

PMG510

# Risk Management

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جامعة الجميع الذكية

تسعى لتكون الكيان الأول الذي يتبنى مبدأ المجتمع التعليمي  
التعاوني ويقدم العلم مقابل العمل لتنمية وبناء المجتمعات.

## scope of risk Management Lecture 3



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## Lecture 2 Summery

- **Impact of risk on organizations:**

1. Level of risk
2. Impact of hazard risks
3. Attachment of risks
4. Risk and reward
5. Attitudes to risk
6. Risk and triggers

- **Types of risks:**

1. Timescale of risk impact
2. Four types of risk
3. Embrace opportunity risks
4. Manage uncertainty risks
5. Mitigate hazard risks
6. Minimize compliance risks

# Lecture 3 Organization

1. **Origins of Risk Management**
2. **Representation of Risk Management**
3. **Enterprise Risk Management**
4. **Levels of risk management sophistication**
5. **Principles of risk management**
6. **Implementing risk management**
7. **Project Risk Management Planning**

### Origins of Risk Management:

- Organizations realized that purchasing **insurance** was **insufficient** if there was **inadequate attention** to the protection of property and people.
- Insurance buyers therefore became **concerned with the quality of property protection**, the standards **of health and safety**, product liability issues and other risk control concerns
- This combined approach **to risk financing and risk control** developed in Europe during the 1970s and the concept **of total cost of risk** became **important**.
- As this approach became established, it also became obvious that there were many risks facing organizations **that were not insurable**. The tools and techniques of risk management were then applied to other **disciplines**

### Origins of Risk Management:

- **Risk management** is the **set of activities** within an **organization** undertaken to deliver the **most favorable outcome** and **reduce the volatility or variability of that outcome**.

### *Taking about Risk:*

- *Risk management is not about controlling/mitigating risk out of existence.*
- *If business is to perform, management must learn to take more risk and to accept failure.*
- *To perform better than the rest, you must take greater risk, but it should be a calculated risk (the risk accepted is known, as is the likelihood and impact).*
- *It is not acceptable to take risks unwittingly – the past practice of silo-based approaches for managing pockets of risk, leads to unclear responsibilities and a lack of visibility, thereby exposing the organization to unnecessary risk.*

### Origins of Risk Management:

#### Definitions of risk management

| Organization                       | Definition of risk management                                                                                                                                                                |
|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ISO Guide 73<br>BS 31100           | Co-ordinated activities to direct and control an organization with regard to risk                                                                                                            |
| Institute of Risk Management (IRM) | Process which aims to help organizations understand, evaluate and take action on all their risks with a view to increasing the probability of success and reducing the likelihood of failure |
| HM Treasury                        | All the processes involved in identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress            |
| London School of Economics         | Selection of those risks a business should take and those which should be avoided or mitigated, followed by action to avoid or reduce risk                                                   |

### Simple 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
- This basic explanation of the risk management process is referred to as **the 8Rs and 4Ts** of hazard risk management. The activities associated with risk management are as follows:

Recognition of risks

Ranking against risk criteria

Resourcing controls;

Reporting of risk performance

Rating of risks;

Responding to significant risks;

