How to develop a risk management plan in 12 practical steps

Are you prepared for any occupational accidents that may occur?

Have you ever lost a major client?

Are you comfortable with the security of your information?

And what if a project has an unexpected problem with a key supplier?

Risks are everywhere. Success in business often comes down to recognizing and managing possible risks associated with potential opportunities and returns. The types of risks faced in most businesses are quite varied and far-ranging.

A single one of these risks can pose a serious threat to the stability of an enterprise and can even cause its demise. Some risks are very difficult to manage once the event has occurred. In such cases, mechanisms must be put into place to deal with the situation. However, the best way to address risks is to anticipate them so that you are prepared to take timely action. By developing a risk management plan, you give yourself a chance to be ready for these situations, to minimize their impacts and even to turn them into opportunities.

Let’s recall how risk management works so we can be better prepared for the following steps.

Risk is the effect (positive or negative) of an event or series of events that take place in one or several locations. It is calculated based on the probability of the event becoming an issue and the impact it would have. Various factors should be identified in order to analyze risk, including:

Event: What could happen?

Probability: How likely is it to happen?

Impact: How bad will it be if it happens?

Mitigation: How can you reduce the Probability (and by how much)?

Contingency: How can you reduce the Impact (and by how much)?

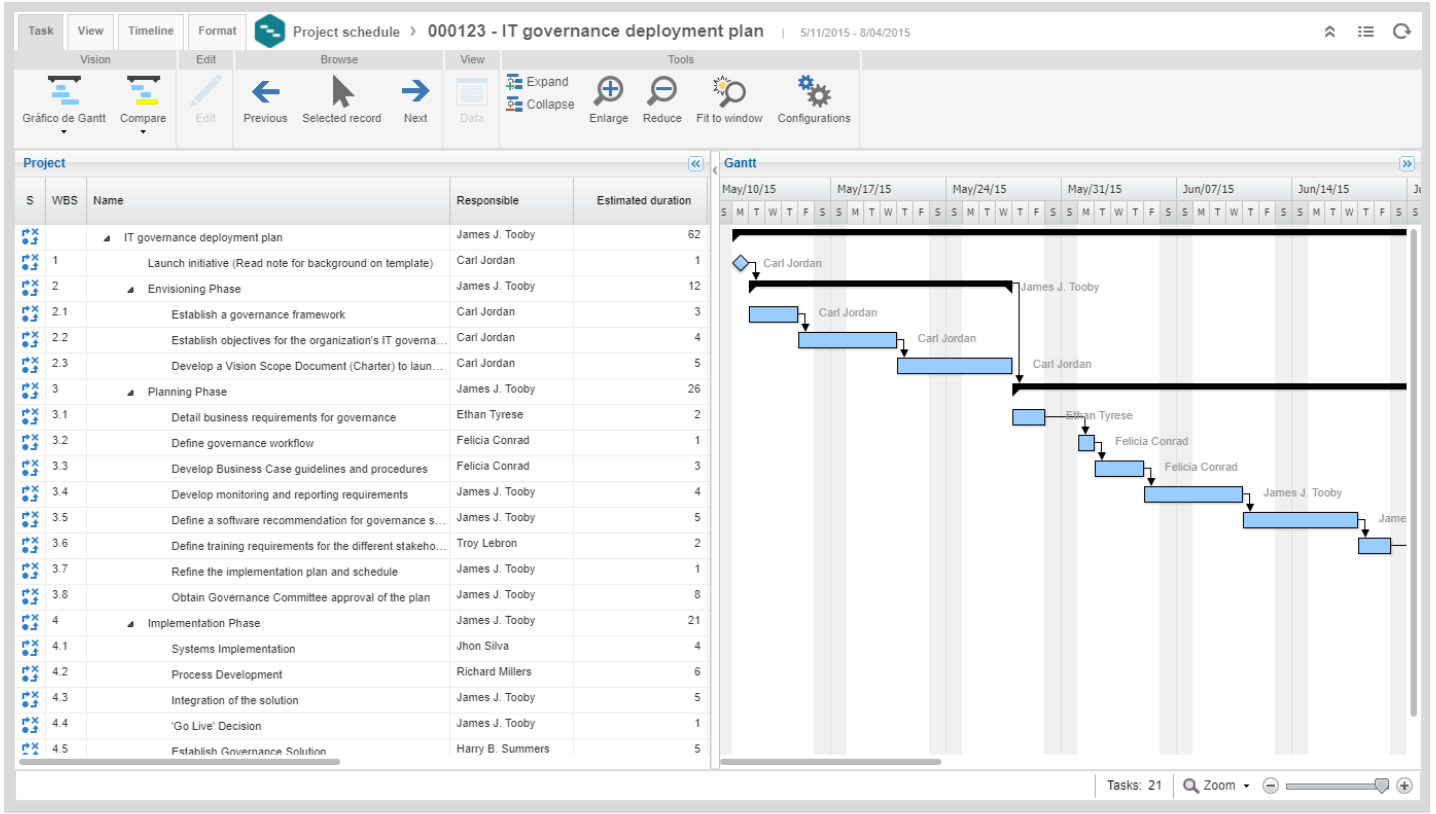
The good news is that implementing changes to improve the way you and your staff organize risks doesn’t have to be hard. See some practical steps below that can help you with developing a risk management plan and keep minor issues from evolving into emergencies and major problems.

01 | Define your scope

As we have seen, risks are present in many areas of an organization. Therefore, you need to define the scope of your risk plan. Am I going to evaluate the risks of a project? Of a process? From a list of assets? Or from my strategic planning?

Once this is done, each activity of this scope needs to be detailed. Let's assume we make a risk plan for a project.

You need to know each project activity, its resources, costs, restrictions, etc. All the information is needed.



