23.05.2023

BUDAPESTI
METROPOLITAN
EGYETEM

Dragan Ilic

RISK MANAGEMENT

MANAGEMENT MODELS AND SYSTEMS

ANNA MÁRIA BRECZKU
G48Q6V
Hungary

Table of contents

ABSTRACT
Risk management is the subject of the following essay. It is a brief review of the way in which risks are dealt with in a business environment. The research is based on what is management, what is a risk and how a company can deal with risks from the secondary literature of research papers, professional interviews and journals. In order to carry out risk management processes, the steps and techniques of risk management are discussed. The company Walmart will be used as an example of a company. A number of steps and techniques are used for risk management. The Enterprise Risk Management technique used to manage risk is analysed through the activities of the Company. The aim of the research is to summarise and highlight the need for and importance of risk management in business. The main conclusion is: Always be aware of risks, because they can occur at any time and in any form.

Keywords: risk management, risk, Walmart, Business risk

INTRODUCTION
Risk Management began to get studied following the Second World War. The use of market insurance to protect individuals and businesses against various accidental losses has long been associated with risk management. In the 1950s, when market insurance was considered too expensive and incomplete for pure risk protection, other forms of risk management emerged as alternatives to market insurance. The use of derivatives to manage risk began in the 1970s and expanded rapidly in the 1980s as companies sought to strengthen their financial risk management. The use of derivatives as a risk management tool started in the 1970s and expanded rapidly in the 1980s as companies intensified their financial risk management. However, these regulations, governance rules and risk management practices could not prevent the onset of the financial crisis in 2007 (Dionne, 2019). The essay has focused on providing an overview of how risk is being handled in the business environment. Management has a huge part in proper risk management, also there are several techniques to be used. Even though sometimes risk occurs from nowhere, there are ways to be prepared and deal with upcoming risks. The steps of risk management and techniques are being discussed. Also, Walmart the retail company is integrated into the analysis to see, how risk management works in real life when managing a huge organisation like that. All in all, risk can be prevented or easily dealt with, no matter how big the organisation is.

1. WHAT IS MANAGEMENT
Management is a universal phenomenon. Every natural or legal person is obliged to establish company goals, develop plans, manage human resources, coordinate, and control activities, achieve goals and evaluate performance aligned with business goals. These activities are related to using environmental variables or resources – human, monetary, physical, and informational. Human resources mean management talent, manpower (management talent, manpower and services) provided by them, monetary resources (the monetary investment used by the organization) to fund its ongoing and long-term operations), physical resources (raw materials, physical and manufacturing facilities, and equipment) and information resources (data and more information). Management is essentially the bringing together of these resources within an organization to achieve an organization's goals (Tutorials Point, 2016).

1.1 Definition of management
Based on the Cambridge English Dictionary, management is defined as the control and organization of something or the group of people responsible for controlling and organizing a company (Cambridge Dictionary, 2020).

On the other hand, management is how companies organize and control the flow of work, operations, and people to achieve the goals of the company. Management's primary goal is to create an environment that enables employees to work efficiently and productively. A strong organizational structure guides workers and sets the tone and focus of their work (Coursera, 2022).

1.1.1. Task of management

Managers are involved in the implementation and evaluation of these structures. As a manager, they may be responsible for performing any of the following tasks: create goals and goals and create schedules. Develop strategies to increase performance, productivity, and efficiency. Ensure compliance with company policies and industry regulations. Employees need mentors. Also, monitor budgets, productivity, and performance. Solve customer problems and always train the employees (Coursera, 2022).

2. KEY FUNCTIONS OF THE MANAGER

Managers have different functions within an organization. Typically, these functions are divided into four interconnected groups. Understanding them will help you identify your strengths and areas of need and choose the right training to improve your skills (Coursera, 2022). Leaders are the most important force behind the growth and expansion of an organization. Organizations are particularly complex because of their size, processes, people, and nature of business. However, organizations must be a cohesive whole that encompasses every employee and their talent to support them in achieving the set business goals. This an extremely challenging endeavour and requires highly effective managers who can do developed skills in human resource management and communication (Tutorials Point, 2016).

