CHAPTER 6: CONTROLLING BUSINESS RISKS

Unit of learning code: BUS/BM/CR/05/5

Related Unit of Competency in Occupational Standard: Control Business Risk

6.1 Introduction to the unit of learning

This unit specifies the competencies required to control business risks. It involves assessing business risks, establishing risk management team, developing risk mitigation plan, monitoring risk management process and preparing business risk management report.

6.2 Summary of Learning Outcomes

1. Assess business risks
2. Establish risk management team
3. Implement risk mitigation plan
4. Monitor and evaluate risk management process
5. Prepare business risk management report

6.2.1 LEARNING OUTCOME 1: ASSESS BUSINESS RISKS

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Introduction

Small to medium businesses are exposed to risks all the time. Such risks can directly affect day-to-day operations, decrease revenue or increase expenses. Their impact may be serious enough for the business to fail. Most business managers know instinctively that they should have insurance policies to cover risks to life and property. However, there are many other risks that all businesses face, some of which are overlooked or ignored. Every business is subject to possible losses from unmanaged risks. Sound risk management should reduce the chance that a particular event will take place and, if it does take place, sound risk management should reduce its impact. Sound risk management also protects business wealth. Risk management starts by identifying possible threats and then implementing processes to minimize or negate them.

Risk management is a process in which businesses identify, assess and treat risks that could potentially affect their business operations.

Performance standards

1. Business risks are identified according to the strategic plan, SWOT analysis and PESTEL analysis
2. Risk scenarios are analyzed from crisis reports and publications
3. Risk assessment matrix is prepares according to risk scenarios and organizational procedures
4. Risk perspectives are classified according to type of organization and nature of business

Information Sheet

Definition of terms

Business risks

The term refers to the possibility of a commercial business making inadequate profits (or even losses) due to uncertainties - for example: changes in tastes, changing preferences of consumers, strikes, increased competition, changes in government policy, obsolescence etc.

Risk control

Risk control is the set of methods by which firms evaluate potential losses and take action to reduce or eliminate such threats.

A risk matrix

This is also called a business risk assessment matrix. It is a graph that one would use to plot the probability of certain risks occurring against the impact this would have on a business.

Business risks are identified according to the strategic plan, SWOT analysis and PESTEL analysis

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Every business organization faces various risk elements while doing business. Business risk implies uncertainty in profits or danger of loss and the events that could pose a risk due to some unforeseen events in future, which causes business to fail.

For example, a company may face different risks in production, risks due to irregular supply of raw materials, machinery breakdown, labour unrest, etc. In marketing, risks may arise due to fluctuations in market prices, changing trends and fashions, errors in sales forecasting, etc. In addition, there may be loss of assets of the firm due to fire, flood, earthquakes, riots or war and political unrest which may cause unwanted interruptions in the business operations. Thus business risks may take place in different forms depending upon the nature of a company and its production.

SWOT analysis (or **SWOT** matrix) is a strategic planning technique used to help a person or organization identify strengths, weaknesses, opportunities, and threats related to business competition or project planning.

Scenarios in which his organization uses SWOT analysis for risk identification and management.

These include the evaluation of business processes, technology interfaces, existing software, proposed solutions, and customer service centers.

The following procedure may be used efficiently in carrying out SWOT analysis for risk identification and management.

1. For the strengths, brainstorm corresponding strength and record them.

2. Analyze and collect suitable strengths.
3. Prioritize strengths in forced rank order or the nominal group method.
4. Follow the same steps (i.e. 1-3) for weaknesses, opportunities, and threats.
5. Define the strategies.

PESTLE Analysis in the Risk Management Framework

PESTLE analysis is a popular business analysis tool that involves identifying and evaluating Political, Economic, Sociocultural, Technological, Legal, and Environmental factors that affect a business. It can be a particularly useful tool in the context of risk management, where it provides a straightforward framework that business analysts can use to identify potential risks.

PESTLE analysis forces a business to consider a wide variety of variables in the greater business environment. By doing so, it allows the business to uncover potential risks in areas that may have otherwise be ignored. To understand this, it's helpful to look at how risks can be found in each of the six PESTLE categories:

- **Political.** Changes in the greater Political environment affect some businesses more so than others. For example, software houses will rarely have to worry about changing Politics; however, if a business is largely dependent on trade or travel (especially where there are unstable connections with other countries), looking at the Political outlook may help to identify new risks.
- **Economic.** Especially on longer time frames, the Economic factors affecting a business may have a lot to say about potential risks. For example, a rising minimum wage or growing competition might both impact a business in a negative way if no protective measures are employed.
- **Sociocultural.** People are the lifeblood of any business, in that they always play the role of the customer in one way or another. As a result, changes in the Socio cultural environment can have a massive impact on businesses. Examples include changes in consumer eating habits, clothing preferences, or hobbies.
- **Technological**. As new technologies are developed, it may make some businesses redundant. Once again, Technological changes tend to happen over a longer timeframe, but they can have huge impacts on a business' bottom line.
- **Legal**. The threat of Legal action is one of the biggest risks any business faces. Whether that refers to Legal proceedings initiated by a customer or fellow competitor, it can still be a serious risk. What adds more risks is the lack of knowledge of the confusing financial terms and legal lingo.
- **Environmental**. With the growing relevance of Environmental issues, businesses also need to look at these factors to identify potential risks. These risks may result from Environmental changes themselves, such as rising sea levels or less predictable weather cycles, or from regulation surrounding these changes.