02 | Get input from others

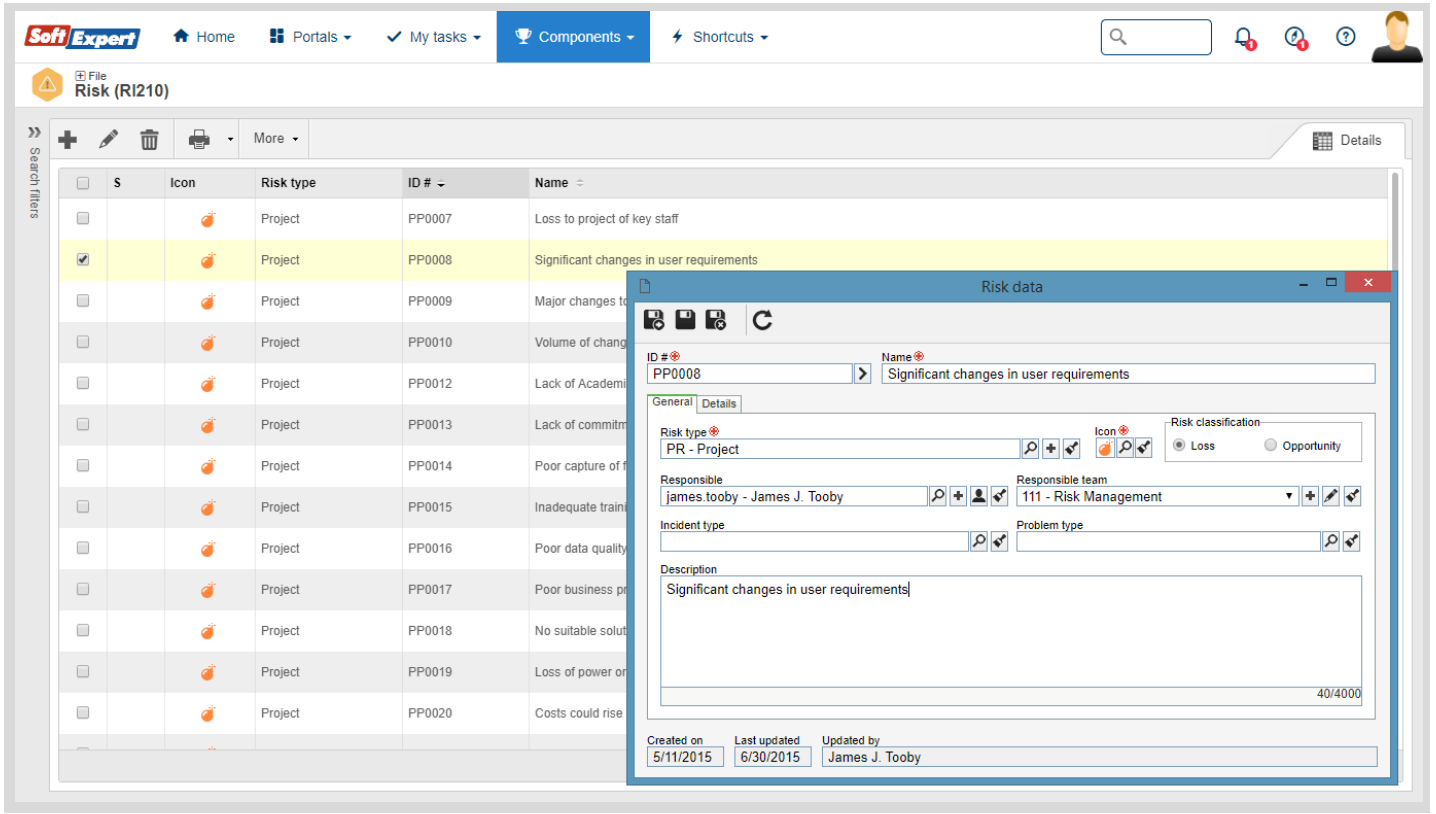
Brainstorm risks. Get several people together that are familiar with the project and ask for input on what could happen, how to help prevent these events, and what to do if an event does happen. Take a lot of notes! You will use the output of this very important session several times during the following steps. Try to keep an open mind about ideas. "Out of the box" thinking is good, but make sure you keep the session under control. It needs to stay focused and on target.

Tip: Involve your key people in managing risks to avoid silos and develop risk management reflexes.

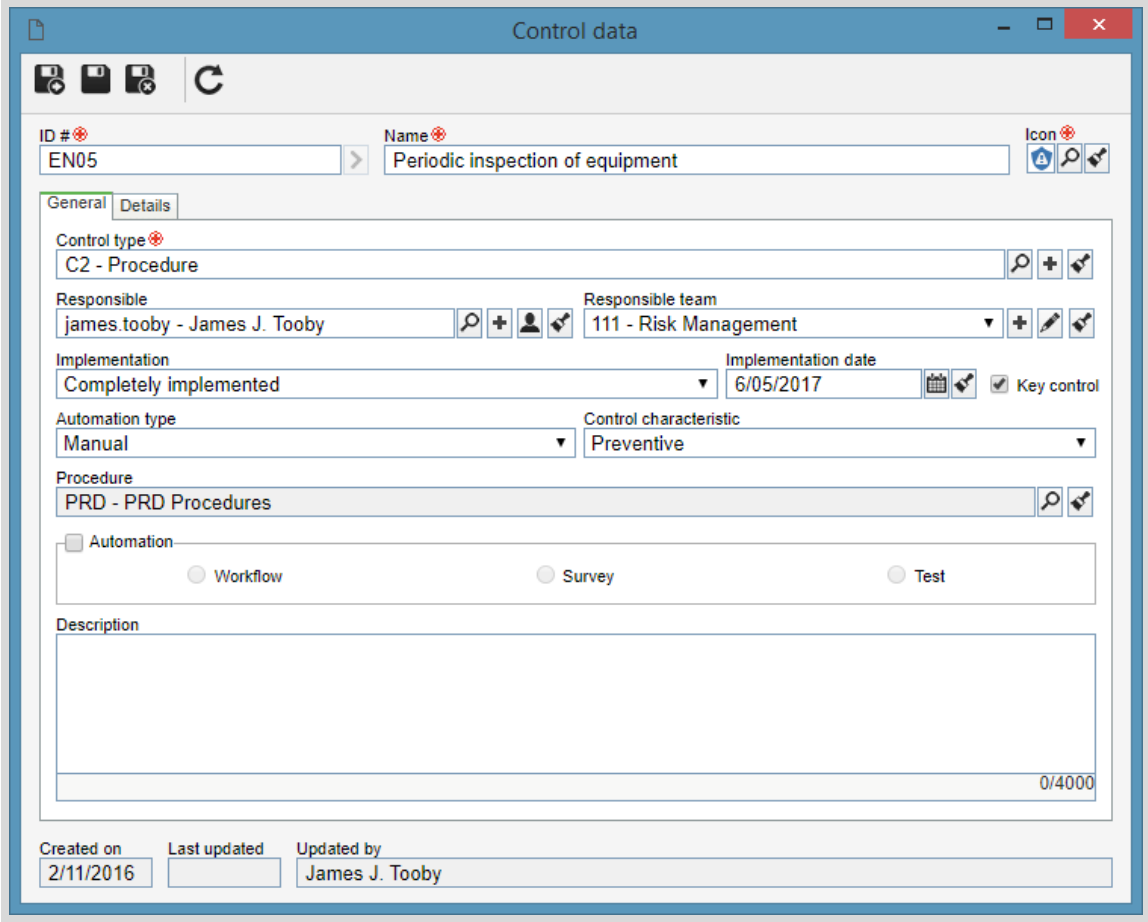
03 | Identify risks and consequences

In your brainstorming session, you gathered information about possible risks and what would happen if they materialized. List the risks and associate each risk with its consequences. Be as specific as possible with each one. “Depletion of resources" is not as desirable as “Missing half of the raw material for completion of the activity.” If there is a monetary value, list it; just saying "Over Budget" is too general.

