

Risk Management MN220:
Seminar 4: Opportunity
Management



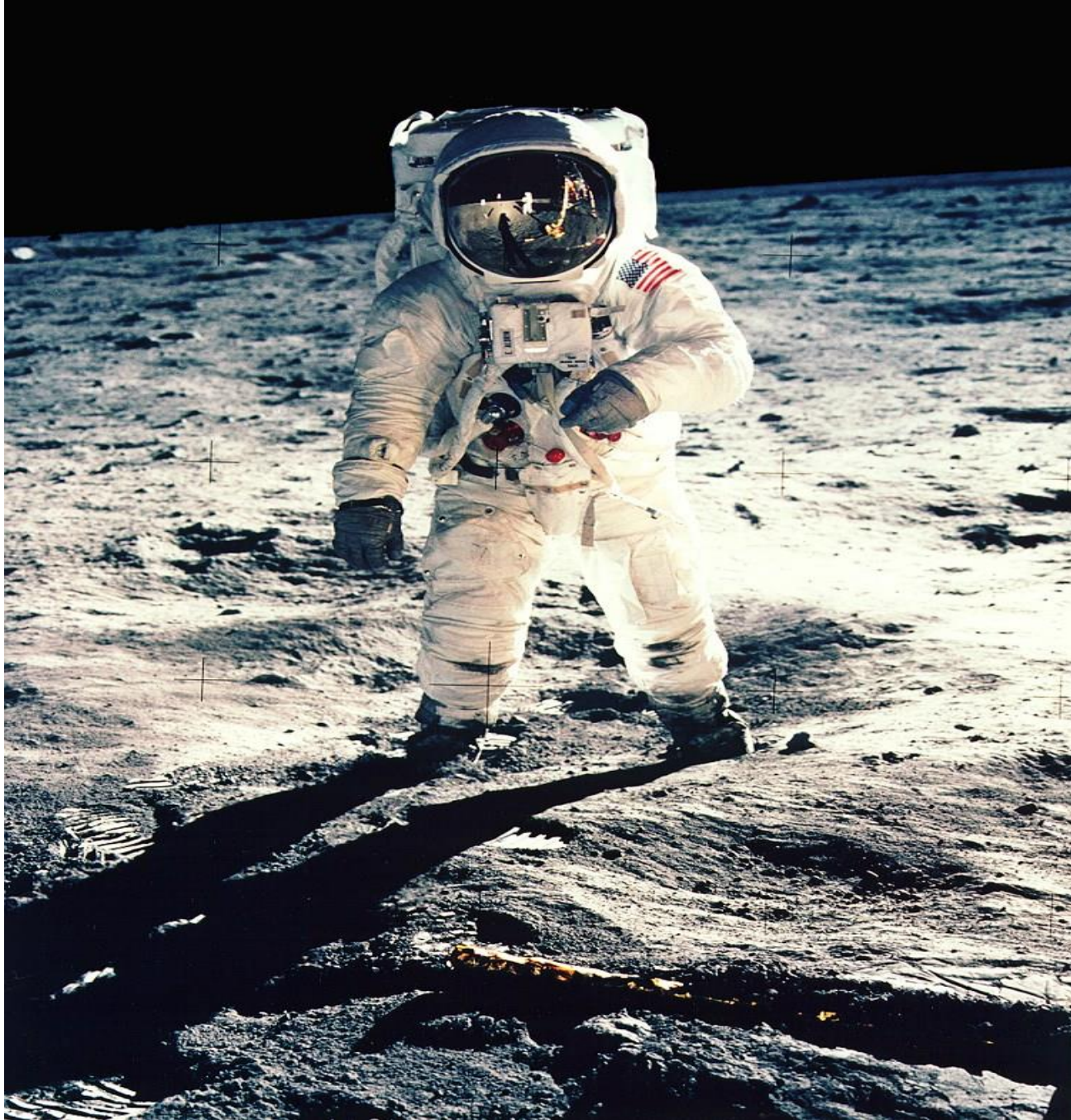
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Seminar 4. Opportunity risk management & Business Improvement

- Introduction
- Risk management revisited
- Risk assessment and risk perception
- The psychology of risk
- Risk appetite and risk return
- Business objectives and risk taking
- Opportunity identification and evaluation
- Positive risk management
- Case study





Introduction

*“Managing risk is **a balance** between **minimising potentially negative outcomes** through organisational controls, and **optimising the positive returns** through understanding and managing risks that are being taken¹”*

¹ Moore, P.

