



# International Diploma in Risk Management

## Module one: Principles of Risk

### Module aims

Module One, *Principles of Risk*, considers the essential, underlying theory and concepts that should inform the design and operation of efficient and effective risk management processes. Much common practice does not adequately reflect this underlying theory. Common practice is often limited, pragmatic, expedient and overly simplistic. An understanding of this underlying theory enables informed critical reflection of current practices so that weaknesses and limitations can be identified.

Best practice is soundly based on underlying theory. This theory provides a generic understanding of factors that influence all aspects of risk management, and this understanding then informs appropriate cost effective design and operation of risk management processes.

To achieve these aims the specific objective is to provide an overview of the scope of formal risk management processes in organisations and an appreciation of the underlying generic issues and principles that need to be addressed for effective risk management.

### Module syllabus

**Unit One: Directions for risk management development.** Possibilities in six dimensions - what, when, why, whichway, who, and wherewithal.

**Unit Two: Definitions.** Definitions of risk, threat, opportunity and uncertainty distinguished; relationship with performance objectives, implications for uncertainty management. Risk management, opportunity management and uncertainty management compared.

**Unit Three: Formal risk management and process frameworks.** Benefits of formal processes; standards and guidelines.

**Unit Four: Application contexts and associated risk management issues.** Operating, project, programme, strategy and corporate contexts.

**Unit Five: Objectives for risk management applications.** Distinguishing benefits and objectives for risk management. Objectives for process, application, performance and strategic capability; links between these objectives. Planning the scope and purpose of a risk management application.

**Unit Six: Understanding uncertainty.** Quantification of uncertainty (distinguishing targets, expectations and commitments); measures of risk (mean, variance, semi variance, cumulative probability distributions), interdependence between sources of uncertainty (e.g. virtuous and vicious circles).

**Unit Seven: Risk evaluation.** The importance of risk-performance trade-offs, and risk efficiency as a key criterion in evaluating alternative course of action. Risk aversion, loss aversion and framing of decision choices. Cost benefit analysis as a basic framework: scope and limitations. Four cultural biases towards risk evaluation (perception): the fatalist, the hierarchist, the individualist, the egalitarian.

**Unit Eight: Multi-party issues.** Risk ownership, risk allocation and related risk management implications.

**Unit Nine: Building capability in risk management.** Assessing risk management capability (benchmarking, risk maturity). Descriptors of capability: focus of attention, range of application contexts, nature and quality of risk management processes. Facilitators of risk management capability: scope of supporting risk management infrastructure, supporting organisational capabilities, organisation learning, organisation culture, human resource capability.