Tip: Eliminate irrelevant issues. There’s nothing you can do to plan for them or to lessen the impact. You might keep them in mind, but don’t put that kind of thing in your risk plan. Define a risk manager for each risk. This person will monitor the risk and report on it periodically.



04 | Identify controls for each risk



Controls are activities, procedures or mechanisms that, if implemented, can affect a risk, changing its probability or its impact.

Normally controls implemented are considered before starting risk assessments. However, if you prefer, you can split the assessments in two: one before the controls and another considering the controls applied.

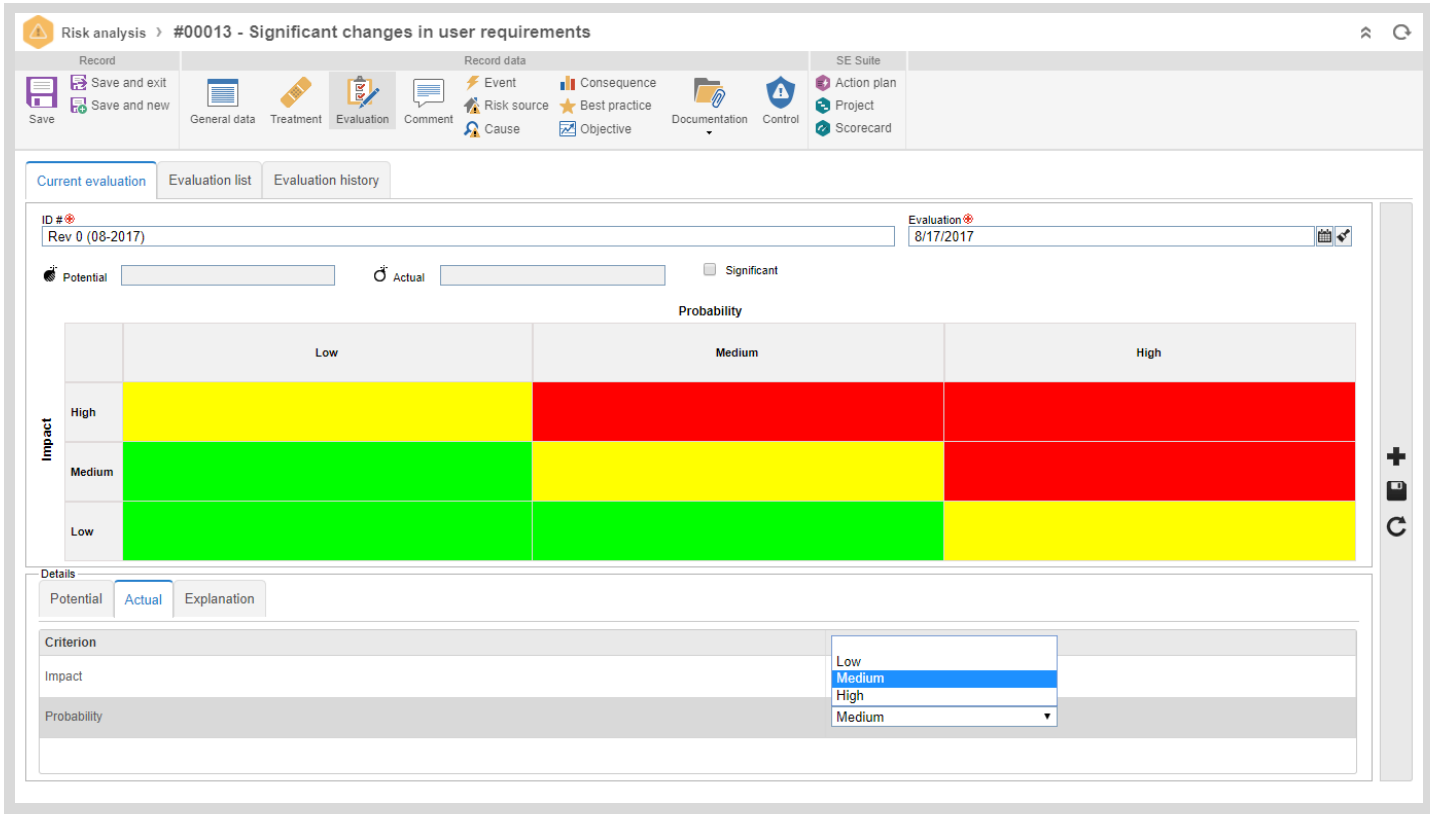
For this demonstration, we will identify the controls now and consider them during our risk assessment.

05 | Assign probability

For each risk element on your list, determine if the likelihood of the risk actually materializing is High, Medium or Low. (This is just an example, you can create your own range according your needs.)