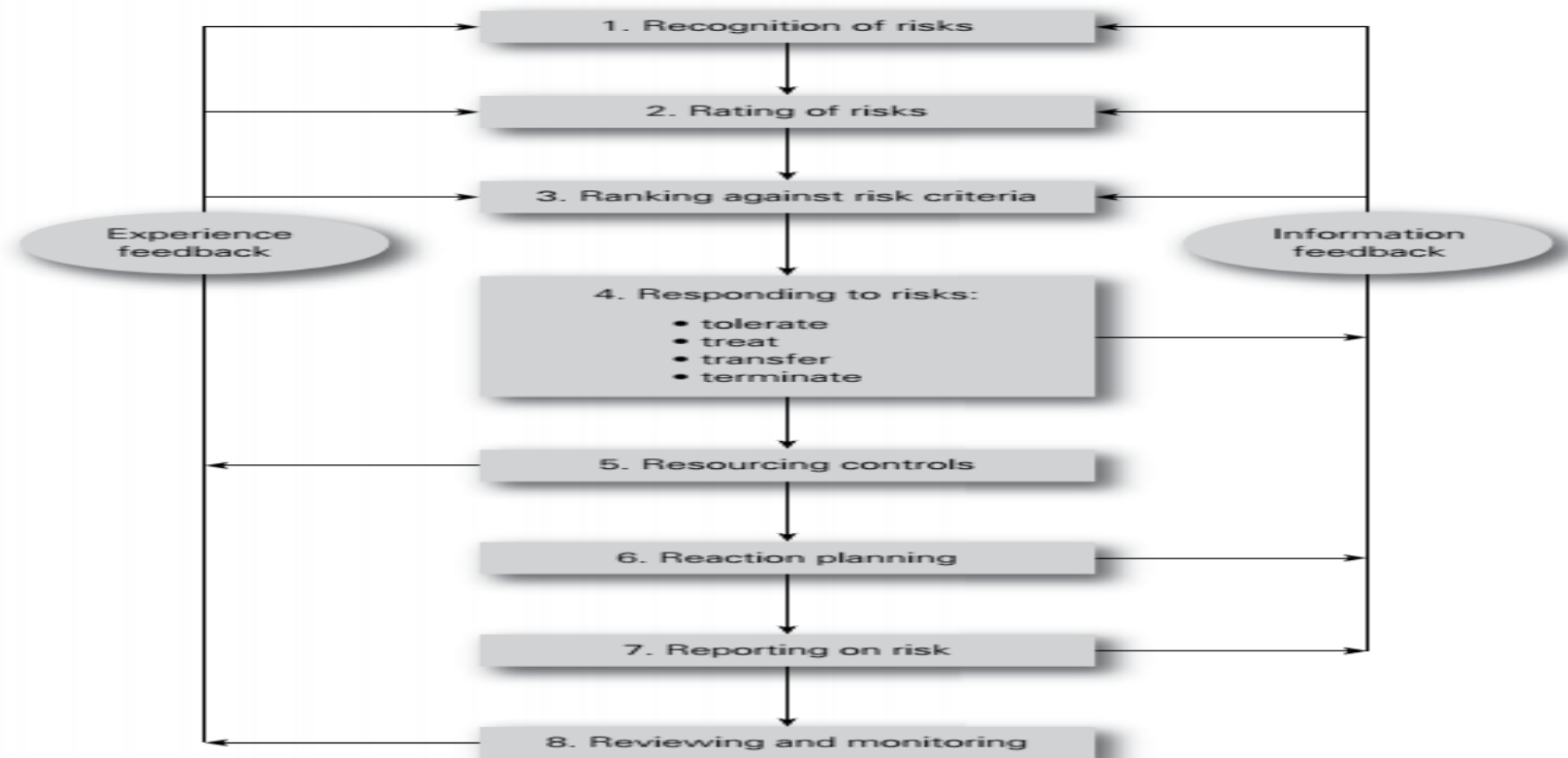
**(Tolerate – Treat – Transfer – Terminate)**

Reaction (and event) planning;

Reviewing the risk management system

### Simple Representation of Risk Management:

**FIGURE 4.1** 8Rs and 4Ts of (hazard) risk management



### Simple Representation of Risk Management:

**TABLE 4.3** 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;
  - treat;
  - transfer;
  - terminate.
- 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.



### Enterprise Risk Management:

- When an organization considers **all of the risks that it faces** and how these risks could **impact its strategy, projects and operations**, then the organization is embarking on an **enterprise risk management approach**.
- The US risk management association, the Risk and Insurance Managers Society (RIMS) defines enterprise risk management as follows:

*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.*



- An enterprise-wide approach has considerable advantages, because it analyses the potential for disruption to the overall stakeholder expectation.

### Enterprise Risk Management:

- Health and safety, for example, is then viewed as a component in ensuring that staff are always available so that the overall operational core process will not be disrupted, rather than (or perhaps as well as) a separate hazard management issue.