How an Opportunity Assessment will Slash your Business's Risk

- <https://www.youtube.com/watch?v=rXcwqP1nKul>
- A small business perspective

What is risk management?

“Coordinated activities to direct and control and organisation with regard to risk”²

²AS/NZS ISO 31000:2018, Risk management – Principles and guidelines (Draft)

Negative risk consequence

- What can go wrong?
- How can it go wrong?
- Where can it go wrong?
- When can it go wrong?
- Contributing factors

Risk likelihood

- What is the **likelihood or probability** of an event or **impact** occurring?
- One in one year event, one in one hundred year event?

Positive consequence

What is the **return** to the business for the risk or **opportunity** being taken/pursued?

- Financial ?
- Market position ?
- Reputation enhancement ?
- Opportunity generation ?

Positive likelihood

- What is the **likelihood** of the risks or **opportunities** generating the returns to the business?

Risk – AS/NZS ISO 31000:2018

*“Effect of **uncertainty** on objectives”⁵*

*“Uncertainty management “ can have an upside or a
downside*

⁵AS/NZS ISO 31000:2018, Risk management – Principles and guidelines (Draft)

Business objectives

- Organizations **set objectives**;
- Organizations **take risks when planning** to meet objectives;
- Risk taking is **part of business**;
- Businesses are **risk seeking** and **risk taking** when examining opportunities;
- Businesses then become **risk averse** when **executing the opportunity**.

Business objectives and risk taking

- What is the likelihood the opportunities generating the returns to the business?
- How good will the returns be?
- How will the business deal with events that occur along the journey to disrupt the pursuit of the opportunity?

Risk assessment versus risk perception

- Risk assessment is the formalised methods of determining levels of risk (using consequence and likelihood)
- Risk assessment is part of risk management (if it cant be measured it cant be managed)
- Risk perception is a person's attitude to risk
- Risk perception determines how individuals behave