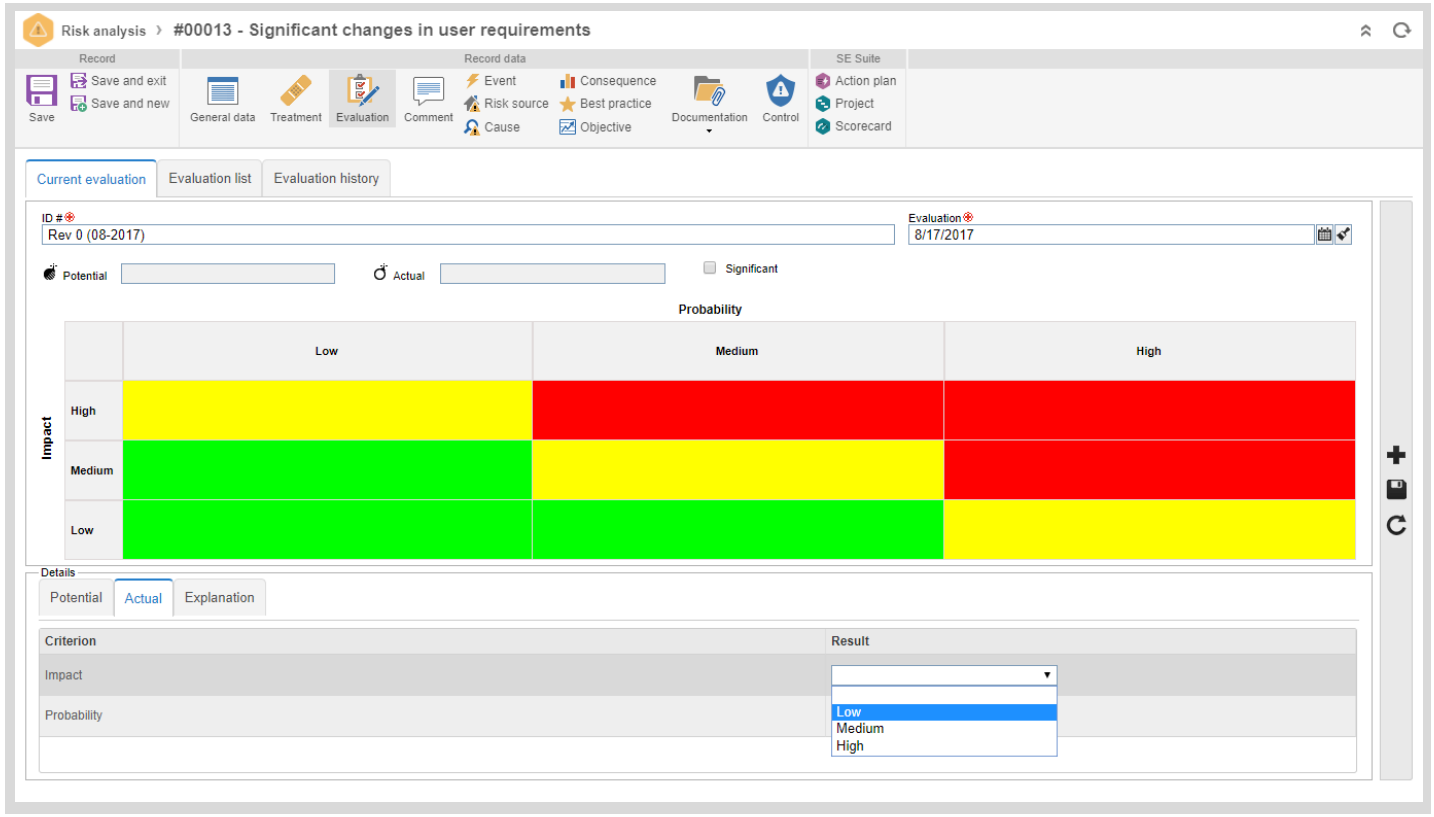
If you absolutely have to use numbers, then calculate Probability using a scale and you will then have a qualitative/quantitative approach.

Note: If the probability of an event occurring is zero, then it will be removed from consideration. There's no reason to consider things that simply cannot happen.



Tip: Think of your evaluation method before you begin assessing the risks. There are several possible methods.

06 | Assign impact



In general, assign Impact as High, Medium or Low based on pre-established guidelines. If you absolutely have to use numbers, then calculate Impact on a scale as well.

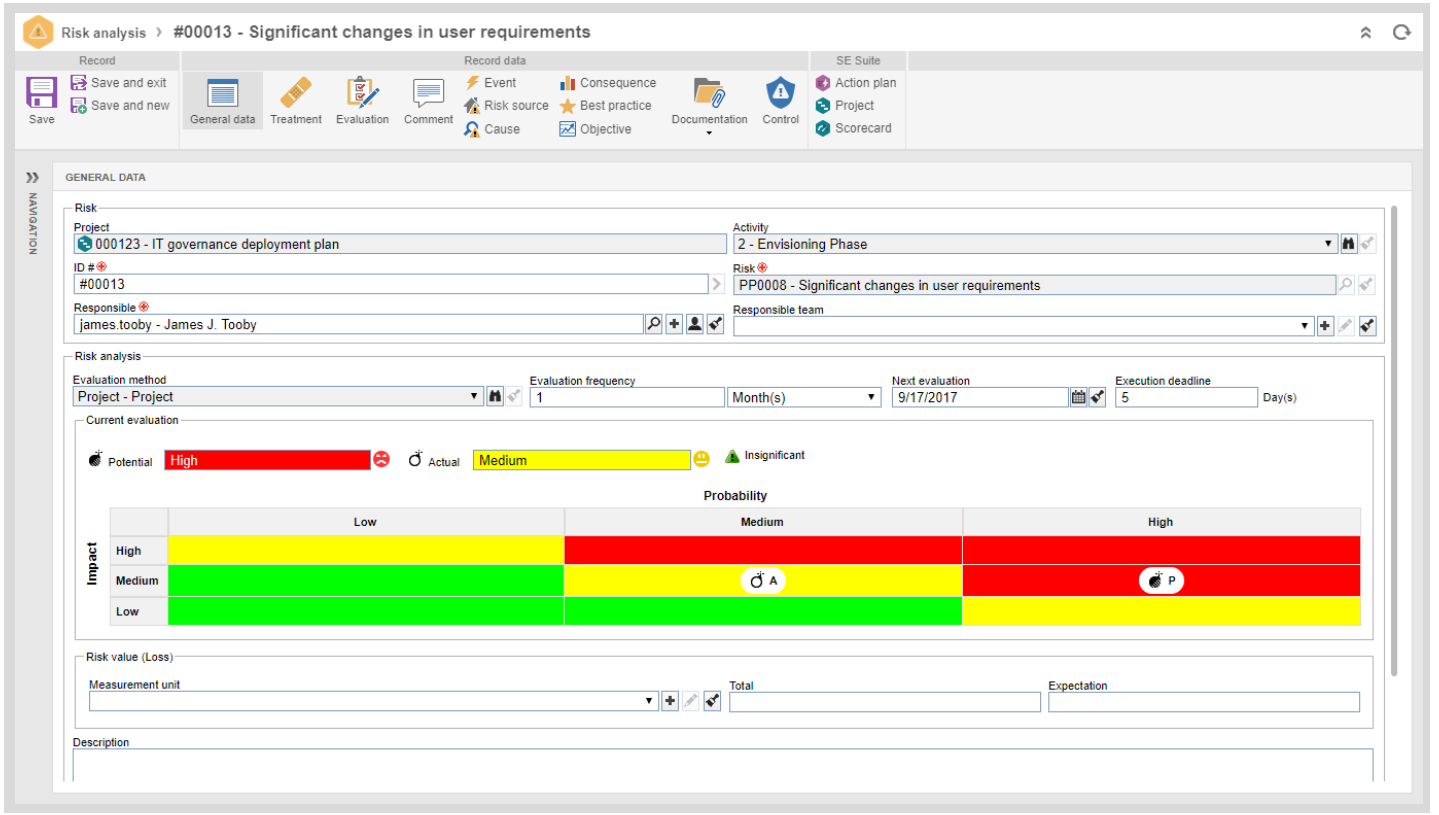
Note: If the impact of an event is zero, it should not be listed. There's no reason to consider things that are irrelevant, regardless of the probability.

07 | Determine the risk level

A table is oftentimes used for this, but using software is much better!

