Listen to a Business School lecturer speaking about risk management.

Optional exercise Listen to the lecture and decide whether these statements are TRUE (T) or FALSE (F).

1 Companies are not taking the issue of risk management seriously.
2 Companies need to look at the whole picture and at each separate element.
3 The enterprise risk scorecard is made up of four circles.
4 Companies should make accurate predictions about the amount of tax they have to pay.
5 Employees who are trained will increase a company's productivity.
6 The price of insurance does not affect a company's business risk perspective.
7 Customer risk perspective includes the numbers of satisfied and dissatisfied customers.
8 Risk management is a simple issue.

… We can see that risk management has started to be taken a lot more seriously by big companies. There's still a long way to go but things are happening.

Experts tell us that a holistic approach to risk management is the most effective.

Why? Because only by looking at the whole picture can we assess every possible aspect. Risk management is complex. Remember the spider's web analogy?

As well as looking at the web as a whole – it's important to look at the strands – at each strand individually and at how they interconnect.

To remind you of the three main risk types let's have a look at this diagram – *[sounds of an OHP or something?]* ok, we've got catastrophic failure – wars, terrorism, etcetera. Then we've got strategic failure – that's what happens when the company's business strategy fails – for example when a marketing strategy hasn't taken into account some important detail. And then there's operational failure – when a company simply can't deliver the promised goods.

Now let's move on and look at just how these strands of the spider's web are interlinked. *[more clicking sounds of an OHP or similar]*

This is a diagram of an enterprise risk scorecard. The scorecard is a circle – divided into four equal sections. Each of the four sections shows a different risk perspective.

At the top we have the financial risk perspective. At the bottom we have the innovation and learning risk perspective. On the right is the internal business risk perspective and – last but not least – on the left –the customer risk perspective.

Let's look at each section in a bit more detail. We'll start with the top – financial risk perspective. This can be broken down to include things like the cost of a company's debt. The difference between paying 0.5 per cent interest on a large debt can mean the difference between a company surviving or collapsing.

Another aspect that can be included in a company's financial risk perspective is *tax* and – more specifically - the difference between the amount of tax a company expects to pay and the actual amount it pays – obviously if the sum is more than expected then all of the company's finances have to be readjusted. If the sum is smaller, then the risk factor is lower and the company's finances look a lot healthier.

Let's move down to the bottom section – innovation and learning risk perspective. This includes things like the percentage of trained employees a company has. Training costs money. But trained employees increase productivity. All of these issues need to be included in the company's risk strategy. Another aspect in this section is the difference between a company's expected growth and its actual growth. Like the tax question – the size of that difference – and whether the actual growth is more – or less than what was expected – will have major repercussions.

Over to the right we have the internal business risk perspective. Here you find things like the percentage of top performers who leave the company. This is difficult to predict – but companies should play safe and add these things into the equation. If a top business man gets an interesting offer from a competitor, it's only natural that he – or she – will go over to the other side. Other internal issues might be unsatisfactory internal audit findings - or the price of insurance – it's always worth shopping around for better deals.

Finally, on the left – in the customer risk perspective – we've got things like the percentage of satisfied customers and – on the other hand – the number of customer complaints. Or the number of new competitors coming into the market and – directly linked to this – the percentage of the market that the company loses as a result.

Risk management is certainly a complex issue …..

Answers: 1 F, 2 T, 3 F, 4 T, 5 T, 6 F, 7 T, 8 F