

**EXPLORING COMMON RISKS IN THE
MANAGEMENT AND OPERATIONS
OF TRANSLATION COMPANIES**

MAHMOUD AKBARI

**UNIVERSITI SAINS MALAYSIA
2016**

**EXPLORING COMMON RISKS IN THE MANAGEMENT
AND OPERATIONS OF TRANSLATION COMPANIES**

By

MAHMOUD AKBARI

**Thesis submitted in fulfilment of the requirements for
the degree of Doctor of Philosophy in Translation Studies**

January 2016

ACKNOWLEDGEMENTS

My most heartfelt appreciation and gratitude goes to my supervisor and Dean of the School of Languages, Literacies and Translation of USM, Assoc. Prof. Tengku Sepora Tengku Mahadi. She was insightful, instructive and caring and without her invaluable guidance, I wouldn't have been able to complete this research. I am also deeply grateful to the Deputy Dean of the school, Dr. Thomas Chow Voon Foo for his encouragements and supports during the completion of the present work.

My special thanks goes to Prof. Anthony Pym for his insightful and constructive comments and help on my understanding of concepts of risk management and my survey. His valuable works on risk management were my main motive for working on this subject. I would also like to express my appreciation to Dr. David Hillson, the director of Risk Doctor & Partners, Bart Jutte, founder of Concilio, and Professor T. Ramaya at the School of Management at USM for their valuable input and comments on my survey.

I would like to appreciate the help of dear friends of mine, Dr. Siamak Sarmady, Dr. Masoud Khoshsaligeh and Mr. Mohammad Reza Esfandiari for their help and support in fulfilling this research.

I am grateful to my beloved parents for their unconditional love and support during all stages of my life. They made my journey to PhD possible and I am what I am today because of their kindness. I am also especially thankful to my dear father in law who has been an inspiration to me and has supported my wife and I for the past eight years of our happy marriage.

Last but not least, I am grateful to Dr. Helia Vaezian, my dear partner in life, for her unending love, her support in doing this research and her constant encouragements during all these years.

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MENEROKAI RISIKO YANG BIASA DITEMUI DALAM OPERASI HARIAN SYARIKAT TERJEMAHAN

ABSTRAK

Amalan pengurusan risiko telah menjadi bahagian yang penting dalam kebanyakan industri. Namun begitu, sehingga kini masih belum terdapat sebarang rekod diterbitkan tentang garis panduan atau piawaian yang menjelaskan risiko yang ketara dalam industri terjemahan dan kaedah yang sedia ada untuk menangani dan menyelesaikannya. Penyelidikan Penerokaan Berjjukan (Sequential Exploratory) ini bertujuan mengenal pasti risiko yang biasa ditemui dalam operasi harian syarikat terjemahan dan mengkategorikannya, mengkaji tahap kematangan syarikat terjemahan dari segi pengurusan risiko, dan mendedahkan sikap syarikat terjemahan terhadap penggunaan rangka kerja pengurusan risiko yang komprehensif dalam aktiviti mereka. Kajian ini mempunyai dua fasa penyelidikan, iaitu fasa kualitatif dan kuantitatif, dan setiap fasa menggabungkan satu kajian rintis. Sejumlah 400 buah projek dicerap di empat buah syarikat terjemahan dalam tempoh fasa kualitatif. Fasa ini menggunakan satu tinjauan sebagai instrumen yang telah dilengkapkan oleh 226 buah syarikat di seluruh dunia. Suatu siri teknik analisis data kualitatif dan kuantitatif digunakan untuk menganalisis data. Akhirnya, penyelidik dapat mengenal pasti secara empirik identiti 44 calon risiko dan mengelompokkannya secara statistik ke dalam 6 kategori; tahap kematangan syarikat terjemahan diukur pada kategori yang paling rendah bagi pemula dan syarikat terjemahan yang menunjukkan minat yang signifikan dalam penggunaan rangka kerja pengurusan risiko dalam aktiviti mereka.

