

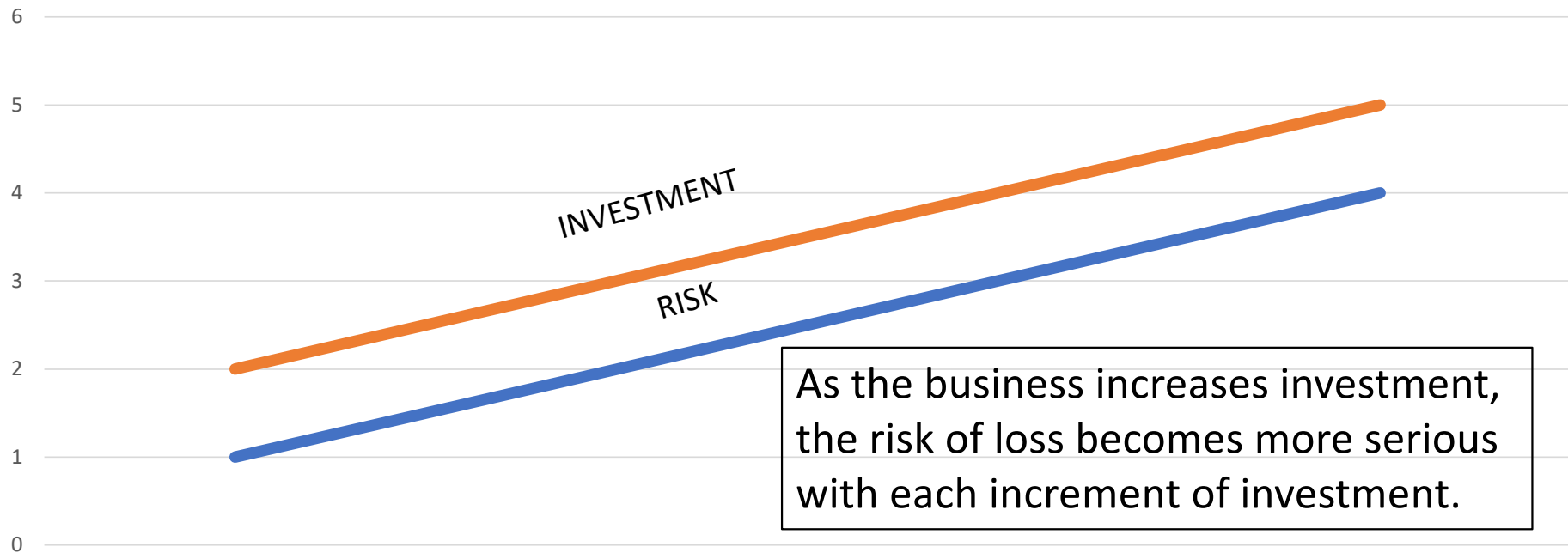


Session 4

**MANAGEMENT CONTROL**

# MANAGEMENT CONTROL

## Investment vs. Risk



# What is Management?

coordinating all the **resources** and activities of an organization through the functions of planning, organizing, directing and controlling in order to fulfill organizational objectives, **at the least possible cost**.