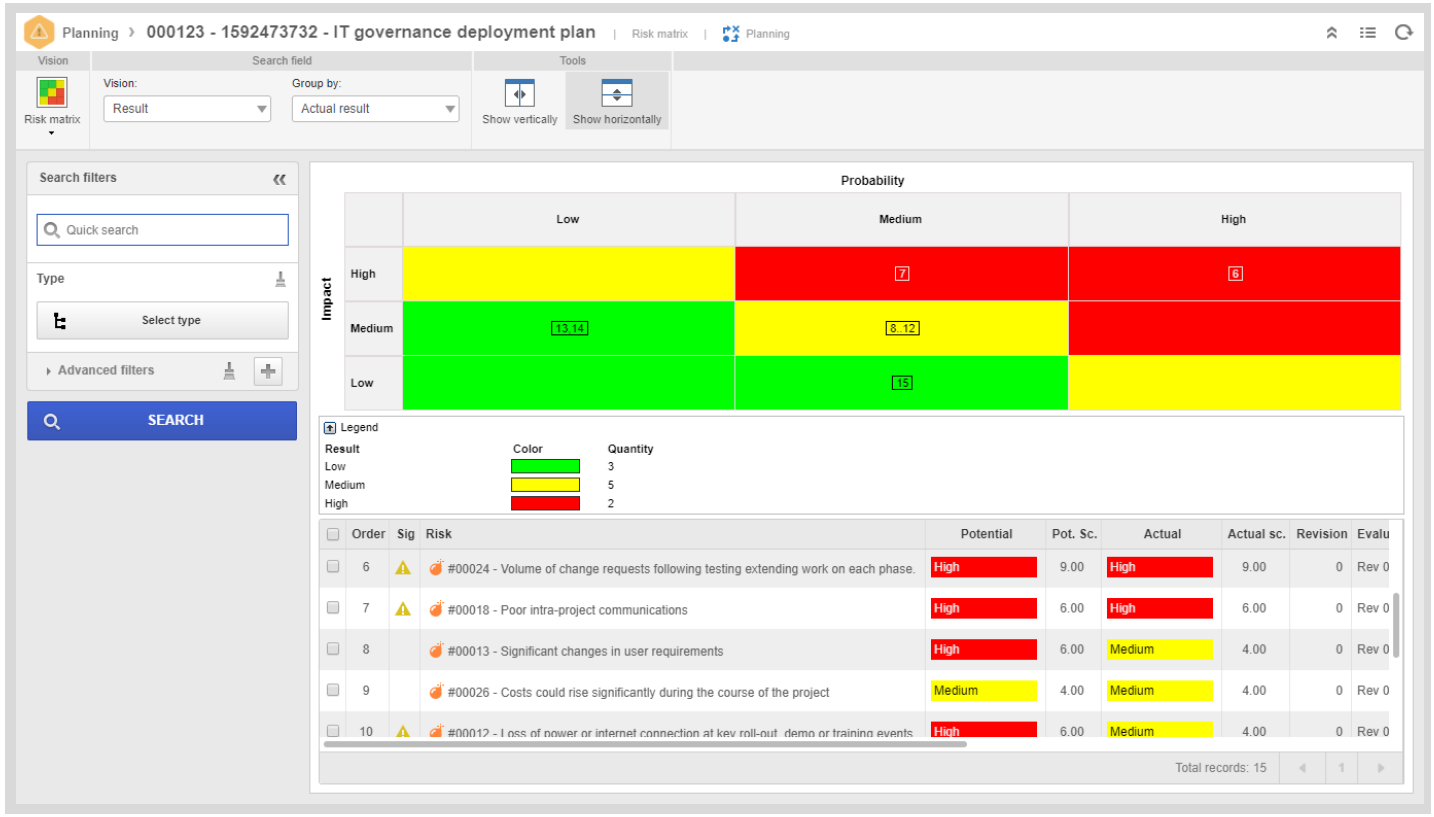
If you have used the Low, Medium and High values for Probability and Impact, a simple table is most useful. If you have used numeric values, you will need to consider a bit more of a complex rating system (much easier done with software). It is important to note that there is no universal formula for combining Probability and Impact; it will vary between companies and projects.

Be flexible in analysis. Sometimes it may be appropriate to switch back and forth between the L-M-H designations and numeric designations.



Tip: The “probability x impact” combination is quite simple. The more criteria are used, the more complex it gets.

08 | Rank the risks



List all the elements you have identified from the highest risk to the lowest risk.

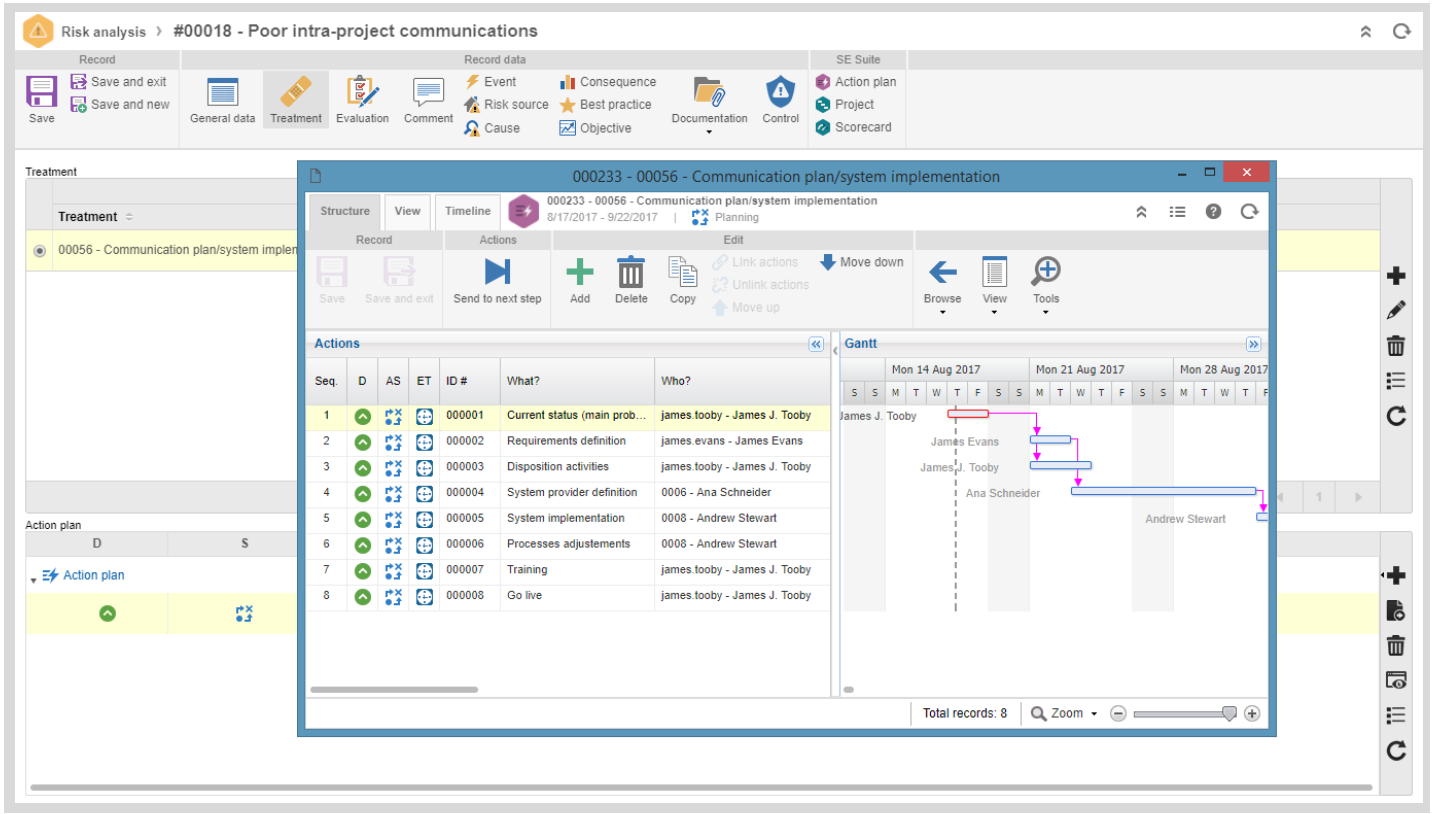
09 | Develop mitigation and contingency strategies

