RISK ASSESSMENT AND MANAGEMENT

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ABSTRACT

Risk management is an activity which integrates recognition of risk, risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources. Some traditional risk managements are focused on risks stemming from physical or legal causes (e.g. natural disasters or fires, accidents, death). Financial risk management, on the other hand, focuses on risks that can be managed using traded financial instruments. Objective of risk management is to reduce different risks related to a pre-selected domain to an acceptable. It may refer to numerous types of threats caused by environment, technology, humans, organizations and politics. This term paper describes the different aspects in the risk management process,risk management techniques and some examples for risk and safety management.

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1 WHAT IS RISK MANAGEMENT

Risk management is the process of identifying, assessing and controlling threats to an organization's capital and earnings. These risks stem from a variety of sources including financial uncertainties, legal liabilities, technology issues, strategic management errors, accidents and natural disasters.A successful risk management program helps an organization consider the full range of risks it faces. Risk management also examines the relationship between risks and the cascading impact they could have on an organization's strategic goals.

The holistic approach to managing risk is sometimes described as enterprise risk management because of its emphasis on anticipating and understanding risk across an organization. "We don't manage risks so we can have no risk. We manage risks so we know which risks are worth taking, which ones will get us to our goal, which ones have enough of a payout to even take them. Thus, a risk management program should be intertwined with organizational strategy. To link them, risk management leaders must first define the organization's risk appetite – i.e., the amount of risk it is willing to accept to realize its objectives. The formidable task is to then determine "which risks fit within the organization's risk appetite and which require additional controls and actions before they are acceptable".

2 WHY IS RISK MANAGEMENT IMPORTANT

Risk management has perhaps never been more important than it is now. The risks modern organizations face have grown more complex, fueled by the rapid pace of globalization. New risks are constantly emerging, often related to and generated by the now-pervasive use of digital technology. Climate change has been dubbed a "threat multiplier" by risk experts. A recent external risk that manifested itself as a supply chain issue at many companies – the coronavirus pandemic – quickly evolved into an existential threat, affecting the health and safety of their employees, the means of doing business, the ability to interact with customers and corporate reputations. Businesses made rapid adjustments to the threats posed by the pandemic. But, going forward they are grappling with novel risks, including how or whether to bring employees back to the office and what should be done to make their supply chains less vulnerable to crises.

3 HOW RISK MANAGEMENT WORKS

The risk management process can look different for every business and situation. Some companies have entire enterprise risk management teams that focus on strategic risk, risk assessment, risk profiles, risk treatment, and risk preparation for every new product and strategy. Smaller companies may have only one person who focuses on risk assessment or it may simply be a task along with other responsibilities for a company. Before a business begins it's important that they define and analyze their risk—business owners and investors both need to understand the risk before they really try and make a go of their company. Management of risk is vital in making sure a company and leadership understand what the potential problems could be, helping them create solutions for those problems and mitigate their risk. A company that has heavy risk or doesn't have the management aspect worked out may find investors are not excited about giving money. They may also find that they run into more problems then they have money or time to fix. Taking risk management seriously can help a company be prepared for the future.

4 TRADITIONAL vs ENTERPRISE RISK MANAGEMENT

Traditional risk management tends to get a bad rap these days compared to enterprise risk management. Traditional risk management, experts argue, lacks the mindset and mechanisms required to understand risk as an integral part of enterprise strategy and performance.

"Siloed" vs. holistic is one of the big distinctions between the two approaches. In traditional risk management programs, for example, risk has typically been the job of the business leaders in charge of the units where the risk resides.The business units might have sophisticated systems in place to manage their various types of risks, but the company can still run into trouble by failing to see the relationships among risks or their cumulative impact on operations.

In addition to a focus on internal and external threats, enterprise risk management (ERM) emphasizes the importance of managing positive risk. Positive risks are opportunities that could increase business value or, conversely, damage an organization if not taken. Indeed, the aim of any risk management program is not to eliminate all risk but to preserve and add to enterprise value by making smart risk decisions.

5 TYPES OF RISKS

Company risks can broadly be divided into three parts: Preventable Risks (those within the organisation), Strategy Risks (those which may be undertaken to generate higher returns), and External Risks (those occurring outside of the organisation and therefore beyond control).

