

Comparison and evaluation essay example

[Business](#), [Company](#)



Identifying and Managing Risk

Introduction

Risk management is a very important technique in business, and virtually all spheres of life. Through risk management, one is able to identify, assess and prioritize risks. From the results of this, then one is able to implement a coordinated and economical usage of resources in order to monitor, control and minimize the impact and probability of any unfortunate events and to capitalize on the realization of opportunities. This is the gist of many articles by Dr. James Kallman, a guru in risk management. This paper will compare and evaluate risk management techniques proposed by Dr. James Kallman and those from another expert in risk management in the form of Heinz-Peter Berg.

Dr. James Kallman is an expert in financial risk management. Over the years, he has authored many articles recommending different methods of risk management. In his risk management solution tree, Dr. Kallman discusses different risk management techniques. The difference between the techniques illustrated by Dr. Kallman and those by Heinz-Peter Berg is that those by Dr. Kallman are illustrated in the context of other factors that influence risks. Nonetheless, the two experts agree on the techniques that one can employ to manage risk in their enterprises. Dr. Kallman argues that one can either avoid or accept risks in an enterprise. This offers two techniques of risk management; acceptance and avoidance.

Risk acceptance entails weathering the effect of a particular event in the business. This technique of risk management is very dangerous because it

can be the result of a gross underestimation of potential losses. This leaves the enterprise very vulnerable when the aforesaid event occurs. This strategy is assumed by enterprise owners who perceive the other methods to not only unnecessary but also expensive. Heinz-Peter Berg argues that this strategy can potentially turn out to be the most expensive of the three other methods that he recommends. This is because retaining the risk in order to manage it requires resources. In addition to this, one can potentially incur losses in the instance the aforesaid event that amount to a risk occurs (Berg, 2010).

The second technique of risk management recommended by the two experts is risk avoidance. According to Heinz-Peter Berg, enterprises can opt not to undertake the activity that can potentially trigger a risk. Through this, the enterprise will have avoided the risk. In applying this technique from Heinz-Peter Berg's perspective, it is important to consider the opportunity cost involved. An enterprise could potentially lose out on profits. As such, it is important to consider both possibilities before avoiding a risk. According to Dr. Kallman, an enterprise can avoid the risk proactively or reactively. The proactive approach entails anticipatory change-oriented behavior aimed to avert any activities that might trigger risks in the enterprise. The reactive approach entails changes that are oriented from the impact of activities that have already taken place. The reactive approach is advantageous in that it allows the businessman the knowledge that something can actually happen in addition to the effect it has on the enterprise. On the other hand, some losses might be incurred resulting from the effect of the event (Kallman & Arnold, 2009).

Despite the fact that there are losses in terms of the opportunity cost when the proactive approach is employed, the approach saves potential losses for the business from the effects of the risk. For instance, using the proactive approach to manage political risk in a relatively stable country where the probability for political turmoil is very low might be seen as loss. However using the reactive approach in a relatively unstable country where the probability for political turmoil is high could cost the enterprise because of losses incurred after the fact.

As espoused earlier, one can opt to accept the risk. According to Dr. Kallman, one can use control and non-control approaches to manage such risks. Obviously the non-control approach entails not taking any measures to mitigate any risks. The control approach entails risk reduction and risk prevention. Both experts argue that risk reduction requires one to institute some steps in order to reduce the potential and probability that a particular incident will occur. Such strategies require serious consideration in terms of potential return in investment before they are instituted in an enterprise. Where the cost of reducing the risk outweighs the potential for the occurrence of the particular incidence, one needs to decide the worth of such a move (Kallman & Arnold, 2009).

Risk reduction involves risk financing so that someone else can share in the risk. This is called risk transfer and forms the fourth method of risk management as proposed by both experts. According to Dr. Kallman, risk transfer can be done through insurance or non-insurance approaches. Arguably, this is the best technique of risk management. It involves passing on the risk to another party. The best example of this technique is the

purchase of comprehensive business insurance.

The recommendations of both authors are logical in the business world. I most agree with the recommendation for risk transfer, and that it is the best risk management technique of the four. This is because by employing this strategy one acknowledges that uncertainties exist in business and also ensures that in case such an instance were to occur, the business is able to cope with the effects of the event. There are other factors that one should consider during risk management. They include the cost of the approach one employs, the potential impact, probability, feasibility and the opportunity to maximize on the positive effect that could occur when treating, tolerating or transferring the risk.

Balancing risk and return is always a product of investment. In any investment, money is always used and the return that is generated is subject to the unknown. This has brought very many questions to focus. One of the questions is whether it is possible to get a return without incurring risks. The truth of the matter is that to get a return one has to first invest. Any form of investment requires one to take some form of risk. The fact that some of these risks are not apparent does not mean that they are nonexistent.

As espoused earlier, in order to get a return, one has to take some risks. It is also true that if one takes on a large risk, one should expect a large return. However, one is not guaranteed a large return by taking a large risk. This is because the business world is awash with uncertainties, so that even if you diversify the risks you take, it is impossible to predict trends and happenings. After diversification of one's portfolio so as to manage risks, one can be said to be risk averse, though with lower returns. However, the only way to get

larger returns is to take up more risks. This notwithstanding, larger returns are not guaranteed (Pullan & Murray-Webster, 2012).

Different factors play into risks during investment. One of the factors is the business risk, a worry that something will affect the company causing one's investment to lose value. Another factor is the call risk where bonds can be called back and hence repaid earlier. Although there are no losses on the principal, coupon rates are affected. Other factors include allocation risk, political risk and the dividend risk.

The concept of risk and return balance permeates all spheres of life. I once had a prospect of a better paying job. This required me to resign from the then work post in order to pursue the other job. In order to resign with all my benefits, I had to issue one month notice to my employer as it was stipulated in the agreement I signed and company policies. One could also not retract the notice after officially filing it with the human resource manager. I was taking up a lot of risks resigning from my job, although it was for a more sizeable return compare to the job I had then. However, the other job was not guaranteed. The risks were compounded by the possible loss of the accumulated benefits, failure to get the other job and eventual loss of the current job. The concept of risk and return balance weighed in significantly during the decision making process.

References

- Berg, H. (2010). Risk management: procedures, methods and experiences. *Journal of Reliability: Theory & Applications*. 2(17)1: 79-95.
- Kallman, J. & Arnold, P. M. (2009). *The tools and techniques of risk management and insurance*. Cincinnati. The National Underwriter Company.

Pullan, P. & Murray-Webster, R. (2012). A short guide to facilitating risk management: Engaging people to identify own and manage risk. Surrey. Gower Publishing.