**OBJECT OF RISK  
MANAGEMENT**



# Risk Management

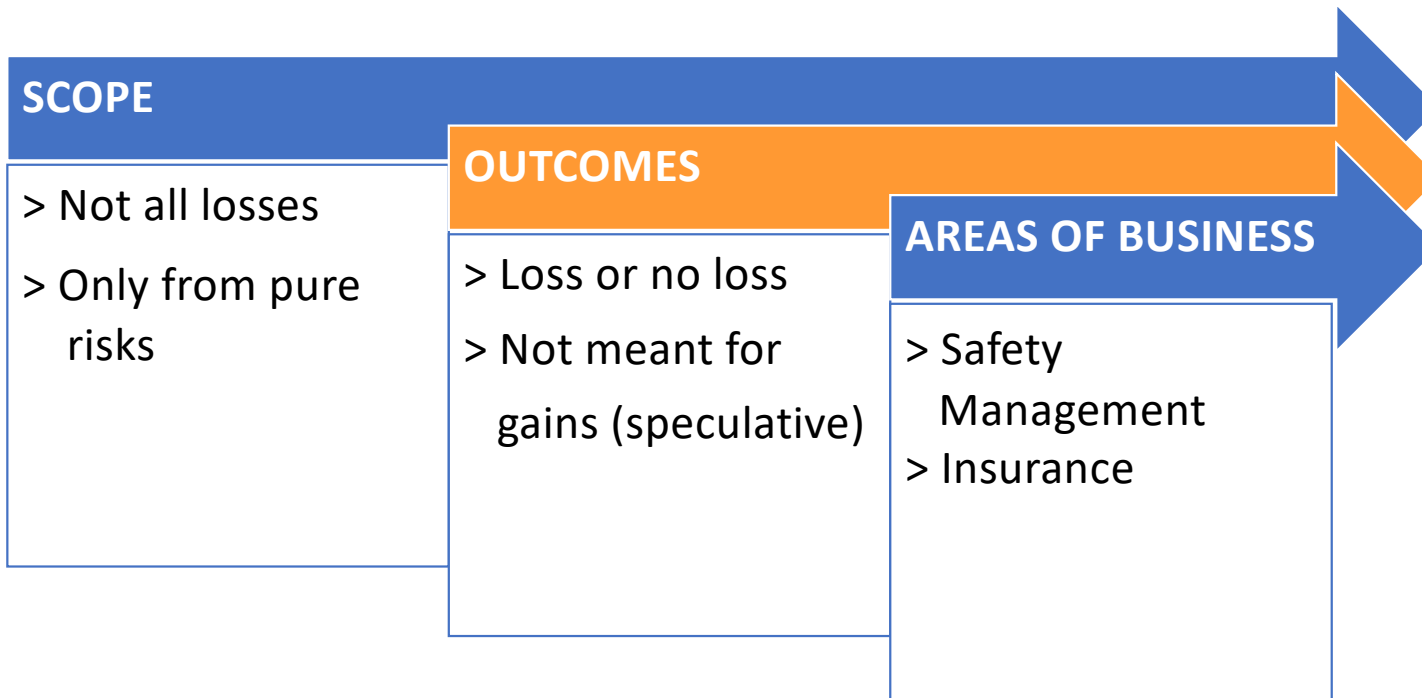
- Managerial or administrative process

- Planning
- Organizing
- Leading
- Controlling

to minimize adverse effects off accidental losses at reasonable cost

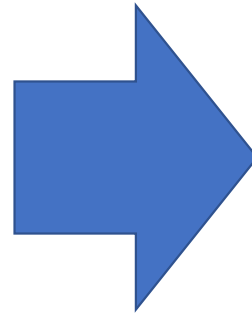


# Accidental Losses



# Categories of Risk

**Speculative Risk** – risks from some management decisions; offers the chance of either earning a profit or incurring losses



- Adding new product lines
- Expanding market territory
- Hiring more employees
- Using new marketing strategy
- Increasing prices of product/service
- Moving to new location



# Categories of Risk

**Pure Risk** – offers only a chance for loss (needs to be managed)

- Fire and explosion
- Machinery breakdown
- Illnesses
- Chemical spill
- Collapse of structures



# Pure Risks

## 1. Direct Property Loss from:

- Fire / Water damage
- Oil
- Explosion / Boiler / machinery breakdown
- Earthquake / shock
- Windstorm

## 2. Indirect Property Loss and Net Income Loss from:

- Stand still due to a breakdown in production or service supply.
- Bomb threat
- Industrial “sit-ins”
- External environmental threats
- Bodily injury and property damage to third party
- Death or disability of key employees





# Pure Risks

## 3. Loss from Criminal Activities:

- Burglary / Theft / Fraud / Robbery
- Computer risks
- Sabotage / Industrial espionage

## 4. Liability Loss resulting from:

- Product liability
- Professional liability
- Environmental liability
- Director's / Officer's liability