More specifically, the following examples should be considered in the business risk management assessment:

- Hazard risks: anything in the workplace with the potential to harm people, which is not under the control of the business environment. This includes such items as hazardous materials or fallout from machinery.
- Physical and environmental risks: fires or explosions; anything that can damage your premises, including natural disasters such as area fires, storm damage, floods, hurricanes or tornados, earthquakes, etc. Some of these can be considered climate-related.
- Human risks: personnel-related issues that can affect your company's operation, such as alcohol and drug abuse, embezzlement or business fraud .
- Technology and operational risks: anything that compromises your company's operations, such as a power outage, cyberfraud , system failures, etc.
- Strategic risks: failure to respond to changes in the business environment, often the result of poor or wrong business plans and losing the competitive edge in your sector (think Blockbuster video vs Netflix).
- Financial risks: risks taken with financial assets, including risks in pricing, currency exchange or liquidation of an asset. Customers and partners can also present financial risks in business, such as a credit risk for example if you sell on credit terms. Business risk management can indicate how much risk your company can handle in financial relationships, including the risk of payment defaults .

6 RISK ASSESSMENT AND EVALUATION

Risks are inherent to every environment and business. They cannot be avoided and, therefore, must be addressed head-on to minimize their impact. The first step in risk management is to identify the risks in order to come up with a risk management strategy.

- Prioritize : risks must be prioritized and managed in accordance with their likelihood of occurring. Actuarial tables—statistical analysis of the probability of any risk occurring and the potential financial damage ensuing from the occurrence of those risks—may be accessed online and can provide guidance in prioritizing risk.

- Analyze: the sources that may trigger problems It is important to identify and analyze the sources that can cause a problem. Risk triggers can be internal or external.
- Act now : Managers shouldn't wait for potential problems to become actual problems before they start doing something. The moment a problem is deemed to be a threat, it should immediately be dealt with by the company's executives by devising a plan of action in the event that the risk becomes an actual full-blown concern facing the company.
- Involve employees: Identifying risks is not the sole responsibility of the managers and top-ranking officials. Management should involve their employees in identifying the risks that they see in their respective departments and train them to handle such risks at their level.
- Make a list of industry-specific risks: By looking into the industry where the company operates, managers will be able to identify the possible risks that the business may face. If the same risks happen to other companies in the same industry, there is a likely chance that it will happen to your company as well. Therefore, businesses should be ready with a list of solutions or steps to address the risks.
- Create a record of risks: Sometimes, the same risks arise over and over. By creating a record of all the risks experienced by the company since it started, management will be able to do a regular review of past events in order to detect patterns that may better prepare the company for future risks.

7 RISK MANAGEMENT TECHNIQUES

There are many techniques the company can utilize to lower its risk. Some of these techniques include:

- Avoiding Risk. Avoiding risk is usually the most effective measure of risk management. Just like the name implies, with this technique you just avoid the risk completely. If you are successful, there's 0% chance you'll have a loss from that risk factor. That's why avoidance is usually the first risk management technique used. Risk avoidance can be seen in businesses doing background checks on employees to avoid potential problems. It can also be seen in an investor deciding not to put money in an industry that is seeing economic loss.
- Transferring risk. Transferring risk is when a company knows that they have risk that they can't avoid, and they want to hire an insurance or other third-party

company to help them mitigate their risk. There are many examples of transferring risk—a company purchases insurance for their building or products to help keep them safe in the event of a fire, theft, flood, etc. Another example of transferring risk is when a company creates contracts with employees or clients through a legal company that helps offset any risk that might come in the future.

- Preventing loss. Preventing loss is when a company understands that there is some risk that they can't avoid, but they put preventative measures in place to help reduce the impact of risk. For example, a company may store their inventory in a warehouse, which means it's susceptible to theft or fire. They prevent the risk and loss by putting up security cameras and hiring a security guard. Another company may require passwords on their computers to prevent data and security breaches of their company information.

- Retaining risk. This technique involves handling risk within your own company instead of relying on outside sources. Companies use this technique because they often believe that they can handle risks themselves instead of paying for an insurance company or other vendor. An example of retaining risk is an organization that has an internal IT department that runs their computer security, rather than utilizing a 3rd party company or software. It can also be seen in a company that opts not to buy an insurance policy for a certain danger because they believe they would be ahead to save money on their policy, and that the cost would be less if the danger actually happened than paying regularly for the policy.