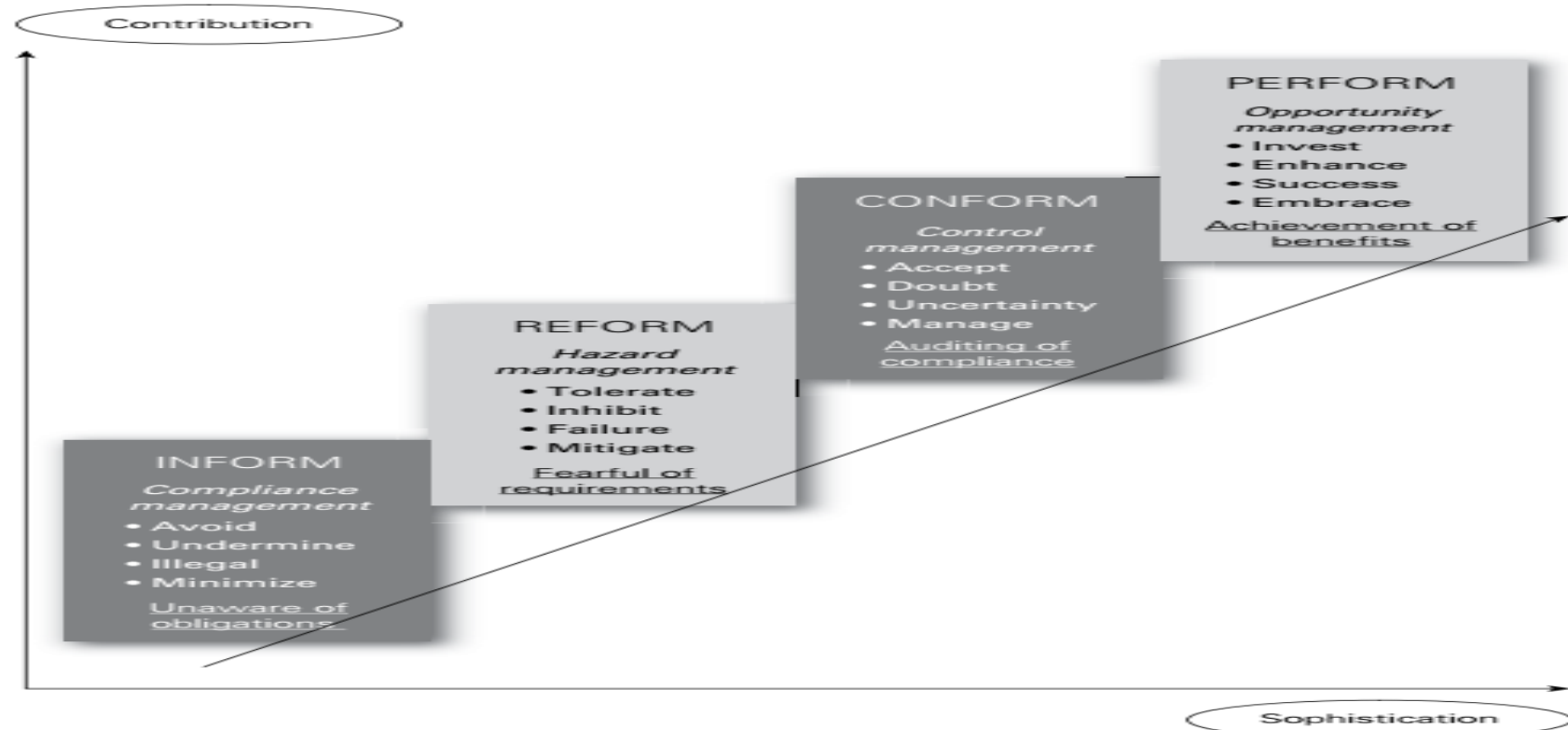
#### **ERM in the pharmaceutical industry**

- A good example of the ERM approach is the pharmaceutical industry. If a person is reliant on a particular medication, then it is vitally important that the medication is constantly available.
- From the point of view of the pharmaceutical company, this means that a core process for the organization must be the 'constant availability of medication' process.
- If the pharmaceutical company takes this approach, it will look at the risks that could affect this core process or stakeholder expectation on an enterprise-wide basis.
- This will involve analysis of the supply chain, evaluation of manufacturing activities and analysis of the delivery arrangements. The overall question that needs to be answered is what could prevent the continuous supply of medication.
- Risks to the continuous supply will include unavailability of ingredients, disruption to manufacturing activities, contamination of the product, breakdown in supply transportation arrangements and disruption to distribution.



### 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.
- 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**. Once it is aware of **obligations**, there will be a need for the organization to **reform** in response to the hazard risks.
- As the organization **responds to the risk**, it will seek to **conform** to the appropriate risk control standards.
- 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**, as illustrated in Figure 4.2.

