



FACULTY OF MANAGEMENT
DEPARTMENT OF BUSINESS MANAGEMENT
WRITTEN MODULAR SPECIAL SUMMATIVE ASSESSMENT

SUBJECT: ENTERPRISE RISK MANAGEMENT
CODE: STM8X02
DATE: NOVEMBER 2015
TIME ALLOWED: Take Home Exam
TOTAL MARKS: 100

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MODERATOR: Mr. C. Hamman (Netcare Health)
NUMBER OF PAGES: 3

INSTRUCTIONS:

- This is a take-home assessment.
- This assessment needs to be submitted before 7:00 on the 13 November 2015.
- Answer all the questions.
- Number your answers clearly.
- Read the questions carefully and answer only what is asked.
- Write neatly and legibly.
- Non-programmable calculators are allowed.
- The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.

QUESTION

100 marks

Any organisation (profit and non-profit seeking) exists to create value. For a shareholder it is profit, for a customer it is quality products and services. The activities that the organisation performs to create value is known as, and captured in their value chain or value proposition. If an activity or a set of activities doesn't add value the organisation needs, that organisation need to get rid of that function or activity. This is why Semler got rid of the HR department at SEMCO, because "they didn't add value".

Sir Isaac Newton informs us that if you can't measure a phenomena (activity) then it doesn't exist. Linking this back to the value chain (value proposition), risk and risk management informs us that each of these activities performed by an organisation in the value creation process is surrounded by uncertainties. The current fiasco's surrounding investment capitalism and the slowdown in global economies is presentative of these uncertainties.

Kahneman (2011) states that "'Risk" does not exist "out there" independent of our minds and culture, waiting to be measured". He based his argument on heuristics, that is, an easy answer to a difficult question. Some heuristics are:

- Representativeness,
- Anchoring, and
- Availability.

On a psychological level I can influence your perception of risk. Marketing communicators use this "idea dropping" methodology in cinemas, whereby a flash of a desert during the screening of the film will sub-consciously influence you to buy a cold drink or ice cream after the screening, thus boosting revenue.

But Kahneman is not alone. Taleb for instance states that "Risk managers should be given an under-graduate class in statistical sampling theory prior to their release on society". He continue his deliberation about risk management with other statements such as "I felt angry that I was being taken for a total ride by the academic researchers in finance (they believed in their models a little too much)".

The question can now be posed that "can we measure the value added by risk management"? Where does risk management fit into the value chain and can the value (perceived or real) created by risk management be measured objectively?

Given the above. Identify and discuss the cognitive biases which are likely to impact on how risk management is valued and measured within an organization. In your deliberation

- Formulate and construct the value of risk management from a qualitative basis,
- Formulate and construct the value of risk management from a quantitative basis, and
- Integrate your formulation above and recommend a framework for measuring the value created by risk management based on your analysis.

The following layout only serves as a guideline for you in your endeavour to evaluate these two views and develop a tool to measure the value created by risk management.

Your discussion should not be limited to the points as indicated – feel free to add your own critical elements.

- Introduction (10)
- Consider and analyse the value of risk management from a qualitative basis (20),
- Consider and analyse risk from a quantitative basis (20),
- Propose a framework for measuring risk management based on your analysis (30).
- Conclusion and recommendation (10)
- Technical prudence (10)

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