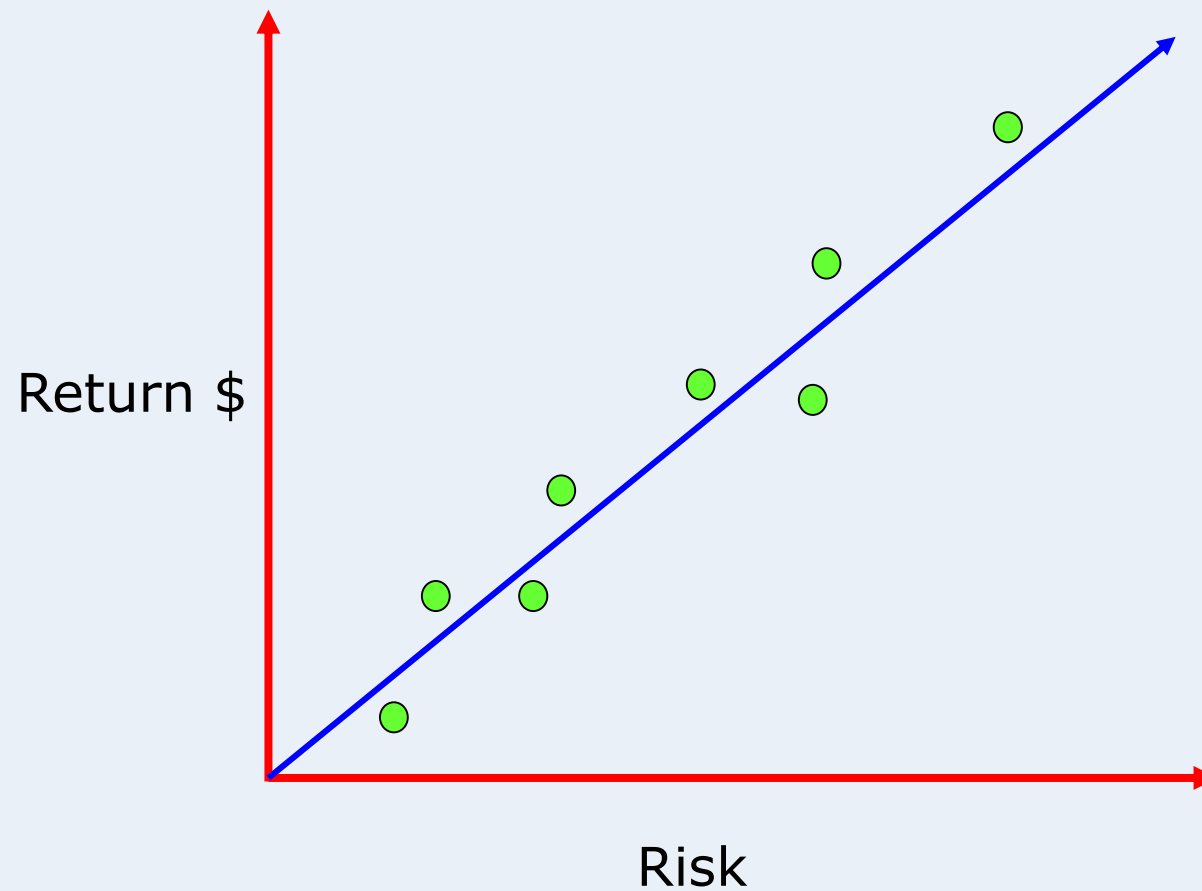
The psychology of risk

- Fear drives people to act irrationally and is part of risk avoidance;
- Greed drives people to act irrationally for personal gain;
- Desire drives people to achieve what they currently don't have;
- Risk taking is part of the emotional balance;
- In markets, for every seller there is a buyer.