EXPLORING COMMON RISKS IN THE MANAGEMENT OPERATIONS OF TRANSLATION COMPANIES

ABSTRACT

Risk management practices have turned into an essential part of many industries while there is yet no published record of standards or guidelines defining the risks inherent in translation industry and the methods available to treat and manage them. The present Sequential Exploratory research aimed at identifying the most common risks in daily operations of translation companies and categorizing those risks, investigating the maturity level of translation companies in terms of risk management, and uncovering the attitudes of translation companies toward the application of a comprehensive risk management framework into their activities. The study had two phases of qualitative and quantitative research and each incorporated a pilot study. A total of 400 projects were observed in 4 translation companies during the qualitative phase. The quantitative phase used a survey as its instrument which was completed by 226 companies around the world. A series of qualitative and quantitative data analysis techniques were employed to analyse the data. Finally, the researcher was able to empirically identify 44 risk candidates and statistically group them into 6 categories; maturity level of translation companies was measured at the lowest category of beginner and translation companies showed significant interest in the application of a risk management framework into their activities.

CHAPTER 1 INTRODUCTION

1.1 Introduction

This chapter provides a brief introduction to the important aspects of the current thesis which investigated the issue of risk management in translation companies. It explains the background of the research, states the research problem, clarifies research objectives and questions, sheds light on the significance of the study and finally describes the theoretical framework of the research.

1.2 Research background

The Practice of translation is long established and writing about translation is as old as the practice of translation itself. For example, Cicero and Horace, first century BCE, and St Jerome, fourth century BCE, are among those who have discussed the practice of translation and their writings have had significant influence until the present century (Munday, 2001).

In spite of the long established history of the practice of translation, its study developed into an academic discipline quite recently during the second half of the twentieth century. Until then, translation was simply a language learning tool in modern language courses (Munday, 2001). Secondary schools in many countries used grammar-translation method in their language learning classes from the late eighteenth century to the 1960s (Munday, 2001). However, it was during the 1960s and 1970s that grammar translation method lost its popularity to a great extent, mostly due to the rise of direct method or communicative approach to English language teaching which ultimately led to abandonment of translation practice in language learning (ibid).

For long the practice of translation was considered “derivative and secondary” (Munday, 2001, p 12). Things, however, have changed considerably during the last twenty years or so. Translation survived after years of negligence and repression and now has been well established in the academic world as a new discipline, quite separate from Linguistics and Language Teaching, focusing on the specific study of what happens in and around translation and translating.

This development has not been limited to the academic world per se. According to a study titled “*Study on the Size of the Language Industry in the EU*” published by European Commission (Rinsche and Portera-Zanotti, 2009), the translation industry is expanding more than ever in the EU region in terms of revenue. Based on this study, translation is now a multi-billion industry in the European member states with an estimated annual compound growth rate of 10% over the following years (Rinsche, & Portera-Zanotti, 2009).

The trend however is global and not limited to the EU region. Based on a large scale review by the Common Sense Advisory, there were 23,380 unique language service providers in 149 countries across the globe in 2010 (Kelly & Stewart, 2010). It is interesting to mention that Europe is the clear leader in the number of suppliers; according to the same review by the Common Sense Advisory, European firms account for 66% (15,471 out of 23,380) of the global LSP population (ibid). Figure 1-1 illustrates the population density of language service providers across the globe.