- Spreading risk. Spreading risk happens primarily for insurance companies who opt to work with other insurance companies to spread out the risk of large clients. For example, an oil supertanker purchases insurance. The company would then spread out the insurance through other companies so in the event of a disaster the cost and risk is spread out through multiple companies.

  Risk is an inevitable part of business, but it's important to make a plan for risk management process so the company stays safe. Business leaders and owners alike need to understand and have a plan for risk management in order to be successful.

8 PREVENTION AND INSURANCE AGAINST RISKS

Risk management involves putting processes, methods and tools in place to deal with the consequences of events you have identified as significant threats for your business. This could be something as simple as setting aside financial reserves to ease cash flow problems if they arise or ensuring effective computer backup and IT support procedures for dealing with a systems failure. Programs which deal with threats identified during risk assessment are often referred to as business continuity plans. These set out what you should do if a certain event happens, for example, if a fire destroys your office. You can't avoid all risk, but business continuity plans can minimise the disruption to your business. The best risk insurance is prevention. Preventing the many risks from occurring in your business is best achieved through employee training, background checks, safety checks, equipment maintenance and maintenance of the physical premises. A single, accountable staff member with managerial authority should be appointed to handle risk management responsibilities. A risk management committee may also be formed with members assigned specific tasks with a requirement to report to the risk manager.

Insurance will not reduce your business' risks but you can use it as a financial tool to protect against losses associated with some risks. This means that in the event of a loss you will have some financial compensation. This can be crucial for your business' survival in the event of, say, a fire which destroys a factory. Some costs are uninsurable, such as the damage to a company's reputation. On the other hand, in some areas insurance is mandatory. Insurance companies increasingly want evidence that risk is being managed. Before they will provide cover, they want evidence of the effective operation of processes in place to minimise the likelihood of a claim. You can ask your insurance adviser for advice on appropriate processes.

While business risks abound and their consequences can be destructive, there are ways and means to ensure against them, to prevent them, and to minimize their damage, if and when they occur. Finally, hiring a risk management consultant may be a worthwhile step in the prevention and management of risks.

9 BENEFITS AND CHALLENGES OF RISK MANAGEMENT

BENEFITS:

- increased awareness of risk across the organization;
- more confidence in organizational objectives and goals because risk is factored into strategy;
- better and more efficient compliance with regulatory and internal compliance mandates because compliance is coordinated;
- improved operational efficiency through more consistent application of risk processes and control;
- improved workplace safety and security for employees and customers;
- a competitive differentiator in the marketplace.

CHALLENGES:

- Expenditures go up initially, as risk management programs can require expensive software and services.
- The increased emphasis on governance also requires business units to invest time and money to comply.
- Reaching consensus on the severity of risk and how to treat it can be a difficult and contentious exercise and sometimes lead to risk analysis paralysis.
- Demonstrating the value of risk management to executives without being able to give them hard numbers is difficult.

10 REAL LIFE INSTANCES OF RISK MANAGEMENT

It's easier to understand the strategy for to manage risk when we learn how management works in real life by real companies. For example,

- a company may choose to avoid buying a new building because they're unsure they can sell enough product to make the cost worth it.
- An investor may decide not to spend money on a company because they believe there is too much competition in the industry or their objectives don't line up well.
- Car manufacturers try to lessen risk by having extensive quality and safety checks on vehicles before selling them.
- Another business risk strategy may be when a retailer may release a new product in stages to see how it does with consumers before releasing the full line.
- Many business leaders use insurance companies to remove risk altogether.
- Some organizations have to accept risk, like medical companies, and understand that some risk is simply part of their business.

CONCLUSION

Risk management is an important process because it empowers a business with the necessary tools so that it can adequately identify and deal with potential risks. Once a risk has been identified, it is then easy to mitigate it. Risk treatment includes as its major element, risk control/mitigation, but extends further to, for example, risk avoidance, risk transfer, risk financing, etc.

The risk analysis process assists the effective and efficient operation of the organisation by identifying those risks which require attention by management. They will need to priorities risk control actions in terms of their potential to benefit the organisation. This term paper successfully focused on the key idea of risk management, why is it important, how it works, the difference between traditional and enterprise risk management, types of risks, risk assessment and evaluation, risk management techniques, prevention, insuring, benefits and challenges of risk management along with some real life examples.

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