The first function of a manager is to set goals. These goals can apply to individual employees, departments, or the entire organization, depending on the manager's level of responsibility. In addition to setting goals, managers often develop action items, strategies, and resources for completing tasks and achieving goals.

Achieving organizational goals requires the right people to be in the right places. Managers can play an important role in selecting workers for positions and projects. Knowing how to group people and help them build relationships often has a major impact on how the group works together. Sometimes managers need to train their employees for specific tasks to ensure they have the knowledge and skills they need to succeed.

Leaders help motivate employees to show themselves and stay productive. This includes sharing a common vision, encouraging them to develop their strengths and inspiring them to be always their best. Effective communication skills are essential to filling this role.

Managers often spend time measuring their teams' success and how well they are achieving their goals. The better they understand what works and what doesn't, the better prepared they are for future decisions. Managers need to understand and adapt strategies to achieve organizational goals.

2.1 Levels of Management

In many organizations, management falls into one of three tiers: top, middle, and bottom. Managers in smaller companies may have roles at more than one level, while in larger organizations there may be multiple managers at each level (Coursera, 2022).

Top management generally has an administrative role, and their decisions affect the entire organization, although sometimes they are not involved in day-to-day operations. They may hold the title of chief executive officer (CEO) or serve on the board of directors (Coursera, 2022).

Find people in leadership positions at the middle management level. You will work with both management and supervisors to help employees achieve their goals and increase organizational productivity. At this level, they may be referred to as regional managers or general managers (Coursera, 2022).

The last management level often has a supervisory function. These managers have titles such as shift manager, branch manager, or team leader. You will work with individuals and teams to achieve goals set by top management. They generally have the least influence on company policy compared to the other levels of management, but the greatest interaction with workers (Coursera, 2022).

2.1.1. Manager types

Top leaders lead the organization to achieve its goals, and they are instrumental in creating the organization's vision and mission.

The General Manager is responsible for all aspects of a company. This person is responsible for the management of the P&L status (profit and loss) of the company. Usually, CEOs report to the board of directors or company officers and receive direction from them on the management of the company business. The function manager is responsible for a single organizational unit or department within a company or organization. In return, he is supported by a supervisor or a group of managers within your unit/department. The manager is responsible for the profitability of the department and its success (Tutorials Point, 2016).

Supervisors are directly responsible for the management of an individual employee or a group of employees. They are also directly responsible for the company's service or product line Companies. For example, a line manager at Toyota is responsible for the manufacturing, storage, marketing, and profitability of the Corolla product line.HR managers often supervise other employees or subordinates in an organization and typically manage revenue-intensive or support departments and provide line managers with information and advice (Tutorials Point, 2016).

Every organization has multiple projects running concurrently throughout its lifecycle. The project manager is primarily responsible for leading a project from start to finish. Plan and organize the resources needed to complete the project. This manager will also define the goals and objectives of the project and decide how and at what intervals the project deliverables are completed (Tutorials Point, 2016).

3. WHAT IS THE RISK

Risk is defined as the possibility of loss or injury (Merriam-Webster, 2019). It is the possibility of something bad might happen (Cambridge Dictionary, 2019).

3.1. Risk in finance

In financial terms, the risk is defined as the possibility that an actual outcome or return on an investment will differ from an expected outcome or return. Risk includes the possibility of losing some or all your initial investment, and in a quantifiable way, the risk is generally assessed by looking at historical behaviour and results. In finance, standard deviation is a common measure of risk. Standard deviation is a measure of the volatility of asset prices compared to their historical averages over a period (CHEN, 2020).

In general, it is possible and useful to manage investment risk by understanding the basics of risk and how it is measured. Understanding the risks that can apply to different scenarios and some ways to manage them holistically will help all types of investors and business leaders avoid unnecessary and costly losses (CHEN, 2020).

3.1.1. Risk in business

Business risk is a company's or organisation's exposure to factors that reduce profits or cause failure. Anything that threatens a company's ability to achieve its financial objectives is business risk. Many factors can combine to create business risk. Sometimes situations that put a company at greater risk are created by the leadership or senior management of the company (Kenton, 2020).

