

PMG510

Risk Management

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جامعة الجميع الذكية

تسعى لتكون الكيان الأول الذي يتبنى مبدأ المجتمع التعليمي
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Defining the upside of risk Lecture 7



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Lecture 6 Conclusion

1. Application of a risk matrix
2. Inherent and current level of risk
3. Control confidence
4. 4T's of hazard risk response
5. Risk capacity
6. Risk likelihood
7. Risk Magnitude
8. Loss prevention, Limit damage, and cost containment

Lecture 7 Organization

1. Upside of risk
2. Opportunity assessment
3. Riskiness index
4. Upside in strategy
5. Upside in projects
6. Upside in operations
7. Strategic risk response
8. Types of controls:

Upside of risk

- There is a belief amongst risk management practitioners that **risk management** makes **a significant contribution** to the operation of the organization, and this contribution is often described as **the upside of risk**.
- In simple terms, **the upside of risk** is achieved when **the benefits obtained from taking the risk** are **greater than any benefit** that would have resulted from not **taking** it.
- In other words, the organization has received **an overall benefit** from **undertaking the activities** that resulted **in exposure to the risk** or set of risks involved.

Upside of risk

- **For example:**

- ✓ a manufacturing company that produces waste by-products that create a disposal problem may achieve the upside of risk by selling the unwanted byproduct or by identifying a means of adding value to the waste product and selling it as another product stream.
- ✓ This is an example of identifying a difficulty for the business and, in solving that difficulty, acquiring additional benefits that had not been foreseen and were not otherwise available.

Upside of risk

- In simple terms, the upside of risk may just be the reward for taking the risk in the first place.
- **For example:** Climbing a challenging mountain may be a significant risk, but the upside of taking that risk is when the climber has safely reached the summit and gains that reward.

Upside of risk

Defining the upside of risk:

- Fewer disruptions to normal operations and greater operational efficiency resulting in less downside of risk
- Ability to seize an opportunity because competitors did not identify the cost-effective solution to a risky feature of a contract
- Specifically identifying positive events during the risk assessment and deciding how to encourage those events
- Opportunity management, by completing a detailed review of a business opportunity before deciding to embrace it
- Achieving a positive outcome in difficult circumstances as an unintended and/or automatic result of good risk management



Upside of risk

Honesty box and the upside of risk

- ✓ Consider the case of the vendor in Wall Street, New York City, who set up a stand and sold donuts and coffee to passers-by as they went in and out of their office buildings.
- ✓ During the breakfast and lunch hours, he always had long lines of customers waiting. He noticed that the time wait discouraged many customers who left and went elsewhere.

Upside of risk

Honesty box and the upside of risk

- ✓ He also noticed that, as he was a one-man show, the biggest bottleneck preventing him from selling more donuts and coffee was the disproportionate amount of time it took to make change for his customers
- ✓ Finally, he put a small basket on the side of his stand filled with dollar bills and coins, trusting his customers to make their own change.
- ✓ You might think that customers would accidentally count wrong or intentionally take extra quarters from the basket, but what he found was the opposite – most customers responded by being completely honest, often leaving him with larger-than-normal tips.

Upside of risk

Honesty box and the upside of risk

- ✓ Also, he was able to move customers through at twice the pace because he didn't have to make change.
- ✓ In addition, he found that his customers liked being trusted and kept coming back. By extending trust in this way, he was able to double his revenues without adding any new cost.

Opportunity assessment:

- **The opportunity evaluation** is designed to identify the additional business opportunities that could arise from **winning that client business**.
- The **evaluation** will also look at **the potential disadvantages** of successfully acquiring the client prospect.
- When undertaking such an **opportunity assessment**, there has to be the possibility that the organization will **advise the client prospect** that they do not wish **to tender for the business**.

Opportunity assessment:

- When seeking **to identify opportunities**, many organizations **facilitate a risk assessment workshop** that seeks to identify and **analyze hazards and opportunities at the same time**
- One of the challenges when undertaking **a risk assessment workshop** that covers both **opportunities and hazards** is that **a wide range** of people will need to **attend the workshop**.
- **Hazards** tend to be **operational-** and **compliance-related**, whereas **opportunities** tend to be associated with **strategy and tactics**.

Opportunity assessment:

- As with hazard risks, the identification and analysis of opportunities has to be followed by evaluation of the opportunities and the identification of actions or controls that will need to be in place to ensure that the anticipated benefits are more likely to be achieved.
- The opportunity assessment methodology will need to be applied to the opportunities that have been identified, analyzed and recorded on the risk matrix.

Riskiness index:

- One of the features of the enterprise risk management approach is to develop a consolidated view of the risk exposure of the organization.
- The approach based on calculating the total risk exposure of an organization is similar to the approach taken to the measurement and quantification of risk in operational risk management.
- The idea of a 'riskiness index' is to present a semi-quantitative approach that takes a snapshot of the overall level of risk embedded in the organization.

Riskiness index:

- The overall level of risk will take account of **the strategy currently** being followed by the organization, the projects that are in progress, and the nature of **the routine operations** being undertaken.
- **Riskiness index** approach can **offer an opportunity** to **benchmark risk management** performance and **track changes** over time.

Riskiness index:

- Calculating the riskiness index of an organization requires identification of the hazard risks actually being taken by that organization.
- In other words, evaluating the riskiness index of an organization helps to identify the actual risk exposure of that organization.
- Having identified the actual level of risk embedded within an organization, the board of that organization can then ask whether the portfolio of risks is within the risk appetite and/or the risk capacity of the organization and compatible with the risk attitude of the board.

Riskiness index:

- **For example:** The 2016 version of the UK Corporate Governance Code contains the following: requirement for companies listed on the London Stock Exchange:
 - ✓ The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives.
 - ✓ Organizations should be careful to ensure that, having identified the risks that they are taking by a mechanism similar to calculating the riskiness index, the board does not then simply decide that the risks it is currently taking must be the same as the risks it is willing to take.

Thanks



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