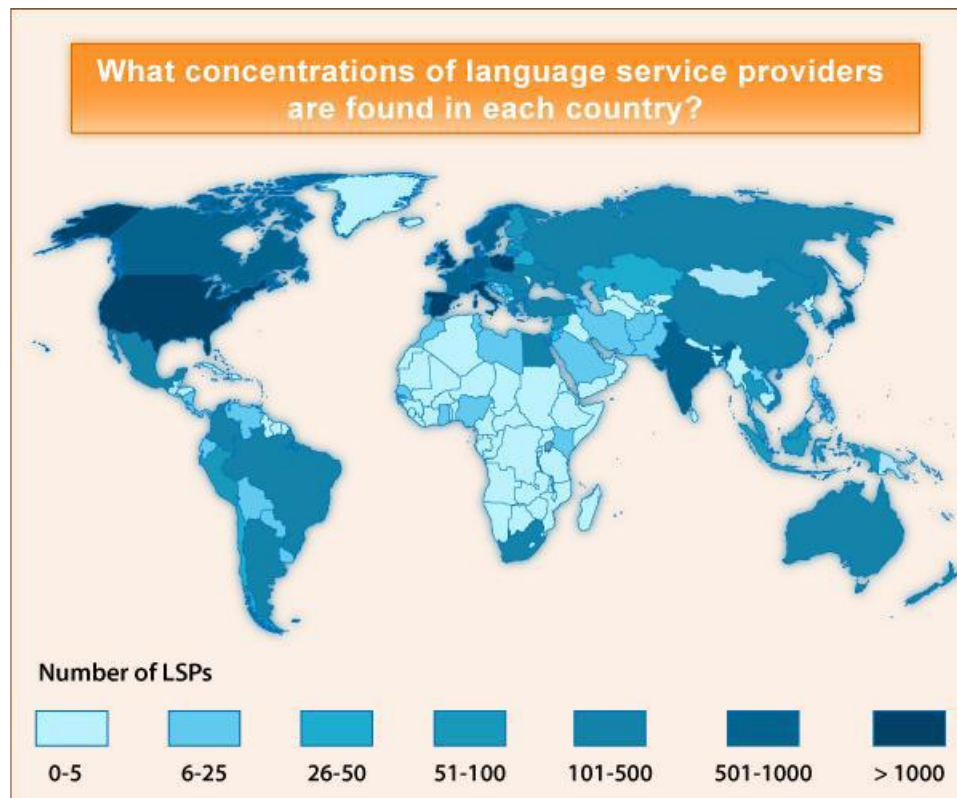


Figure 1-1: Language Service Provider Population Density (Common Sense Advisory, 2010)

These figures and other similar ones could be an indication of the fact that translation industry is a huge industry and that the need for translation services is increasing more than ever across the world. There are lots of companies trying to increase their revenue by reaching out to foreign and new consumer markets. An unprecedented number of people who for any reason are migrating to other countries has also added to the demand for translation services. On the one hand they need their documents translated into the language of the country they have migrated to and on the other, they will be the recipients of the public services of that host country and as residents they will be entitled to receive services in their mother tongue wherever applicable. This alone creates a huge market for translation companies both locally and internationally.

Like all other suppliers of goods, translation companies and translators bear ethical and legal obligations towards their clients. With the huge growth of the translation industry in global scale during the recent years, this has turned into a crucial issue for translators and translation companies on the one hand and clients and employers on the other hand. As such, a number of standards have been developed specifically for the translation industry which explain and clarify the duties of both parties and are mostly concerned with quality, formatting, and presentation.

In Europe alone, there have been a number of initiatives to create a quality standard on a universal scale that could be used as a benchmark for controlling the quality of translation services. These include the Italian UNI 10574 Standard, the Austrian Önorm D 1200 and Önorm D 1201 Standards, the Dutch Taalmerk Standard, the German DIN 2345 Standard and the EN 15038 standard published by the European Committee for Standardization (Translation-quality standards, 2008).

These rules and standards help the translation industry to keep a steady growth and commonly describe and demonstrate best practices and internal operations; they define basic requirements for LSPs including human and technical requirement, quality control procedures, project management parameters, and terminology management. Evidently, such standards cover a number of critical areas in the activities of translation companies. Yet after reviewing all such standards, one notices that they fail to explain and provide guidelines about the management of risks that translation companies have to deal with on everyday basis.

Just like other industries, the translation industry is prone to risks of various types and degrees. Risk management practices have turned into an essential part of many industries. There exist detailed risk management standards and guidelines to deal with the risks within industries from healthcare, aviation, agriculture and food to

banking, stock exchange, and insurance. This is while there is yet no published record of standards or guidelines defining the risks inherent in translation industry and the methods available to treat and manage them. On that ground, the maturity level of translation companies in terms of risk management seems to be low and they seem to treat their risks on an ad hoc basis.

Translation companies might wonder if foreign exchange rate fluctuations, new clients with unknown payment history, payment methods, market rivals, staff motivation and experience, translation technology and many other issues can turn into risks at some point and if yes, how they can successfully manage them. With the current situation as explained in the course of previous sections, it seems reasonable to state that there is a need to identify and categorize the risks in the operations of translation companies, investigate the maturity level of translation companies with respect to risk management, identify current risk treatment practices among translation companies and ideally draft a detailed risk management standard for the translation industry in general and translation companies in particular.