Sometimes the source of risk lies outside the organisation. For this reason, a company can't protect itself completely from the risks it faces. There are, however, ways in which the overall risks associated with running a business can be mitigated, and most companies achieve this through the adoption of a risk management strategy (Kenton, 2020).

3.2.1. Understanding risk

If a company is exposed to high business risk, this may affect its ability to provide adequate returns to investors and stakeholders. For example, a company's CEO may make certain decisions that affect the company's bottom line, or the CEO may fail to accurately predict certain future events, which may cause the company to incur losses or fail (Kenton, 2020).

3.2.2. Types of business risk

Strategic risk arises when a company does not act according to its business model or plan. If a company doesn't follow its business model, its strategy loses effectiveness over time and it may struggle to meet its defined goals (Kenton, 2020).

The second type of business risk is called compliance risk. Compliance risks arise primarily in industries and sectors that are heavily regulated (Kenton, 2020).

The third type of business risk is operational risk. This risk arises within the company in particular when the day-to-day business of a company does not take place (Kenton, 2020).

Any time a company's reputation is damaged, whether as a result of a previous business risk or some other event, there is a risk that it will lose customers and brand loyalty will suffer. HSBC's reputation has been damaged by the fine imposed on it for its anti-money laundering failings (Kenton, 2020).

3.2.3. Steps to handle risk

Business risks cannot be completely avoided because they are unpredictable. However, there are many strategies that organisations use to reduce the impact of all types of business risk, including strategic risk, compliance risk, operational risk and reputational risk (Kenton, 2020).

The first step brands often take is to identify all sources of risk in their business plan. These are not only external risks but can also come from within the company itself. It is vital to take action to mitigate risks as they arise. Management must develop a plan to deal with identified risks before they become too great (Kenton, 2020).

Once management has developed a risk management plan, it is important to go one step further and document everything in case the same situation arises again. After all, business risk is not static: it tends to recur throughout the business cycle (Kenton, 2020).

Finally, most companies adopt a risk management strategy. This can be done before the business starts or after it has experienced a setback. Ideally, a risk management strategy will help the organisation be better prepared for possible risks. In the event of a risk, the plan should include the best ideas and established procedures (Kenton, 2020).

Figure 1. Risk management process (Corporate Finance Institute, 2022)

4. RISK MANAGEMENT

Anyone related to business, leaders, managers, and business owners always have to be aware of risks.

Poor risk management occurs when an organisation relies too much on historical data, restricts too many risk parameters, overlooks obvious risks or doesn't look for the right risks. Companies need to identify risk management techniques and risk assessment capabilities as part of their business plan to demonstrate their capabilities (Western Governors University, 2020).

When organisations do not understand the purpose or definition of risk management or simply do not want to work to manage their business risk well, business risk is often mismanaged. It can also involve time, effort, and money that an organisation does not want to spend on risk management.

For business owners and executives, this means understanding how risk can be mitigated in your organization and making prudent and informed business choices (Western Governors University, 2020).

Risk Management is defined as the process of investigating, assessing, and controlling threats to the financial security of your business. The basic idea behind this definition is that a company looks at all the areas that can cause problems for the company, considers the best way to deal with the problem situation, and then applies the controls to help keep that risk as low as possible. It is also about managing a problem situation when it arises. It provides examples of risk management techniques that can help business owners and managers succeed (Western Governors University, 2020).

4.1. How risk management works

The process used to manage risk may be different for each company, depending on the situation. There are organisations with a full enterprise risk management team focusing on strategic risk,

risk evaluation, risk profiling, risk treatment and risk preparedness of each product and new strategy. Smaller companies might only employ one person to do risk evaluation, or they might just take on this role along with other responsibilities in the company. A business must identify and analyse its risks before it starts - both business owners and investors need to understand the risks before they can try to profit from the business (Western Governors University, 2020).

Risk management is key to ensuring that the business and its managers understand the potential problems that may arise, help them develop solutions to those problems and mitigate the risks. Investors may be reluctant to give money to a business that is risky or poorly managed. They may also find that they have more problems than they have the money or time to solve. Taking risks seriously can help to prepare your business for where it needs to go (Western Governors University, 2020).