It's important to note that PESTLE analysis usually takes into account both positive and negative factors affecting a business. However, in the case of risk management, it's the negative factors which are most interesting. As a result, an analyst using PESTLE analysis for risk management purposes should focus only on negative factors.

Risk scenarios are analyzed from crisis reports and publications

Analyzing Risk Scenario

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Business risks can arise due to the influence by two major risks: **internal risks** (risks arising from the events taking place within the organization) and **external risks** (risks arising from the events taking place outside the organization):

- Internal risks arise from factors (endogenous variables, which can be influenced) such as:
  - human factors (talent management, strikes)
  - technological factors (emerging technologies)
  - physical factors (failure of machines, fire or theft)
  - operational factors (access to credit, cost cutting, advertisement)
- External risks arise from factors (exogenous variables, which cannot be controlled) such as:
  - economic factors (market risks, pricing pressure)
  - natural factors (floods, earthquakes)
  - political factors (compliance demands and regulations imposed by governments)

The following graphic is a good frame of reference when it comes to the risk analysis cycle:

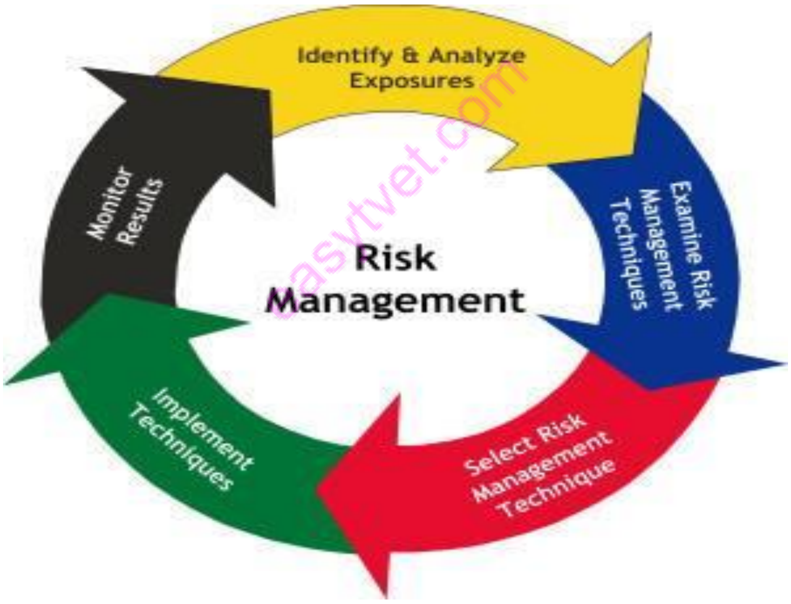
Identify & Analyze Exposures
Examine Risk Management Techniques
Select Risk Management Technique
Implement Techniques
Monitor Results
Risk Management
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Figure 57 risk analaysis cycle

Classifications of Business Risks

Business risk is classified into five different types:

1. **Strategic Risk:** They are the risks associated with the operations of that particular industry. These kind of risks arise from:
   (a) Business Environment: Buyers and sellers interacting to buy and sell goods and services, changes in supply and demand, competitive structures and introduction of new technologies.
   (b) Transaction: Assets relocation of mergers and acquisitions, spin-offs, alliances and joint ventures.

    (c) Investor Relations: Strategy for communicating with individuals who have invested in the business.

2. **Financial Risk:** These are the risks associated with the financial structure and transactions of the particular industry.
3. **Operational Risk:** These are the risks associated with the operational and administrative procedures of the particular industry.
4. **Compliance Risk (Legal Risk):** These are risks associated with the need to comply with the rules and regulations of the government.
5. **Other risks:** There would be different risks like natural disaster (floods) and others depend upon the nature and scale of the industry.

Risk control

It is a technique that utilizes findings from risk assessments, which involve identifying potential risk factors in a company's operations, such as technical and non-technical aspects of the business, financial policies and other issues that may affect the well-being of the firm. It can also be defined as uncertain future events which could influence the achievement of the organization’s strategic, operational and financial objectives. Two aspects of risk to note are uncertainty and exposure.

Theories of Risk Management

The normal hypothesis

The transactions which incur higher risk will yield higher returns. Under the normal hypothesis of risk, firms are assumed to take a view that the more risk they take, the more the return. This approach attaches a positive correlation between risk and return such that the profitability of an organization is intricately linked to the risk appetite of the organization. Profit seeking organizations are therefore assumed to be risk takers given the relationship between risk and profit.