Mitigation is designed to reduce the probability that a risk will materialize. Normally you will only do this for High and Medium elements. You might want to mitigate low risk items, but certainly address the other ones first. For example, if one of your risk elements is that there could be a delay in delivery of critical parts, you might mitigate the risk by ordering early on in the project.

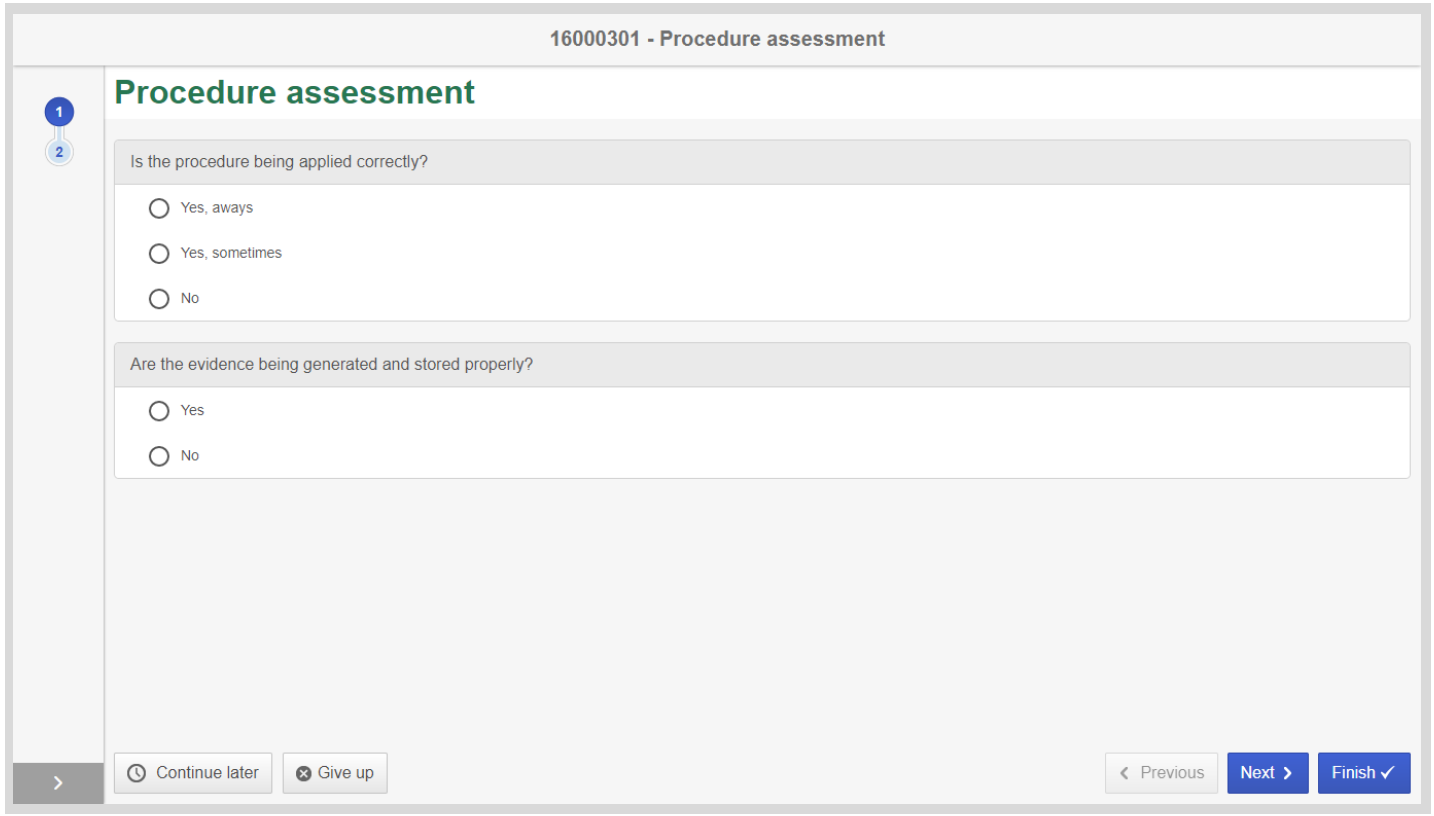
Contingency is designed to reduce the impact if a risk does materialize. Again, you will usually only develop contingencies for High and Medium elements. For example, if the critical parts you need do not arrive on time, you might have to use old, existing parts while you're waiting for the new ones.

To plan and execute these strategies, action plan tools are commonly used. This greatly facilitates follow-up and enhances the success of actions.

Tip: 5W2H plans are pretty useful, but for more complex strategies, you should consider using a project management approach.



10 | Analyze the effectiveness of the strategies



How much have you reduced the Probability and Impact? Evaluate your Contingency and Mitigation strategies and reassign the ratings to your risks.

