

DIPLOMA IN LAW ENFORCEMENT

DLE 2163: SECURITY RISK MANAGEMENT

Chapter 2

The Importance of Risk Management



security

LEARNING OUTCOMES

Upon completion of the syllabus topics, students should be able to:

1. Identify the importance of risk management.
2. Demonstrate comprehension of various aspects of risk management.
3. Apply risk management techniques to risk management issues.
4. Demonstrate risk management skills in work.

Chapter 2

THE IMPORTANCE OF RISK MANAGEMENT

Introduction

- One term that has become synonymous in the organization is risk management. It is not enough to just run the operation without thinking ahead.
- Elements of risk are everywhere and when they are identified before they become an issue, it is far easier to come up with viable solutions.
- If the organization does not provide a solution, it can cost the organization money or cause the organization to permanently close.

Risk Management in Organization

- In recent years, many organizations have added risk management departments as part of their team.
- The role of this team is to identify risks, come up with strategies, execute these strategies, and motivate all members of the organization to give full cooperation in managing risk.



Risk Management in Organization..cont.

- Larger organisations generally face more risks, so their risk management strategies also need to be more sophisticated.
- The risk management team is responsible for assessing each risk and determining which of them are critical for the business.



Introduction...cont.

- **Risk is the main cause of uncertainty** in any organisation.
- Thus, companies increasingly focus more on identifying risks and managing it before it will affect and destroy their business.



Risk Management in Organization..cont.

- The critical risks are those that could have an adverse impact on the business; these should then be given importance and should be prioritized.
- The whole goal of risk management is to make sure that the company only takes the risks that will help it achieve its primary objectives while keeping all other risks under control.



Introduction...cont.

There are several **risk management standards** in existence, including the IRM Standard and the recently updated

- British Standard BS 31100:2011
- American COSO ERM framework
- ISO 31000 published in 2009
- ISO guide 73 - RM terminology



Importance of Risk management

1. To enhance the effectiveness and efficiency of operations within the organization.
2. To ensure that business processes are also effective and efficient.
3. To strategic decision making

The Importance of Managing Risk

- In order to be **successful**, the risk management initiative should be:
- P- Proportionate
- A - Aligned
- C - Comprehensive
- E - Embedded
- D - Dynamic



The Importance of Managing Risk

- **Proportionate** - the effort put into risk management should be appropriate to the level of risk that the organization faces
- **Aligned** - Risk management activities should be aligned with other activities within the organization
- **Comprehensive** - Risk management initiative covers all the aspects of the organization and all the risks that it faces
- **Embedded** - Risk management activities within the organization follow the procedure and standard
- **Dynamic** - risk management activities should be dynamic and responsive to the changing business environment faced by the organization

Purpose of Risk Management in Organization

- The purpose of risk management is **to identify potential problems before they occur** so that risk-handling activities may be planned and executed **to mitigate adverse impacts in achieving the organization objectives.**



ENTERPRISE RISK MANAGEMENT

ENTERPRISE RISK MANAGEMENT

- Understand risk as it relates to an organization/company
- Broad framework for risk analysis and action
- Considers the entire range of risks associated with running an organization (financial, operational, strategic, hazards, etc.)
- Promotes risk awareness and strategic decision-making

(Hoyt and Liebenberg, 2011)

BENEFIT OF ENTERPRISE RISK MANAGEMENT TO ORGANIZATION

- Decreasing volatility of stock price and earnings
- Reduce external capital cost
- Better understanding of risk activities
 - Better resource allocation
 - Improving capital efficiency
 - Higher return on equity

(Hoyt and Liebenberg, 2011)

RISK AS A CONSEQUENCE OF UNCERTAINTY

- The word “risk” is used in many different contexts
- the notion of risk is inextricably linked to the notion of **UNCERTAINTY**
- **Uncertainty is having two potential outcomes for an event or situation**

- Certainty refers to knowing something will happen or won't happen
- Nonperfect predictability arises in uncertain situations
- Uncertainty causes the emotional (or physical) anxiety or excitement felt in uncertain volatile situations

- Uncertainty causes us to take precautions - to avoid the risk
- If we knew, without a doubt, that something bad was about to occur, we would call it apprehension or dread. It wouldn't be risk because it would be predictable.
- Risk will be forever, inextricably linked to uncertainty.

- Risk (intuitively and formally) has to do with consequences (both positive and negative); it involves having more than two possible outcomes (uncertainty).

Uncertainty	Consequences - Risk
Could or could not get caught driving under the influence of alcohol	Loss of respect by peers (non-numerical); higher car insurance rates or cancellation of auto insurance at the extreme.
Smoking cigarettes at various numbers per day	Bad health changes (such as cancer and heart disease) and problems shortening length and quality of life. Inability to contract with life insurance companies at favorable rates
Power plant and automobile emission of greenhouse gasses (CO ₂)	Global warming, melting of ice caps, rising of oceans, increase in intensity of weather events, displacement of populations; possible extinction or mutations in some populations.

THE ROLE OF RISK IN DECISION MAKING

- Managing risks associated with the context of minimization of losses has succeeded more than managing risks when we use an objective of value maximization.
- Focus on catastrophic consequences - to avoid loss of resources and assets
- Ignoring risk represents mismanagement of risk in the opportunity-seeking context