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Hypothesis of increasing marginal disutility of risk

The relationship between risk and return is not always linear as suggested under the normal hypothesis of risk. Although not necessarily contradictory to the normal hypothesis of risk theory, the marginal disutility of risk approach postulates that a firm can increase its risk taking activities only up to a certain point after which the return will start to decline regardless of how much more risk is assumed. Therefore, the firm will have to take a decision on whether it is necessary to continue assuming more risk when the returns are diminishing. This approach is generally consistent with economic theory on utility. Risk is therefore primarily concerned with evaluating potential losses. The two concepts used in this regard are Loss frequency and Loss severity. These concepts are particularly useful in helping a firm to rank loss exposures according to their relative importance. In addition, the relative frequency and severity of each loss exposure needs to be estimated so that an appropriate technique or a combination of techniques can be selected to treat the loss exposure. Regardless of the approach used for measuring severity; it must seek to determine the maximum possible loss and the maximum probable loss. The maximum possible loss is the worst loss that could possibly occur to the firm during its lifetime. On the other hand, the maximum probable loss is the worst loss that is likely to happen to a firm.

Risk assessment

A firm should make every attempt to assess its risks within the context of both the external and internal operating environment. This is a useful process as it assists in understanding the key drivers of the risks the firm may face in its every day operations.

Steps in Risk Management Process

Step 1: Identification of organizational risks Frequency and severity
The objective of risk identification is to determine the risks that may affect the firm and document their characteristics. Risk identification may be done through various stakeholders to the firm as well as external experts

Tools & Techniques for Risk Identification:

1. *Documentation reviews***:** This can be done by conducting a structured review of previous documentation and reports of the firm. This is in order to ascertain whether there are any historical issues likely to influence the nature and direction of risks faced by the firm.

2. *Information gathering techniques***:** Several methods of information gathering can be used in risk identification. These include;

(a) Brainstorming: probably the most used risk identification technique. The goal is to compile a comprehensive list of risks that can be addressed later in the risk analysis processes. It usually consists of a multidisciplinary set of experts. Under the leadership of a facilitator, they generate ideas about a firm's risks. The process proceeds without interruption and without any expression of judgment or criticism of ideas and without regard to one's position in the organization. Sources of risk are identified in broad scope and discussed by the whole team. Risks are then categorized by type and their definitions sharpened. Brainstorming can be more effective where participants prepare in advance and the facilitator develops some risks in advance and the meeting is structured by operational activity and risk category.

(b) Delphi Technique: This is a method by which consensus of experts can be reached on risk. Experts are identified but participate anonymously. Delphi technique helps reduce bias and minimizes the influence of any one person on the outcome. A facilitator uses a questionnaire to solicit ideas about the important risks facing the firm and responses are submitted and put into risk categories. The risks are then circulated for expert review. Consensus on major risks is reached after a few rounds of this process.

3. Information Gathering

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i. Interviews: Risks can be identified by interviews with experienced and skilled experts within the firm. The appropriate individuals are selected and briefed. The interviewees identify risks based on their experience in their respective operational areas and any other sources they find useful.

ii. SWOT Analysis**:** ensures examination of risks from each of the SWOT perspectives to increase the scope of risks considered. A scan of the internal and external environments is an important strategic analysis of business risks. Environmental factors that are internal to the firm can be classified as strengths (S), weaknesses (W) and those external to firm are classified as opportunities (O), and Threats (T).Such analysis of the strategic environment is referred to as SWOT analysis. This analysis enables a firm to take a strategic position so as to turn weaknesses into strengths and try to direct threats into opportunities.

iii. Checklist: It is useful for organizations to develop checklists of risks based on information collected from past activities. This could include loss event data etc. The checklist is a quick way of identifying potential risks and should not be considered as complete. It should factor the possibility of other risks emerging and being addressed.

iv. Assumptions Analysis: There is a need to consider the underlying assumptions and scenarios used in the various operational activities of the firm. Assumptions analysis is a technique that explores the accuracy of the assumptions. It identifies risks relating to the firm arising from inaccurate, inconsistent and incomplete assumptions. This is a useful technique given the role of that assumptions play in the planning process of any firm.

v. Diagramming technique Cause and effect diagrams useful for identifying causes of risk: System or process flowcharts show how various elements of a system interrelate and the mechanism of causation. Similarly, influence diagrams provide a graphical representation of a problem showing causal influences, time ordering of events and other relationships among variables and outcomes

vi. PESTEL Analysis: This analysis answers six key questions relating to Political, Economic, Social, Technological, Environmental and Legal aspects that pose as risk to businesses.

- Political: what are the political factors that are likely to affect the business?
- Economical: What are the economic factors that will affect the business?
- Sociological: what are the cultural aspects likely to affect the business?
- Technology: what technological changes may affect the business?
- Environmental: What are the surrounding considerations that affect the business?
- Legal: What current and impending legislation that will affect the business?

