ENTERPRISE RISK MANAGEMENT

GBAT9130

SUPERVISED OPEN BOOK EXAMINATION

Time Allowed: 2 Hours
Plus Reading Time: 10 Minutes

INSTRUCTIONS

1. This is a supervised open book examination. Course study guide, reference books, self-made notes, pens, pencils and erasers may be brought into the examination room.

2. Your reading time before the examination is 10 minutes. Reading time is restricted to the examination paper only – no other resources may be consulted. No writing may be undertaken during reading time.

3. There are five questions to be answered, each of equal value.

4. Please answer each section in a separate exam booklet.

5. Please begin the answer to each question on a new page in the exam booklet and identify the question number you are answering when you do so.

6. Answers must be written in blue or black ink. Pencil may be used for diagrams or graphical work.

7. Please ensure that you have written your name and other details on every exam booklet used and any other necessary documentation.

8. This exam paper must be returned with your answer books at the conclusion of the examination. No materials are to be retained at the conclusion of the exam.

9. The exam contributes 35% towards your final grade for this course.
Case Study: Koala Toys

All questions of Section 1 are based on Koala Toys, one of Australia’s largest manufacturers and distributors of toys. The company is featured throughout Unit 6 of the study guide, with specific case notes on pp. 9, 10, 21, 32, 40 and 52. Its corporate headquarters are located in Alice Springs, and last year the organisation had numerous problems with various types of risks addressed in the course.

As a result of these problems, Mr Joey, the Chairman, has decided to engage a professional risk consultant to assist the company in setting up an enterprise risk management program. You have been engaged as the consultant and you are meeting with various senior managers to advise them on risk related issues.

Question 1 (20 marks)

A. As a consultant you are asked to facilitate the first risk identification brainstorming session for Koala senior staff. At the brainstorming session, Lynette Mack, Internal Audit Manager for Koala, states she is happy you are assisting her company to set up an ERM program. She says she’s always had a difficult time explaining the “expectation gap” between what her operation does and what the Koala Board expects her to do. Explain what is meant by “expectation gap” and briefly outline how the ERM process can assist her in her relationship with the Board. (10 marks)

B. Siri Kumar, Koala’s IT/IS Manager, is also attending the brainstorming session. He speaks very little and mentions “loss of services to stakeholders” as his only risk. You point out to Mr Kumar that IT/IS risks are far more wide-ranging than an inability to provide a service to stakeholders.

1. Briefly discuss five (5) additional IT/IS risks to which Koala is exposed. (5 marks)
2. If these risks do occur, how could they impact on Koala Toys? (5 marks)

Question 2 (20 marks)

Early on your first day with Koala, you meet with Greg Smith, the Operations Manager in the Alice Springs complex. Greg has been reading about climate change, and has developed concerns about the operations of his manufacturing and distribution centre in Alice Springs.

Koala Toys operates in Alice Springs, which experts believe will experience the effects of dramatic climate change over the next few years. Anticipated changes in climate include significant increases in local temperatures and significant decreases in rainfall affecting the community’s most important source of water. He seeks your advice.

A. Nominate two ways that dramatic increases in temperature can possibly affect the operations of Koala Toys at their Alice Springs factory. (5 marks)

B. For each risk identified, nominate a risk reduction treatment (action or workaround) and cite the resources you believe will be needed to facilitate each action you nominate. (5 marks)

C. Nominate 2 ways that a dramatic decrease in rainfall can possibly affect the operations of Koala Toys at their Alice Springs factory. (5 marks)
D. For each risk identified, nominate a risk reduction treatment (action or workaround) and cite the resources you believe will be needed to facilitate each action you nominate. (5 marks)

Question 3 (20 marks)

Later that same day, you are approached by Mr Tim Lucas, the IT Director, who has a new IT project starting up. The project is sponsored by Koala’s Finance Division and concerns the installation of a new integrated, web-enabled inventory control, toy ordering and transportation logistics system. This system will replace existing methods of control which consist of telephone orders; the manual use of an Excel spreadsheet, paper-based purchase order records and numerous actions and cross-checking by the Finance Division staff. The project will take six months, and will start next week. It will increase the efficiency of Koala to such an extent that two staff roles will become redundant and orders will be processed 50% faster.

Last week, before your arrival, Tim held a brainstorming session with key stakeholders with the objective of completing a project risk register. It did not give him exactly the result he was seeking, as this week, when he looks at his list of risks identified, he recognises that not all risks mentioned by the group sound like true risks. Some, he believes are actually not risks at all, but are issues related to the proposed project. You understand Tim’s concern and you sit down with Tim to help him work through the risk register. You believe as a risk management consultant, you and Tim need to review the definition of a risk and an issue.

A. Explain to Mr Lucas what “risks” are, and how they can affect his project’s outcome. Give him two examples of well-expressed risks you would expect to see on his risk register, which can affect his project. (4 marks)

B. Explain to Mr Lucas what an “issue” is and how they can affect his project’s outcome. Give him two examples of well-expressed possible issues with his project. (You may need to use your imagination, you cannot cite the example in part C, below). (4 marks)

C. On reflection Tim believes that “Senior Management Support” is an issue with the project. Nominate two remedies for this issue and for each, nominate a single method to monitor the progress of these remedies over the six month life of this project. (3 marks. + 3 marks. = 6 marks)

D. Later that afternoon, Tim returns to your office and says that the session last week may have missed some key risks. He believes that there may be some risks associated with the phase of the project which regards the downloading of the historical Excel data by the projected scheduled date. Achieving this action on time may be a risk. Nominate two possible treatments for a well expressed risk associated with this phase and for each, nominate a method to monitor the progress of these treatments. (3 marks. + 3 marks. = 6 marks)
Question 4 (20 marks)

Mr Joey would like to sponsor a “Risk Day” at Koala Toys. This event would be held simultaneously at all Koala facilities and for one day, focus the attention of the company on issues of risk. As part of the day, he would like you to create separate presentations/addresses for the following business units: (a) the Koala IT Team, (b) the Koala Finance Department and (c) the Koala assembly line workers who manufacture a majority of the products. You will be required to address each group for 45 minutes, all on the same day.

A. Do you feel risk communication is important? How would you approach the topic of risk to each of these groups to address different perceptions of risk? (10 marks)

B. In setting up the seminars – what are four questions you would ask yourself to ensure effective communication took place? Provide brief descriptions of how you would deal with each of the questions in order to promote effective risk communication to the Koala business groups on “Risk Day”. (10 marks)

Question 5 (20 marks)

The CEO of Koala understands concepts better when they are graphically depicted. He has read about the firm’s major strategic risks, but still does not feel he fully understands them. As a consultant, you suggest he might gain greater insight through the creation of a heat map. He agrees and expressed an interested in mapping his top five strategic risks he feels he faces at this time. They are:

- the risk of a river flood destroying the main Koala manufacturing plant in Alice Springs
- the risk of a sudden shift or change in consumer taste for a Koala toy product (e.g. an unexpected decline in the consumer appeal and sales revenue of their existing Amy Winehouse Doll inventory)
- the risk of Koala’s janitorial staff staging a walk-out due to industrial relations issues.
- adverse changes in the value of the Australian Dollar
- the risk of losing the services of their lead toy designer due to resignation.

A. Develop and draw a clear and concise risk map which charts these risks (10 marks)

B. What are the strengths and weaknesses of using a risk map as a tool for senior management? (5 marks)

C. What could be done to make the risk map an improved Risk Tool? (5 marks)

END OF EXAM