

COURSE OUTLINE

MASTER OF COMMERCE PROGRAM
BUSINESS RISK MANAGEMENT
ACCT5919

The University of New South Wales

Semester 2, 2006

COURSE OUTLINE

Risk is an integral part of the society in which we live. Business organisations confront risk both at the strategic level as well as in their day to day operating processes. Risk manifests itself in many forms and affects businesses in a multitude of ways, and as society and the business environment changes new risks also emerge. Businesses that fail to manage risks do so at their peril.

The course will provide you with a thorough understanding of business risks, ranging from strategic, operational and governance risks, as well as the “new” risks from the environment, technology and society. You will learn how these risks can be better managed and critically examine the systems that can be put in place to manage and treat them. The course makes extensive use of case studies and will involve you in studying a range of cases where organisations have had to confront and deal with major risk management issues. Class exercises, which present real life risk situations, will also be used to identify a range of appropriate risk mitigation responses.

Objectives of the Course

The aims of the course are as follows:

1. To provide a practical understanding of the nature of business risk confronted by public and private sector organisations.
2. To examine the impact of risk on the decision-making processes of organisations.
3. To review the techniques used to identify, codify and quantify these risks.
4. To examine strategies and techniques used to mitigate the impact of these risks on the business, including hedging and the development of effective risk control processes and structures.

Classes

The course will be offered during Second Semester, 2005. Classes will be conducted on each Monday evening from 6.00pm to 9.00pm.

Course Staff and Contact

Course Presenter : Paul Martin
Contact Telephone : Work 9231-5888
Email : paul@sirca.org.au

Text

Course Notes and Readings for each Session are available from the Co-op Bookshop.

Major References

- Borge D, The Book of Risk, John Wiley and Sons, 2001.
- Birkett WP, Business Risk Management Working Paper, UNSW, 2000.
- Crockford N, Risk Management, Witherby & Co Ltd, 1991.
- Courtney H, J Kirkland P Viguerie, Strategy Under Uncertainty, HBR Nov 1997.
- Daniell M H, World of Risk: Next Generation Strategy for a Volatile Era, Wiley 2000.
- Dembo R & A Freeman, The Rules of Risk, John Wiley and Sons, 1998.
- Donaldson L, Performance Driven Organizational Change, Sage Publications 1999
- Giddens A. Runaway World: How Globalisation is Shaping Our Lives, Profile Books 1999.
- HBR on Business and the Environment, Harvard Business School Press: 2000.
- Hoffman D, Managing Operational Risk, John Wiley and Sons, 2002
- Keasey K, S Thomson, M Wright (Eds), Corporate Governance Economic Management, Oxford University Press, 1997
- Krinsky S & D Golding, Praeger Publishers, 1992.
- Krogut B & Kulatilaka N, Options Thinking and Platform Investments: investing in Opportunity, California Management Review, Winter 1994
- Luehrman T, Strategy as a Portfolio of Real Options, HBR, Sep 1998
- Matten C, Managing Bank Capital, John Wiley and Sons 2000
- Pickford J (Ed), Financial Times Master Risk Volume 1: Concepts, Pearson Education 2001
- PricewaterhouseCoopers, CFO – Architect of the Corporation's Future.
- Rayner, J, Managing Reputational Risk, John Wiley and Sons 2003
- Ritchie B & D Marshall, Business Risk Management, Chapman & Hall, 1993.
- Sadgrove K, The Complete Guide to Business Risk Management, Gower, 1996.
- Standards Australia, Risk Management, Australian and NZ Standard 4360
- Vaughan E, Risk Management, John Wiley and Sons, 1997.

Assessment

Major Assignment – Case Study	25%*
Syndicate Presentation	15%**
Syndicate Report	10%**
Final Examination	50%

* Refer to the section below on Major Assignment

** Refer to the section covering the Syndicate Presentation

Class Participation

Students are expected to participate in class discussions and to have read the pre-reading requirements on the topic for each session.

Major Assignment

You have two alternatives in completing your Major Assignment.

