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INDUSTRY TRENDS

ANALYZE THIS!

Analyze This!

Written by Leslie White, CPCU, CIC, ARM, CRM

INDUSTRY TRENDS

Many consider risk management the language of "NO." "No we cannot do X because it is too dangerous or risky." But this decision is usually made too early in the risk management process before the organization has analyzed its risks to decide if they truly threaten your association. To be effective in managing risks you have to follow all the steps in the risk management process starting with (1) risk identification and (2) risk analysis and prioritization.

Risk Identification

Identifying risks seems pretty easy where you just sit around and brainstorm everything that can go wrong with an idea. However the brainstorming approach is limiting and less effective. People's personal knowledge and worldviews restrict their ability to discern when a good idea is stopped or a more dangerous project goes forward.

Instead of just brainstorming possible negative outcomes you should be identifying all potential events (positive or negative) that affect the organization. To increase your chance for success use a more systematic identification method. The process starts with identifying the values exposed to loss (people, property, income, business operations). Then look at the possible events that can cause a loss. The cause or peril can be natural, human or economic coming from an internal or external source. There are risk checklists and other means of identifying risk available based upon your association's needs and operations.

Risk Analysis

The second step of the risk management cycle is to analyze and prioritize the identified risks. Many overlook this step and make decisions based solely on their personal perception of the risk. Without analysis, risk becomes an emotional issue; we are considering the loss of something of value. Each person perceives risk differently (Read Risk and Fear: How Do You Perceive Risk?) and reacts based upon their beliefs. Human beings are not rational; we don't always act in our own best "rational" interest but our emotions. Many exposures especially liability generate fear that equates to risk for many folks. Fear affects your decisions that may or may not be in the best interests of your organization.

Risk analysis offers a practical and rational approach to counter the emotional responses to risk. In this phase we decide how likely and often an identified event will occur, its potential "frequency." If you live on the Atlantic or Gulf Coasts there is a higher probability of a hurricane than in the Midwest.

After assigning the level of frequency of an event, you have to rank the potential severity when it happens. Severity is usually evaluated in financial terms – how much it will cost – but can also consider non-financial factors such as reputational damage.

The process of assigning frequency and severity rankings helps people to recognize their fears and perceptions of risk. For example you may be a risk-taker in a group of risk-averse people so you need to acknowledge and address their concerns.

Priorities

After analyzing the risks we can set our priorities for managing these risks. Not all risks are equal some are more important than others. Through frequency and severity analysis you decide which risks need to be addressed first. Generally any risk with a high severity ranking has to be managed or avoided. An exposure with both high frequency and high severity should be first on your priority list. A low-frequency – low severity risk can perhaps be ignored. By setting priorities attention is focused on managing the most important risks improving your chances for success.

Don't just identify your risks. Without analysis and setting priorities you can't be confident you will manage the right exposures and make the best decisions. Analysis enables a full understanding of the risk and selecting the most proper management techniques. Anything less leads to bad decisions and possible harm to your association.

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About the Author

Leslie White, CPCU, CIC, ARM, CRM consults to associations and nonprofits about risk management and risk and social media.. Follow her on Twitter @ltwhite. Her web page is Risky Chronicles.