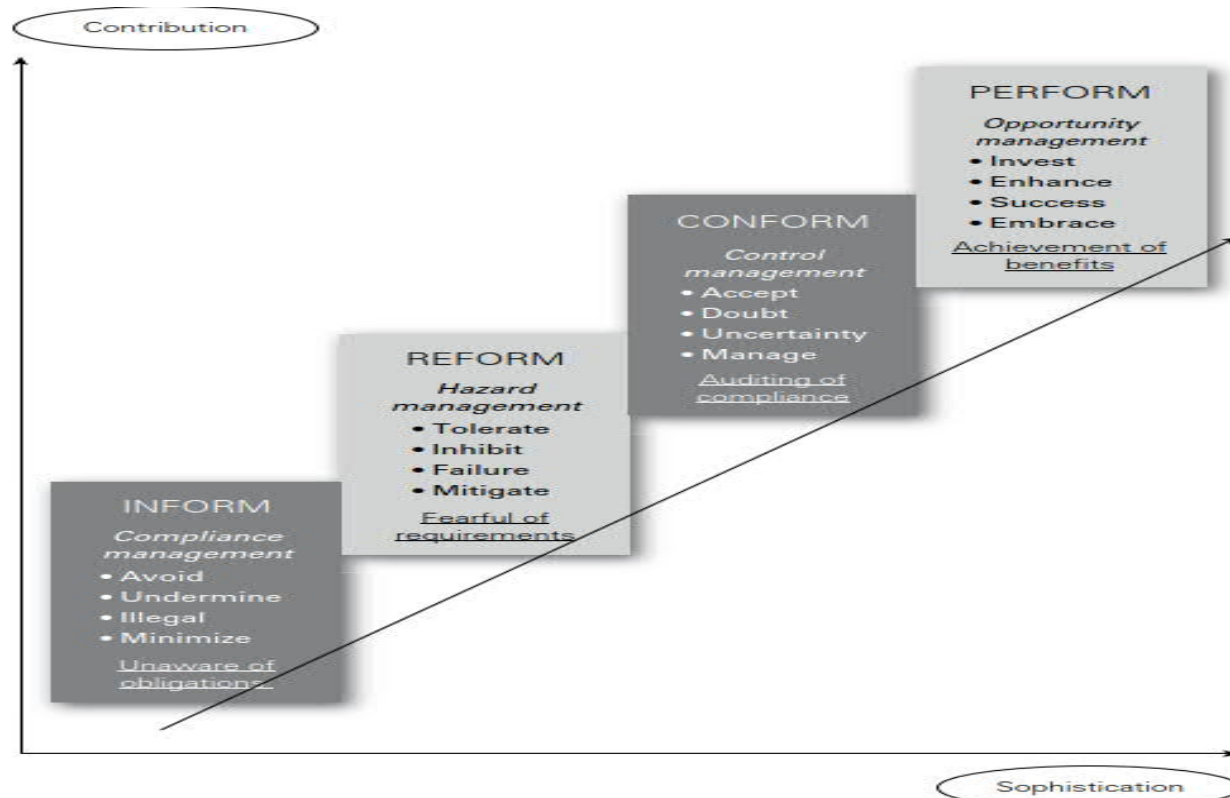
Other important ERM concepts include the risk philosophy or risk strategy, risk culture and risk appetite. These are expressions of the attitude to risk in the organisation, and of the amount of risk that the organisation is willing to take. These are important elements of governance responsibility.



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Levels of risk management sophistication



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Levels of risk management sophistication

At first, an organization may be unaware of the legal and contractual obligations that it faces. In that case, it will be necessary to inform the organization of its obligations in relation to the risk.

INFORM

Compliance management

- Avoid
- Undermine
- Illegal
- Minimize

Unaware of obligations



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Levels of risk management sophistication

As the level of sophistication develops, the organization will become aware of the need to comply with obligations and the more general need for improved risk management.

INFORM

Compliance management

- Avoid
- Undermine
- Illegal
- Minimize

Unaware of obligations



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Levels of risk management sophistication

Once it is aware of obligations, there will be a need for the organization to reform *اصلاح* in response to the hazard risks. As the organization responds to the risk.

REFORM

Hazard management

- Tolerate
- Inhibit
- Failure
- Mitigate

Fearful of requirements



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Levels of risk management sophistication

it will seek to conform to the appropriate risk control standards.

CONFORM

Control management

- Accept
- Doubt
- Uncertainty
- Manage

Auditing of compliance



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Levels of risk management sophistication

After this stage, the organization may realize that there are benefits to be obtained from the risk.

The organization will then have the ability to perform and view the risk as an opportunity risk

PERFORM

Opportunity management

- Invest
- Enhance
- Success
- Embrace

Achievement of
benefits



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Levels of risk management sophistication

As the level of sophistication increases and risk management professionals become aware of the alternative approaches to risk management, they should value the contribution that can be made by other approaches.



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The development in risk management approach can be summarized as follows:

- Compliance management must not be undertaken in a fragmented manner, even if excellent standards of compliance are achieved.



- Hazard management specialists may find that there has been a trend towards a desire to retain more insurable risks (and buy less insurance) as a result of a more holistic approach to risk management.
- Control management specialists must not squeeze entrepreneurial spirit and effort out of the organization.



- Strategic planners must recognize that risk management tools and techniques can contribute to better strategic decisions and the successful exploitation of business opportunities.



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Thank You



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