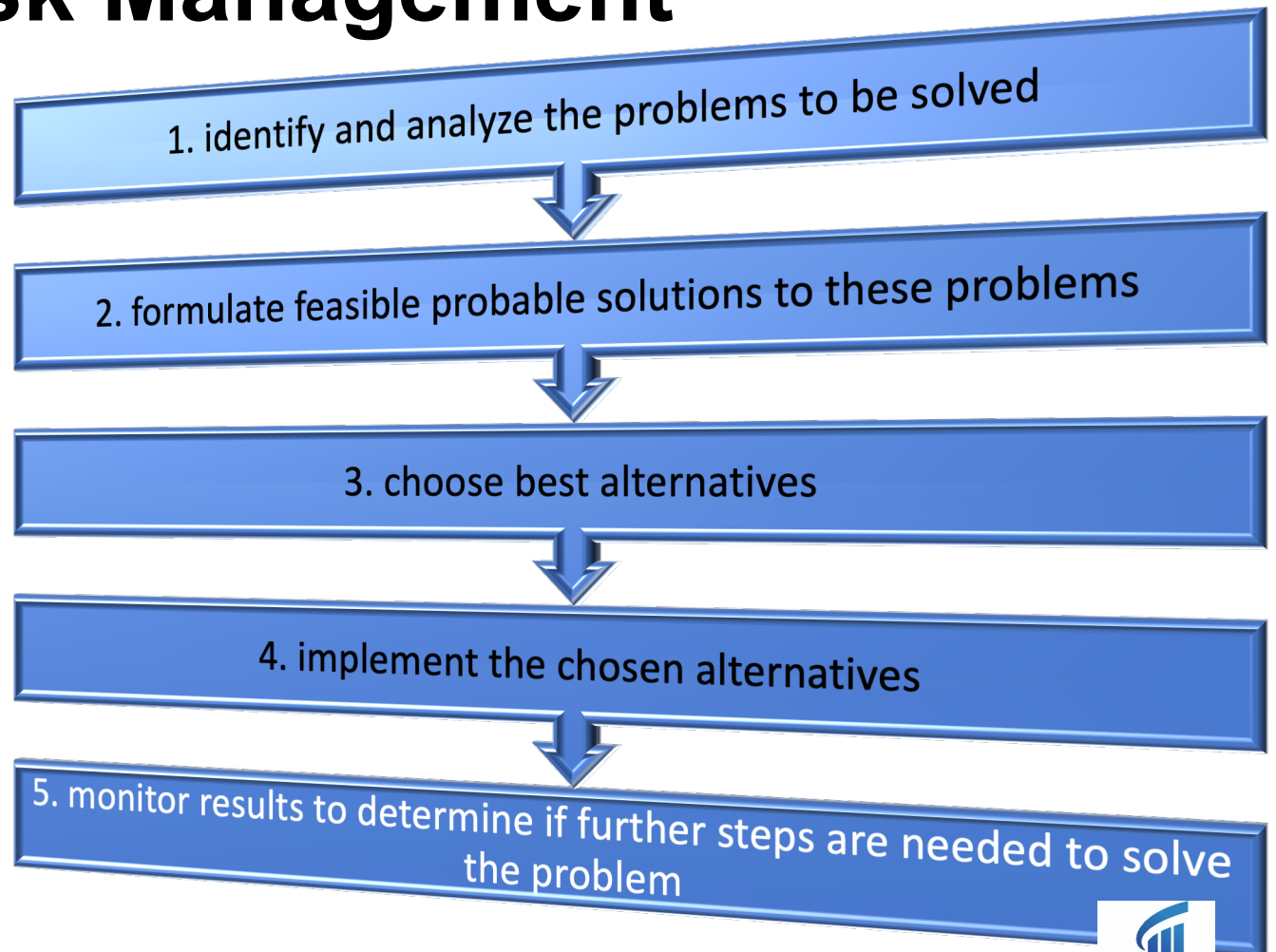
# Identify the risk (pure or speculative?)

- 1 • Fire started by faulty wiring
- 2 • Investing in stock market
- 3 • Robbery
- 4 • Vehicular accident
- 5 • Product diversification



