RISK ASSESSMENT AND MANAGEMENT

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ABSTRACT

1 RISK MANAGEMENT PROCESS

Businesses face many risks, therefore risk management should be a central part of any business' strategic management. Risk management helps you to identify and address the risks facing your business and in doing so increase the likelihood of successfully achieving your businesses objectives.

A risk management process involves:

methodically identifying the risks surrounding your business activities assessing the likelihood of an event occurring understanding how to respond to these events putting systems in place to deal with the consequences monitoring the effectiveness of your risk management approaches and controls As a result, the process of risk management:

improves decision-making, planning and prioritisation helps you allocate capital and resources more efficiently allows you to anticipate what may go wrong, minimising the amount of firefighting you have to do or, in a worst-case scenario, preventing a disaster or serious financial loss significantly improves the probability that you will deliver your business plan on time and to budget Risk management becomes even more important if your business decides to try something new, for example launch a new product or enter new markets. Competitors following you into these markets, or breakthroughs in technology which make your product redundant, are two risks you may want to consider in cases such as these.

2 The types of risk your business faces

If and when a risk becomes a reality, a well-prepared business can minimize the impact on earnings, lost time and productivity, and negative impact on customers. For startups and established businesses, the ability to identify risks is a key part of strategic business planning. Risks are identified through a number of ways. Strategies to identify these risks rely on comprehensively analyzing a company's specific business activities. Most organizations face preventable, strategic and external threats that can be managed through acceptance, transfer, reduction, or elimination.

- Physical Risks:
  Building risks are the most common type of physical risk. Think fires or explosions. To manage building risk, and the risk to employees, it is important that organizations do the following:

  Make sure all employees know the exact street address of the building to give to a 911 operator in case of emergency. Make sure all employees know the location of all exits.

  Install fire alarms and smoke detectors.

  Install a sprinkler system to provide additional protection to the physical plant, equipment, documents and, of course, personnel.

  Inform all employees that in the event of emergency their personal safety takes priority over everything else. Employees should be instructed to leave the building and abandon all work-associated documents, equipment and/or products.

- Business Risks:
  Hazardous material risk is present where spills or accidents are possible. The risk from hazardous materials can include:

  Acid

  Gas

  Toxic fumes

  Toxic dust or filings

  Poisonous liquids or waste

  Fire department hazardous material units are prepared to handle these types of disasters. People who work with these materials, however, should be properly equipped and trained to handle them safely.

  Organizations should create a plan to handle the immediate effects of these risks. Government agencies and local fire departments provide information to prevent these accidents. Such agencies can also provide advice on how to control them and minimize their damage if they occur.

- Location Risks:
  Among the location hazards facing a business are nearby fires, storm damage, floods, hurricanes or tornados, earthquakes, and other natural disasters. Employees should be familiar with the streets leading in and out of the neighborhood on all sides of the place of business. Individuals should keep sufficient fuel in their vehicles to drive out of and away from the area. Liability or property and casualty insurance are often used to transfer the financial burden of location risks to a third-party or a business insurance company.

- Human Risks:
  Alcohol and drug abuse are major risks to personnel in the workforce. Employees suffering from alcohol or drug abuse should be urged to seek treatment, counseling, and rehabilitation if necessary. Some insurance policies may provide partial coverage for the cost of treatment.

  Protection against embezzlement, theft and fraud may be difficult, but these are common crimes in the workplace. A system of double-signature requirements for checks, invoices, and payables verification can help prevent embezzlement and fraud. Stringent accounting procedures may discover embezzlement or fraud. A thorough background check before hiring personnel can uncover previous offenses in an applicant's past. While this may not be grounds for refusing to hire an applicant, it would help HR to avoid placing a new hire in a critical position where the employee is open to temptation.

  Illness or injury among the workforce is a potential problem. To prevent loss of productivity, assign and train backup personnel to handle the work of critical employees when they are absent due to a health-related concern.

- Strategic and compliance risks
  Strategic risks are those risks associated with operating in a particular industry.

  They include risks arising from:

  merger and acquisition activity changes among customers or in demand industry changes research and development For example you might consider the strategic risks of the possibility of a US company buying one of your Canadian competitors. This may give the US company a distribution arm in Canada. You may want to consider:

  whether there are any US companies which have the cash/share price to do this whether there are any Canadian competitors who could be a takeover target, perhaps because of financial difficulties whether the US company would lower prices or invest more in research and development Where there's a strong possibility of this happening, you should prepare some sort of response.

Compliance risk

Compliance risks are those associated with the need to comply with laws and regulations. They also apply to the need to act in a manner which investors and customers expect, for example, by ensuring proper corporate governance.

You may need to consider whether employment or health and safety legislation could add to your overheads or force changes in your established ways of working.

You may also want to consider legislative risks to your business. You should ask yourself whether the products or services you offer could be made less marketable by legislation or taxation – as has happened with tobacco and asbestos products. For example, concerns about the increase in obesity may prompt tougher food labelling regulations, which may push up costs or reduce the appeal of certain types of food.

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