There are several ways that business owners and investors can measure risk. One way is to look at how much money is likely to be lost if something goes wrong. Another is the frequency with which risks and potential losses can occur. Historical, situation-specific and customer impact are other risk measures. For an organisation seeking to analyse, minimise or mitigate potential risks to itself and its investors, all these ways of measuring risk can be important (Western Governors University, 2020).

4.1.1. Risk management techniques

To reduce business risk, there are many techniques your company can use. It's important to think carefully about the risks you face and the techniques you need to use to manage them. Among these techniques are the following (Western Governors University, 2020).

The most effective risk management technique is often risk avoidance. As the name suggests, you avoid the risk with this technique. If you are successful, then there is a 0% chance that you will lose money due to this risk factor. This is why avoidance is often the first risk management technique used. Risk avoidance can be seen in companies that do background checks on their employees to avoid potential problems. The same can be seen in an investor who decides not to invest a percentage of his or her money in an industry that is suffering from economic losses (Western Governors University, 2020).

Risk transfer. Risk transfer occurs when a company knows that it has an unavoidable risk and wants to hire an insurance company or some other third party to help it mitigate that risk. There are many examples of risk transfer: a company may take out insurance on its buildings or products to protect them in the event of fire, theft, flood, etc. There are many examples of risk transfer: a business ensures its buildings or products protect against fire, theft, flooding, etc. Another example of risk transfer is when a business enters a contract with a worker or client to help offset risks which might arise in the future.

Preventing loss. Loss prevention is when an organisation recognises that there is a risk that it cannot avoid. However, it takes precautions to reduce the impact of the risk. For example, a company might store its inventory in a warehouse, which means it's vulnerable to getting stolen or burned down. To prevent risk and loss, they install security cameras and hire security personnel. To prevent a breach of its corporate information and data, another company may require a password on its computer (Yu, 2021).

Retain the risk. Rather than relying on external sources, this technique involves managing the risk within your organisation. The reason for the use of these techniques is the belief that it is better to manage the risk themselves than to pay an insurer or other service provider. (Yu, 2021) An example of a retention risk would be an organisation that has an in-house IT department that manages its IT security rather than the use of third-party software or companies. This can also be seen in a company that decides not to take out a policy for a particular risk because they think they will save money on their policy and cost less if the risk materialises. compared to regularly paying for those risks (Western Governors University, 2020).

Spreading risk. The main way insurers spread risk is by choosing to work together with other insurers to spread the risk among large customers. For example, a supertanker buys insurance. The company will then share the insurance money with other companies so that in the event of a disaster, the costs and risks are spread evenly over many companies (Western Governors University, 2020).

Figure 2: 5 Basic Methods for Risk Management (Yu, 2021)

5. WALMART

Figure 3: Walmart logo (Walmart, 2023).

From their humble beginnings as a small discount retailer in Rogers, Arkansas, Walmart has opened thousands of stores across the United States and expanded internationally. Through innovation, they create a seamless experience for customers to shop online and in stores anytime, anywhere, creating opportunity and value for customers and communities around the world. Walmart operates approximately 10,500 stores, clubs in 20 countries, and e-commerce websites. They have 2.1 million associates worldwide, including nearly 1.6 million in the United States (Walmart, 2023).

The everyday Low Price (EDLP) is the cornerstone of their strategy, and their pricing approach has never been stronger. Today's customer wants the convenience of a one-stop shop. From groceries and entertainment to sporting goods and crafts, they offer a variety of their customer’s value, whether they're shopping online at Walmart.com, through one of their mobile apps or in-store. They currently operate three major store formats in the U.S., each tailored to customers’ neighbourhoods (Walmart, 2023).

5.1. How they handle risk

They aim to create an environment of accountability, transparency and trust in our business that promotes business integrity, financial stability, and responsible, long-term growth. Strong corporate governance makes organisations more resilient by promoting strategies for long-term success and growth, helping the organisation consider the best interests of all stakeholders, improving management systems and minimising the risk of misconduct. Their corporate governance practices help us live up to our values and deliver superior service and results to our customers, employees, suppliers, business partners and communities while creating long-term shareholder value.