Levels of risk management sophistication:**FIGURE 4.2** Risk management sophistication

### Levels of risk management sophistication:

- Although the **four levels of risk management** sophistication illustrated in Figure 4.2 represent an improved approach to risk management, there is a danger that organizations will become obsessed with risk management to the point that important decisions are not taken.
- At this point, it may be said that **too much attention and concern about risk** and risk management will cause the organization to **deform** its operations.
- **In summary:**
  1. **unaware** of obligations – **INFORM**;
  2. **awareness** of non-compliance – **REFORM**;
  3. **actions** to ensure compliance – **CONFORM**;
  4. **achieve** business opportunities – **PERFORM**;
  5. **inactivity** caused by **obsession** – **DEFORM**

### 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.
- The development in risk management approach can be summarized as follows:
  1. **Compliance management** must not be undertaken in a **fragmented manner**, even if excellent standards of compliance are achieved.
  2. **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**.
  3. **Control management** specialists must not squeeze entrepreneurial spirit and effort out of the organization.
  4. **Strategic planners** must recognize that **risk management tools** and techniques can contribute to better strategic decisions and the successful exploitation of **business opportunities**.

### Principles of risk management:

- Many of the lists of principles set out a description of what risk management activity should be and what it should achieve.
- It is important to distinguish between what the risk management initiative has been set up to achieve and the nature of the risk management framework that will be put in place.
- **It is suggested that a successful risk management initiative (and framework) will be:**
  1. Proportionate to the level of risk within the organization;
  2. Aligned with other business activities;
  3. Comprehensive, systematic and structured;
  4. Embedded within business procedures and protocols;
  5. Dynamic, iterative and responsive to change.
- This provides the acronym **PACED** and provides a very good set of principles that are the foundations of a successful approach to risk management within any organization.

Principles of risk management:

| Principle     | Description                                                                                      |
|---------------|--------------------------------------------------------------------------------------------------|
| Proportionate | Risk management activities must be proportionate to the level of risk faced by the organization. |
| Aligned       | ERM activities need to be aligned with the other activities in the organization.                 |
| Comprehensive | In order to be fully effective, the risk management approach must be comprehensive.              |
| Dynamic       | Risk management activities must be dynamic and responsive to emerging and changing risks         |

### Principles of risk management:

- What it should deliver by risk management as listed below:
  1. **Mandatory** obligations placed on the organization;
  2. **Assurance** regarding the management of significant risks;
  3. **Decisions** that pay full regard to risk considerations;
  4. **Effective and Efficient** core processes
- In many ways, the starting point for all risk management activities is to decide what the organization is seeking to achieve.
- Table 5.2 sets out the possible purpose or motivation for a risk management initiative as mandatory, assurance, decision making and effective and efficient core processes (**MADE2**).
- Core processes represent the activities of the organization and can be **strategic, tactical, operational or compliance (STOC) in nature**.

### Principles of risk management:

- The objectives for risk management provide the acronym **MADE2** and this confirms that outputs from risk management will lead to **less disruption to normal efficient operations, a reduction of uncertainty in relation to tactics and improved decisions in relation to evaluation and selection of alternative strategies.**
- In other words, a key part of risk management is improved **organizational decision making.**
- The **resources** available for **managing risk are finite** and so the aim is to achieve **an optimum response to risk, prioritized** in accordance with an **evaluation of the risks.** Risk is **unavoidable** and every organization needs to take action to manage it in a way that it can justify to a level that is **acceptable.**
- The appropriate range of responses will depend on the **nature, size and complexity of the organization** and the risks it faces.

Principles of risk management:

| Objective                              | Description                                                                                                                                                                                   |
|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mandatory                              | The basic objective for any risk management initiative is to ensure conformity with applicable rules, regulations and mandatory obligations.                                                  |
| Assurance                              | The board and audit committee of an organization will require assurance that risk management and internal control activities comply with <b>PACED</b> .                                       |
| Decision making                        | Risk management activities should ensure that appropriate risk-based information is available to support decision making.                                                                     |
| Effective and efficient core processes | Risk management considerations will assist with achieving effective and efficient strategy, tactics, operations and compliance to ensure the best outcome with reduced volatility of results. |

*Thanks*



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