

## RISK MANAGEMENT

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### Abstract:

*Risk management is a rapidly developing discipline and there are many varied views and description of what risk management involves, how it should be conducted and what it is for. Risk management should be continuous and developing process which runs throughout the organizations strategy and the implementation of that strategy. It must translate the strategy into tactical and operational objectives, assigning responsibility throughout the organization with each manager and employee responsible for the management of risk as part of their job description. It supports accountability, performance management and reward, thus promoting operational efficiency at all levels.*

### KEYWORDS:

Risk management , organizations strategy , Association of Insurance and Risk Managers (AIRMIC).

### INTRODUCTION

The Risk management standard is the result of work by a team drawn from the major risk management organizations in the UK- the Institute of risk management (IRM), The Association of Insurance and Risk Managers (AIRMIC) and ALARM The National Forum for Risk Management in the Public Sector. In addition, the team sought the views and opinions of a wide range of other professional bodies with interest in risk management, during an extensive period of consultation. Risk management is a rapidly developing discipline and there are many varied views and description of what risk management involves, how it should be conducted and what it is for. Some form of standards is needed to ensure that there is an agreed;

Terminology related to the words  
Process by which risk management can be carried out  
Organization structure for risk management  
Objective for risk management  
Importantly, the standard recognizes that risk has both an upside and downside.

Risk management is not just something for corporations or public organizations, but for any activity whether short or long term. The benefits and opportunities should be viewed not just in the context of the activity itself but in relation to the many and varied stakeholders who can be affected.

There are many ways achieving the objectives of risk management and it would be impossible to try to set them all out in a single document. Therefore it was neither intended to produce a perspective standard which would have led to a box ticking approach nor to establish a certifiable process. By meeting the various component parts of this standard, albeit in different ways, organization will be in a position to

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report that they are in compliance. The standard represents best practice against which organizations can measure themselves.

The standard has wherever possible used the terminology for risk set out by the International organization for Standardization (ISO) in its recent document ISO/IEC Guide 73 Risk Management-vocabulary-Guidelines for use in standards.

### **RISK**

Definition: risk can be defined as the combination of the probability of an event and its consequences (ISO/IEC Guide 73)

In all types of undertakings, there is the potential for events and consequences that constitute opportunities for benefit (upside) or threats to success (downside).

Risk management is increasingly recognized as being concerned with both positive and negative aspects of risk. Therefore this standard considers risk from both perspectives.

In the safety field, it is generally recognized that consequences are only negative and therefore the management of safety risk is focused on prevention and mitigation of harm.

### **RISK MANAGEMENT:**

Risk management is a central part of any organization's strategic management. It is the process whereby organizations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.

The focus of good risk management is the identification and treatment of these risks. Its objective is to add maximum sustainable value to all the activities of the organization. It marshals the understandings of the potential upside and downside of all those factors which can affect the organization. It increases the probability of success, and reduces both the probability of failure and the uncertainty of achieving the organizations overall objectives.

Risk management should be a continuous and developing process which runs throughout the organizations strategy and the implementation of that strategy. It should address methodically all the risks surrounding the organization's activities past, present and in particular future. It must be integrated into the culture of the organization with an effective policy and a program led by the most senior management. It must translate the strategy into tactical and operational objectives, assigning responsibility throughout the organization with each manager and employee responsible for the management of risk as part of their job description. It supports accountability, performance management and reward, thus promoting operational efficiency at all levels.

### **Factors affecting Risk management:**

The risks facing an organization and its operations can result from factors both external and internal to the organization.

The diagram overleaf summarizes examples of key risks in these areas and shows that some specific risks can have both external and internal drivers and therefore overlap the two areas. They can be categorized further into different types of risks such as strategic, financial, operational, hazard etc...