5.1.1. Key strategies

Walmart's Board of Directors (the "Board") is responsible for overseeing our company's business strategy and strategic planning. With a focus on assessing opportunities and potential risks, the Board's oversight and management's execution of our business strategy is designed to help drive long-term value creation for shareholders and stakeholders in a sustainable manner (Walmart, 2022).

5.2.1. Board and management roles and Responsibilities

The Board is responsible for overseeing Walmart's business strategy and strategic planning. Walmart operates in a rapidly changing retail environment. Shifts in market fundamentals, social and environmental issues, technology, and customer preferences require significant Board engagement in our strategy. As Walmart continues to transform its business, the Board works with management to respond. Given the iterative nature of this transformation, the Board's oversight of strategy is an ongoing process (Walmart, 2022)

5.2.2. Walmart’s Five-Step ERM Process

Wal-Mart has developed a five-step process based on four fundamental questions: What is the risk? How will we manage that risk? How will we measure whether we positively or negatively impact risk? How will we demonstrate value to our shareholders?

5.2.3. ERM Process Five Steps

Step One - Risk Identification In this step, the risk map assesses the risk on the XY axis, where the X axis represents the probability, and the Y axis represents the impact. This helps in prioritizing what is Wal-Mart's biggest risk (Atkinson, 2003).

"We are planning a four- to five-hour risk identification workshop to help senior executives think through the risks that could prevent them from achieving their business goals. – Mart. But the process starts about a month before these workshops. First, the business objective is clearly defined, such as increasing sales, increasing profits, opening an 'x' number of new stores, etc. "We define the business objectives against which we want to assess the risk," explains Tush. Then we send out an information pack to the workshop participants with the framework in mind.” (Atkinson, 2003).

Step two - minimise risks. This step involves another facilitated workshop to better define the top three to five risks. Those most affected by a particular risk are invited to the mitigation workshop. For instance, in the case of social risk, this might include those from operations, HR, training and legal. Once the risks have been identified and quantified, the participants will form project teams, such as those involved in recruiting, training, and retaining staff (Atkinson, 2003).

Step Three - Create an action plan. During this phase, project teams come together and create simple project plans. These plans define who will do what and when. The teams will then spend several months working on their project plans (Atkinson, 2003).

Step Four - Performance metrics. "We then measure whether the project plans have a positive or negative impact on the identified risks," says Tush. "We always make sure that the performance metrics do three things." First, the metrics should measure results, not processes. Teams do not measure training days. Instead, they measure training outcomes, such as productivity gains at the store level. Indicators should compare planned and actual performance and show trends over time (Atkinson, 2003).

Step Five - Shareholder Value/Return on Investment. The primary objective of this step is to assess whether the project can increase revenue or reduce costs to ensure that the action plans and results will increase shareholder value and return on investment (Atkinson, 2003).

5.2.4. ERM in action

There were challenges, as with most new processes. In Tush's experience, the most difficult part of the process has been the maintenance of momentum. "We did our first pilot in Canada in late 2000," recalls Tush. "It was a challenge to maintain the momentum throughout the process to end up with strong performance metrics, shareholder value and ROI once we started the identification and mitigation workshops within a business group or country." (Atkinson, 2003).

Internal Audit worked closely with Wal-Mart Risk Management to develop and refine the five-step process at the outset of the ERM initiative. Other team members developed the ERM process. These included internal audits, loss prevention, safety, and corporate training (Atkinson, 2003).

5.2.5. Results of ERM

The opportunities presented by the company's ERM process have been well received by Wal-Mart management. One person who has been very active in the process is Mario Pilozzi, the company's country president in Canada. A year ago, he presented the results to the audit committee. "ERM helped us identify clear objectives directly related to risk reduction, which helped the team focus on key risk areas, and ERM challenged us to align the results of the action plans with net income and shareholder value," he said (Atkinson, 2003).

What results and benefits has Tush seen enterprise-wide? "First and foremost, we are now more focused on our key risks and what we can do to address them," he says. "In other words, ERM is not an enlightenment process where we go into countries or business units and help them identify risks they don't already have. Instead, we help them identify and focus on the few most important targets." (Atkinson, 2003).