1.3 Statement of the Research Problem

A number of recent articles and presentations by Anthony Pym (2007, 2008) and others on the issue of risk in the act of translation and translators' works, new series of seminars by the Localization Institute¹ on Translation Risk Management, and allocation of a webpage by Proz portal to the topic of 'Risk management for Translators and Interpreters'² are all indications of the fact that the issue of risk management in translation industry is of current interest in both academic and

¹ <http://www.localizationinstitute.com/>

² http://wiki.proz.com/wiki/index.php/Risk_management_for_translators_and_interpreters

professional settings. It is not hard to imagine that international conferences will soon be organized by universities and professional bodies on the same topic and soon it will turn into an important research topic in the field of Translation Studies.

From a client's point of view, the operations of a translation company might seem quite simple and straight forward; the project manager receives the project from the client, sends it to the translator; the translator types the text in the target language and returns it to the project manager who forwards it to the client; the client pays for the project and the case is closed. In reality, however, the operations and activities of translation companies are far more complicated.

There are many complex variables that need to be considered in every single project referred to a translation company; payment history of the client, proper quoting with rivals in mind, price erosion, project volume, deadline, text difficulty, assembly of the proper team, coordination between the team members, consistency issues, quality control, and payment follow-up are just some of the main variables that need to be considered in every project. Each of these and other variables can be potential risks in the operations of translation companies and if they are improperly managed or left unattended, they could jeopardize the project and damage the reputation of the companies.

At the first look, the type of risks named above may seem similar in all industries in various fields. Yet, each of those risks have internal characteristics which make them unique to every different industry and when it comes to managing those risks, every industry needs to apply its own set of rules and techniques in managing those risks. That's the reason, risk management standards have been developed for various industries rather than a set of universal standards to be applied to all industries and companies.

The first step to manage risks is to know them in detail; however, there is no published risk management standard or guideline for the translation industry in general and the translation companies in particular to refer for consultation. Indeed, risks need to be precisely identified before such a standard or guideline can be prepared. Therefore, one of the problems the current research dealt with was the precise identification and determination of the risks in the operations of translation companies.

Another major step in preparing a standard or guideline for risk management in translation companies is to find out how familiar translation companies are with the key concepts of risk management and the risks of their operations, what strategies and policies they have with regard to risk management, what resources are available to them and finally what procedures they follow in terms of risk management. In short, another issue this research investigated was the maturity level of translation companies with regard to risk management.

Last but not least, there is seems to be no study on how translation industry role players view risk management and what attitudes they have toward employing a risk management framework in their activities. There is no doubt that the attitudes of translation company role players would strongly affect the way they view and handle risks and make use of available resources to optimize their risk management practices. With this in mind, the researcher opted to investigate into the attitudes of translation companies toward risk management.

The researcher believes that the whole translation industry can directly and indirectly benefit from the findings of the current research. The findings will help the organizational bodies in the preparation of a translation industry specific risk management standard which in turn can help translation companies to successfully tackle everyday risks of their business and optimize their operation.

1.4 Research objectives

The current research aimed at providing the input and ideally setting the ground for compilation of a Translation Risk Management Standard specifically developed for utilization by translation companies. In particular, this research hoped to achieve the following specific objectives:

1. To identify and determine common risks in the operations of translation companies
2. To categorize the risks in the operations of translation companies
3. To investigate the maturity level of translation companies in terms of risk management
4. To find out about the attitudes of the role players in translation companies toward the application of a comprehensive risk management framework in their activities

In fact, the above objectives seem quite fundamental for the preparation of a risk management standard for the translation industry; thus, by achieving them, the current research aims to pave the way for the preparation of such standard applicable to the translation industry in general and translation companies in particular.

1.5 Research Questions

The current research set out to find answers to the following four research questions:

Research Question 1. What are the common risks in daily operations of translation companies?

Research Question 2. What are the risk categories in daily operations of translation companies?

Research Question 3. What is the mean maturity level of translation companies worldwide with regard to risk management?

Research Question 4. What are the attitudes of the translation companies towards the application of a comprehensive risk management framework in their activities?

1.6 Significance of the study

Based on the internet searches and investigations the researcher did on all records published on the internet, online libraries and online university databases, the present study is the first ever large-scale research in the field of Translation Studies which aims to, among others, identify the risks in the operations of translation companies, investigate the maturity level of translation companies in terms of risk management and further find out about the attitudes of the role players in translation companies toward the application of a comprehensive risk management framework in their activities.

This research is of further significance since a “translation risk assessment” instrument was developed as a by-product of this research which can be considered as the first of its kind in the field of Translation Studies.