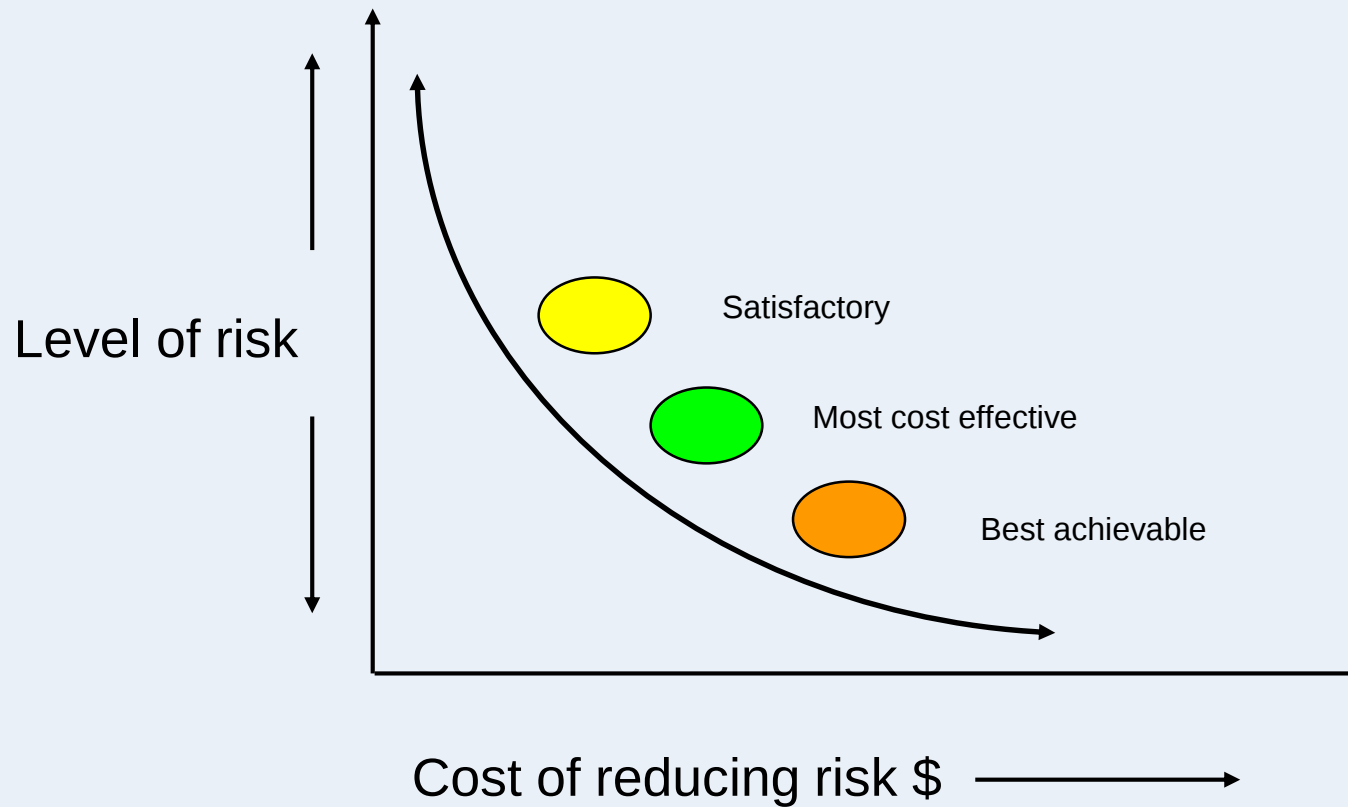
Risk appetite

- The preparedness to take risks;
- The preparedness to accept the returns from the risks taken;
- Differs from individual to individual;
- Differs from business to business.

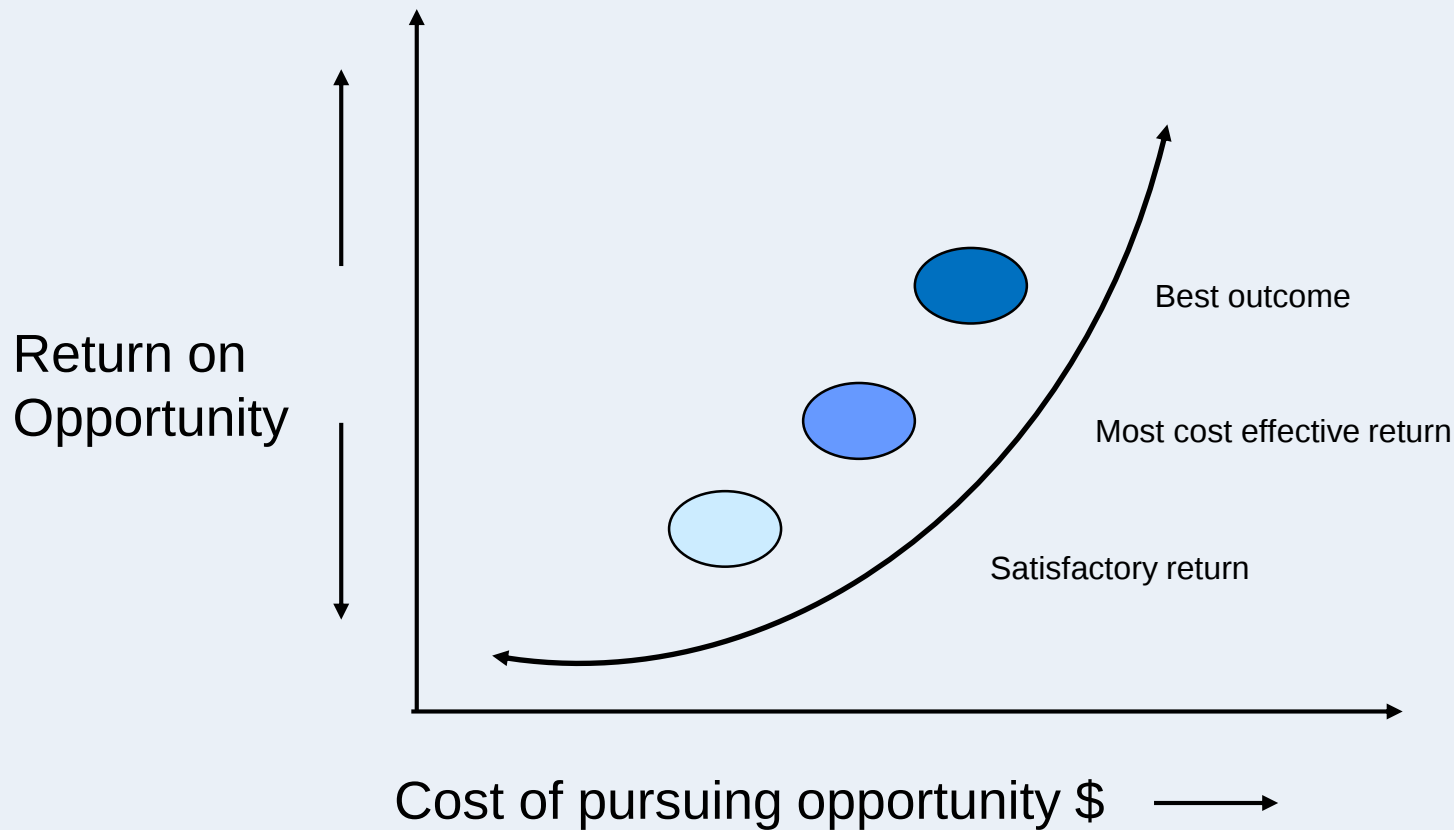
Risk and reward



Risk- Threat management



Risk - Opportunity management⁴



⁴Moore, P.



