

Risk Management

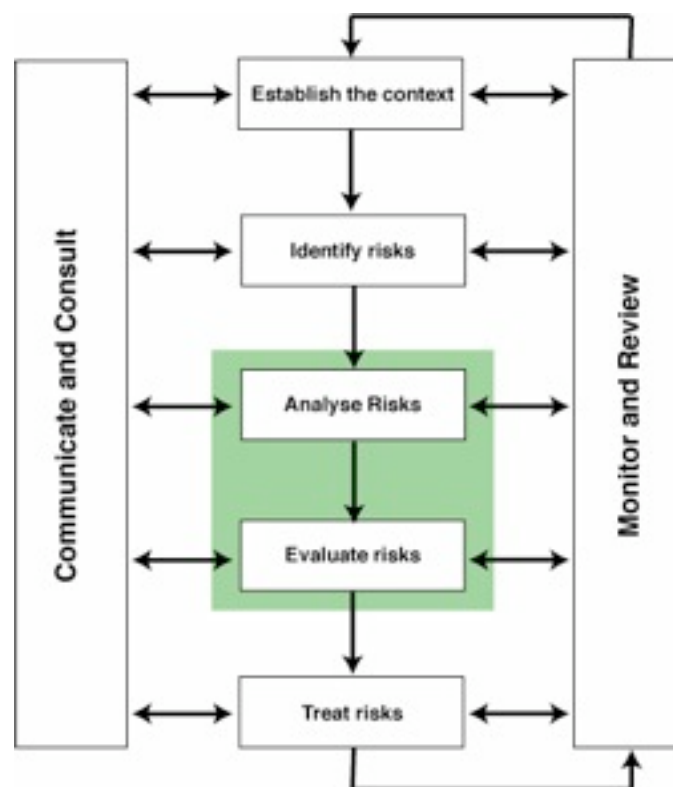
Definition

Risk assessment (identifying risks and working out how dangerous they are) and risk management (doing all you can to reduce them) are things that entrepreneurs do all the time and not just before the business starts.

Risk Management is:

"All the processes involved in identifying, assessing, and judging risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress"

The main elements of risk management are represented in the diagram below:



Risks must be considered and assessed from the beginning of any enterprise project. However, assessing risk is a continuous process carried out through the life of the business. Risks must not only be taken seriously but be managed in a logical organised way. Not thinking about risks to your business is one of the biggest risks you can take!

Why do we do risk analysis?

We need to appraise the risks to our enterprise in order to:

- Identify those risks to our enterprise that are things we can do something about.
- Identify those risks to our enterprise that we cannot do anything about and therefore must make "assumptions" about.
- Decide whether we want to do anything about the risks we can manage, and if so, incorporate them in our management plan.
- Ensure we monitor the risks that we cannot do anything about, so that we may change our enterprise if it happens. We might also want to do some contingency planning if we think that it will prove important.
- In either case, we must identify and deal with "killer" risks.

Details of a simple risk analysis based upon assessment of "impact" and "probability" follow. In most cases, such a simple risk analysis will suffice for most appraisals.

How do we do Risk Analysis?

The following approach is standard:

- 1) Identify the risks
- 2) Think about the likelihood that they will happen and the impact that would have
- 3) Study the risks and decide if you need to do anything to overcome the risks, and if so, what.
- 4) Remember that risks that are in the High impact and High probability category may be "killer risks". If we can do something about them, we must do something about them. If we can't do anything about them, then we must question whether we can proceed with the enterprise as we are telling ourselves that "we have a risk that will have a high impact on our enterprise and will very probably happen and we can't do anything about it."

Managing Risks

Once the risks have been identified and evaluated, attention needs to focus on managing them. It is important to prioritise all the risks and select which ones will be managed and which ones will be accepted. This prioritisation needs risks to be assessed in relation to their probability and impact.

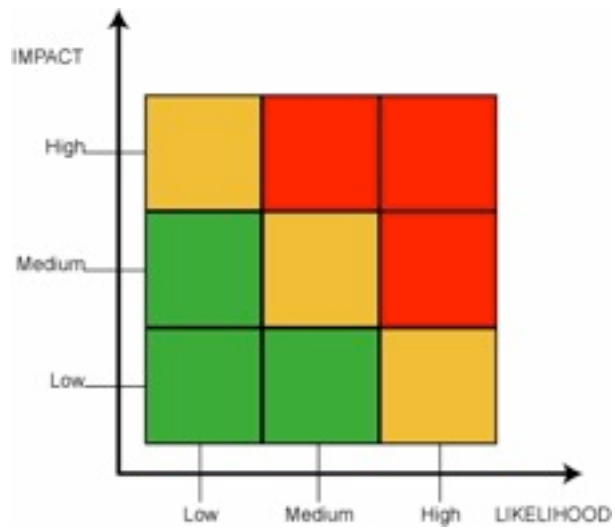
Having assessed the threats the next step is to decide what actions to take. There are various categories of countermeasure.

- Prevent – those, which will prevent the problem occurring in the first place.
- Reduce – those, which will reduce the impact of the problem if it does occur.
- Accept – no action at all (the risk is accepted)
- Transfer – those which transfer responsibility for the problem to someone else, as in an insurance policy
- Contingency – also known as "Plan B", in other words, if the predicted problem actually does arise, then I have a backup plan ready to implement to deal with it.

Risk Tolerance

How much risk should you put up with?

The framework below might help you think about which risk you are prepared to tolerate.



When evaluating risk consider the following questions:

- 5) Can I afford to do something about it?
- 6) Can I afford not to do something about it?