# Risk Management

- process of weighing alternatives to select the most appropriate action



# Possible Sources of Risk

## 1. Expanded Technological Applications:

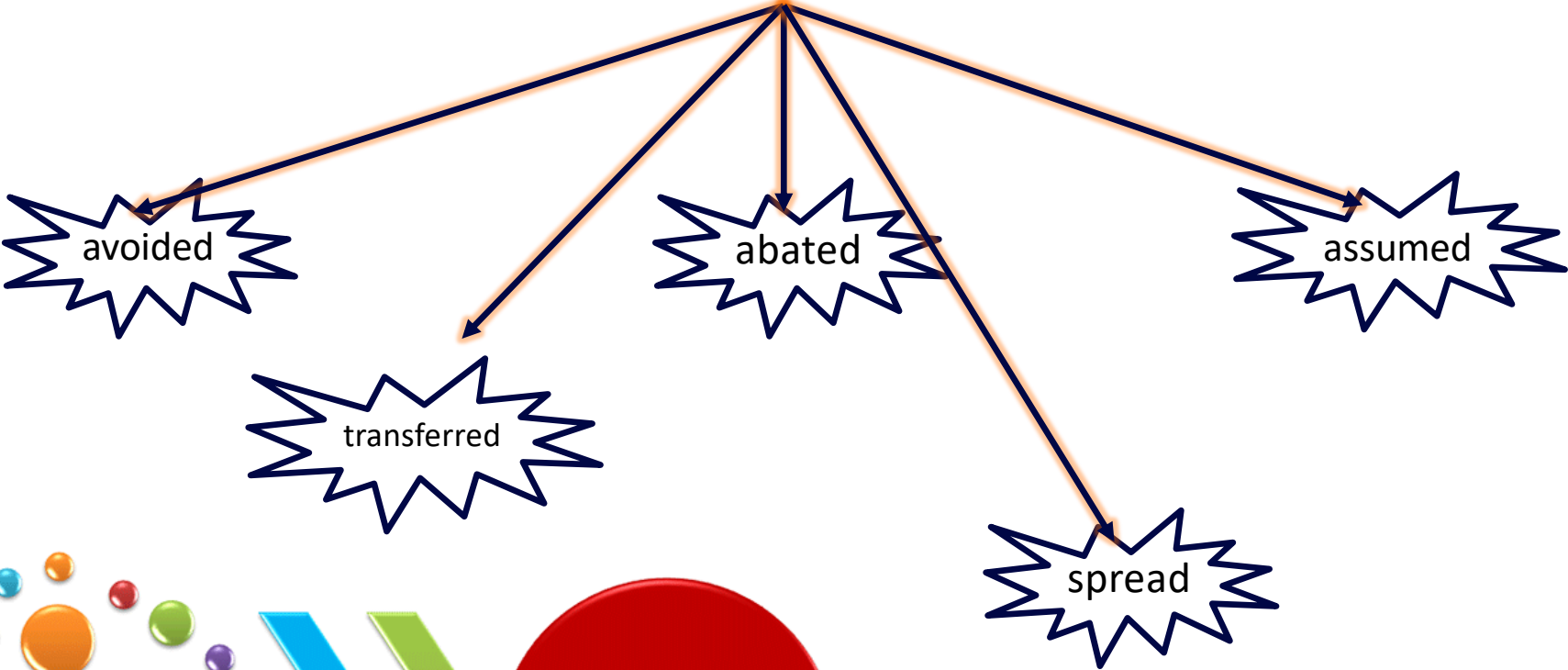
- Computer-assisted medical diagnostics
- Computer-controlled processes
- Computer-storage of personal information
- Industrial espionage / Nuclear power plants
- Passive restraint systems in cars / buses

## 2. New Technologies

- Automated airways
- Biogenetics
- Electronic funds transfer
- Ocean mining
- Portable nuclear bombs / Robotization
- Weather modification control