Opportunity Matrix – example

CONSEQUENCES	Level of Risk				
5 Extreme- Significant Opportunity	H	H	E	E	E
4 High – High Opportunity	M	H	H	E	E
3 Moderate – Moderate Opportunity	L	M	H	H	H
2 Low – Low Opportunity	L	L	M	H	H
1 Insignificant- No Opportunity	L	L	L	M	M
	E Rare	D Unlikely	C Possible	B Likely	A Almost Certain
	LIKELIHOOD				

LEGEND

E
H
M
I

Extreme – Significant Opportunity
High –High Opportunity
Moderate – Moderate Opportunity
Low – Low Opportunity
Insignificant – No Opportunity



- What are some business project in your company have taken risks to improve rewards/return?

Some project opportunities

- Mandurah Marina - subdivision to cannal system to increase profits
- https://www.youtube.com/watch?v=M_WVrDzmGD4
- The extension branch to existing pipe line from Melbourne to Tasmania- Longford to Bell Bay – the Tasmanian Gas Pipeline (TGP)
- <https://www.youtube.com/watch?v=AxSLHhn-FHA>

Innovation and risk management

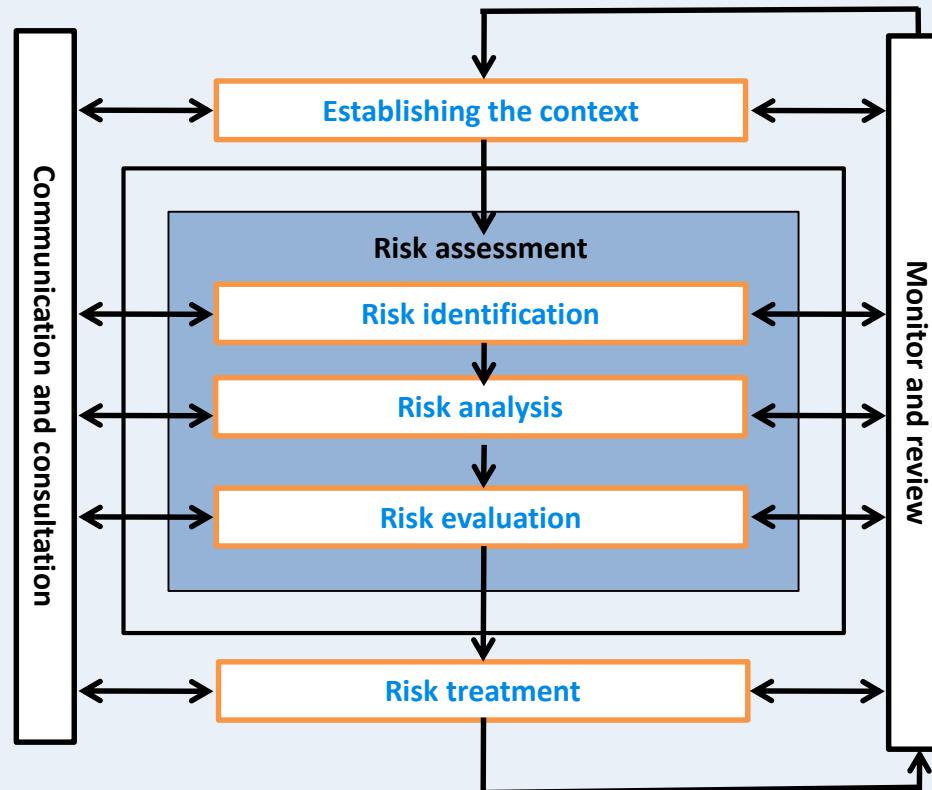
- **Innovation** involves risk taking;

Not all projects pay off:

- 60% of movie films fail to generate ticket sales to cover their costs;⁶
- **Balancing high risk** and **low risk projects** assists managing risk;
- **Accepting failure** is part of the innovation process.

