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Effectiveness of Risk Assessment Models in Business Decisions:
Reinforcing Knowledge

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ABSTRACT

Survival being the rationale for every organisation, there are infinite dynamics which contribute to every organisations growth and survival. Weighing in all the dynamics available, if organisations have to contemplate on the one which acts as catalyst for ultimate survival it is business decision making process. Risk is an inherent ailment that exacerbates organisational decision making ever since the dawn of industrialization, with their reach proliferating ever since. In the present article, the authors articulate the effectiveness of risk assessment models on key business decisions to testify how risk models operate in isolation and when combined together. Authors also analyse the significant effect risk models have on business decision, which serves as justification for organisational efficiency.

KEYWORDS

Enhanced Business Decisions. Risk Assessment Models, Risk, Risk-Based Decision Making

INTRODUCTION

Life has ever been constantly evolving generation after generation from, ice age to information technology age only because, mankind has been clinical with his decision-making skills in each and every generation with a constant vigour to survive and thrive. Decision making has been an impetus within all the matters in this futuristic world, throwing some light into what makes decision making so important, is the presence of uncertainty of outcome or to be precise "Risk" that is inherent in every decision. Decision making is all about making the right choice in the face of uncertainty, especially in the context of present day organizations, where all the decisions involve certain degree of risk from various spheres of business activities. Risk based decision making is the cult now-a-days that is catching up like a wildfire in every organization out there.

For an organization to take effective risk-based decisions, its risk management approach has to be strategically laid out with futuristic view of various risks effecting gamut of decisions within the organization as well as extrinsic to it. Risk management is essential for every organization, keeping the fact in mind that risk is ubiquitous and people are acquainted of the damage that it can cause if a decision goes wrong. But still organizations are optimistic never than before while it comes to making a decision, as all the businesses have a spectrum of risk management tools available to afford a smile in the face of uncertainty. Further risk-based decision making involves getting sufficient, relevant, timely information about uncertainty to make better decisions. "Decision-making is defined as a chosen way of conducting business among several alternatives; it is the essence of planning…" (Weihrich & Koontz, 1994). Management is a phenomenon of the 21st century and in past hundreds

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of years of existence, the word management has transformed the way we view economic and social content with a simple decision making parameter as its core (Puseljic et al., 2015). Raghunath et al. (2017) articulated in their article that greater the organizations grow with time there lies a greater responsibility to deal and faceoff with ubiquitous uncertainties in various forms. There are innumerable internal and external risk factors which can influence Business decisions in organizations, which demands the need for risk assessment models to mitigate inefficiency in decision making. Risk is, basically possibility of financial loss at any point of time. It is used as a synonym of uncertainty and refers to the variability of returns associated with an investment decision (Powell, 2011). As the projects may be independent or mutually exclusive, it is crucial to use analytical techniques in accordance with each specific situation and decision. The existence of uncertainty makes decisions irrelevant and irrational, hence many financial decisions are taken in presence of uncertainty, and thus the measurement and management of risks become increasingly important. Decisions taken at the present time have their results conditioned by future events and may influence the later outcomes in the form of potential gains or losses (Bell, 2009).

Merna & Al-Thani (2007) expressed that due to the high degree of the changes in the global ventures and environment, more and more companies are acknowledging the need and importance of the risk management in their enterprises. The global research concerning the implementation of the risk management shows that in spite of certain problems the companies try to implement the risk management into the managing business decisions.

As clearly interpreted by Junkes et al. (2015) risk scenarios are discrete occurrences that affects a project positively or negatively, while uncertainty occurs when there is no sufficient and clear information available to decision makers, reducing confidence on evaluating alternatives and their risks, thus complicating decision-making

Evidently risk in its basic sense, is the possibility of financial loss or, more formally, the variability of returns associated with a particular asset (Gitman, 2010). Decision-making based on risk (Risk-Based Decision Making - RBDM) is essential for an effective and efficient management of projects (Wang & Yuan, 2011).

Moreover, in view of risk assessment implementation in investment projects, decisions can be defined as with a process of five steps (Samanez, 2007; Lapponi, 1996) 1. estimate the expected future cash flows for the project, 2. determine the discount rate (opportunity cost of capital) to discount the expected future cash flows, 3. Calculation the financial indicators, mainly the Net Present Value (NPV) of expected future cash flows, 4.Setting up the cost of the project and compare it with the NPV of the cash flows of the project and 5. Take the decision to invest or not in the project. Risk-Based Decision Making (RBDM) is prerequisite for an effective and efficient management of projects (Wang & Yuan, 2011). Risks according to (Bergamini, 2003; Jutte, 2008; Jiang, & Ruan, 2010) can be divided into 9 categories with regard to internal and external risk factors as put in through Figure 1:

Project and risk evaluation are important initial steps that may contribute to future project management success. A poor-quality risk assessment process may compromise the objectives of project and will turn risk management more demanding. In this context, not only which metrics but also how and why the process is conducted becomes important. Keeping the above concepts in mind and going forward into the review of literature, the main theme of this article lies in offering interesting insights regarding the relationship between risk assessment models and business decisions and also understanding the significant influence of risk assessment models on business decision in making them effective and efficient in the context of organizational success.

REVIEW OF LITERATURE

Management survival or extinction depends upon myriad things and speaking of the one component which has that intensity and characteristic, either to take an organization to the ninth cloud or to the hell is the act of "Decision Making". Decision making should always be in line with the frequency of

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