The researcher believes that the answers to the questions answered in this research have the potential to affect the translation industry worldwide. The findings have significant practical application for translation companies as they provide detailed information about the types of risks translation companies are facing in their everyday operations. The findings also shed light on the mean maturity level of

translation companies in terms of risk management, helping them to understand the vital role a carefully- drafted risk management framework can play in managing their companies. With such a framework, companies can detect potential risks before these risks eventually get a chance to materialize.

Forming risk categories is another significance of this research. According to Williams and Chesterman (2002, p. 94), establishing relevant categories is “indeed one of the most crucial and difficult parts of a research project”. The risk categories identified in the present research can help translation role players have a better understanding of the type of risks involved in translation industry.

Furthermore, the findings of the present research have practical application for developers of standards for the translation industry. The literature on risk management and its extensive applications in various fields and industries prove the vitality of risk management standards for any organization, field of study and industry. A risk management standard which is specifically developed for the translation industry can act like a torch leading the project managers of translation companies in dark corners of every single project.

Parts of the findings of this research can also be of valuable use for freelance translators who are active in the translation industry. They can get first-hand information on the risks of their business and can depart from there by investigating risk treatment options available to them when facing a potential risk.

Finally, the findings will be of precious value in academic settings. Most of the university courses at undergraduate and graduate levels in the field of Translation are designed to nurture future translators and researchers. Little attention seems to have been paid to the fact that working as a project manager in a translation company can also be among the professional prospects of the students of Translation. As such, a

course dedicated to familiarizing the students with the translation market and industry and the roles of a project manager would be indeed very useful. Part of such a course can be allocated to the issue of risk management in the translation industry. The findings of this study can be used as part of the teaching materials in such courses to familiarize the students with potential risks in translation industry and the response available to manage them.

1.7 Assumptions of the Study

The study is based on the assumption that the participants have voluntarily participated and provided truthful and honest answers to questions during all phases of the study.

1.8 Scope and Limitations

Due to the limitations which are mentioned in the next paragraph, the scope of the current study is limited to the identification and determination of the risks in the operations of translation companies only and will not probe into the risks in the act of translation itself. Moreover, the qualitative section of this study was limited to four translation companies due to ease of access and the fact that in-depth qualitative analyses were done. This is while more than 200 companies were studied during the quantitative phase of the study.

Time was a major limiting factor in this study which limited the scope of the study and prevented the researcher from studying a higher number of subjects or probing into more details such as investigating the risks related to the act of translation or the risks inherent in other services a translation company may provide including localization and voice over.

A second major limiting factor was the issue of trust. During the qualitative phases, the researcher had to adopt an ethnographic approach which required access to sensitive and often confidential information in each translation company. Usually, companies have a strict set of rules which does not allow their employees to discuss about confidential issues and company managers are often reluctant to cooperate. To overcome this constraint, the researcher had to make use of snowball sampling.

A third limiting factor was the issue of response rate. Since the quantitative phase of this research was in the form of an online survey, the response rate was quite lower than expected. This is a major limiting factor in all online surveys though.

1.9 Framework of the Study

This study makes use of both theoretical and conceptual frameworks. These frameworks are explained below.

1.9.1 Theoretical Framework

Risk management is the theoretical framework on which this research is based and therefore, the research takes its guidelines and general terms from the field of Risk Management. There are ample studies and literature on the concept of risk management and its various aspects. The literature has been explained in length in Chapter 2 of this research.

1.9.2 Conceptual Framework

This research is also based on a set of important concepts which form the conceptual framework of the research. These concepts are explained in the following sections.

1.9.2.1 Risk

Risk is the first concept based on which this research is founded. Risk is defined by ISO GUIDE 73 (2009, p.1) as “effect of uncertainty on objectives” whereby effect means “a deviation from the expected — positive and/or negative”, and uncertainty is defined as “the state, even partial, of deficiency of information related to, understanding or knowledge of, an event, its consequence, or likelihood”. According to ISO GUIDE 73, “Objectives can have different aspects (such as financial, health and safety, and environmental goals) and can apply at different levels (such as strategic, organization-wide, project, product and process)” (ibid). The definition of Risk as provided by ISO GUIDE 73 is the operation definition of risk in this research.