5.2.6. Plans

Not all countries where Wal-Mart currently operates have received the equipment. However, the remaining four (Argentina, Puerto Rico, Korea, and Germany) are expected to be completed within the next year. Tush is also looking at ways to strengthen and automate the collection and reporting of performance metrics. "Right now, we're doing it manually," he explains. "We want to build a web-based application to better track our performance metrics. „Paris’s next goal is to help shift the concept of ERM from business imperatives and compliance to capturing business opportunities. "The field is wide open here," says Paris. "Once you have a true understanding of risk, there is a whole new area of opportunity for the business." (Atkinson, 2003).

CONCLUSION

This essay has focused on summarizing and highlighting the need for risk management. Management itself is responsible for managing tasks within the organization, in this case, risks. Risk is something that may occur, organisations must be always awake and aware that risk can occur at any time. Through the essay, it is understandable that risk management is essential when observing a company. Risk management is defined as the process of investigating, assessing, and controlling threats to the financial security of your business. There are risk management techniques to properly deal with risks. Risk avoidance is the most common technique to decline risks. Loss prevention, risk retaining or spreading risk are other techniques to choose from when facing risk. Later in the essay, the company Walmart analysed from the aspect, of how they handle risks. It aims to create an environment of accountability, transparency and trust in our business that promotes long-term business integrity, financial stability, and responsible growth. Their board of directors is responsible to see the company's actions and overview actions and be the first to see if there is any chance of risk occurrence. On the other hand, they use the five steps of Enterprise Risk Management. With the help of the tools, they identify the risk, minimise the risk, create an action plan, create, and check performance metrics and finally check on the financial aspects of the project. To summarise the importance of risk management a quote from Gary Cohn: "If you don't invest in risk management, it doesn't matter what business you're in, it's a risky business" (Cohn, 2023).

References

Atkinson, W. (2003). Enterprise risk management at Wal-Mart. *Risk Management*, *50*(12), 36–40. https://go.gale.com/ps/i.do?id=GALE%7CA111617568&sid=googleScholar&v=2.1&it=r&linkaccess=abs&issn=00355593&p=AONE&sw=w&userGroupName=anon%7E7904f11e

Cambridge Dictionary. (2020). *MANAGEMENT | meaning in the Cambridge English Dictionary*. Cambridge.org. https://dictionary.cambridge.org/dictionary/english/management

Cambridge Dictionary . (2019). *RISK | meaning in the Cambridge English Dictionary*. Cambridge.org. https://dictionary.cambridge.org/dictionary/english/risk

CHEN, J. (2020, October 6). *Risk Definition*. Investopedia. https://www.investopedia.com/terms/r/risk.asp

Cohn, G. (2023). *TOP 25 RISK MANAGEMENT QUOTES (of 128)*. A-Z Quotes. https://www.azquotes.com/quotes/topics/risk-management.html

Corporate Finance Institute. (2022, October 27). *Risk Management*. Corporate Finance Institute. https://corporatefinanceinstitute.com/resources/risk-management/risk-management/

Coursera. (2022, September 30). *What Is Management? Definitions, Skills, and Careers*. Coursera. https://www.coursera.org/articles/management

Dionne, G. (2019). Risk Management: History, Definition, and Critique. *Risk Management and Insurance Review*, *16*(2), 147–166. https://doi.org/10.1111/rmir.12016

Kenton, W. (2020, March 25). *Business Risk*. Investopedia. https://www.investopedia.com/terms/b/businessrisk.asp

Merriam-Webster. (2019). *Definition of RISK*. Merriam-Webster.com. https://www.merriam-webster.com/dictionary/risk

Tutorials Point. (2016). *Principles of Management i*.

Walmart. (2022, April 21). *Corporate Governance*. 2022 ESG. https://corporate.walmart.com/esgreport/governance/corporate-governance

Walmart. (2023). *About Walmart*. Walmart. https://corporate.walmart.com/about

Western Governors University. (2020, March 20). *What Is Risk Management in Business?* Western Governors University. https://www.wgu.edu/blog/what-risk-management-business2003.html#close

Yu, J. (2021, June 28). *5 Basic Methods for Risk Management*. Investopedia. https://www.investopedia.com/articles/investing-strategy/082816/methods-handling-risk-quick-guide.asp