# Risk can either be:





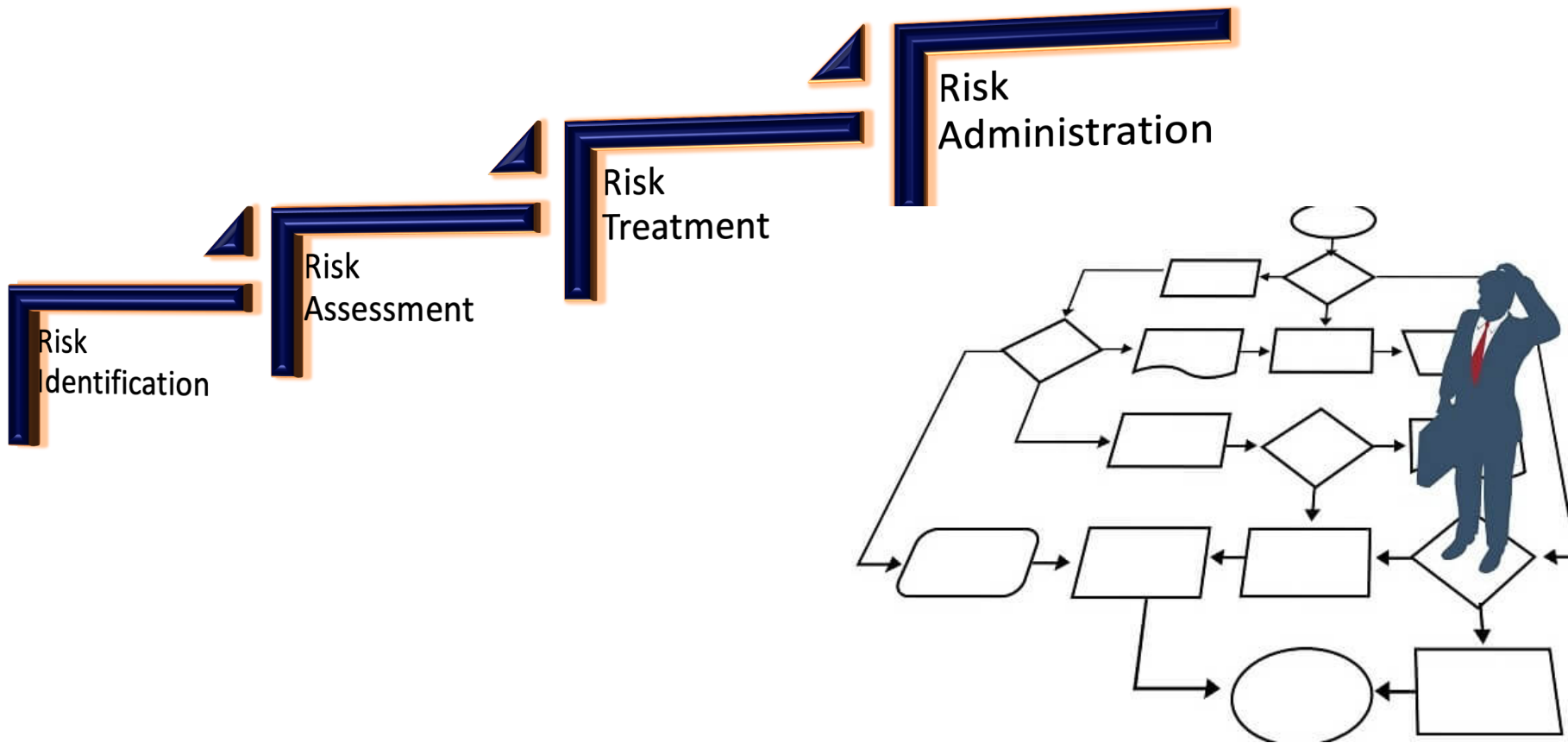
# Risk control



any conscious action (or decision not to act) that reduces the frequency, severity and unpredictability of accidental losses.



# Steps in Risk Management Process



# Risk Identification

Basic questions to ask:

- What are the losses that can occur?
- How likely and how severe can these losses be?
- How much can be lost?

Needs to be done:

- Actual physical inspection by the risk engineer
- Analysis of financial statements
- Analysis of flow charts and records of loss





# Risk Assessment/Evaluation

Risk Assessment Codes:

## Mishap Severity



- Death or permanent total disability
- Permanent partial disability
- Lost workday mishap
- First aid or minor medical treatment

## Mishap Probability



- Likely to occur immediately or within a short period of time
- Probably will occur in time
- Possibly will occur in time
- Unlikely to occur

## RAC Designations



- Imminent Danger
- Serious
- Moderate
- Minor
- Negligible



# Risk Assessment/Evaluation

Risk Assessment Codes:

|  
RISK ASSESSMENT CODES: (U.S. STANDARDS)

SEVERITY	MISHAP PROBABILITY			
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
<b>I</b>	1	1	2	3
<b>II</b>	1	2	3	4
<b>III</b>	2	3	4	5
<b>IV</b>	3	4	5	5

The British Standard sets up a classification system that assigns points for three hazards criteria:



# Risk Assessment/Evaluation

Risk Assessment Codes:

## Severity

<b>Fatal / LTD</b>	<b>Loss of life, or long term disability requiring extensive hospitalization or treatment</b>	<b>6 points</b>
<b>Major</b>	<b>Permanent disability, loss of limb or sight, etc.</b>	<b>4 points</b>
<b>Serious</b>	<b>Loss of consciousness, burns, laceration, broken bones; anything requiring hospital treatment</b>	<b>3 points</b>
<b>Minor</b>	<b>Bruise, small cuts, light abrasion, anything which may require no more than local medical assistance.</b>	<b>1 point</b>



# Risk Assessment/Evaluation

## Risk Assessment Codes:

### Potential for Injury

Certain	6 points
Probable	4 points
Possible	2 points
Unlikely	1 point

### Frequency of Access

Frequent	Many times per day	4 points
Occasional	Once or twice a day	2 points
Seldom	Weekly or less	1 point

*\*The procedure is to add the total point score of the preceding three categories to arrive at an overall hazard level or score to be used in decision making.*



# Risk Control

- systematic evaluation of the risks that are presented by the activity of any department or service area
- involves assessment of the risk and the identification of action priorities, based on the potential severity of loss, the likelihood of the event occurring, and the adequacy of current control measures
- provide a strategic management tool, used to assist in identifying and assessing risk management issues, and in the development of action plans

