BUS 280f
Operational Risk Management
Fall 2017

Mondays, 6:30 pm – 9:20pm

Professor Erich Schumann
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Course pack:  http://cb.hbsp.harvard.edu/cbmp/access/71274162

OVERVIEW

_There is no security in this world; only opportunity (Douglas McArthur)_

_A good decision is based on knowledge and not on numbers (Plato)_

Both phrases retain its meanings even more in today’s environment. Organizations are facing amazing technological developments, instantaneous communications, globally distributed customer bases and workforce, and lean and modularized supply chains. It has become more difficult to manage, that is, identify, assess, prioritize, mitigate and monitor potential risks. The reality of this brave new world is that risk is on the rise, threats have become more pervasive and vulnerabilities more relevant. To be effective, today’s managers must be able to assess the risk profile of their businesses and respond to issues as they arise. In this course, we examine how companies:

- deal with the massive changes in legislation that have made executives in the US and abroad fully accountable for effective operational risk management,

- use the Enterprise Risk Management - integrated framework from COSO (Committee of Sponsoring Organizations of the Treadway Commission), the IT governance framework COBIT (Information Systems Audit and Control Association), and the Balanced Scorecard,

- are able to build “risk intelligent” organizations with the goal to create and preserve value and survive and thrive in uncertainty

COURSE REQUIREMENTS

_Required Readings_ (available through the bookstore and by hand-outs at the beginning of the course)

- A course packet consisting of business school cases, notes, and articles
- Governance & Risk from Standard & Poor’s (selected pages)
- Surviving and thriving in uncertainty (selected pages)
Prerequisites

Students need to be able to read and understand a company’s financial statements. As such, students are expected to have a familiarity with accounting.

Class Participation

Lively class participation is expected of everyone in this course, and class attendance is required. Each week, there will be a business case or note assigned and every student is expected to be prepared to discuss it in detail.

Homework (one written analyses)

The analysis, to be done individually, is due at the start of class 4. Specific topics will be assigned during the course. The analysis is worth 25% of the final grade. The analyses are typically 3 - 4 pages in length.

Final Paper

The final paper (8 to 10 pages + exhibits) is intended to reflect the students’ knowledge and judgment on Enterprise Risk Management. Students will be expected to examine the issue from the perspective of senior management. The students can choose any type of company (privately owned which intends to go public), small or medium sized, etc., as long as it addresses one or more of the major issues raised in the course, analyzes a real company, and includes recommendations directed to the company’s management.

Grading

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<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Final Paper</td>
<td>40%</td>
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<tr>
<td>Homework (individual analysis)</td>
<td>25%</td>
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<tr>
<td>Class Participation</td>
<td>25%</td>
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<td>Multiple choice test</td>
<td>10%</td>
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Office Hours

Students can meet with me after class or by appointment in my office in downtown Boston. To arrange for a meeting, please send me an email at eschumann@globalatlanticpartners.com.

Academic Honesty

You are expected to be honest in all your academic work. The University policy on academic honesty is distributed annually as section 5 of the Rights and Responsibilities handbook. Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University. If you have any questions about my expectations, please ask.
**Special Accommodation**
If you are a student with a documented disability on record at Brandeis and wish to have a reasonable accommodation made for you in this class, please see me immediately. Please keep in mind that reasonable accommodations are not provided retroactively.

**Class I – Identifying and understanding different categories of risk**

Competing in any industry entails risk. In this class we consider the different types of risk that can imperil a company. Students will simulate a real life situation and learn how to apply knowledge of the process for analyzing, planning and implementing risk management strategies. We will illustrate how to use the risk matrix – a diagnostic tool to identify organizational pressure points that could cause these risks to rise to dangerous levels. Finally we will discuss the assurance roles and responsibility of internal and external auditors and why good accountants sometimes perform bad audits.

**Required Reading**

History or Risk Management: History, Definition, and Critique – will be distributed before class
The PCAOB 9-305-025
An Overview of Risk and Risk Management – Ivey W 11080
Sarbanes Oxley Act 2002 – Section 300 and Section 400

**Class II – Risk Framework COSO**

In this class we will study in detail the operational framework COSO and the technology control framework COBIT. We will discuss the roles of management, risk professionals and audit department (three/four lines of defense model). We will use practical examples of real life companies who implemented both frameworks. At the end of the classes the students will be able to identify risks and controls for specific processes using these frameworks.

**Required Reading**

Enterprise Risk Management – Integrated Framework from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) – will be distributed before class
Risk Appetite and Tolerance, Guidance Paper by IRM – will be distributed before class
How to use assurance mapping in auditing the design of risk management framework
Class III – Importance of Risk Management

Risk recognition and risk rating together form the risk assessment component of the risk management process. Risk assessment involves the recognition of risks and the rating of them to determine the significant risks facing the organization, project or strategy. During class we will discuss a story of how a software problem destroyed an established company in a span of 45 minutes.

Required Reading

Fundamentals of Risk Management by Paul Hopkin - reprints of the relevant pages will be provided
Knight Capital American

Class IV – Realizing Business Value and Managing IT Risk

NOTE: HW Assignment #1 is due at the start of class

IT risk is an important element of operational risk management and is essential to run an efficient operation to ensure long term viability. In this class we will discuss the differences in IT enabled work environments and non IT enabled work environment. Special focus will be on the more recent ‘blockchain technology” and how it might be used by companies. Additionally we will discuss the cost and risk related to cybersecurity

Required Reading

Emerging Technologies
The Vulnerability economy
How Blockchain will change organizations
Harvard Business Press
KS 1013
Reprint 58222

Class V – Risk Dashboard

The purpose of this class is to understand how the Balanced Scorecard approach to prepare a risk dashboard can help companies to improve risk management and governance. We will discuss the failure of risk management process in a Bank and will analyze if the implementation of a risk dashboard would have helped to avoid wrongdoing At the end of the class the students will be asked to opine on the pros and cons of implementing a risk dashboard.

Required Reading

Balanced Scorecard concept - will be distributed before class
Fraud at Bank of Baroda: Manage risk or manage crisis
Class VI – Standard & Poor’s Corporate Governance Scoring Methodology and the Benefits of a Good Governance Process

The purpose of this class is to introduce students to the methodological approaches to corporate governance analysis, focusing in particular on how to achieve an objective assessment of many qualitative governance-related issues. At the end of the class we will discuss how to prepare a risk assessment for launching a new product abroad.

Required Reading

The Failure of Risk Management by Douglas Hubbard - reprints of the relevant pages will be provided
Citi Launching Credit Card  

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