Risk Management – Why all the fuss?

Presentation to
AIEC Conference, 2005
Gold Coast, Queensland
12 October 2005

Dr Helen Lange
MBA Program Director
Associate Professor of Finance
Universitas 21 Global
Outline

- The environment for Risk Management
- Definitions of Risk and Risk Management
- Context of Risk Management and in practice
- Risk Management and Culture and Leadership
- Risk Management – why all the fuss?
Knowledge Economy - Issues

- Business is faster
- Jobs are more autonomous – empowerment
- Shorter term job prospects
- Technology is our friend
- Higher consumer awareness and activism
- Change is a constant
- Global influences
- Longer working hours
- Stress and related issues

- Rapid changing needs
- Outward looking
- Highly adaptable and flexible
- Highly responsive
- Cultural development issues
- Leadership and succession planning issues
What is Risk?

- Risk is anything, event, practice, process, activity, etc which has an uncertain outcome.
- In a business sense it is any threat to the achievement of our organisational objectives.
- Risk Management is the
  - identification,
  - Measurement, and
  - management
  of events which may adversely impact your organisational objectives.
- There are three main types of business risks:
  - Financial Risks - directly impact financial position
  - Operational Risks - indirectly impact financial outcomes
  - Strategic Risks - impact viability of business
<table>
<thead>
<tr>
<th>External Factors</th>
<th>Internal Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic conditions</td>
<td>Internal culture</td>
</tr>
<tr>
<td>Social, legal and regulatory trends</td>
<td>Staff capabilities</td>
</tr>
<tr>
<td>Political climate</td>
<td>Staff numbers</td>
</tr>
<tr>
<td>Intergovernmental Agreements</td>
<td>Capacity</td>
</tr>
<tr>
<td>Student behaviour</td>
<td>Systems and technology</td>
</tr>
<tr>
<td>Marketing agents</td>
<td>Procedures and processes</td>
</tr>
<tr>
<td>Competition – international and domestic</td>
<td>Diversity of students</td>
</tr>
<tr>
<td>Market for good faculty</td>
<td>Marketing methods</td>
</tr>
<tr>
<td>Fluctuations in demand</td>
<td>Communication effectiveness</td>
</tr>
<tr>
<td>Terrorist and criminal activities</td>
<td>Leadership effectiveness</td>
</tr>
<tr>
<td>Alternative course delivery modes</td>
<td>Risk appetite</td>
</tr>
<tr>
<td>International health issues</td>
<td></td>
</tr>
</tbody>
</table>
Risk Management - Components

• Articulate the organisation’s objectives
• Identify the risks
• Assess their impact and likelihood
• Decide appropriate course of action
• Communicate effectively
• Take a strategic view
OBJECTIVES
Guiding Principles
Long Term focus

Risk Management Process
Identify Risks
Measure Risks
Manage Risks
Risk Identification - *Consideration of Likelihood and Impact*

- **Likelihood**
  - Low
  - High

- **Impact**
  - Low
  - High

**Danger Zone**
Most Management Time is Spent Down Here
Risk Appetite

- How risk averse is your organisation?
- Strategic approach requires a consistent message about risk taking
- Where is your organisation on the continuum?
- Does it have a consistent message on risk management that is understood and embedded in the way your organisation operates?

Conservative  Entrepreneurial
Risk Management

- **Risk Avoidance**
  - Where possible
  - Can lead to loss of opportunity
  - Concentrate on events with little impact on strategic positioning.
  - High frequency – low impact activities should be streamlined to avoid risk

- **Risk Transfer**
  - Costly – through premium
  - Insurance, hedging, etc
  - Suitable for high impact but very low likelihood events

- **Risk Control**
  - Management, monitoring and feedback
  - High likelihood events with medium or high impact
Risk Management Process

RISK Event

Can we avoid risk?

YES

Do we transfer risk?

YES

Impact and Likelihood

Filter Process

Feedback systems

Monitoring systems

Measurement Systems

Risk Control Process
Effective Communication

• Attitudes to risk taking – need for consistency
• Risk taking limits and guidelines
• Key strategic risks that cannot be avoided
• Risk management strategies in place
• Risk management systems and control processes
• The value of early warning
• The role of staff in the process

• Encourage a “no-blame” culture
  • Encourage upwards and sideways communication
  • Listen!
Leadership is Needed!

**Knowledge**
- RM requires collection, assessment, management and dissemination of relevant information
- Requires clear identification of strategic objectives

**Control**
- Requires clear linkages between objectives and risk management processes
- Risk management needs to be driven
- Requires top down guidance
- Requires decisive action

**Communication**
- Requires communication at all levels
- Requires good listening skills
- Needs to become a part of the culture of firm
Risk Management – Why all the Fuss?

• The knowledge economy is making things more uncertain
• The business environment is less stable
• The workplace is more dynamic with change as the only real constant
• Customer base changes rapidly
• Global influences are far less predictable
• Risks must be well understood
• Risks must be anticipated and managed more systematically
• Risk management is simply good business practice.
Thank you
and
Questions?