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Managing Risks

Business Link

What is managing risks about and why is it important?

Managing risks is about foreseeing what might go wrong and having a plan B. It is also about using tools to identify, assess and prioritise risks so that you can manage them effectively. Risks are threats, events, issues or anything else that, if materialised, could affect your business negatively. Risks can cost you money or cause your objectives or projects to fail, to be less successful, delayed, or more difficult to achieve.

There are many sorts of risks, from financial or legal issues or accidents in the workplace to the loss of key staff members and environmental disasters. Different risks can affect your business in different ways. Risk management will help you to manage those risks by understanding which ones matter to you and finding ways to reduce, monitor or control their probability or their impact on your enterprise.

Managing risks is about identifying all the actions that your enterprise can carry out before anything happens to make sure things go as smoothly as possible. It is also about making sure your business can keep on operating even if a risk becomes a reality (a process called contingency planning). In addition, carrying out a risk management process may help you and your team to identify threats, as well as take advantage of opportunities that you hadn't considered before.

How can you manage risk?

Risk management can sometimes seem intimidating and difficult to understand and it can become quite complex for larger organisations. However, every enterprise, no matter how small, should understand the potential risks it faces and think about ways to manage them. The process is straightforward and normally includes six simple steps, which are explained below.

1) Identify possible risks.
2) Evaluate the risks – establish how real or large the risk may be to your organisation.
3) Plot each risk on a PI Grid – a simple visual aid to help you understand each risk.
4) Manage the risks – start taking action straight away to reduce the possible impact.
5) Record all the risks identified.
6) Review Risk and the Risk Register – this will help you take practical action to minimise the risk.

1) Identify possible risks. Try and get as many relevant stakeholders, especially your team members, partners, and suppliers, as possible to contribute. They will have lots of experience and ideas about what risks are involved in your business and may also have inside information that you haven't had access to. Try to use previous records if available. You can also conduct safety audits, review past accident and project reports and so on to guide you. You should list as many risks as you can and ensure that you look at your entire organisation and think about the bigger picture. If you have carried out a SWOT and PESTLE analysis (see our guide on SWOT and PEST strategic analysis tools for further information), you can include some of the threats or issues you have identified. There does not need to be discussion or criticism about the risks at this stage.

2) Evaluate the risks. Think about how likely an event is to happen (i.e. what the probability is), and the consequences of that event happening (i.e. its impact). There are many ways to measure these things such as numbering the probability of them happening and adding a consequence from 1 to 5 or allocating a rank from very low to very high. Some organisations use more detailed scales such as percentages and financial figures but this is not necessary.

Risks are inherently difficult to measure – that's why you need to manage them. Therefore, it may be in some cases quite difficult to assign an exact probability or impact to each risk – just make sure that you are making informed, realistic decisions and that you are consistent throughout the process.

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3) Plot each risk on a PI Grid (Probability Impact Grid). This is a visual tool that uses a traffic light system (Red = danger, Amber = warning and Green = nominal risk) to help you organise which risks you should be most concerned with. This enables an enterprise to prioritise resources and planning to the more likely/serious risks. This grid is presented as a decision table below:

Probability	**Impact**				
		Low	Medium	High	Severe
	High	3	4	5	5
	Medium	2	3	4	5
	Low	1	2	3	5

Risks that are low probability and low impact should not be of concern unless the rating increases the next time you review it. If you get a rating of 1 or 2, simply note the risk but do not take any action.

If you get a rating of 3, you should identify actions to reduce the probability and the impact of the risk affecting your business (if you can). It may be that you should start considering getting insured or considering what should be done if it happened. You should also think about how much it would cost your enterprise to continue operating if the risk materialises.

If you get a rating of 4 or 5, identify the actions your enterprise can take to reduce the probability of the risk happening and the impact of the risk affecting your business, (if you can) and implement those actions. The higher the risk rating, the sooner you should manage it. If you are working on a project with a high probability of risks that could have a high or severe impact you should plan for risks as you plan for the project if possible.

As an example, imagine that your social enterprise runs workshops on employability for young people and you have been contracted by a new client, a Local Authority, to manage a training programme for young offenders. You are planning the delivery of the programme and are now looking at the risks involved. Here are two of the risks you have identified, and how you can use the grid above:

- The probability that a young person misses a session is high but the impact (on your organisation) is low. The risk rating is 3 – so you should start thinking about ways to encourage the young people to attend workshops such as developing incentives for regular attendance.

- The probability of a fight breaking out between two young people during the workshop may be medium but the impact on the project would be severe. The risk rating is 5 – so you should put health and safety procedures in place and liaise with building management to know where to find security if needed. Perhaps you should also get your trainers to enrol on a course on how to manage difficult people and first aid.

4) Manage the risks – organisations traditionally use one of four basic risk management strategies to decrease the likelihood or impact of an occurrence of a risk. They are: avoidance, reduction/mitigation, retention/acceptance and transfer:

- **Avoidance**: this is about a complete lack of engagement in any activity that could carry the risk, such as not boarding a plane because there is a risk it might crash or not getting a loan because there is a risk your enterprise won't be able to pay it back. This would be for example that your enterprise chooses not to run the programme for the young offenders.

- **Reduction/mitigation:** this is about reducing the severity of the loss, such as providing First Aid kits in hazardous working environments or using updated anti-virus software on all your computers. The examples given for the training programme above are all to reduce and mitigate risks.

- **Retention/acceptance**: this is about accepting a potential impact when it occurs. This is a viable strategy when a risk is so small or so large that it is not worth or not possible to be insured against it (e.g. Acts of God). For example, if there was a risk of flooding in your city which would affect your ability to run your workshop, there would be little point in trying to manage this risk.

- **Transfer:** this is about persuading another party to assume part or all of the risk. For example, insurance policies are a way to transfer risk where your insurer offers compensation for the loss or damage for a fee. To use the example above again, your social enterprise could specify in its

contract for the training programme that it is the client's responsibility to ensure that the young people attend and that the client is liable for any damages if a fight occurs during the training.

5) Record all the risks identified in a risk register. These can be either about your specific project or team or about the whole organisation. A risk register is a tool to make sure your enterprise continues to operate when the worst happens. If you use your risk register and update it regularly, you have will have a contingency plan in place at all times.

6) Review Risk and the Risk Register. Risk and risk registers should be periodically re-assessed for changes in the scenario. Your assessment will never be perfect, but at least you can review and evaluate how your enterprise dealt with risk and alter your management strategy accordingly.

Here is an example of a generic Risk Register. It is sufficiently flexible to be tailored to the needs of most organisations:

Description of Risk	Probability	Impact	Decision Rating	Owner of Risk	Management Options	Cost £	Cost Time	Review Frequency	Re-assessor
Non attendance to training	High	Low	3 (Amber)	Project manager	Create incentives to attend (e.g. prices, praise)	£<20.00	2 hours	Bi-annually	Project manager
Fight	Medium	Severe	5 (Red)	Project manager	Health and Safety procedures, security checks and training	£>10,000	2 weeks	Monthly	Director

Further information

Visit the Association for Project Management, APM, website:
www.apm.org.uk

Visit the Prince I / II website:
www.prince2.com

View the Project Management Institute website:
www.pmi.org and www.pmi.org.uk

Read our guide on Ensuring your business complies with legal requirements:
www.bllondon.com/SocialEnterprise/Operations/Compliance/Complyingwithlegalrequirements.aspx

Use our SWOT and PEST strategic analysis tools:
www.bllondon.com/SocialEnterprise/Strategy/Strategictools/SWOTandPESTstrategicanalysistools.aspx

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