1.9.2.2 Risk Identification

As the term suggests, risk identification is the “process of finding, recognizing and describing” (ISO GUIDE 73, 2009, p.5). It involved the identification of “risk sources” through “informed and expert opinions” among others (ibid). This definition guided the researcher in finding the answer to the first research question.

1.9.2.3 Risk Register

ISO GUIDE 73 (2009, p. 12) defines risk register as the “record of information about identified risks”. In other words, outputs from Risk Identification are typically contained in a document that can be called a risk register.

1.9.2.4 Risk Category

Project Management Institute (2004), defines risk category as a group of potential causes of risk. One of the aims of this research was to determine the categories of the risks identified in the operation of translation companies.

1.9.2.5 Risk Maturity

One of the goals of this research was to determine the maturity level of translation companies in terms of risk management. The concept of maturity implies someone or something in a fully grown state. A mature organization is eventually in a perfect state of condition in achieving its objectives. In fact, risk maturity level of a company, as asserted by Jutte (2009, p. 17), illustrates where it stands in terms of managing risks pertaining to the specific business of that company, a “beginner”, an “amateur” or a “leader”.

According to Jutte (2009, p. 17), companies with the lowest maturity level have no idea what risk management is about and don’t have the resources to carry out risk tasks. On the other hand, leading companies, have a holistic approach towards risk management and possess “company specific approaches and instruments for risk management” (p. 18).

1.9.2.6 Risk Attitude

Attitudes of a given company towards risk management explain how that company responds to risks. Since it is directly involved with making decisions when confronted with a risk, it is very important to identify and understand the risk attitude of the company. The last goal of this research was to find out about the general attitudes of translation companies towards risk management.

1.9.2.7 Risk Management

“Risk management is a central part of any organization’s strategic management” (AIRMIC, ALARM and IRM, 2002, p. 3). It is being used in various

industries and each industry has its own definition of risk management depending on the areas of activity in that industry. *AIRMIC, ALARM and IRM* define risk management as “the process whereby organizations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.” (2002, p. 3).

For the purpose of this research, risk management is being discussed directly in terms of translation project management. As such the closest definition of risk management which can be applied to this research is the one provided by Project Management Institute (PMI). PMI defines project risk management as “the processes concerned with conducting risk management planning, identification, analysis, responses, and monitoring and control on a project” (2004, p. 273).

1.9.2.8 Risk Management Framework

ISO GUIDE 73 defines risk management framework as a “set of components that provide the foundations and organizational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization” (2009, p. 2). It is further added that “The risk management framework is embedded within the organization's overall strategic and operational policies and practices” (p 2).

1.10 Structure of the thesis

The current study has six chapters:

1. Chapter one is an introductory chapter, providing a brief explanation of the important aspects of this research.

2. Chapter two gives a detailed review of the published literature on the subject of this research.
3. The research methodology is elaborated in depth in chapter three.
4. Chapter four is dedicated to the presentation of results, analysis and discussion of the findings of the qualitative phase of the research.
5. Chapter five provides the results, analysis and discussion of the findings of the quantitative phase of the research.
6. Finally, the summary and conclusions are discussed in chapter six.

CHAPTER 2

REVIEW OF RELATED LITERATURE

2.1 Introduction

Despite the rather short history of translation studies as a fully-fledged discipline, translation industry has gained in popularity during recent years. Based on an annual review of translation, localization and interpreting services industry done by common sense advisory (2010), the market for outsourced language services was worth the staggering US\$26.327 billion in 2010 (Kelly and Stewart). Based on Common Sense Advisory, translation, localization and interpreting services represent a 33.5-billion dollar industry with an average annual growth rate of 12.17 % in 2012 (Kelly, DePalma, Stewart 2012, p. 2).

These figures all indicate that the translation industry has turned into a multibillion dollar business. Therefore, it is quite reasonable to assume that translation industry just like other major industries would be prone to risks of various types and degrees and so in need of planned risk management practices.

While there are detailed risk management standards and guidelines to deal with risks within almost all major industries from healthcare and aviation to agriculture and banking, there is still no published record of standards or guidelines defining the risks involved in translation industry and the methods available to treat and manage the respective risks. Dunne shares the same view when she asserts, “Despite the extensive discussion and treatment of risk management in other domains, risk management in translation and localization has mostly escaped the attention not only of practitioners, but also of translation scholars.” (2013, p. 20). She further continues, “The literature review reveals that to date only half-dozen articles have been published on risk management in language projects”.