Step 2: Analyze the Risk

Once a risk has been identified it needs to be analyzed. The scope of the risk must be determined. It is also important to understand the link between the risk and different factors within the organization. To determine the severity and seriousness of the risk it is necessary to see how many business functions the risk affects. There are risks that can bring the whole business to a standstill if actualized, while there are risks that will

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only be minor inconveniences in analyzed. In a manual risk management environment, this analysis must be done manually. When a risk management solution is implemented one of the most important basic steps is to map risks to different documents, policies, procedures, and business processes. This means that the system will already have a mapped risk framework that will evaluate risks and let you know the far-reaching effects of each risk.

Step 3: Evaluate or Rank the Risk

Risks need to be ranked and prioritized. Most risk management solutions have different categories of risks, depending on the severity of the risk. A risk that may cause some inconvenience is rated lowly, risks that can result in catastrophic loss are rated the highest. It is important to rank risks because it allows the organization to gain a holistic view of the risk exposure of the whole organization. The business may be vulnerable to several low-level risks, but it may not require upper management intervention. On the other hand, just one of the highest-rated risks is enough to require immediate intervention.

Step 4: Treat the Risk

Every risk needs to be eliminated or contained as much as possible. This is done by connecting with the experts of the field to which the risk belongs to. In a manual environment, this entails contacting each and every stakeholder and then setting up meetings so everyone can talk and discuss the issues. The problem is that the discussion is broken into many different email threads, across different documents and spreadsheets, and many different phone calls. In a risk management solution, all the relevant stakeholders can be sent notifications from within the system. The discussion regarding the risk and its possible solution can take place from within the system. Upper management can also keep a close eye on the solutions being suggested and the progress being made from within the system. Instead of everyone contacting each other to get updates, everyone can get updates directly from within the risk management solution.

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Step 5: Monitor and Review the Risk

Not all risks can be eliminated – some risks are always present. Market risks and environmental risks are just two examples of risks that always need to be monitored. Under manual systems monitoring happens through diligent employees. These professionals must make sure that they keep a close watch on all risk factors. Under a digital environment, the risk management system monitors the entire risk framework of the organization. If any factor or risk changes, it is immediately visible to everyone. Computers are also much better at continuously monitoring risks than people. Monitoring risks also allows your business to ensure continuity.

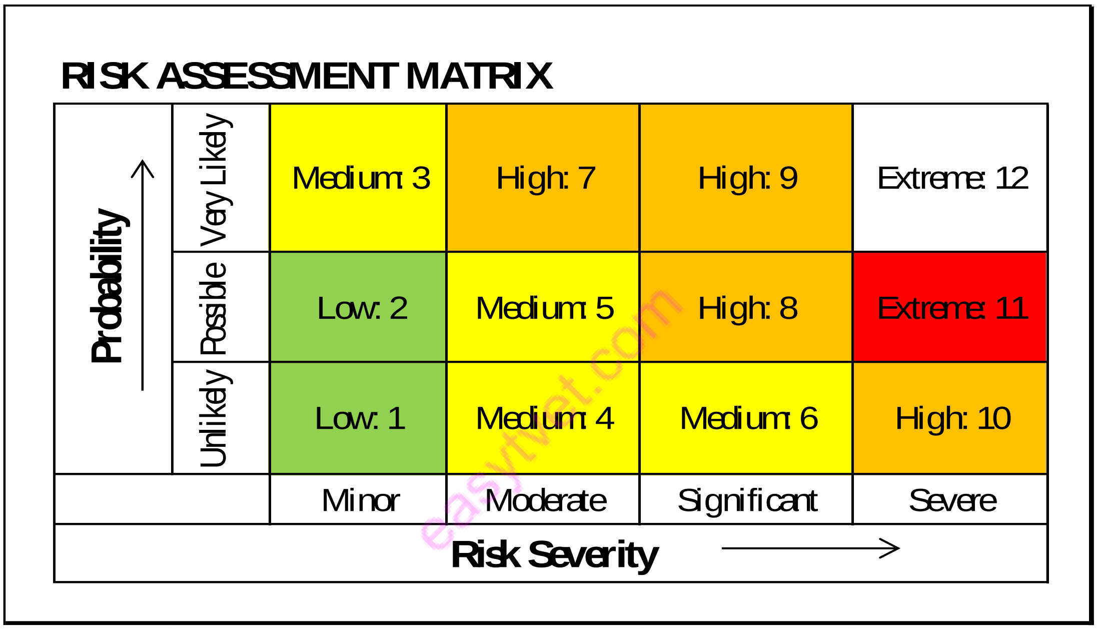
Risk assessment matrix is prepared according to risk scenarios and organizational procedures

Risk Assessment Matrix

Risk matrix is the explanation of how likely is it that an identified risk will actually happen, and how severely it will affect a business if it does.
The Risk Matrix tool works especially well because of its clear visual nature. By providing a simple visualization of potential risks, one can easily see which ones are high priorities and which ones can be ignored – for now.