Alternative 1- Case Study

Background

The management of your firm is proposing to develop a manual, for internal use, the purpose of which is to train staff in areas of major risk, so that your company can avoid experiencing similar failures in risk management procedures. Management are aware that you have recently completed a course in business risk management, and have asked you to prepare a case study for inclusion in the manual covering one of the following six cases or another case of your choice (see below):

Company/Incident	The Risk Event
9-11	- The September 11 terrorist attacks in the US
Shell	- The Sydney Harbour Oil spill
NAB	- Currency Options Rogue Trading
HIH	- Failures in corporate governance
Anderson	- Auditing failures at HIH and Enron
State Rail	- The Waterfall Train Accident
Another Case Study of your choice*	

* If this option is chosen the case must receive prior approval from you supervisor (Course Presenter) based on a brief written proposal (of one (1) to two (2) A4 pages) submitted no later than 14 August 2006. Please ensure that your email address is included to facilitate correspondence.

If you chose to complete a report on one of the cases listed above you do not need to submit this proposal.

The Project

Management has agreed the following specific tasks after discussions with you:

1. Describe the facts surrounding the case. Material for the analysis of the case should be drawn from the details of the case as reported in the press, internet, or other sources such as books and journals, and should be fully referenced.
2. You are required to identify at least two, and at most three, risk management issues illustrated by the case. Compare and contrast the way in which these issues were dealt with by the firm(s) involved with material presented in the course or other reference material dealing with the concepts or issues that the case illustrates. In your report you may also assess the effectiveness with which the crisis, created as a result of the failures in risk management evident in the case, were managed.
3. Management believes that the quality of this material will not be judged on the number of concepts or issues illustrated by a particular case study but on how well each concept or issue is illustrated. Therefore greater depth in the assessment of the risk management issues rather than breadth is required. Indeed, some of the management team argued that each case should only illustrate one concept or issue, but finally agreed that there may be circumstances where more than one is desirable.
4. Prepare a report as specified below.

The Report

Your report should contain the following sections:

1. *Executive Summary*: A concise review of the report including major conclusions. This should be no more than one (1) A4 page.
2. *Introduction and Aims*: Outline the general aims of the analysis and discuss the approach you have taken to develop your case material. Make explicit the criteria that you have used in choosing the risk management issue(s) identified in the case. This should be no more than one to two (1-2) A4 pages.
3. *Case Study*: This section should include the full text of your case study. Please be concise and limit this section to no more than six (6) pages. Management has specifically asked for some shorter examples for inclusion in their manual. In the event that your case study is included in the manual it will fully acknowledge you as the author (management believe this will be great "profile" for you). Longer case studies should be negotiated with your supervisor (course presenter).
4. *Conclusion*. Identify the lessons that can be learned from the case and the nature of any control procedures and/or risk treatment systems that should have been implemented or where failures occurred. This should be no more than three (3) A4 pages.
5. *References*: Please list the sources you have consulted for the completion of the report.

Grading: In grading the report marks will be allocated for each of the above sections of the report. Creative and innovative work will be rewarded.

General: The report should include a cover page (indicating your name and student number) and be no longer than nine (9) to ten (10) single sided A4 pages (size 12 font, one and a half line spacing) excluding the cover page and any attachments.

Alternative 2 – Risk Assessment

As an alternative to preparing a case study, management advises that you may chose to carry out an internal risk assessment review on an aspect of the Company's operations. If you chose this option management have asked that you prepare a brief proposal (of no more that one to two (1-2) A4 pages) for consideration and approval prior to commencing this work. The proposal should outline the following:

1. The nature of the risk management process(s) that you propose to assess.
2. The approach that you intend to take in carrying out the assessment.
3. The nature of the outcomes and recommendations that you expect to produce from the assessment.

In order to ensure that your project is available by the due date below you are required to submit your proposal by 14 August 2006, to your supervisor (Course Presenter). Please ensure that your email address is included to facilitate correspondence.

Timetable

The required completion date for your report is the 28 August 2006 (Session 6).

Syndicate Presentation and Report

All students will be allocated to a syndicate group. Each syndicate will be allocated to one of the case studies listed in the course outline under each session's work, eg the Case Study for Session 2 is the Heblon case.

The syndicate is required to present the case to the class during the session listed. The scope of the presentation will obviously vary from case to case, but as a guide the following are intended to assist you with your presentation.

