

Risk Management

MGM 510

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Lecture 5



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 subsequent panels are semi-transparent and contain white line-art icons: a graduation cap, a play button, a target with an arrow, an open book, and a magnifying glass. The overall color palette is warm, with shades of brown, orange, and blue.

Ch#5

Principles and Aims of Risk Management

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05

Topics to Cover in Week 5

- Risk Management Activities
- Effective and Efficient Core Processes
- Importance of Compliance
- Implementing Risk Management
- Achieving Benefits
- The Structure of the FIRM Risk Scorecard

Chapter
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Risk Management Activities

- Risk management is a process that can be divided into several stages.
 - The IRM Risk Management Standard provides one representation of the stages involved in the risk management process.
 - Alternative illustrations of the risk management process can be found in the International Standard ISO 31000 and in other publications.

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Risk Management Activities

- ISO Guide 73 and British Standard (BS 31100) describe the risk management process as the systematic application of management policies, procedures and practices to the tasks of communicating, consulting, establishing the context, identifying, analyzing, evaluating, treating, monitoring and reviewing risk.

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Risk Management Activities

- However, it could be argued that the setting of policies, procedures and practices, together with the tasks of communicating, consulting and establishing that context, is part of the risk management framework, rather than the risk management process itself.

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Effective and Efficient Core Processes

- Insurable or hazard risks can have an immediate impact on operations.
- Therefore, the initial application of risk management principles was to ensure continuation of normal efficient operations.

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Effective and Efficient Core Processes

- Processes must be effective in that they deliver the results that are required, as well as being efficient.
- For example, there is limited value in having a software program that is efficient if it does not deliver the range of functions that are required.

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Effective and Efficient Core Processes

- Strategic decisions are the most important that an organization has to make.
- Risk management delivers improved information so that strategic decisions can be made with greater confidence.

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Effective and Efficient Core Processes

- The strategy that is decided by an organization must be capable of delivering the results that are required.

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Effective and Efficient Core Processes

- There are many examples of organizations that selected an incorrect strategy or failed to successfully implement the selected strategy.
- Many of these organizations suffered corporate failure.

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Effective and Efficient Core Processes

- Strategic decisions are often most difficult when changes in technology or in customer expectations emerge, as is often the case with grocery stores.

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Effective and Efficient Core Processes

- Organizations that have effective and efficient tactics, operations and compliance, but an incorrect overall strategy will fail.
- This will be the case; however good the risk management activities are at operational and project level.

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Effective and Efficient Core Processes

- Incorrect strategy has resulted in more corporate failures than ineffective or inefficient operations and tactics.

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Importance of Compliance

- The loss of licenses could have an adverse effect on our business and profitability and prevent us from providing gambling services.
- Rank's gaming licenses are fundamental to its operation.

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Importance of Compliance

- In the British part of the business, there is a requirement to hold an operator's license from the UK Gambling Commission (the body responsible for regulating commercial gambling in Great Britain) in respect of each of the licensed activities undertaken.

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Importance of Compliance

- Rank has a dedicated compliance function that is independent of operations and a separate internal audit function that is independent of both operations and the compliance function.

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Implementing Risk Management

- Internal control specialists who believe that risk management is all about the management of uncertainty and the achievement of corporate objectives should not become intolerant of the more traditional insurance risk management approach.

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Implementing Risk Management

- There is no value in one group of specialists being dismissive of the approach adopted by others and being unwilling to utilize the expertise that is available in another group.

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Implementing Risk Management

- There is no single style of risk management or approach to risk management that offers all the answers.
- Clearly, the various styles that can be adopted should operate as complementary approaches within an organization.

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Implementing Risk Management

- The integrative approach to risk management accepts that the organization must tolerate certain hazard risks and must have an appropriate appetite for investment in opportunity risks.

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Implementing Risk Management

- The Risk management tools and techniques should be used to achieve the following:
 - Compliance management provides risk governance;
 - Hazard management makes outcomes less negative;

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Implementing Risk Management

- Control management reduces the range of possible outcomes;
- Opportunity management makes outcomes more positive.

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Achieving Benefits

- It is important to note that not all activities and functions undertaken by managers should be claimed by the risk manager as being undertaken in the name of risk management.

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Achieving Benefits

- Not all activities in the organization will be driven by risk management, even if all decisions, processes, procedures and activities have risks embedded within them.

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Achieving Benefits

- In order to achieve the maximum benefit from risk management input in operations, organizations need instead, however, to focus on loss control.

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Achieving Benefits

- Loss control is a combination of loss prevention, damage limitation and cost containment.

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Achieving Benefits

- Projects should be completed on time, to budget and to specification, performance or quality.

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Achieving Benefits

- Inevitably, there will be a considerable amount of uncertainty associated with all projects.
- The contribution of risk management is to minimize these uncertainties.

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Achieving Benefits

- Management of the risks within projects is a style of control management.
- Risk management input into strategy focuses on the risk assessment of the various strategic options available to an organization.

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Achieving Benefits

- The contribution of risk management to successful strategy is, therefore, focused on the decision-making activities.

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Achieving Benefits

- The 4Es of opportunity management and plots risk exposure against potential reward.

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Achieving Benefits

- Organizations undertaking strategic risk management will complete a careful review of viable new business prospects and undertake detailed risk assessment before making strategic decisions.

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The Structure of the FIRM Risk Scorecard

- Financial benefits arising from better allocation of funds, monitoring of expenditure and reduced exposure to fraud;

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The Structure of the FIRM Risk Scorecard

- Infrastructure benefits that have included fewer failures of the IT systems and reduced staff absence rates;

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The Structure of the FIRM Risk Scorecard

- Reputational benefits from ethical sourcing policies and use of organic food in the restaurant, as well as successful niche productions in the theatre;

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The Structure of the FIRM Risk Scorecard

- Marketplace benefits resulting in 89 per cent occupancy rates, up from 83 per cent three years ago, as well as increased spend in the theatre by patrons.

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05

The Structure of the FIRM Risk Scorecard

- Using the structure of the FIRM risk scorecard, an organization will be able to demonstrate the benefits that it has obtained from a risk management initiative.

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05

The Structure of the FIRM Risk Scorecard

- It is likely that the following benefits will have been delivered to a theatre that has been pursuing a structured proactive enterprise risk management approach for about three years.



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Thank You