Preparing risk assessment matrix

A risk matrix template focuses on two key aspects:
Severity: The impact of a risk and the negative consequences that would result.
Probability: The probability of the risk occurring.



RISK ASSESSMENT MATRIX

Probability

Very Likely	Medium: 3	High: 7	High: 9	Extreme: 12
Possible	Low: 2	Medium: 5	High: 8	Extreme: 11
Unlikely	Low: 1	Medium: 4	Medium: 6	High: 10
	Minor	Moderate	Significant	Severe

Risk Severity

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Figure 58: Risk assessment matrix

Firstly you need to decide on the severity rating for each identified risk. On the matrix, move along the x axis until you've reached the appropriate rating: Minor, Moderate, Significant or Severe.

Then, by moving along the y axis, assess at the probability of it happening. Starting from Unlikely: almost no possibility of this happening; then Possible: this has the potential to happen; lastly, highly likely: risks that are bound to happen. Continue in this manner for each risk you've identified.

After you've placed each risk in the template matrix according to their severity and likelihood, you will be able to clearly see which risks require the most attention, based on their color-coded rating of the box they appear in.

- Green = Low: The consequences of the risk are minor, and it is unlikely to occur. These types of risks are generally ignored.

- Yellow = Medium: Somewhat likely to occur, these risks come with slightly more serious consequences. If possible, take steps to prevent medium risks from occurring, but remember that they are not high-priority and should not significantly affect organization or project success.
- Orange = High: These are serious risks that both have significant consequences, and are likely to occur. Prioritize and respond to these risks in the near term.
- Red = Extreme: If any risks appear in the final two red squares labelled 11 or 12, these are catastrophic risks that have severe consequences and are highly likely to occur. Extreme risks are the highest priority and need to be mitigated immediately to ensure survival of the organization or project.

It's important to address those deemed extreme and high risk by making a response plan. Meanwhile, those risks that fall into the medium and low categories can often be monitored, but depending on your teams time and resource limits, these probably don't need to be addressed. However, it is important to keep monitoring your risks until the project is complete.

Reasons/Importance of Risk Management to an organization

Everyone has to manage risk

Every organization faces risks. As most business people know well, sometimes risk is inevitable in order to achieve success.

Risk management makes jobs safer

Health and safety are critical parts of a risk manager's role. They actively seek out problem areas in the organization and look to address them. They use data analysis to identify loss and injury trends and implement strategies to prevent them from reoccurring. This clearly benefits employees in physical work environments, such as construction, but can also help office employees and those in similar positions through methods such as ergonomics. A safer workplace is better for everyone and is dramatically impacted by risk management.

Risk management enables project success

No matter the department, risk managers can help employees succeed with their projects. Just as they assess risks and develop strategies to maximize organizational success, they can do the same for individual projects. Employees can reduce the likelihood and severity of potential project risks by identifying them early. If something does go wrong, there will already be an action plan in place to handle it. This helps employees prepare for the unexpected and maximize project outcomes.

Risk management reduces unexpected events

Most people don't like surprises, especially when it has an organizational impact. A risk manager's goal is to map out all potential risks and then work to prevent them or best manage them.

Risk management creates financial benefits

The risk department should not be viewed as a cost centre for the organization. In fact, it directly creates value. With trend analysis, risk managers can spot high-frequency events and work to minimize repetitive losses. Incidents will be less likely to occur and

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have less of an impact when they do, potentially saving the organization thousands if not millions of dollars. Risk managers are also the experts who procure the appropriate levels of insurance to maximize the financial impact of the risk management program.

Risk management saves time and effort

Employees at all levels spend time submitting data into the risk management department when incidents occur. These tasks are often completed in disjointed and inefficient ways. By streamlining these tasks, the risk department is able to alleviate the burden of tedious data submission from employees, allowing them to direct time and energy towards their true roles.

Risk management improves communication

Horizontal and vertical communication are essential for organizational and employee well-being. They promote understanding of internal and external issues and help everyone work together effectively. While many employees know this, it can be difficult to put into practice if some parties don't understand the impact it can have. Risk managers can help. They aid horizontal communication by providing a centralized touch point for all risk data and providing reports and analysis. Risk managers promote vertical communication by setting expectations and relating data to organizational goals. Each additional method of communication benefits employees.

Risk management prevents reputational issues

Many risks involve a reputation factor: something happens that causes the public to negatively view the organization. Reputational issues could impact individual employees as well, even if they weren't actually involved. A formal risk department greatly decreases the likelihood of this fallout. When an incident inevitably occurs, a formal risk management program and processes will quickly contain the event and lower the chance of escalation and widespread negative consequences.

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Risk management benefits culture

A strong risk management culture is better for all parties: frontline employees, risk managers, executives, and decision-makers. It creates a mind-set of prevention and safety that permeates the organization and influences the actions of employees. It sets expectations of performance and sends a positive image to the public.

