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THE ANATOMY OF RISK

Undoubtedly there is a risk in almost every facet of life; at the time when we were born, or when we decide to take a casual stroll in a serene park, or indeed when we make a decision to partner a new business venture or associate.

Although a person may not be conscious of the underlying risks that may await them when they, for example, decide to embark upon an enjoyable park outing, there could well be many potential or real risks awaiting our unsuspecting victim. Of course in most cases the victim will not have consciously calculated such risks, and managing them becomes that much more difficult.

Conversely, in a business environment, business leaders are expected -- as a matter of their fiduciary duties -- to act (severally and jointly) quite differently compared to the person in our previous setting. In fact, one can argue that in a business environment, business leaders need to have a certain foresight that enables them to predict, manage and mitigate against the likelihood of something negatively affecting the business, its operations and profits.

It is precisely for this reason, most particularly where shareholders have entrusted the company's management to serve and protect the assets of the company, that leaders are held accountable when things go wrong. Clearly this calls for leadership experience, good business judgement as well as the necessary toolset to aide management decisions in an ever-increasing and complex business environment.

The word *risk* has its roots in the old French word *risqué*, which literally means "danger"; moreover it implies that there is an element of *chance* which is attached to the risk of a business (Littré, 1863). Interestingly the word "hazard" -- which has Arabic origins and is another term which is integral to the topic of risk and Risk Management -- can be associated with the game of chance, which was invented at a castle named Hasart, in Palestine, while it was under siege at the time (Oxford English Dictionary, 1989).

In his book, *Against the Odds* (1998), Peter Bernstein describes the manner in which risk evolved; in part due to the changes of thinking in the mathematical numbering systems which was based upon statistical probability and the rise in popularity of gambling. In essence, a move from the games of chance in Egyptian times (3500BC) which made use of the clumsy Roman numerals, was fully replaced by the Hindu-Arabic numbering systems and numerals 1,2,3 and so forth.

And so through the centuries, great mathematicians have concerned themselves with arranging data, establishing properties and rules to predict certain behaviour and events which could have negative (or positive) implications upon *humanity*, *business* and indeed our *earth,* which sustains all these fragile, symbiotic elements.

Increasingly, and most certainly after disastrous events such as 9/11 and the collapse of the world's economy (which was sparked by the breakdown of Lehman Brothers); business leaders are being questioned regarding their ability to manage risk. Outside of these questions, the legal systems worldwide are generally also beginning to hold business leaders personally accountable for their part in unscrupulous or reckless business activities, particularly when their actions result in unacceptable financial losses or worse so, the loss of life which is inflicted on innocent bystanders.

Whilst one would like to believe that business leaders prudently manage the businesses wherein we have invested our hard earned cash, the truth in many instances is that this may not necessarily be the case. As with many of the recent and spectacular corporate collapses, forensic audits have revealed a lack of proper controls, poor (or in some instances, no) risk management policies and reports, as well excessive *uncalculated* business decision taking, to name but a few reasons for the demise of so many organisations. One just needs to ponder the reasons why so many of the past corporate giants, which include Enron, Worldcom, AIG, Bear Stearns, Atari, Netscape, America Online and Apple, either no longer exist or have been significantly overtaken by their competitors? Indeed the same can also be asked of some South African companies such as LeisureNet, Macmed, Saambou and CorpCapital?

In short, one can argue that these former giants under-calculated their strategic and / or operational risks and for this they have paid handsomely. Hopefully business and its leadership have learnt from their past mistakes. In this regard, the King III Report on Corporate Governance -- which sets out various accepted international business guidelines -- has been released for all companies in South Africa to adopt. Stakeholders may be assured that its contained business guidelines *could* serve as a catalyst to improve the manner in which the Board of directors will manage and report their risks, and be accountable for their deviation. Of course receiving such guidelines is one thing, observing, and acting upon them and holding oneself accountable for not managing the risks of a business is altogether something else.

"Managing risk is one of the things bosses are paid for, yet most companies still do not have any idea what is required of Risk Management," stated The Economist (2004).

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About CGF Research Institute (Pty) Ltd

CGF specialises in conducting desktop research on Governance, Risk and Compliance (GRC) related topics. The company has developed numerous products that cover GRC reports designed to create a high-level awareness and understanding of issues impacting a CEO through to all employees of the organisation.

CGF's capabilities extend to management consulting, executive learning and facilitation of Corporate Governance and Risk awareness workshops, which caters for large corporates to small and medium sized businesses.