KIBABII UNIVERSITY

(Knowledge for Development)

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UNIVERSITY EXAMINATIONS

2019/2020 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER

SPECIAL/SUPPLEMENTARY EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCI 310

COURSE TITLE: STRATEGIC RISK MANAGEMENT

DATE: 29/01/21 **TIME:** 8-10AM

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 3 Hours

KIBU observes ZERO tolerance to examination cheating

SECTION A
QUESTION ONE
Read the following case and answer the questions that follow:

Daisy Company is a leading national specialty manufacturer of high-quality personal care products. The company's products are sold in more than 95 countries and territories around the world. The company's net sales for fiscal year 2015 was $12.4 billion and net income was $1.3 billion. ERM is a process by which the company identifies critical risks affecting its ability to successfully attain its goals and strategy. The company has adapted its ERM process over the years by adopting a subcommittee ERM approach that deals with major risk areas such as strategy, technology, human resources, and emerging markets.

The company has a corporate-level Risk Management Committee (RMC) which meets four times a year and is made up of ten members from the senior level of the corporation. The committee includes Presidents of Brands, Head of HR, the CFO, the Treasurer, and the Head of Operations. Below the RMC, there are nine other subcommittees: Strategic Business Risk, Legal, Research and Development, Finance and Reporting, Supply Chain, Cyber Risks, IT, HR, and Emerging Markets. Each of these subcommittees has approximately 8-12 members at VP or above level. Each subcommittee is made up of multi-disciplinary members to identify the risks to the company as a whole. Towards the end of the year, the CRO will present the top risks identified and escalating risks to the CFO, CEO, Chairman, the Audit Committee and the Board once a year. The CEO has driven the integration of ERM with strategy, therefore, changes and improvements each year have been in the direction towards integrating ERM with strategy. The support and strong tone at the top play an important role in the success of the integration process of ERM with strategy. The risk committees are made up of 8 operational subcommittees and one strategic risk subcommittee with risk owners who are typically members of the operational subcommittees. The strategic risk subcommittee is chaired by the head of strategy and made up of senior management members. Each subcommittee, except for the risk subcommittee, has its own risk owner, and risk owners are interviewed individually by the CRO of the risk subcommittee.

The other key area of integration is the development of lagging KRIs for risk and mitigation purposes. As a business, from the strategic plan, the company develops lagging KRIs to track the various mitigation tasks. The risk indicators help the company to enact the mitigation plan in time to effectively address emerging risks. For example, a lagging KRI might track sales in a particular place and use the existing KRI to address any changes in risk and mitigation tasks when the company plans to earn revenue in a particular location.

Finally, the company includes the risk templates in the normal strategy process and includes a process for identifying the main risks to the strategy and the plan for managing those risks. After the mitigation plan has been implemented, the RMC will re-assess to see whether additional actions would be needed and send the summary to the finance department to make sure funds are available. The corporate risk management committee and the risk subcommittees meet quarterly. The subcommittees usually meet early in the third quarter. The strategic planning process typically starts near the end of the year, while the budgeting process takes place in the later part of the third quarter. The strategy process and the risk management process are ongoing, simultaneous processes. The company sees risk management and strategic planning as a continuous, ongoing cycle, so they do not try to fit things into a prescribed time, but rather maintain flexibility to respond to changing conditions.

Required:

a) Describe the steps in strategic risk management process that Daisy Company will use to manage its risk and control its loss exposure [6Marks]

b) Discuss four techniques that Daisy Company can use to reduce business risk exposure in its operations [8 Marks]

c) Briefly explain FOUR pre-loss objectives that Daisy Company risk managers may pursue in their organizations. [8 Marks]

d) Outline the five key drivers of operational risk management in Daisy Company [8 Marks]

SECTION B

QUESTION TWO

a) Describe three steps can an organization takes to manage its risk to reputation (12 Marks)

b) One attribute of a risk maturity model is the adoption of an enterprise-wide approach to risk management. Discuss the key drivers of this attribute (8 Marks)

QUESTION THREE

Roloff Ltd is a successful family-run business retailing party ware from a small shop in the USA. The younger members of the business wish to open another larger shop in a neighbouring town and to expand into e-business, selling across the country via the Internet. However, the Managing Director, founder and mother of the younger family members has resisted all change and says that the business is doing fine without any change, so there is no reason to do anything.

Required

a) Which Risk attitude is being displayed by the Managing Director? (8 Marks)

b) Explain the Value of Change Management suggested by the younger members of the business (12 Marks)

QUESTION FOUR

a) Explain how ERM process can lead to increased management accountability (10 Marks)

b) Discuss how enterprise crisis management better prepares managers to deal with the unexpected than traditional crisis management? (10 Marks)

QUESTION FIVE

Mr. Zeki, a finance manager in Zambezi Ltd has been asked to forecast the sales for next year. The standard calculation with the organisation is to account for various probable outcomes using expected values. Mr. Zeki has been given the following information by the Sales Manager.

Forecast sales for next year	Probability of occurrence
£400,000	10%
£500,000	40%
£600,000	30%
£700,000	20%

Required:

a) Calculate the expected value of sales for next year? (8 Marks)

b) Compute the risk associated in each of the sales forecast above. (12 marks)