On that ground, the present research aims at investigating into the issue of risk management in translation industry shedding light on the risks involved in the operations of translation companies. It further seeks out to investigate into the maturity level of translation companies in terms of risk management and find out about the attitudes of the role players in translation companies toward the application of risk management.

The present chapter provided an overview of the related literature. It begins with defining the concept of risk and further elaborates on what risk management is. Furthermore, the key concepts in risk management including opportunity, stakeholder, hazard, uncertainty, and project risk management are briefly explained, following which risk management cycle is introduced.

The discussion then goes into the details of the various stages in risk management cycle, namely risk identification, risk analysis, risk control, and finally risk reporting. The following section categorizes risks into internal versus external and pure versus speculative risks. Following that, the concept of risk management maturity is introduced.

The remainder of the chapter elaborates on risk management in various fields bringing the discussion into the issue of risk management in translation industry. This section begins with a discussion of translation industry elaborating on the size of the current translation market. It further reviews the rather scarce available literature on the issue of risk (management) and translation.

2.2 What is risk?

Risk is a term which has been applied in so many different disciplines from insurance to engineering. It thus should come as no surprise that each discipline has its own definition of risk based on its own unique requirements and conditions. As

such, there exists no single accepted definition for risk applicable to all situations. This section presents some of the definitions put forward for this concept which seem to be more common than others.

A very simple definition is put forwards by Aven (2003) who defines risk as the possibility of a surprisingly bad, or a surprisingly good future event. IRM (the Institute of Risk Management), AIRMIC (Association of Insurance and Risk Managers), and ALARM (National Forum for Risk in public centre) jointly define risk as “the combination of the probability of an event and its consequences” (2002, p. 1). It is further noted “in all types of undertaking, there is the potential for events and consequences that constitute opportunities for benefit (upside) or threats to success (downside)” (P. 1). It is interesting that in both definitions, risk is defined as something which can lead to either a good or a bad result.

ISO Guide 73 (2009, p. 9) defines risk as “effect of uncertainty on objectives”. Effect is further defined as “deviation from the expected —positive and/or negative” (ibid). For Ansell and Wharton (1992), the word *risk* describes any unintended or unexpected outcome, good or bad, of a decision or course of action.

Overall, risk can be simply defined as the chance of having any unintended or unexpected outcome whether good or bad. Valsamakis, Vivian and Du Toit (2005, p. 27) too define risk as the variation of the actual outcome from the expected outcome. For Valsamakis et al. the following two important points are implied in the definition put forward for risk:

1. Uncertainty surrounds the outcome of the event that is the decision-maker is uncertain about the outcome but predicts an expected outcome. The actual outcome may deviate from the expected outcome. If the outcome was

certain there would be no uncertainty, there would be no deviation from the expected result and therefore no risk;

2. The degree of uncertainty of the actual outcome about the expected outcome determines the level of risk. The greater the possible deviation between the expected and actual outcomes is, the greater the risk would be (2005, p. 27).

As stated by Loosemore, Raftery, Reilly and Higgon (2006), risk is a complex phenomenon that can have physical, monetary, cultural and social dimensions. According to Loosemore *et al.*, risk is concerned with unpredictable events that might occur in the future whose exact likelihood and outcome is uncertain but could potentially affect the interests and objectives of an organization in some way.

For Allen (1995), risk is composed of four essential parameters including the probability of occurrence, the severity of impact, the susceptibility to change and finally the degree of interdependency with other factors of risks.

The works from Møller, Andersen, Duijm and Harremoës (2003) discern two fundamental understandings of risk as follows,

1. Combination of probability of consequence/effect on the considered objects; severity and extent of consequence/effect under given specified circumstances;
2. Probability of a given consequence/effect of a given severity and extent under given specified circumstances.

Merna and Al-Thani (2005) have provided an extensive list of various sources of risks an organization may encounter. According to Merna and Al-Thani, political, environmental, market, economic, financial, natural, technical, legal and human factors along with issues related to projects and safety can all be sources of risks in an

organization. Their work is of prime value as it adopts a general approach to risk identification and takes into account all the possible sources of risks.