1. Describe the facts surrounding the case. Material for the analysis of the case should be drawn from the details of the case included in the material provided for the Session. If appropriate, additional credit will be earned for the use of additional references sourced from press reports, the internet, or other sources such as books and journals, and should be fully referenced.
2. Identify the risk management issues illustrated by the case.
3. Compare and contrast the way in which these issues were dealt with by the firm(s) involved with material presented in the course or other reference material.
4. Identify any lessons that can be learned from the case.
5. Identify what proscriptive action was taken by the firm involved or regulators, and identify any broader consequences of the case that have added to the management of risks or the understanding of risk management processes.
6. A formal presentation should be made to the class, with a duration of 25 -35 minutes. If you propose to spend longer than this time you should consult the Course Presenter prior to the evening of the presentation.
7. Since the class will have read the material you may wish to make the presentation interactive and to draw out the views of the class on certain aspects of the case. This could be done, for example, by posing provocative questions or giving the class a short exercise to do.

Syndicates are free to determine the style of the presentation which could include (without limitation) a formal presentation, a role play, interviews. Syndicates should assume that all members of the class will have read and prepared for the case and therefore class interaction including exercises can be incorporated into the presentation.

The following criteria will be used for grading the class presentations:

- Time management (eg the pace and total time of the presentation)
- Clarity of communication (expression of ideas)
- Engagement with the audience
- Structure of the presentation (transition and logic, quality of slides etc)
- Content of the presentation (insights and applications)

On the night of the Syndicate Presentation each Syndicate will be required to submit a report. The report will present the key features of their presentation and will present the syndicate's findings in relation to the case. These findings will cover the issues listed on points 1-5 above (as relevant), and will in particular detail the syndicate's conclusions about the lessons from the case for risk management.

Learning Support

Education Development Unit (EDU)

You are encouraged to take advantage of the extra support for students offered by the EDU. At the EDU Learning Assistance Centre, you can see a learning consultant for advice on individual and group assignment writing and oral presentations, written expression, critical analysis, learning strategies, exam techniques and also discuss improving your past performance. This service is free, confidential and only available to students in this Faculty. Requests for consultations is by phone: 9385 5584 or by email: edu@unsw.edu.au through the website <http://education.fce.unsw.edu.au>, or you can visit the EDU Learning Assistance Centre, Level 2, Room 2093, Quad Building.

Additional services the EDU offers include: lunchtime workshops run throughout Sessions 1 and 2; printed and on-line study skills resources such as referencing, case analysis and oral presentations; and the drop-in Learning Assistance Centre where books and audio visual material can be borrowed.

Details about consultations, workshops and resources are available at the EDU Website.

Other UNSW support

The UNSW Learning Centre provides academic skills support services for students. The Learning Centre is located on Level 2 of the Library and can be contacted by phone: 9385 3890 or through their website: <http://www.lc.unsw.edu.au/>.

Students experiencing problems of an academic or personal nature are encouraged to contact the Counselling Service at UNSW. This service is free and confidential and run by professional counsellors. The Counselling Service is located on Level 2, Quadrangle East Wing, and can be contacted by phone: 9385 5418.

Topic Outline

Session 1: 24 July 2006

❑ **Value, Risk and Culture**

Defining and Classifying Risk
The Evolution of Business Risk
The Role of Risk Management in Business

Readings: Vaughan, Chapter 1
 Crockford, Chapters 1 and 2
 W Birkett, Extract Business Risk Mgt Working Paper, pp26-37

Class Exercise: National Cultures – Value and Risk

Session 2: 31 July 2006

❑ **Organisational Risk Frameworks**

Organisations and their environment
Resource dependency and value creation
Organisational functioning in response to risk

Reading: W Birkett, Extract - Business Risk Management Working Paper pp1-13
 Donaldson, Performance driven Organisational Change, Chapter 2

Case: Heblon plc, from Ritchie and Marshall pp295-304

Session 3: 7 August 2006

❑ **Risk and Strategy**

Risk and Strategy under Uncertainty
The shortcomings of traditional strategic evaluation techniques
Assessing the level of uncertainty confronting organisations
Developing strategic responses to risk
Matching strategy with organisational capability

Reading: Courtney et al, Strategy Under Uncertainty

Additional Ref: Amram and Kulatilaka, Uncertainty : The New Rules for Strategy

Case: Lesser Developed Country (LDC) Debt Crisis in the US

Session 4: 14 August 2006

□ Risk and Strategy (Cont)

The use of Real Options in strategy formulation and valuation
Implementation strategy in ways designed to better manage strategic risks

Reading: Luehram, Strategy as a Portfolio of Real Options

Additional Ref: Kogut and Kulatilaka, Options Thinking and Platform Investments:
Investing in Opportunity

Case: Lincoln Electric's Harsh Lessons from International Experience

Session 5: 21 August 2006

□ Crisis Management and Contingency Planning

Can crises be avoided?
Contingency Planning for crises
The tactics of Crisis Management, what to do when risk management fails
Profiting from Crises

Readings: Augustine, Managing the Crisis You Tried to Prevent, HBR Nov-Dec
1995, Reprinted in Harvard Business Review on Crisis Management,
HBR 2000
Sadgrove Chapter 14

Case: The Classic Contrast - Johnson & Johnson's Magnificent Crisis
Management with Tylenol, but Then....

