

Abstract
Benefits of Managed Risks

Topical Areas: Successful Risk Management; Heat Map Tool; Board of Director Involvement

Synopsis of article

Main Theme: This abstract provides a brief overview of *Running with Risk: It's Good to Take Risk—If You Manage Them Well*.

When companies don't guard themselves against substantial risks, the outcome can easily produce a damaged reputation. Unfortunately, surveys indicate that a large number of directors don't completely understand the risks their companies face. The successful risk manager should maintain risks with the optimum level of tolerance, but this cannot be done without a full understanding of risks inherent to their line of business. Risk management should not discourage growth through eliminating risks, but the reverse should take place and positive risks should be implemented.

Credit risk, operation risk, market risk, and business-volume risk are the primary varieties of risks faced by organizations. Depending on the type of organization involved, these variations can be expanded even more. Managers need to incorporate a way to measure risks and returns to be effective without discouraging growth. A heat map is a helpful diagram used to reveal risks for each business unit and also the respective earnings for that risk. The diagram also provides a useful communication tool for all employee levels.

The creation of a successful risk-management group involves talent at all levels, duty segregation, job responsibilities that are easily identifiable and ownership of risk by all. Management of business risk should involve the board of directors. The structure, reporting and expertise of the board help them create an effective review of their companies risk management process.

Source: "Running with Risk: It's Good to Take Risk—If You Manage Them Well," by Kevin S. Buehler and Gunnar Pritsch, *McKinsey Quarterly*, 2003.

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