

## Risk Analysis and the Value Chain

All risk analysis follows the common process:

- a) Identify the process.
- b) Identify the risks.
- c) Identify measurements that will capture risk. Commonly, these always include subjective assessments, which leaves them open to doubt (a margin or error).
- d) Identify the stages that lead up to the risk. This is similar to DEFCON where proximity to alarm is measured according to colours and DEFCON 1, 2 etc.
- e) Identify reactions to each stage-gated alert.
- f) Create feedback mechanisms that will prevent alerts being triggered.

A decomposition model such as the value chain can be used as an transactional analysis tool and thus be used to easily identify the most common risks. For example, in finance:

- a) General strategy (the value chain direction) can be used to identify business risk.
- b) Input Logistics can be used to identify liquidity risk and credit risk. These are factors that limit capital into the system.
- c) Operations can be used to identify operational and legal and regulatory risk.
- d) Marketing can be used to identify market risk and reputation risk.

A Level 2 Analysis can be used to drill deeper:

- a) Credit risk can be isolated into transaction risk, portfolio concentration risk, issue risk, issuer risk, counter-party risk etc.

In summary, a combination of the above is the basis of risk management with particular situation-specific models and software used at each stage.

See <http://www.value-chain.com>