Risk management guides decision-making

Decision-making is a challenging process, especially when making significant choices that will have a large impact on future success. Risk management data and analytics can guide employees in making wise strategic decisions that will help meet and exceed company objectives. They can also advise on the strengths and weaknesses of a decision alternative and provide recommendations on what risks to pursue and which to avoid. The risk department is an excellent source of guidance for employees in all areas.

Principles of Risk Management

There are specific core principles in regards to risk management. When looking to perform an actual risk assessment, the following target areas should be part of the overall risk management procedure (as defined by the International Standards Organization; ISO):

- The process should create value

- It should be an integral part of the organizational process
- It should factor into the overall decision making process
- It must explicitly address uncertainty
- It should be systematic and structured
- It should be based on the best available information
- It should be tailored to the project
- It must take into account human factors
- It should be transparent and all-inclusive
- It should be dynamic and adaptable to change
- It should be continuously monitored and improved upon as the project moves forward

Techniques of Managing Risks

Once risks have been identified and assessed, all techniques to manage the risk fall into one or more of these four major categories:

- Avoidance (eliminate, withdraw from or not become involved)
- Reduction (optimize – mitigate)
- Sharing (transfer – outsource or insure)
- Retention (accept and budget)

Risk avoidance

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This includes not performing an activity that could present risk. Refusing to purchase a property or business to avoid legal liability is one such example; avoiding airplane flights for fear of hijacking. Avoidance may seem like the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed. Not entering a business to avoid the risk of loss also avoids the possibility of earning profits. Increasing risk regulation in hospitals has led to avoidance of treating higher risk conditions, in favor of patients presenting with lower risk.

Risk reduction

Risk reduction or "optimization" involves reducing the severity of the loss or the likelihood of the loss from occurring. For example, sprinklers are designed to put out a fire to reduce the risk of loss by fire. This method may cause a greater loss by water damage and therefore may not be suitable. Acknowledging that risks can be positive or negative, optimizing risks means finding a balance between negative risk and the benefit of the operation or activity; and between risk reduction and effort applied. By effectively applying Health, Safety and Environment (HSE) management standards, organizations can achieve tolerable levels of residual risk

Risk Transfer

This may simply mean sharing with another party the burden of loss or the benefit of gain, from a risk, and the measures to reduce a risk. For example, a personal injuries insurance policy does not transfer the risk of a car accident to the insurance company. The risk still lies with the policy holder namely the person who has been in the accident.

The insurance policy simply provides that if an accident (the event) occurs involving the policy holder then some compensation may be payable to the policy holder that is commensurate with the suffering/damage.

Risk retention

Risk retention involves accepting the loss, or benefit of gain, from a risk when the incident occurs. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater over time than the total losses sustained. All risks that are not avoided or transferred are retained by default. This includes risks that are so large or catastrophic that either they cannot be insured against or the premiums would be infeasible. War is an example since most property and risks are not insured against war, so the loss attributed to war is retained by the insured. Also any amounts of potential loss (risk) over the amount insured are retained risk. This may also be acceptable if the chance of a very large loss is small or if the cost to insure for greater coverage amounts is so great that it would hinder the goals of the organization too much.

Risk mitigation involves development of mitigation plans designed to manage, eliminate, or reduce risk to an acceptable level. Once a plan is implemented, it is continually monitored to assess its efficacy with the intent of revising the course-of-action if needed.

The most appropriate strategy is selected from these mitigation options:

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- Risk Avoidance
- Rick Controlling
- Risk Transfer/Sharing
- Risk Assumption

Learning Activities

1. **Knowledge**	**Learning activity**	**Special instructions**
• Identifying business risks • Analyzing risk scenarios • Preparing risk assessment matrix • Classifying risk perspectives	**The trainee to visit a nearby supermarket and identify the business risks there, analyse the risk scenarios and prepare a risk**	○ **Prepare assessment tools** ○ **Seek proper authorization** 1. **Present the information in power point identifying all the**

	assessment matrix, classifying the risk perspectives	**areas of** Assessing Business Risks

Self-Assessment

In this instance you are provided with a case study for your use. Study the case and answer the questions below.

Lians Complex Ltd runs a supermarket at Marsabit town. The business sells household goods, clothing and motor bike spares. However, the business has been recording marginal profits for the last 3 months. As the business manager you are required to advice the management on the methods to use to gather information during risk assessment for the business.

1) Define Business Risk.
2) What are the five classifications of business risk?
3) What are the two major risks scenarios?
4) Name two theories of risk management?
5) What is a risk assessment matrix?
6) Outline five steps in risk management process?
7) Explain four techniques of managing risk?
8) List any five importance of risk management to an organization.