⁶Holmes, A., Smart Risk

Opportunity management process⁶



⁶AS/NZS ISO 31000:2018 Risk Management – Principles and guidelines

Opportunity management process

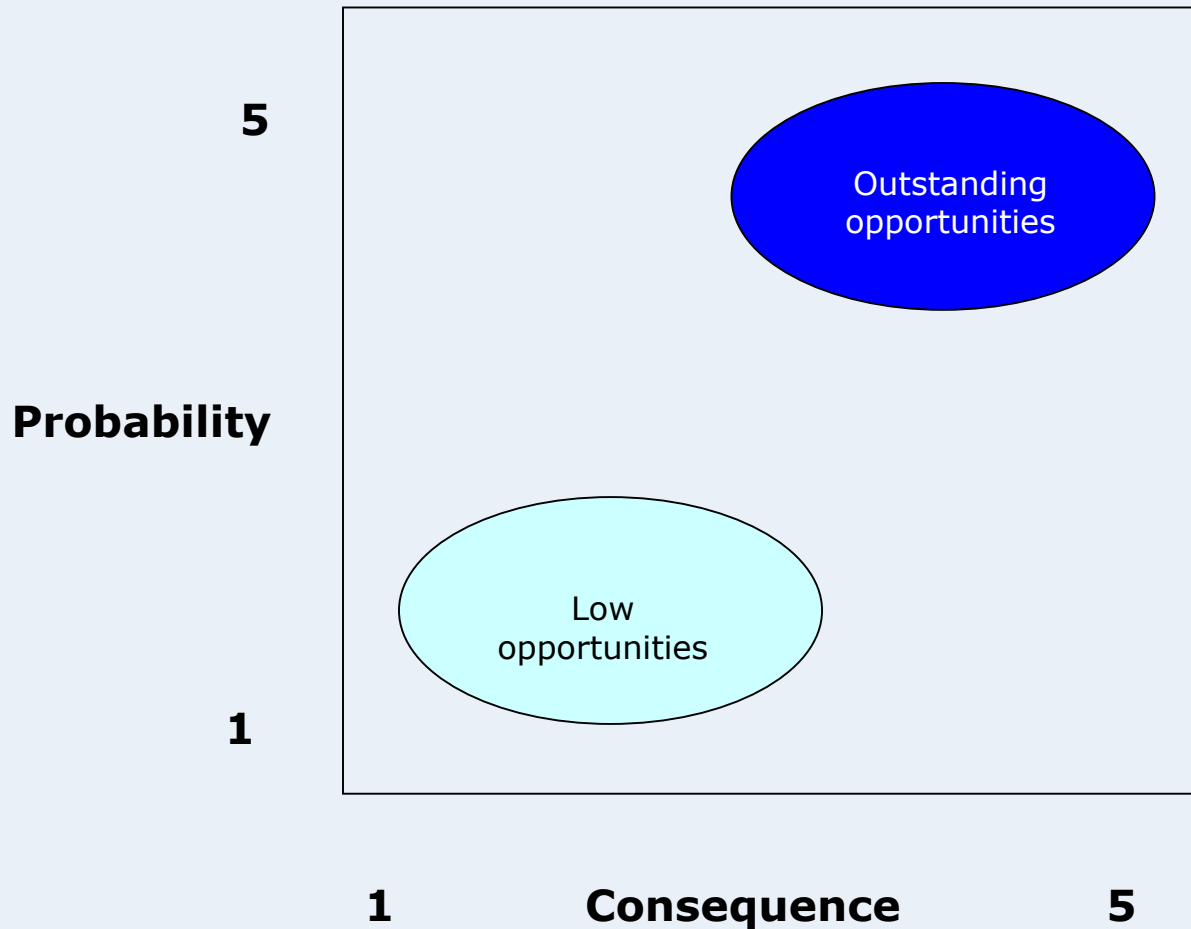
- What are the business objectives?
- What are the opportunities?
- What return will they provide to the business?
- How can opportunities be enhanced or improved to increase return?
- What are the biggest opportunities for the organisation?
- How will the opportunities be managed?

