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Academic Report - Risk management

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Introduction

Even not properly identified all the time, risks are present in day to day life (personal and professional) being generally understood as a possibility that a result to not be as expected (Riess, 2013).

According to ISO 31000:2009 risk is defined as the effect of uncertainty on objectives achievement. To better understand what risk is, it is important to clarify the topics: effect, objectives, uncertainty. *The effect* is in fact the deviation from the expected outcome and can be

positive and/or negative. *Objectives* can have various aspects (financial, environmental, health and safety) and can apply at different levels (product, process, project, organization, strategic). *Uncertainty* is the status (even partial) when the organisation face lack of information related to knowledge of a specific event, its consequences or like hood. Risk can be defined also as any uncertain event or set of events that, in case of occurrence, would have an adverse effect on achievement of objectives.

The current report will discuss the risk management process, possible responses to the risks (risk strategies), risk management importance in organizations, the final part including conclusions and recommendations.

Risk management process

Risk management, as business process includes the activities that leads to identification in advance of the risks, the risks measurement (assessment), identification of proper actions (corrective or preventive) to mitigate the risks with the aim to reduce the risk curb (PM book, 2013). An effective risk management process will attempt to control, in any possible ways, the expected negative outcomes rather in a proactive rather than reactive manner. Thus, an efficient risk management process will allow organizations to reduce both variables of a risk: possibility to occur and potential impact (Corporate Finance Institute, 2020).

Risk management process is not a static, but a continuous one, a sequence of five steps, presented in Figure 1: identify the risks, analyze (measure) and prioritize the risks, identify possible solutions to mitigate them, implement selected solutions and monitor the results.



Figure 1: Risk management process (Rowe,2018)

Identify the risk

The risk identification starts through analyses related to the environment where a certain organization operates, therefore various types of risks can be identified, in relationship with legal and regulatory aspects, environment, market, industry etc. (Rowe,2018). A key factor in risk identification is to consider as many as possible risk generators. There are organizations where identified risks are written down manually, while in organizations with risk management solutions implemented the risks are added into the system. Thus, using automate solutions, identified risks are visible by all stakeholders in the same time.

Analyze the risk

After the first step, risks identification, these must be analyzed and prioritized. According to Rowe (2018) important aspects to be considered when risks are analyzed refers to: determine the scope of the risk, define the link between the risk and internal organization factors, identify the severity of the risk (by assessing business functions affected). Organizations with risk management solutions implemented will be able to map the risks into various business procedures, policies and documents through the risk framework that will allow risk evaluation.

Assess (rank) the risk

In order to decide which mitigation actions should be implemented first, the risks must be ranked and prioritized. As practical tools used to assess the risks, the risk management matrix are used, measuring the risk from two perspectives: impact and probability, both measured using a 1 to 5 scale (impact : 1 – negligible risk, 5 – severe risk / probability: 1 – very unlikely to occur, 5 – very likely to occur). Figures 2 and 3 below presents risk management matrix and risk ratings, according to Standard UK Public Sector (2020).

		Impact				
		1	2	3	4	5
		Negligible	Minor	Moderate	Significant	Severe
Probability	5 Very Likely	Low Medium	Medium	Medium High	High	High
	4 Likely	Low	Low Medium	Medium	Medium High	High
	3 Possible	Low	Low Medium	Medium	Medium High	Medium High
	2 Unlikely	Low	Low Medium	Low Medium	Medium	Medium High
	1 Very Unlikely	Low	Low	Low Medium	Medium	Medium

Figure 2: Risk management matrix (Source: Standard UK Public Sector, 2020)

Considering the two mentioned parameters, for each risk an individual rating will be calculated by multiplying the values (from 1 to 5) assessed for impact and probability. Thus, the final risk rating is obtained, risks being measured on a scale from 1 (very low risk) to 25 (very high risk), allowing the risk prioritization activity.



Figure 3: Risk ratings (Source: Standard UK Public Sector, 2020)

Implement solutions

After the risk were identified, assessed and prioritized, actions to mitigate them as much as possible must be considered. Through the advice of experts from the field risk belongs to, appropriate actions are identified and implemented in order to minimize the expected negative impact of the risk on business objectives (CFI, 2020). The manual environment of an organization to manage risks will need meetings with every stakeholder, adding issues related to a continuous communication or a single document to manage the risks. Organizations where risk management solutions are implemented will allow the in time and complete communication with all stakeholders through automate notifications sent by the system, will allow to implement suggested solutions by the system (Reiss,2013).

Monitor results and reevaluate the risk

There are risks that can be efficiently mitigated (example: risk of paying penalties, through actions of monitoring SLAs) and there are risks that will remain present and need to be carefully monitored (e.g.: market risks, environmental risks). The manual risk management systems will need deep

involvement of the employees, while the digital environment of risk management will allow automatic monitoring of the results of mitigation actions implemented (Rowe,2018) and changes of the risks will be visible to all stakeholders.

Risk management process uses risk register as main document to keep the risks, this document containing details as: risk nature, strategy to mitigate it, actions to mitigate it, like hood, impact, risk rating (multiplication of impact with like hood (PRINCE2 methodology). ISO 73:2009 defines risk register as “record of information about identified risks”. The risk register importance for organizations, as risk management tool, relies in its living traits: considering the key characteristic of the risks (they are not static), considering the changing environment and markets, it is clear that risks are changing also (probability and impact might change) and new risks can occur (Rowe,2018).

Risk strategies

An uncertain event that can influence a business can lead to opportunities and threats; both aspects being considered by the risk management process.

According to PMBOK® (2013), organizations can adopt for a certain risk : a) at least one of four strategies in terms of threats (avoid, accept, transfer, mitigate, as detailed in Figure 4) ; b) at least one of four strategies in terms of opportunities (exploit, enhance, accept, share, as detailed in Figure 5).



Figure 4: Risk mitigation strategies - threats (Source: PMBOK® (2013))



Figure 5: Risk mitigation strategies - opportunities (Source: PMBOK® (2013))

Risk management importance in organizations

According to Thomas (2020) the importance of risk management for organizations relies on the fact that this business practice is a key element used by companies to identify, assess, mitigate, monitor risks affecting the business environment they operate in. Practicing risk management either informally (small businesses), either based on solid processes (enterprises) will allow organizations, regardless their size, to ensure their stability and growth. The lack of identification of risks that can affect the organization will lead to losses and will affect their stability. As example, an organization that is not aware of a competitive risk can lose market share, and organization that is not aware of financial risk can face financial losses etc. As results the risk management as function is organizations evolved, operating currently with dedicated resources, from a single risk manager or a small team (case of small businesses) to risk management department in organizational structure (enterprises). An organization with the capability of predicting a risk will have a competitive advantage (Rowe,2018) through its ability of act in a proactive manner to mitigate the vulnerabilities prior a significant damage occurs.

Conclusions

Comparing the organizations with autos competing in a racecourse, the risks can be associated with potholes on the road, therefore these should be avoided by the ones aiming to win the competition. Risk management can be seen as the process to proactively identify the potholes, to measure their size in order to evaluate the potential damage is going through, to identify and implement strategies to avoid the potential injuries (Thomas, 2020). Considering the probability and the impact of the risks will allow organizations to allocate resources in an efficient way assuring stability in business activities.

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