Chapter 8

Impact of Risk Assessment Models on Risk Factors: A Holistic Outlook

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ABSTRACT

World is vicinity full of opportunities given the amount of economic and non-economic transactions taking place every moment. With ubiquitous opportunities all around, businesses can assume inherent risk everywhere in one or the other way. In this chapter, the authors have deliberated the general business scenario to prove the given inferences. The readers will come across why the risk management is gaining so much gravity and across risk strategy of top business players. The chapter will bring into light the various risk factors in business and study the various risk assessment models present to fortify the negativity of these risk factors. Simultaneously, the authors will draw empirical evidence on the effectiveness, qualitative and quantitative risk models have on risk factors in public and private business organisations.

INTRODUCTION

When speaking of economic and non-economic business activities that contribute to national growth, one factor which is essential to address is risk. Risk is inherent in every step a business entity takes. ‘Opportunity lies beyond risk’ is an old saying meaning that all business entities know that success is determined by how well business individuals strategically manage uncertainty and risk. Risk has become a part and parcel of our lives whether or not one is engaged in economic activities or any other
Impact of Risk Assessment Models on Risk Factors

Risk and return always stand on crossroads ready to face each other any point of time. Risk is pervasive in business and people are optimistic yet ready to go that extra step to ensure success (Vajjhala & Strang, 2017).

However, Berg (2010) believes that, risk is unavoidable and present in every human situation. It is present in daily operations of the public and private sector organizations. Depending on the context (insurance, stakeholder, and technical causes), there are many potential manifestations of risk. Risk event is recorded by incidents/accidents leading to serious economic loss or loss of life. Avoiding such situations has created the necessity for conducting risk analysis and risk assessment activities in corporate projects.

In the competitive business environment, organizations are seeking to get and stay ahead of the competition by making significant advances in the products and services, and operating as efficiently as possible. Many businesses use projects as vehicles to deliver that competitive advantage and when companies deal with projects there is always a collateral risk involved and this is where the need arises to distinguish the risk and find a way to mitigate it. The common concept in all definitions is uncertainty of outcomes. Where they differ is in how they characterize outcomes. Some describe risk as having only adverse consequences, while others are neutral.

Risk can be broadly defined as the probability of variation surrounding an anticipated outcome (Carter & Rogers, 2008). Thomas (2002) stated that the point of risk management isn’t to eliminate it; that would eliminate reward. The point is to manage it that is, to choose where to place bets, and where to avoid betting altogether. Goodwin and Strang (2012) describe risk as the exposure to loss, gain, or the probability of occurrence of loss/gain multiplied by its respective magnitude. Kartam (2001) has presented his views of risk as the probability of occurrence of some uncertain, unpredictable and even undesirable events that would change prospects for the probability on a given investment. Risk has been examined across multiple disciplines including economics and management. Wiseman and GómezMejía (1998), Stultz (1996), and Zsidisin (2003) analysed that within the project management context, the important thing is not keep risk out projects, but to ensure that the inevitable risk associated with every project is at a level which is acceptable, and it is effectively managed. Every organization is exposed to many types of risk; and organizations should develop a risk management culture. All types of risks have to be identified, assessed and managed. This approach gives the organization the ability to understand the sum of risks and their interdependence (Berg, 2010).

Bahar and Crandall (1990) argued that the risk management as a formal orderly process for systematically identifying, analyzing, and responding to risk events throughout the life of a project to obtain the optimum or acceptable degree of risk elimination or control. According to Cheng et al. (2012) Risk management is the process whereby decisions are made to accept a known or assessed risk or the implementation of action to reduce the consequences or the probability of occurrence of an adverse event. In the same way, Alhawari et al. (2012) reviewed that Risk management refers to strategies, methods and supporting tools to identify and control risk to an acceptable level. Simmons (2002) provided a definition for the risk management as the sum of all proactive management-directed activities, within a program that is intended to acceptably accommodate the possibly failures in elements of the program. For quite some time now, researchers have had a common interest in the area of risk and uncertainty in IT projects.

Njogo and Bibiana (2012) reviewed Risk management as the process of identifying risks, assessing their implications, deciding on a course of action, and evaluating the results. Risk Management is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events. Risks can come from uncertainty in financial markets, project failures, legal liabilities, credit risk, accidents,