Criteria for opportunity assessment⁷

Level	Descriptor	Description
1	Insignificant	Small benefit, low financial gain
2	Minor	Minor improvement to image, some financial gain
3	Moderate	Some enhancement to reputation, high financial gain
4	Major	Enhanced reputation , major financial gain
5	Outstanding	Significantly enhanced reputation, huge financial gain

⁷ AS/NZS HB436:2004 Risk Management Guidelines

Opportunity assessment⁸



⁸AS/NZS HB436:2004 Risk Management Guidelines

Opportunity impacts⁹

Interval descriptor	Amplification
1. Insignificant	Marginal beneficial impact upon any or all of project: time, cost or quality objectives.
2. Minor	Perceptible beneficial impact upon any or all of project: time, cost or quality objectives.
3. Moderate	Significant beneficial impact upon some (but not all) project: time, cost or quality objectives.
4. Major	Major beneficial impact upon some (but not all) project: time, cost or quality objectives; and significant impact upon rest of organisational objectives.
5. Huge	Great beneficial impact upon all project: time, cost and quality objectives.

⁹Edwards, P., Bowen, P., Risk Management in Project Organisations

Opportunity amplification¹¹

Risk “threat” response option	AMPLIFICATION	Risk “opportunity” response option	AMPLIFICATION
1.Avoid	Take another course of action that does not involve this risk.	1. Exploit	Aggressively seek to obtain the maximum benefit from the opportunity.
2. Transfer	Pass the risk on to another project stakeholder.	2. Share	Pass on the risk opportunity to another project stakeholder, (insurance) or come to a co-operative (contractual) sharing arrangement for any benefit.
3. Reduce	Mitigate one or more of the risk threat components and retain the residual risk.	3. Enhance	Improve one or more of the risk opportunity components before exploiting or sharing it.
4. Retain	Retain the whole risk without further treatment.	4. Ignore	Do not take any action over the risk opportunity for this project.

¹¹ Edwards, P., Bowen, P., Risk Management in Project Organisations

Opportunity framework

Operational Area
Corporate
Finance
Marketing
Operations
Delivery
Health, Safety & Environment (HSE)

Opportunity assessment¹⁰

Return	Likelihood	Probability	Value
Outstanding	Almost certain	>95%	5
Significant	Highly likely	60% - 95%	4
Moderate	Probable	30% - 60%	3
Minor	Possible	5% - 30%	2
Insignificant	Not likely	<5%	1

¹⁰ Moore, P.

Opportunity level¹¹

Outstanding
Optimal
Moderate
Low
Marginal

¹¹ Moore, P.

Opportunity identification

Opportunity	1	Develop new marketing campaign
Area: Marketing		
Develop new marketing campaign to expand market share.		

Opportunity	2	Upgrade HSE system
Area: Occupational Health & Safety		
Upgrade Health, Safety and Environmental management system.		

Opportunity	3	Develop new range of products
Area: Marketing		
Develop new range of products for local market.		

Opportunity	4	Develop new market strategy
Area: Marketing		
Develop new marketing strategy to increase sales revenue.		

Opportunity	5	Upgrade financial management system
Area: Finance		
Upgrade financial management system to improve operational performance.		

Opportunity	6	Establish foreign exchange hedge fund
Area: Corporate		
Establish foreign exchange hedge fund to reduce operational and financial risk.		

Opportunity assessment

Opportunity Rank	Opportunity #	Name	Return	Probability	Opportunity Level	Opportunity Score	Opportunity cost
1	5	Upgrade financial management system	Significant	Almost Certain	Outstanding	20	\$50,000 - \$100,000
2	1	Develop new marketing campaign	Significant	Highly Likely	Optimal	16	\$10,000 - \$50,000
3	4	Develop new market strategy	Moderate	Highly Likely	Optimal	12	<\$10,000
4	2	Upgrade HSE system	Significant	Possible	Moderate	8	\$50,000 - \$100,000
5	3	Develop new range of products	Minor	Possible	Low	4	>\$250,000
6	6	Establish foreign exchange hedge fund	Minor	Not Likely	Marginal	2	\$100,000 - \$250,000

Opportunity register

Opportunity 1 Develop new marketing campaign					
Develop new marketing campaign to expand market share.					
Opportunity cost	\$10,000 - \$50,000				
	Return	Probability	Level of Opportunity	Opportunity Score	Acceptable
	Significant	Highly Likely	Optimal	16.00	Yes

Opportunity 2 Upgrade HSE system					
Upgrade Health, Safety and Environmental management system.					
Opportunity cost	\$50,000 - \$100,000				
	Return	Probability	Level of Opportunity	Opportunity Score	Acceptable
	Significant	Possible	Moderate	8.00	No

