ASSESSMENT

Total Marks: 20

Answer the following questions:

1. What is the relationship between 'Uncertainty' and 'Risk'? 5
2. Define 'operational risk management'. 5
3. Explain the factors on which the operational risk management depends 5
4. Discuss in details the risks associated with people in a business? 5

Suggested Answers

1. The relationship between 'Uncertainty' and Risk' are as follow

The risk is defined as the situation of winning or losing something worthy. Uncertainty is a condition where there is no knowledge about the future events.

Again, risk can be measured and quantified, through theoretical models. Conversely, it is not possible to measure uncertainty in quantitative terms, as the future events are unpredictable.

Furthermore, the potential outcomes are known in risk, whereas in the case of uncertainty, the outcomes are unknown.

2. Operational Risk Management is defined as a continual cyclic process which includes risk assessment, risk decision making, and implementation of risk controls, which results in acceptance, mitigation, or avoidance of risk.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

3. Factor 1: Commitment and support from top management: commitment and support from top management plays a key role in influencing the success in almost any initiative within an organization.

Factor 2: Communication: Communication ensures that the team members understand and support not only where the team is now but also what they want to be.

Factor 3: Culture: culture consists of patterns of values, ideas, thoughts and feelings and is transmitted by symbols as factors in shaping behavior.

Factor 4: Organizational Structure: involves an organization's internal pattern of relationships, authority and communication. Structure is comprised of formal lines of authority and communication and the information as well as data that flow along these lines.

Factor 5: Training: includes on-the-job training which provides one-on-one instruction, coaching, job rotation and an apprenticeship / internship. Again, training can be off-the-job training which is conducted away from the worksite.

Factor 6: Information Technology (IT): as consisting of two components: of the information systems on which the critical business functions and processes depend and the computer technologies (hardware and software) which support the processing, storage and distribution of the company's data and information.

Factor 7: Trust: is the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party.

4. People risk may be described as a combination of employer behaviour which affects employee efficiency, health and safety, loyalty, and the detrimental impact of employee behaviour, which is anything from profit erosion to business failure. Employees must be managed effectively as they have a high impact on business profitability. The success of human resource management can be measured by absenteeism rates (staff constraint), labour turnover (staff constraint), accident rates (health and safety), productivity (management), quality of finished goods (management), and customer satisfaction (management). Having said this, people risks are actually broader than just efficient use of employees, and often result from HR management practices like late payment of wages or salaries, not adhering to statutory or regulatory requirements, staff constraints, dishonesty, corporate culture which does not cultivate risk awareness, risk management, or poor health and safety practices.