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Tools, Equipment, Supplies and Materials

- Computer
- Tablet
- Internet connectivity
- Stationery
- Format templates
- Case studies

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Proposed Answers for Self-Assessment Questions

Proposed Answers for Case Study Questions

Interviews, SWOT analysis, Checklist, Assumptions Analysis, Diagrammatic review and PESTEL analysis

1. The term business risks refers to the possibility of a commercial business making inadequate profits (or even losses) due to uncertainties - for example: changes in tastes, changing preferences of consumers, strikes, increased competition, changes in government policy, obsolescence etc.
2. Strategic, Financial, Operational, Compliance, others (natural).
3. Internal and External
4. The normal hypothesis, Hypothesis of increasing marginal disutility of risks.
5. A risk matrix or business risk assessment matrix is a graph that you use to plot the probability of certain risks occurring against the impact this would have on your business.
6. Identification of organizational risks Frequency and severity, Analyze the Risk, Evaluate or Rank the Risk, Treat the risk, Monitor and Review the Risk
7. Avoidance (eliminate, withdraw from or not become involved), Reduction (optimize – mitigate), Sharing (transfer – outsource or insure), Retention (accept and budget)
8. Everyone has to manage risk, Risk management makes jobs safer, Risk management enables project success, Risk management reduces unexpected events, Risk management creates financial benefits, Risk management saves time and effort, Risk management improves communication, Risk management prevents reputational issues, Risk management benefits culture, Risk management guides decision-making

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6.2.2 LEARNING OUTCOME 2: ESTABLISH RISK MANAGEMENT TEAM

Performance standard

1.1 Risk management team job analysis is carried out based on identified risks and HR policy

1.2 Existing Human Resource is assessed against the job analysis

1.3 Existing Human Resources is deployed as per job specification

1.4 recruitment process for risk management team is conducted in accordance with HR policy and requirements

1.5 Job specification is developed as per job requirements and HR policy

1.6 risk management organization structure is established as per HR regulations and specialization

1.7 Review meetings to report risk control and analyze risk data are conducted

Information sheet

Definition of terms

Risk manager

Risk Manager is an individual responsible for managing an organization's risks and minimizing the adverse impact of losses on the achievement of the organization's objectives.

Job analysis

It is a family of procedures to identify the content of a job in terms of the activities it involves in addition to the attributes or requirements necessary to perform those activities.

Job specification

It is a written statement of educational qualifications, specific qualities, level of experience,, physical, emotional, technical and communication skills required to perform a job.

Introduction

Traditionally, risk managers have focused on event risks, but some organizations have broadened the role to include other types of risk (e.g., operational risks). The risk manager is charged with identifying risks, evaluating risks, selecting the best techniques for treating identified risks, implementing the chosen risk management techniques, and regularly evaluating and monitoring the program. This person is also involved in the managerial processes of planning, organizing, leading, and controlling those activities in a business that deals with various types of risk.

A Risk Manager is held accountable for analyzing, assessing, and handling the risks faced by the organization. They assist the organizations regarding any sort of risks that might affect the profitability of the organization and develop strategies and processes for managing those business risks and ensure successful business continuity. The job role of Risk Manager is quite essential for successful running of a business.

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<u>Establish risk management team</u>

Risk management team (workgroup**)** is a separate and often independent unit within the project management team headed by the risk manager or the chief risk officer. It helps place a value on the project’s activities (such as procuring, communicating, controlling quality, staffing etc.).

The team also develops strategies to mitigate identified risks, applies risk management methodologies and risk analysis tools, and integrates insurance policies of treating prioritized threats with the project management team.

The primary responsibility is to ensure that the project is provided with a complete risk management information system that ultimately determines how to control and oversee the project’s effectiveness and fulfilment. The team also approves risk management policies and defines their framework.

The workgroup oversees and treats for the execution of the five-step process:

1. Admit and identify
2. Measure and prioritize
3. Implement a strategy

4. Implement risk management plan
5. Review and revise risk management plan

The risk management team's responsibilities include among others reviewing and ensuring adequacy of risk management policies and procedures, reviewing risk exposures, and ensuring that infrastructure, resources and systems are put in place for risk management activities.

When compiling a Risk Management job description, it's important to also display the following skills:

- Analytical skills and an eye for detail
- Commercial awareness
- Numerical skills
- Planning and organizational skills
- Ability to understand broader business issues
- Communication and presentation skills

Carrying out risk management team job analysis

Skills required of a Risk Manager

Being a risk manager, you need to thoroughly understand and work with various departments within the company and develop a good rapport with them.

Skills need to become a risk manager include:

- Should possess ample knowledge of risk assessment models.
- Should possess awareness of statistical tools and auditing and reporting procedures.
- Should possess the ability to execute office automation tools and risk monitoring and testing procedures.
- Should possess attention to minute details.
- Should possess exceptional verbal and communication skills.
- Should possess time management and organizational skills.
- Should possess negotiation and diplomacy skills.

Apart from having these key skills to become a Risk Manager, professionals need to reskill and up skill by taking part in widely-recognized IT Security and Governance courses to gain a competitive edge in the job market and also to have a holistic understanding of enterprise risk management.

Job description of a risk management officer

1. To communicate risk policies and processes for an Organization.
2. They provide hands-on development of risk models involving market
3. Credit and operational risk
4. Assure controls are operating effectively
5. Provide research and analytical support.