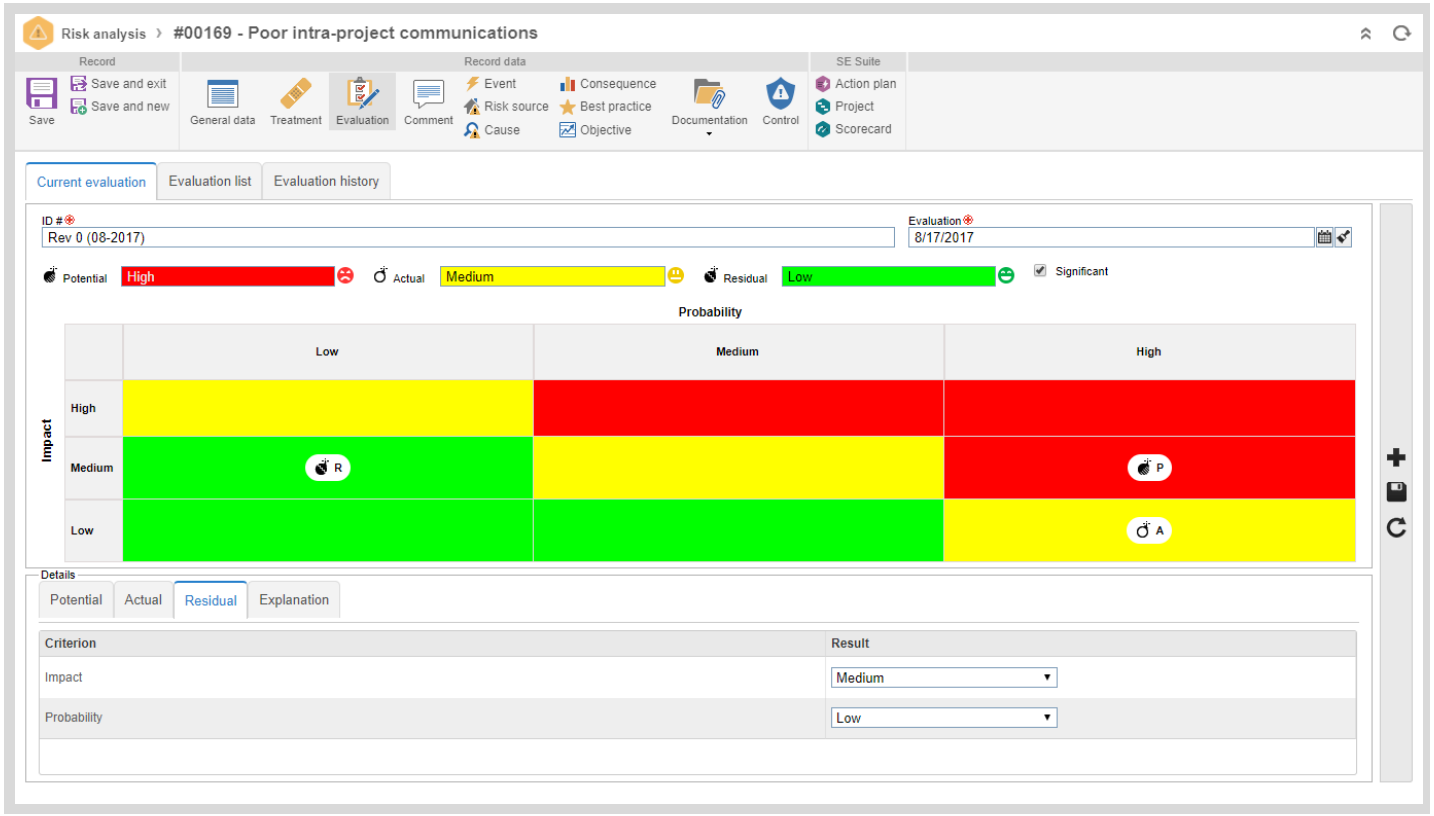
Tip: Continuous evaluation is key to the success of a risk plan strategy. You should reassess your risks as many times as necessary to be comfortable with your safety/objectives.

11 | Compute your residual risk

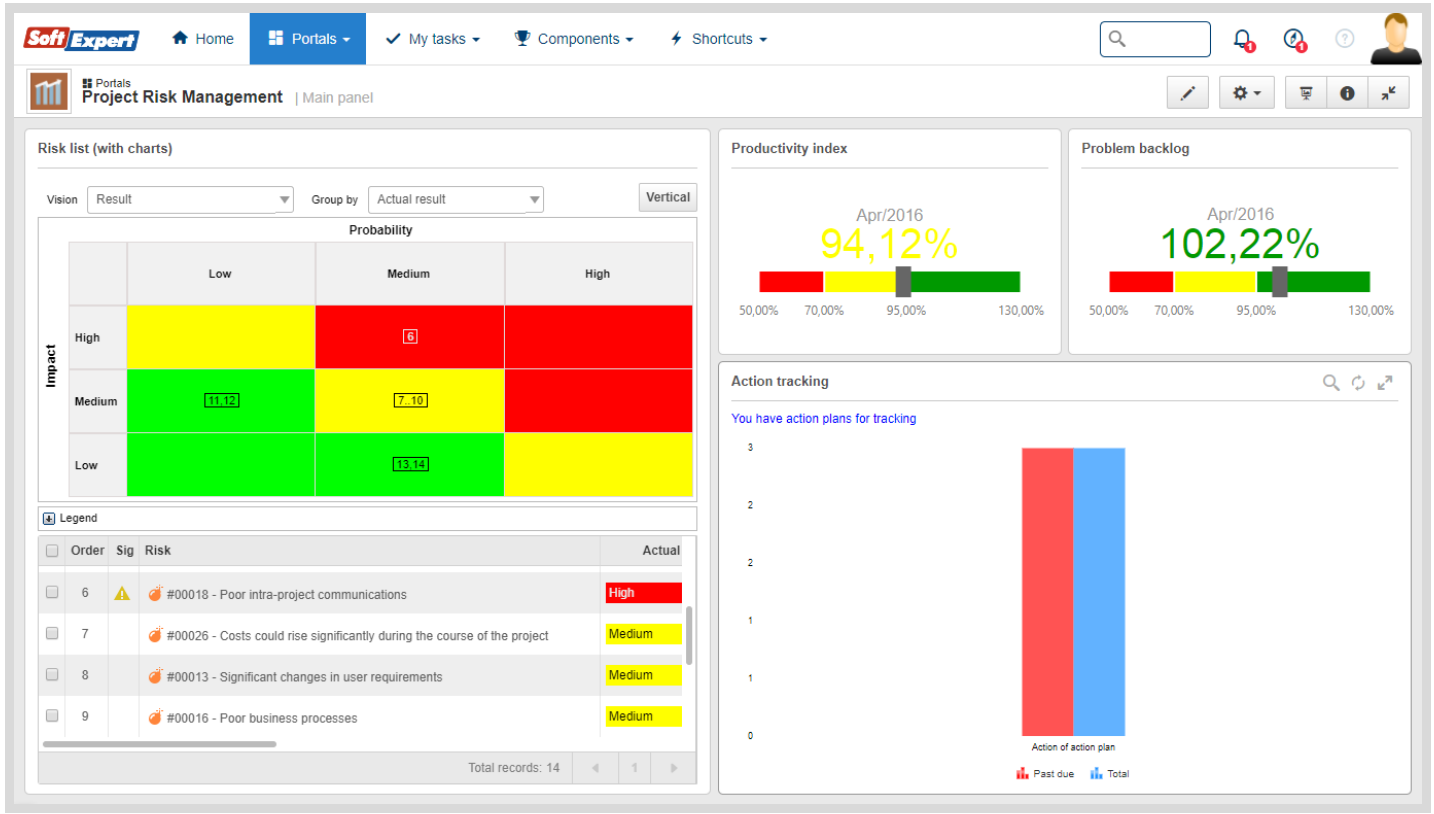
A software solution can do this for you.