Session 6: 28 August 2006

□ The Risk Management Process – Identifying Risk, and Risk Management Philosophies and Strategies

Risk Identification and the types of risks
The Risk Management Process – AS4360
Accepting, avoiding and sharing risk
Establishing Risk Management frameworks

Readings: Vaughan, Chapter 6
W Birkett, Extract from Business Risk Management Working Paper,
Section 4.3.
Borge, Chapter 4

Case: Qantas – The Crash of the 747 at Bangkok Airport

Session 7: 4 September 2006

□ The Risk Management Process - Measuring Risk

Risk Measurement Systems

Risk and Regret

The relationship between Risk and Return

Readings: Dembo, Chapter 4

Additional Ref: Crockford, Chapter 4

Case: Long Term Capital Management

Session 8: 11 September 2006

□ The Risk Management Process - Measuring Risk (Cont)

Calculating Value at Risk

Analysing the segments of the value at risk distribution

The Allocation of Risk Capital within the Firm

Reading: P Martin – Working Paper on Credit Risk Management
Beckstrom and Campbell - Understanding VaR

Additional Ref: N Chorafas – Credit Derivatives and the Management of Risk

Cases: No Case study, a class exercise involving the measurement of risk will be run.

Session 8 (Cont)

□ Performance Measurement and Risk

Assessing Capital at Risk and Earnings at Risk

Calculating Return on Risk Adjusted Capital (RAROC)

Analysis of Risk Adjusted Performance Measures

Reading: C Matten – Managing Bank Capital Chapters 13 and 14

Session 9: 18 September 2006

❑ Control Systems and the Management of Risk

The Nature and structure of control systems
The levers of control within an organisation
Control structures and risk management

Readings: R Simons, The Levers of Control

Additional Ref: W Birkett, Extract from Business Risk Management Working Paper,
Section 4.4 and Section 2.2.

Case: Maytag, Leaving a Foreign Subsidiary Free as a Bird

Session 10: 9 October 2006 (Monday 2 October is a Public Holiday)

❑ Corporate Governance - The View from the Boardroom

What is corporate governance?
Senior Management and the role of the CFO
Individual and organisational Influences on Decision Making and Behaviour
Risk Management and Shareholder Value
Market Leadership through Risk Management

Readings: Keasey et al, Ch. 1

Other Ref: Donaldson, Performance Driven Organisational Change Ch 7
PwC, CFO Architect of the Future, Ch 5, Integrating Financial
and Business Risk Management

Case: Westpac – The Bank that Broke the Bank

❑ Risk Treatment Systems and Various Types of Risks – Reputation & Brand

Session 11: 16 October 2006

Defining reputation risk - is it real?
The impact of reputational risk on stakeholder value.
Processes to manage reputational risk.

Readings: J Rayner, Managing Reputational Risk
D Hoffman, Ch5

Case: The Travails of Nike

Session 12: 23 October 2006

□ **Risk Treatment Systems and Various Types of Risks – Fraud**

The role of Insurance

Hedging activities

Risk Management Strategies

- Fraud
- People Risks

Readings: Sadgrove, Chapters 9, 11 and 13

Case: Case Presentation : Allied Irish Banks

A video will also be screened on the collapse of Barings Bank plc

Session 13: 30 October 2006

□ **Risk Treatment Systems and Various Types of Risks – Environmental Risk**

Environmental Risk and its impact of firms

Should Environmental Risk be avoided or can it be managed?

Can firms profit from the management of Environmental Risk

Readings: F Reinhardt, Bringing the Environment Down to Earth, HBR July-Aug, 1999

P Pritchard, Environmental Risk Management, Earthscan Publications 2000

Case: BHP and the Ok Tedi Mine Environmental disaster