Opportunity 3 Develop new range of products					
Develop new range of products for local market.					
Opportunity cost	>\$250,000				
	Return	Probability	Level of Opportunity	Opportunity Score	Acceptable
	Minor	Possible	Low	4.00	No

Opportunity register



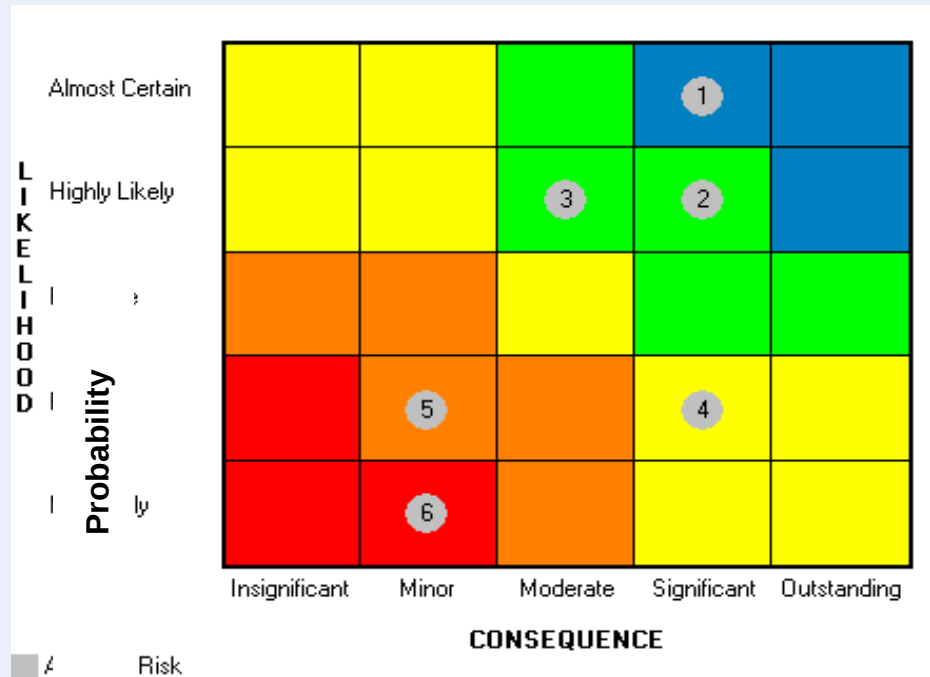
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Opportunity 4 Develop new market strategy					
Develop new marketing strategy to increase sales revenue.					
Opportunity cost	<\$10,000				
	Return	Probability	Level of Opportunity	Opportunity Score	Acceptable
	Moderate	Highly Likely	Optimal	12.00	Yes

Opportunity 5 Upgrade financial management system					
Upgrade financial management system to improve operational performance.					
Opportunity cost	\$50,000 - \$100,000				
	Return	Probability	Level of Opportunity	Opportunity Score	Acceptable
	Significant	Almost Certain	Outstanding	20.00	Yes

Opportunity 6 Establish foreign exchange hedge fund					
Establish foreign exchange hedge fund to reduce operational and financial risk.					
Opportunity cost	\$100,000 - \$250,000				
	Return	Probability	Level of Opportunity	Opportunity Score	Acceptable
	Minor	Not Likely	Marginal	2.00	No

Opportunity profile¹²



Opportunity Rank	Opportunity	Return	Probability	Return
1	Upgrade financial management system	Significant	Almost Certain	Outstanding
2	Develop new marketing campaign	Significant	Highly Likely	Optimal
3	Develop new market strategy	Moderate	Highly Likely	Optimal
4	Upgrade HSE system	Significant	Possible	Moderate
5	Develop new range of products	Minor	Possible	Low
6	Establish foreign exchange hedge fund	Minor	Not Likely	Marginal

Some Business Improvement Tools

- **Lean Six Sigma Tools**- FMEA etc.
- **BPM** (Business Process Management) - Process Mapping to determine areas of opportunity
- **ORM** (Operational Risk Management) – which identifies risk then seeks to develop improvement opportunities at a business operational level.

- Have you thought of Entrepreneurship ?
- <https://www.youtube.com/watch?v=imLVFCyl5DI>
- Guest Speakers

Summary

- Risk management revisited
- Business objectives and risk taking
- Risk perception and risk appetite
- Opportunity identification and evaluation
- Positive risk management