Let's assume that originally, the risk of an element was Medium. After contingency and mitigation plans have been added, your exposure is Low. That means you have achieved a reduction in risk. Not bad!

Tip: A software solution can automate this for you using formulas and results of effectiveness evaluations.



12 | Monitor your risks



Now that you know what your risks are, you need to determine how you'll know if they materialize so you'll know when and if you should put your contingencies in place. Indicators with triggers and alerts can help with this.

Do this for each one of your High and Medium risk elements. Then, as your project progresses, you will be able to determine if a risk element has become an issue. If these cues go unacknowledged, it is very possible a risk could silently materialize and affect the project, even if you have good contingencies in place.

Tip: KRIs (Key Risk Indicators) should be used to help you monitor your risks and to provide alerts when the level reaches unacceptable levels. Risk matrixes and heat maps also help you to keep an eye on the big picture.

Now that you already **know How to develop a risk management plan in 12 practical steps**, learn more about SoftExpert ERM (Enterprise Risk Management), the most complete and innovative solution on the market for process automation and improvement, regulatory compliance and excellence in risk management.

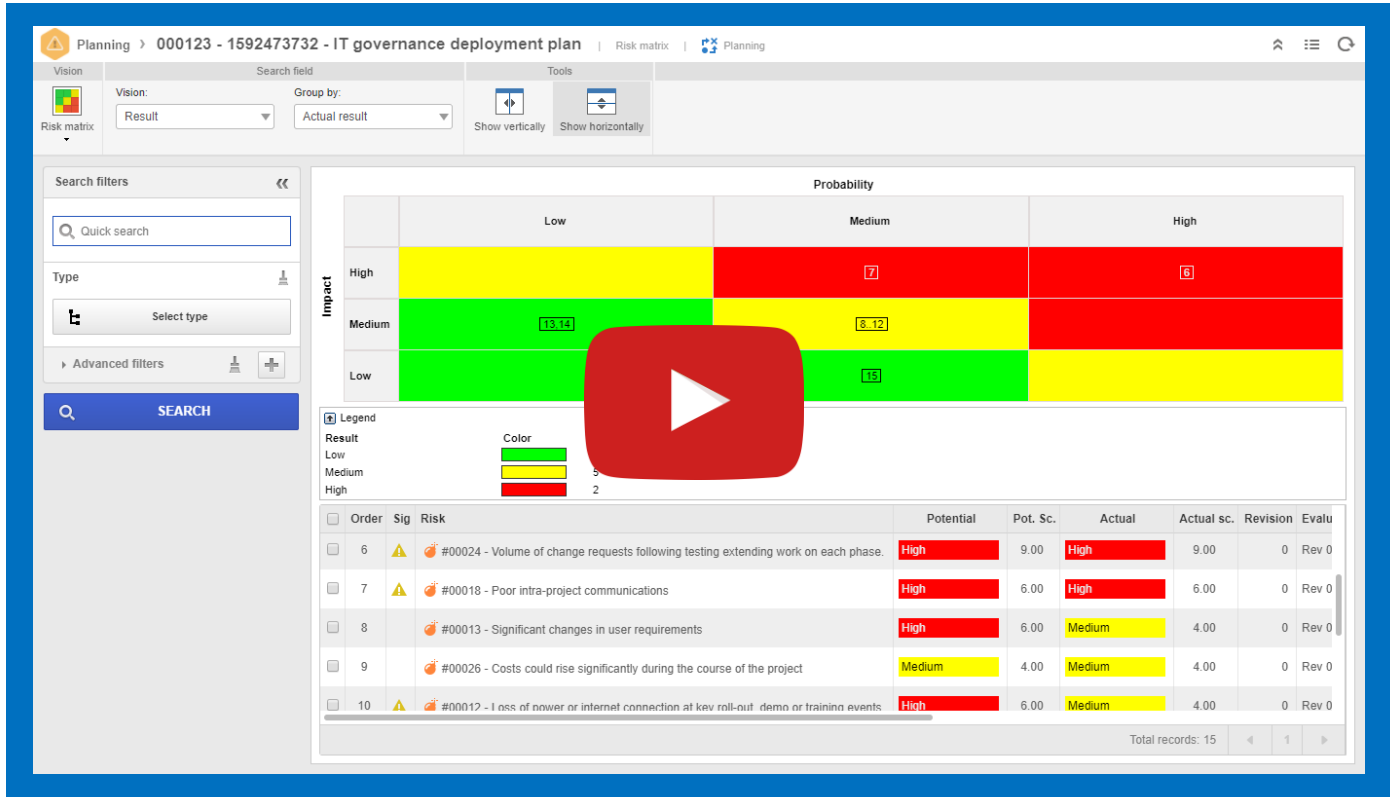
SoftExpert ERM

SoftExpert ERM software enables organizations to identify, analyze, evaluate, monitor, and manage their enterprise risks using an integrated approach. It brings together all risk management-related data in a single comprehensive environment, including a reusable library of risks and their corresponding controls and assessments, events such as losses and non-conformities, key risk indicators, issues and treatment plans.

Supporting risk assessment and calculations based on configurable methodologies and formulas, the solution enables companies to obtain a comprehensive view of their risk profile, and prioritize their risk strategies for the best risk/reward outcomes. SoftExpert ERM software offers risk calculation tools for accurately weighing the impact, probability and results of risk, from the potential to residual stages.

Automating your risk management system is a key ingredient to boosting performance and productivity rates at your business and avoiding mistakes and re-work.

SoftExpert ERM provides all of the support needed to achieve the results you are looking for.



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SoftExpert Excellence Suite

SoftExpert Excellence Suite is the most comprehensive framework of independent yet united solutions to achieve business performance excellence, streamline corporate governance, risk and compliance programs, and ensure continuous business process improvement.

Companies may not need all applications at once, or may want to deploy one application module at a time, growing gradually as the need arises. Whatever the strategy chosen, only a fully shared environment allows its applications to fit together like puzzle pieces and work seamlessly.

About SoftExpert

SoftExpert is a market leader in software and services for enterprise-wide business process improvement and compliance management, providing the most comprehensive application suite to empower organizations to increase business performance at all levels and to maximize industry-mandated compliance and corporate governance programs.

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