Literally speaking, **risk management is the process of minimizing or mitigating the risk**. It starts with the identification and evaluation of risk followed by optimal use of resources to monitor and minimize the same.

Risk generally results from uncertainty. In organizations this risk can come from uncertainty in the market place (demand, supply and Stock market), failure of projects, accidents, natural disasters etc. There are different tools to deal with the same depending upon the kind of risk.

Ideally in risk management, a risk prioritization process is followed in which those risks that pose the threat of great loss and have great probability of occurrence are dealt with first. Refer to table below:

|  |  |
| --- | --- |
| **IMPACT** | **ACTIONS** |
| **SIGNIFICANT** | Considerable Management Required | Must Manage and Monitor Risks | Extensive Management essential |
| **MODERATE** | Risk are bearable to certain extent | Management effort worthwhile | Management effort required |
| **MINOR** | Accept Risks | Accept but monitor Risks | Manage and Monitor Risks |
|   | **LOW** | **MEDIUM** | **HIGH** |
| **LIKELIHOOD** |

The above chart can be used to strategize in various situations. The two factors that govern the action required are the probability of occurrence and the impact of the risk. For example a condition where the impact is minor and the probability of occurrence is low, it is better to accept the risk without any interventions. A condition where the likelihood is high and the impact is significant, extensive management is required. This is how a certain priority can be established in dealing with the risk.

Apart from this, typically most of the organizations follow a risk management cycle. Refer diagram below:



According to this cycle there are four steps in the process of risk management. The first step is the assessment of risk, followed by evaluation and management of the same. The last step is measuring the impact.

Risk identification can start at the base or the surface level, in the former case the source of problems is identified. We now have two things to deal with the source and the problem.

**Risk Source:** The source can be either internal or external to the system. External sources are beyond control whereas internal sources can be controlled to a certain extent. For example, the amount of rainfall, weather over an airport etc!

**Problem:** A problem at the surface level could be the threat of accident and casualty at the plant, a fire incident etc.

When any or both of the above two are known beforehand, certain steps can be taken to deal with the same.

After the risk/s has been identified then it/they must be assessed on the potential of criticality. Here we arrive upon risk prioritization. In generic terms ‘likelihood of occurrence × impact’ is equal to risk.

This is followed by development of a risk management plan and implementation of the same. It comprises of the effective security controls and control mechanisms for mitigation of risk.

A more challenging risk to organizational effectiveness is the risk that is present but cannot be identified. For example, a perpetual inefficiency in the production process accumulates over a certain period of time and translates into operational risk

Principles of Risk Management

Various organizations have laid down principles for risk management. There are risk management principles by International standardization Organization and by Project Management Body of Knowledge.

The Project management body of knowledge (PMBOK) has laid down 12 principles. This article carries an amalgamation of both PMBOK and ISO principles. **The various principles are:**

1. **Organizational Context:** Every organization is affected to varying degrees by various factors in its environment (Political, Social, Legal, and Technological, Societal etc). For example, an organization may be immune to change in import duty whereas a different organization operating in the same industry and environment may be at a severe risk. There are also marked differences in communication channels, internal culture and risk management procedures. The risk management should therefore be able to add value and be an integral part of the organizational process.
2. **Involvement of Stakeholders:** The risk management process should involve the stakeholders at each and every step of decision making. They should remain aware of even the smallest decision made. It is further in the interest of the organization to understand the role the stakeholders can play at each step.
3. **Organizational Objectives:** When dealing with a risk it is important to keep the organizational objectives in mind. The risk management process should explicitly address the uncertainty. This calls for being systematic and structured and keeping the big picture in mind.
4. **Reporting:** In risk management communication is the key. The authenticity of the information has to be ascertained. Decisions should be made on best available information and there should be transparency and visibility regarding the same.
5. **Roles and Responsibilities:** Risk Management has to be transparent and inclusive. It should take into account the human factors and ensure that each one knows it roles at each stage of the risk management process.
6. **Support Structure:** Support structure underlines the importance of the risk management team. The team members have to be dynamic, diligent and responsive to change. Each and every member should understand his intervention at each stage of the project management lifecycle.
7. **Early Warning Indicators:** Keep track of early signs of a risk translating into an active problem. This is achieved through continual communication by one and all at each level. It is also important to enable and empower each to deal with the threat at his/her level.
8. **Review Cycle:** Keep evaluating inputs at each step of the risk management process - Identify, assess, respond and review. The observations are markedly different in each cycle. Identify reasonable interventions and remove unnecessary ones.
9. **Supportive Culture:** Brainstorm and enable a culture of questioning, discussing. This will motivate people to participate more.
10. **Continual Improvement:** Be capable of improving and enhancing your risk management strategies and tactics. Use your learning’s to access the way you look at and manage ongoing risk.

Various Aspects of Risk Management

What does risk management mean? Is it just identification, assessment and planning and controlling social, economic or physical threat to the organization? Is the concept only about transferring the risk or reduce its negative effects?

Well, the answers for the above questions is “no”. The process of risk management is not only restricted to controlling the threats or reducing their negative effects. It is a much deeper concept that also involves risk avoiding as well as risk taking. Every work involves some or other kinds of risk. Sometimes you avoid, sometimes you control the phenomenon and sometimes you simply let it come. Same is true for the business world.

The idea behind is that there are no hard and fast rules. This means that even though we have a systematic approach to treat risk it is not necessary that this is going to help. Simply designing and implementing a risk management plan is not enough to treat risk. It depends on firm-to-firm and industry-to-industry. There are various other criteria that need to be analyzed such as internal and external environment of a company, company’s ability to develop and implement a risk management plan effectively.

There are various other issues that need to be addressed. Before you spend your time, efforts and money, see if you really require a full-fledged risk management plan to control the financial, physical or social threat to the organization. Deeply examine your requirements and need to treat the risk. Sometimes, avoiding risk is considered as the best strategy.

When you decide about a risk management plan, you need to examine thoroughly and ask yourself few questions before proceeding further. These questions act as an eye opener and provide you with the outline of what you need to do and what to look at. Read further to know what you should ask yourself while designing, developing, implementing or reviewing your risk management plan:

* **Do You Actually Need a Plan:** This is first and the foremost question that you need to ask yourself. Thoroughly examine the situation and decide if you actually need a risk management plan.
* **Is the Plan Feasible:** This is really important to checkout if the prepared risk management plan is feasible or if it is possible to bring it to life? Also check if it suits your requirements or not.
* **What Are the Strengths and Weaknesses of a Risk Management Plan:** Conduct a [SWOT analysis](http://managementstudyguide.com/swot-analysis.htm) and try to find out the strengths and flaws in the plan. Remove the flaw before hand so that you get desired results after implementing it.
* **Does It Meet Your Objectives:** The biggest requirement for a risk management plan to be successful is that it should meet your company’s objectives. Try to match the firm’s objectives with plan’s objectives.
* **Analyze If Risk Needs to be Treated:** Carefully examine if you can avoid the risk or not. There is no need to develop a full-fledged plan if you think you can avoid it. It is not at all necessary to treat the risk always. It depends on the severity of a situation.
* **Check If a Plan is Backed By Clearly Defined Activities and Events:** A risk management plan should always be backed by clearly defined activities and events otherwise it may cause problems in long run.

The golden rule for the success rule of a risk management plan is that there is no golden rule. Each firm is different and faces different types of risks in different business environments. You need to develop a unique plan for your firm to manage the risks efficiently and effectively.