In a similar vein, Valsamakis *et al.* (2005, p.37) divide risks in a corporate environment into a number of main categories including inherent business risks, incidental risks, pure/speculative risks and operational risks. Inherent business risks, as stated by Valsamakis *et al.*, include all the activities, decisions and events that have impact on the operating profit of an organization, while incidental risks are those risks that arise naturally from the activities of a business, but are incidental in the sense that they do not form part of the main business of the organization (p.37). Pure risks are further defined as risks which may lead to loss but no gain, while speculative risk may lead either to gain or loss. Finally, Valsamakis *et al.* define operational risks as risks of a non-speculative nature that have no potential for showing a profit (p.37).

Young and Tippins (2001) too categorize risks into two main categories of pure and speculative risks. Pure risks are those risks with these two mutually exclusive outcomes: “either nothing will happen or a loss will occur” (p.7). Speculative risks, on the other hand, can have any of these three outcomes: “nothing happens ..., a loss occurs, or a gain occurs” (p. 8). In fact, pure risks concern the possibility of either loss, or no loss but without gain, while speculative risks offer a chance of gain or loss.

It is necessary to mention that while the risk is sometimes associated with a possibility of both positive and negative outcomes based on some definitions, there are some experts who see risks as something associated with only a negative outcome. Spedding and Rose (2008, p. 11), for instance, with an eye on sustainable enterprise risk management framework define risk as “anything which prevents an organization from achieving its business objectives”. In part, their definition simply follows the natural usage of the term risk as an essentially negative concept.

2.3 What is risk management?

Risk management is a rapidly developing discipline which addresses not only corporations or public organizations, but also any purposeful activity whether short or long term (FERMA, 2003). Risk management is in fact an important part of any organization's strategic management. It is a process whereby "organizations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities" (FERMA, 2003, P. 3). The main objective in risk management is, thus, to add "maximum sustainable value to all the activities of the organization (p.3).

Although the practice of risk management can be traced to earlier times in the history with ancient civilizations taking steps to protect themselves from drought, famine, and invasions, the emergence of it as a fully-fledged discipline is quite new.

Risk management as used in its roughly modern sense has emerged in the mid 1950s (Young & Tippins, 2001). As stated by Hillson, during the recent years risk management has developed into a well-received discipline with its own language, techniques and tools (2003). Hillson further highlights the fact that sections on risk management have been added to many management textbooks during the recent years.

Haag, Baltzan and Phillips (2009, p. 524) define risk management as an ongoing process of risk identification, analysis and developing responses to risk factors. For Haag *et al.*, risk management is a procedure which plays a crucial role in the overall success of a business. Kerzner (2001) shares the same view when he defines risk management as the art or practice of dealing with various risks and planning for it in advance.

Overall, risk management has been defined as a process which includes activities such as identifying, assessing and analysing various issues related to risks.

Allen (2007) adopting a similar approach defines risk management as a process by which challenges and deviations from expected outcomes can be confidently managed by being prepared in advance.

For Aven and Vinnem (2007), risk management is the process of ensuring that adequate measures are taken in order to protect people as well as the environment and assets from the possible harmful consequences of the activities being undertaken, and further balancing such measures with other factors including costs and earnings. This definition implies the necessity of measuring the hazardous events before embarking on the process. This is while Caelli *et al.* adopting a business approach define risk management as a process whose aim is protecting an organization from incurring financial harm by identifying, measuring and controlling uncertain events at the lowest possible cost to the organization (cited in Finne, 2000).

As stated in FERMA (2003, p. 5), the application of risk management protects and adds value to the organization and its stakeholders through supporting the organization's objectives by:

- providing a framework for an organization that enables future activity to take place in a consistent and controlled manner;
- improving decision making, planning and prioritization by comprehensive and structured understanding of business activity, volatility and project opportunity;
- contributing to more efficient use/allocation of capital and resources within the organization;
- reducing volatility in the non-essential areas of the business
- protecting and enhancing assets and company image;

- developing and supporting people and the organization’s knowledge base;
- optimizing operational efficiency

As the body of literature on risk management reviewed above shows, risk management involves various steps and activities. The following figure reproduced from FERMA (2003) illustrates the basic activities involved in risk management process in an organization.



Figure 2-1: Risk Management Process, reproduced from FERMA (2003)

Risk assessment, risk evaluation, risk reporting, risk treatment and monitoring are some of the activities involved in risk management process based on the risk management framework by FERMA (2003).