Managing Risks and Opportunities

Posted by The ALS Group on Sep 23, 2020 1:25:00 PM

危 机

The idea for this blog was conceived by Marshall Ma, who joined The ALS Group as a Risk Management Intern and now provides support on client accounts as Technical Analyst, based on the Chinese ideogram for "crisis". It just happens that Marshall is fluent in Mandarin and is passionate about risk management. She is an Enterprise Risk Management Graduate and Lecturer at Columbia University. While at Columbia, Marshall spent a lot of time working on campus educating her peers and supporting industry outreach. She also participated in risk assessment and mitigation for the campus' internal Career Design Lab.

Being aware of risks so you can manage them, lets your company explore opportunities that others may avoid – a clear competitive advantage!

Identifying and managing risks has been increasingly recognized and emphasized as a critical practice by, both, companies and regulators in recent years. Typically, a risk is defined as a potential hazard, which is regarded as exclusively negative, with threats. Traditional risk management within an organization usually means that the organization must protect itself against different risks by responding to, and mitigating them. However, most of the focus is on the downside of risks, so companies tend to avoid risks instead of embracing potential opportunities that initially seem too risky. With a formal assessment, and analysis, many opportunities can be found while planning to mitigate a risk.

In fact, risk and opportunity are two sides of the same coin. As stated by John F. Kennedy, the Chinese ideogram for "crisis" consists of two characters. The first character, '危' ('Wei') represents danger, and the other character, '机' ('Ji') means opportunity. It suggests that a crisis provides a threat of loss as well as an opportunity to change. Moreover, the value-based Enterprise Risk Management ("ERM') theory defines risk as the uncertainty and any deviation from expected. In other words, risk includes upside volatility, which refers to the range of possible upside risk events[1].

In 2012, when Hurricane Sandy made landfall, it was one of the most destructive, and strongest hurricanes of the 2012 Atlantic hurricane season. According to a report by the National Hurricane Center, Sandy affected 24 states and the damage in the United States amounted to $65 billion[2]. On the other hand, some risk-aware retailers in certain areas along the hurricane path restocked hurricane emergency kits and survival supplies, which allowed them to increase revenue focusing on the "opportunity" the storm provided and not only the danger. In an ERM context, this event is not only the risk event that needs to be prepared for and reacted to, but also is an event that creates potentially valuable opportunities for a company if they have forecasted their needs in a proactive way. In other words, when understanding risks from different perspectives, a risk manager may also identify value-created or value-added opportunities that originally hide in those risks.

If a company's risk management process is expanded to allow opportunities to be assessed and managed alongside threats, a thorough risk management assessment and risk management process modification will also be necessary. Managing risk alongside it's opportunities require a modified system in place to identify, measure, manage and monitor both risks and opportunities effectively, having customized matrices (ROI, KRI, etc.), a well-designed process, and well-developed monitoring mechanism in place. In this way, companies can better understand risk profile, better evaluate opportunities related to risk-taking activities, set more realistic risk appetites, and embrace potential opportunities.

If you need more information on any of the topics covered in this blog, need help with any risk related issues, or are interested in a Risk Management Assessment ("RMA") please contact Albert Sica, Managing Principal, at 732.395.4251 or asica@thealsgroup.com.

[1] Segal, S. (2011). Corporate value of enterprise risk management. Hoboken (NJ): Wiley.

[2] Costliest U.S. tropical cyclones tables updated (Report). National Hurricane Center. January 26, 2018. Retrieved January 26, 2018.

[1] Segal, S. (2011). Corporate value of enterprise risk management. Hoboken (NJ): Wiley.

[2] Costliest U.S. tropical cyclones tables updated (Report). National Hurricane Center. January 26, 2018. Retrieved January 26, 2018.