

PD05 A2 - Risk

Risk Impact

- *Risk = probability of event x cost of event*

Or

- *Risk = probability of event x likelihood of event*

Identify Threats:

- **Human** - from individuals or organizations, illness, death, etc.
- **Operational** - from disruption to supplies and operations, loss of access to essential assets, failures in distribution, etc.
- **Reputational** - from loss of business partner or employee confidence, or damage to reputation in the market.
- **Procedural** - from failures of accountability, internal systems and controls, organization, fraud, etc.
- **Project** - risks of cost over-runs, jobs taking too long, of insufficient product or service quality, etc.
- **Financial** - from business failure, stock market, interest rates, unemployment, etc.
- **Technical** - from advances in technology, technical failure, etc.
- **Natural** - threats from weather, natural disaster, accident, disease, etc.
- **Political** - from changes in tax regimes, public opinion, government policy, foreign influence, etc.
- **Others** - Porter's Five Forces analysis may help you identify other risks.

Porter's 5 Forces

Porter's Five Forces

Threat of New Entry:

- Time and cost of entry
- Specialist knowledge
- Economies of scale
- Cost advantages
- Technology protection
- Barriers to entry
- etc.

Threat of
New
Entry

Competitive Rivalry:

- Number of competitors
- Quality differences
- Other differences
- Switching costs
- Customer loyalty
- Costs of leaving market
- etc.

Supplier
Power

Competitive
Rivalry

Buyer
Power

Supplier Power:

- Number of suppliers
- Size of suppliers
- Uniqueness of service
- Your ability to substitute
- Cost of changing
- etc.

Threat of Substitution:

- Substitute performance
- Cost of change

Threat of
Substitution

Buyer Power:

- Number of customers
- Size of each order
- Differences between competitors
- Price sensitivity
- Ability to substitute
- Cost of changing
- etc.

Strategies for dealing with risks

- *risk avoidance*
 - for example, where costs outweigh benefits, you may decide to refuse a contract;
- *risk reduction*
 - for example, regular reviews can reduce the likelihood of an end-product being unacceptable;
- *risk protection*
 - for example, taking out insurance against particular eventualities;
- *risk management*
 - for example, making use of written agreements in areas of potential disagreement;
- *risk transfer*
 - passing the responsibility for a difficult task to another organisation with more experience in that field.

Risk Impact Grid

Severity	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		Likelihood				

High

Medium

Low

Risk Rating

Risk Event Probability	Interpretation	Rating
> 0 - <= 0.05	Extremely sure not to occur	Low
> 0.05 - <= 0.15	Almost sure not to occur	Low
> 0.15 - <= 0.25	Not likely to occur	Low
> 0.25 - <= 0.35	Not very likely to occur	Low
> 0.35 - <= 0.45	Somewhat less than an even chance	Medium
> 0.45 - <= 0.55	An even chance to occur	Medium
> 0.55 - <= 0.65	Somewhat greater than an even chance	Medium
> 0.65 - <= 0.75	Likely to occur	High
> 0.75 - <= 0.85	Very likely to occur	High
> 0.85 - <= 0.95	Almost sure to occur	High
> 0.95 - < 1	Extremely sure to occur	High

Probability Table

Severity/Impact	1.00	.00	.05	.10	.15	.20	.25	.30	.35	.40	.45	.50	.55	.60	1.00
	.95	.00	.05	.10	.14	.19	.24	.29	.33	.38	.43	.48	.52	.57	.95
	.85	.00	.04	.09	.13	.17	.21	.26	.30	.34	.38	.43	.47	.51	.85
	.75	.00	.04	.08	.11	.15	.19	.23	.26	.30	.34	.38	.41	.45	.75
	.65	.00	.03	.07	.10	.13	.16	.20	.23	.26	.29	.33	.36	.39	.65
	.55	.00	.03	.06	.08	.11	.14	.17	.19	.22	.25	.28	.30	.33	.55
	.45	.00	.02	.05	.07	.09	.11	.14	.16	.18	.20	.23	.25	.27	.45
	.35	.00	.02	.04	.05	.07	.09	.11	.12	.14	.16	.18	.19	.21	.35
	.25	.00	.01	.03	.04	.05	.06	.08	.09	.10	.11	.13	.14	.15	.25
	.15	.00	.01	.02	.02	.03	.04	.05	.05	.06	.07	.08	.08	.09	.15
	.05	.00	.00	.01	.01	.01	.01	.02	.02	.02	.02	.03	.03	.03	.05
	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
		.00	.05	.10	.15	.20	.25	.30	.35	.40	.45	.50	.55	.60	1.00
Likelihood															

Risk Impact Grid

IMPACT	Extreme					
	Very High					
	Medium					
	Low					
	Negligible					
		Rare	Unlikely	Possible	Likely	Almost Certain
		LIKELIHOOD				