RISK AMNAGEMNT

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Annotation: *Risk management is the process of identifying, assessing and controlling financial, legal, strategic and security risks to an organization's capital and earnings. These threats, or risks, could stem from a wide variety of sources, including financial uncertainty, legal liabilities, strategic management errors, accidents and natural disasters.*

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If an unforeseen event catches your organization unaware, the impact could be minor, such as a small impact on your overhead costs. In a worst-case scenario, though, it could be catastrophic and have serious ramifications, such as a significant financial burden or even the closure of your business. To reduce risk, an organization needs to apply resources to minimize, monitor and control the impact of negative events while maximizing positive events. A consistent, systemic and integrated approach to risk management can help determine how best to identify, manage and mitigate significant risks.

At the broadest level, risk management is a system of people, processes and technology that enables an organization to establish objectives in line with values and risks.

A successful risk assessment program must meet legal, contractual, internal, social and ethical goals, as well as monitor new technology-related regulations. By focusing attention on risk and committing the necessary resources to control and mitigate risk, a business protects itself from uncertainty, reduce costs and increase the likelihood of business continuity and success. Three important steps of the risk management process are risk identification, risk analysis and assessment, and risk mitigation and monitoring.

Identifying risks

Risk identification is the process of identifying and assessing threats to an organization, its operations and its workforce. For example, risk identification can include assessing IT security threats such as malware and ransomware, accidents, natural disasters and other potentially harmful events that could disrupt business operations.

Risk analysis and assessment

Risk analysis involves establishing the probability that a risk event might occur and the potential outcome of each event. Risk evaluation compares the magnitude of each risk and ranks them according to prominence and consequence.

Risk mitigation and monitoring

Risk mitigation refers to the process of planning and developing methods and options to reduce threats to project objectives. A project team might implement risk mitigation strategies to identify, monitor and evaluate risks and consequences inherent to completing a specific project, such as new product creation. Risk mitigation also includes the actions put into place to deal with issues and effects of those issues regarding a project.

Most common responses to risk:

Risk avoidance

Avoidance is a method for mitigating risk by not participating in activities that may negatively affect the organization. Not making an investment or starting a product line are examples of such activities as they avoid the risk of loss.

Risk reduction

This method of risk management attempts to minimize the loss, rather than completely eliminate it. While accepting the risk, it stays focused on keeping the loss contained and preventing it from spreading. An example of this in health insurance is preventive care.

Risk sharing

When risks are shared, the possibility of loss is transferred from the individual to the group. A corporation is a good example of risk sharing—several investors pool their capital and each only bears a portion of the risk that the enterprise may fail.

Transferring risk

Contractually transferring a risk to a third-party, such as, insurance to cover possible property damage or injury shifts the risks associated with the property from the owner to the insurance company.

Risk acceptance and retention

After all risk sharing, risk transfer and risk reduction measures have been implemented, some risk will remain since it is virtually impossible to eliminate all risk (except through risk avoidance). This is called residual risk.

Risk management standards set out a specific set of strategic processes that start with the objectives of an organization and intend to identify risks and promote the mitigation of risks through best practice. Standards are often designed by agencies who are working together to promote common goals, to help to ensure high-quality risk management processes. For example, the ISO 31 000 standard on risk management is an international standard that provides principles and guidelines for effective risk management. While adopting a risk management standard has its advantages, it is not without challenges. The new standard might not easily fit into what you are doing already, so you could have to introduce new ways of working. And the standards might need customizing to your industry or business.

Types of Risk Management Strategies:

Type 1: Business Experiments

Business experiments as a risk management strategy are useful in running ‘what-if’ scenarios to gauge different outcomes of potential threats or opportunities. From IT to marketing teams, many functional groups are well-versed in conducting business experiments. Financial teams also run experiments to gauge return on investments or assess other financial metrics.

Type 2: Theory Validation

Theory validation strategies are conducted using questionnaires and surveys of groups to gain feedback based on experience. If a new product or service has been developed or there are enhancements, it makes sense to get direct, timely, and relevant feedback from end users to assist with managing potential challenges and design flaws, and thus better manage risks.

Type 3: Minimum Viable Product Development

Developing complex systems offering nice-to-have features isn’t always the best route. A good risk management strategy considers building products using core modules and features that will be relevant and useful for the bulk of their customers — this is called a Minimum Viable Product (MVP). It helps to keep projects within scope, minimizes the financial burden, and helps companies get to market faster.

Type 4: Isolating Identified Risks

Information technology teams are used to engaging with internal and external help to isolate security gaps or flawed processes which leave room for vulnerabilities. In doing so, they become proactive in identifying security risks ahead of an event, rather than waiting for a malicious and costly breach to occur.

Type 5: Building in Buffers

Whether it's a technology or audit project, project managers recognize the need to build in a buffer. Buffers reduce risks by ensuring initiatives stay within the intended scope. Depending on the project, buffers may be financial, resource, or time-based. The goal is to make sure there are no surprises that would lead to unforeseen risks.

Type 6: Data Analysis

Data gathering and analysis are key elements in assessing and managing a wide variety of risks. For instance, qualitative risk analysis can help identify potential project risks. Conducting a thorough qualitative risk analysis helps to isolate and prioritize risks, and to develop strategies to address, monitor, and re-evaluate them.

Type 7: Risk-Reward Analysis

Conducting an analysis of risks versus rewards is a risk strategy helping companies and project teams unearth the benefits and drawbacks of an initiative before investing resources, time, or money. It's not only about the risks and rewards of investing funds to take on opportunities — it's also about providing insight into the cost of lost opportunities.

Type 8: Lessons Learned

With every initiative or project your company completes or abandons, there will inevitably be lessons to be learned. These lessons are a valuable tool that can significantly reduce risks in future projects or undertakings — but lessons are only useful if teams take the time to document them, discuss them, and develop an action plan for improvement based on what's been learned.

Type 9: Contingency Planning

While having a plan is great, it's seldom enough as things don't always go according to the book. Companies need to prepare to have multiple plans or options based on various scenarios. Contingency planning is all about anticipating things that will go wrong and planning alternate solutions for unforeseen circumstances that can surface, enabling successful response and recovery.

Type 10: Leveraging Best Practices

There's a reason best practices are mentioned under risk management strategies. They are tried and tested ways of doing things. Best practices may differ from industry to industry and project to project, but they always ensure companies don't have to recreate the wheel, ultimately reducing risks.

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