



# Assessing and Mitigating Business Risk

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# Business Risk Assessment



# Understanding Business Risk

## Financial Risk

Financial risk encompasses the potential for financial loss due to market conditions, liquidity issues, or lack of funding. It can impact a company's ability to meet financial obligations and affect profitability.

Lehman Brothers (2008),  
**Industry:** Investment Banking



Sub prime  
mortgages

# Enron (2001)

**Industry: Energy** , Enron's downfall was due to accounting fraud and the inability to manage market risk effectively.

# Kodak (2012)

**Industry: Photography**

Kodak struggled to manage market risk associated with technological changes.



# Operational Risk

- Operational risk involves the risk of loss resulting from inadequate or failed internal processes, systems, or people. This risk can cause disruptions in business operations and impact efficiency and customer satisfaction.
- **Arthur Andersen (2002)**
- **Industry:** Accounting
- **Reason:** Arthur Andersen, once one of the "Big Five" accounting firms, was dissolved following its involvement in the Enron scandal. The firm's failure to maintain adequate audit controls and ethical standards resulted in criminal charges and the loss of its reputation, leading to its eventual collapse.



# BP (2010)

- **Industry:** Oil and Gas
- **Reason:** The Deepwater Horizon oil spill was a significant operational failure for BP. The explosion and subsequent oil spill were attributed to a series of equipment failures, inadequate risk management practices, and poor decision-making. The incident resulted in massive financial losses, legal penalties, and damage to BP's reputation.



# Compliance Risk



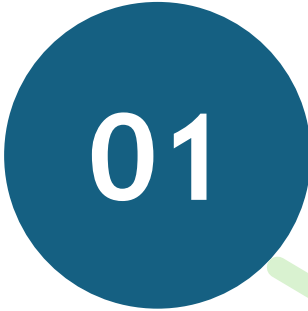
**Volkswagen**

- Compliance risk relates to the potential for legal or regulatory sanctions, financial penalties, or loss of reputation due to non-compliance with laws and regulations. It affects a company's adherence to industry standards and ethical practices.
- Volkswagen (2015), **Industry:** Automotive
- **Reason:** Volkswagen faced a major compliance risk when it was discovered that the company had installed software in millions of diesel engines to cheat emissions tests. The scandal, known as "Dieselgate," resulted in billions of dollars in fines, legal costs, and a significant loss of reputation, severely impacting the company's market position.



# B.R.A. Stages

**Data Collection**  
Gathering information  
NRA, Internal quantitative data, Qualitative data



**Risk Assessment**  
Analyzing Data Collected and assigning Inherent Risk  
Assessing Controls and defining Residual Risk

**Risk Response - Action Plan**  
Increasing Resources  
Introducing New Controls  
Enhancing Existing Controls



**Adopting B.R.A.**  
Adoption of RBA and proposed Action Plan by Senior Management  
Alignment with Risk Appetite

**Monitoring**  
Updating Information  
Annually and based on new developments  
internal/external



# Mitigation Strategies

## Risk Transfer

Risk transfer involves shifting the financial burden of a risk to another party, typically through insurance, contracts, or outsourcing. It helps in reducing the impact of certain risks on the business.

## Risk Avoidance

Risk avoidance entails eliminating activities or processes that pose significant risks to the business. It may involve strategic decisions to steer clear of high-risk ventures or markets.

## Risk Reduction

Risk reduction focuses on implementing measures to lower the likelihood or impact of identified risks. This includes enhancing security, implementing safeguards, and improving internal controls.



# Cost-Benefit Analysis

## Assessment Criteria

Cost-benefit analysis involves evaluating the costs of implementing a risk mitigation strategy against the expected benefits. Factors such as financial impact, resource allocation, and strategic alignment are considered.

## Decision Making

The analysis provides a basis for informed decision-making regarding the allocation of resources and the selection of appropriate risk mitigation strategies. It aids in optimizing risk management efforts.

## Risk Prioritization

Prioritizing risks based on their potential impact and likelihood aids in identifying which risks require immediate mitigation. This step ensures that resources are allocated to address the most critical risks.



# Risk Management Best Practices

## Risk Culture

Fostering a strong risk-aware culture within the organization is essential for effective risk management. It involves promoting risk-aware behaviors, open communication, and accountability at all levels.

## Continuous Monitoring

Regular monitoring and reassessment of risks enable proactive identification of emerging threats and changing risk profiles. It ensures that risk management strategies remain relevant and effective.

## Adaptive Resilience

Developing adaptive resilience involves building the capacity to respond to unforeseen risks and market shifts. It includes scenario planning, flexibility, and agility in adapting to changing business environments.