### **EXTERNAL RISKS;**

#### **1. Financial Risks;**

Interest rates  
Foreign exchange  
Credit

#### **2. Strategic Risks;**

Competition  
Customer changes  
Industry changes  
Customer demand  
M & A integration

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### 3.Operational Risks;

Regulations  
Culture  
Board

### 4.Hazard risks;

Contracts  
Natural events  
Suppliers  
Environment

### INTERNAL RISKS;

Liquidity & cash flow  
Research & development  
Intellectual capital  
Accounting controls  
Recruitment  
Supply chain  
Public access  
Employees  
Properties

### The Risk Management Process;

Risk management protects and adds value to the organization and its stakeholders through supporting the organization's objectives by;

- I.Providing a framework for an organization that enables future activities to takes place in a consistent and controlled manner.
- II.Improving decision making, planning and prioritization by comprehensive and structured understanding of business activity, volatility & project opportunity/ threat.
- III.Contributing to more efficient use/ allocation of capital and resources within the organization.
- IV.Reducing volatility in non-essential areas of the business
- V.Protecting and enhancing assets and company image.
- VI.Developing and supporting people and the organization's knowledge base.
- VII.Optimizing operational efficiency.

### WHAT IS RISK ASSESSMENT?

A risk assessment is simply a careful examination of what, in your work, could cause harm to people, so that you can weigh up whether you have taken enough precautions or should do more to prevent harm. Workers and others have a right to be protected from harm caused by a failure to take reasonable control measures.

Accidents and ill health can ruin your lives and affect your business too if output is lost, machinery is damaged, insurance cost increase or you have to go to court. You are legally required to assess the risks in your workplace so that you put in place a plan to control this risk.

### HOW TO ASSESS THE RISKS IN YOUR PLACE:

To assess the risks in your workplace one has to follow the following five steps;

- Step-1:** Identify the hazards
- Step-2:** Decide who might be harmed and how
- Step-3:** Evaluate the risks and decide on precautions
- Step-4:** Record your findings and implement them
- Step-5:** Review your assessment and update if necessary.

**Step-1:** Identify the hazards:

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First you need to work out how people could be harmed. When you work in a place every day it is easy to overlook some hazards.

**Step-2:** Decide who might be harmed:

For each hazard you need to be clear about who might be harmed, it will help you identify the best way of managing the risk.

**Step-3:** Evaluate the risks and decide on precautions:

Having spotted the hazards, you then have to decide what to do about them. The law requires you to do everything 'reasonably practicable' to protect people from harm. You can work this out for yourself, but the easiest way is to compare what you are doing with good practice.

So first look at what you are already doing, think about what controls you have in place and how the work is organized. Then compare this with the good practice and see if there is more you should be doing to bring yourself up to standard.

**Step-4:** Record your findings and implement them:

Putting the results of your risk assessment into practice will make a difference when looking after people and your business.

Writing down the results of your risk assessment and sharing them with your staff, encourages you to do this. We do not expect a risk assessment to be perfect, but it must be suitable and sufficient.

**Step-5:** Review your assessment and update if necessary:

Look at your risk assessment again. Have there been any changes? Are there improvements you still need to make? Have your workers spotted a problem? Have you learnt anything from accidents or near misses? Make sure your risk assessment stays up to date.

During the year, if there is a significant change, don't wait. Check your risk assessment and, where necessary, amend it. If possible, it best to think about the risk assessment when you are planning your change- that way you leave yourself more flexibility.

### TYPES OF RISK:

There are climatic, biological, financial, political and other risks that must be managed. Some kinds of risk are always present in the organization and which may be more difficult to assess and plan for.

**RISK CATEGORY:**

**EXAMPLE:**

Climatic risk:

drought, severe winter, earthquake etc...

Biological risk:

livestock disease, predation, grasshopper infestation

Financial risk:

rising interest rates, rising production costs, falling land values

Political risk:

rising taxes, increased regulations, elimination of subsidies, land use restrictions.

Other:

fire, theft, vandalism

### REFERENCES:

- 1) UK- the Institute of risk management (IRM)
- 2) The Association of Insurance and Risk Managers (AIRMIC)
- 3) The National Forum for Risk Management (ALARM).
- 4) ISO/IEC Guide 73 Risk Management