Risk management team job analysis

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A risk management team

A risk management team (workgroup) is a separate and often independent unit within the project management team headed by the risk manager or the chief risk officer. It helps place a value on the project's activities (such as procuring, communicating, controlling quality, and staffing

Roles of Risk management team

They are responsible for:

1. Identifying project-related risks.
2. Assessing those risks.
3. Preparing strategies to address the risk and getting buy-in for risk management activities as required.
4. Carrying out the risk management activities within the project.
5. Reporting on risk management.
6. Closing down risks that have passed.

Job description of a risk management team

1. Designing and implementing an overall risk management process for the organization, which includes an analysis of the financial impact on the company when risks occur
2. Performing a risk assessment: Analyzing current risks and identifying potential risks that are affecting the company
3. Performing a risk evaluation: Evaluating the company's previous handling of risks, and comparing potential risks with criteria set out by the company such as costs and legal requirements
4. Establishing the level of risk the company are willing to take
5. Preparing risk management and insurance budgets
6. Risk reporting tailored to the relevant audience. (Educating the board of directors about the most significant risks to the business; ensuring business heads understand the risks that might affect their departments; ensuring individuals understand their own accountability for individual risks)

i) Explaining the external risk posed by corporate governance to stakeholders

ii) Creating business continuity plans to limit risks

iii) Implementing health and safety measures, and purchasing insurance

iv) Conducting policy and compliance audits, which will include liaising with internal and external auditors

v) Maintaining records of insurance policies and claims

vi) Reviewing any new major contracts or internal business proposals

vii) Building risk awareness amongst staff by providing support and training within the company

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Assessing existing Human Resource

Human resource departments typically conduct assessments to evaluate an employee's skills and knowledge, identify an employee's competency, determine employee satisfaction or discover training needs. Managers use the results of assessments to ensure they get the right personnel with the right skills and knowledge to help the company achieve its strategic goals. These tests include:

Personality tests

Competency

Satisfaction

Organizational

Deploying existing Human Resources

Deployment is defined as the movement of staff from ones' current assignment to another to meet operational needs.

Staff deployment is a personnel activity to ensure that the labor of the organization would be continuously in an optimal relation to the jobs and organizational structure. It has both qualitative and quantitative side - i.e. the aim is to match both, the number, qualification and personality structure of human resources to current organizational structure and current needs of the organization. In contrast, that the current operations of the organization and its structure optimally reflect the state of its human resources.

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Conducting recruitment process for risk management team and developing job specification

A recruitment process basically consists of three distinct phases. They include the activities before posting an advertisement for the vacant position, the selection process and finally choosing the right candidate.

Recruitment Planning

Recruitment planning is the first step of the recruitment process, where the vacant positions are analysed and described. It includes job specifications and its nature, experience, qualifications and skills required for the job, etc.

A structured recruitment plan is mandatory to attract potential candidates from a pool of candidates. The potential candidates should be qualified, experienced with a capability to take the responsibilities required to achieve the objectives of the organization.

Figure 59: planning

Identifying Vacancy

The first and foremost process of recruitment plan is identifying the vacancy. This process begins with receiving the requisition for recruitments from different department of the organization to the HR Department, which contains −

- Number of posts to be filled
- Number of positions
- Duties and responsibilities to be performed
- Qualification and experience required

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When a vacancy is identified, it is the responsibility of the sourcing manager to ascertain whether the position is required or not, permanent or temporary, full-time or part-time, etc. These parameters should be evaluated before commencing recruitment. Proper identifying, planning and evaluating leads to hiring of the right human resource for the team and the organization.

Job Analysis

Job analysis is a process of identifying, analyzing, and determining the duties, responsibilities, skills, abilities, and work environment of a specific job. These factors help in identifying what a job demands and what an employee must possess in performing a job productively.

Job analysis helps in understanding what tasks are important and how to perform them. Its purpose is to establish and document the job relatedness of employment procedures such as selection, training, compensation, and performance appraisal.

The following steps are important in analyzing a job −

- Recording and collecting job information
- Accuracy in checking the job information
- Generating job description based on the information
- Determining the skills, knowledge and skills, which are required for the job

The immediate products of job analysis are **job descriptions** and **job specifications**.

Job Description

Job description is an important document, which is descriptive in nature and contains the final statement of the job analysis. This description is very important for a successful recruitment process.

Job description provides information about the scope of job roles, responsibilities and the positioning of the job in the organization. And this data gives the employer and the organization a clear idea of what an employee must do to meet the requirement of his job responsibilities.

Job description is generated for fulfilling the following processes −

- Classification and ranking of jobs
- Placing and orientation of new resources
- Promotions and transfers
- Describing the career path
- Future development of work standards

A job description provides information on the following elements −

- Job Title / Job Identification / Organization Position
- Job Location
- Summary of Job
- Job Duties
- Machines, Materials and Equipment
- Process of Supervision
- Working Conditions
- Health Hazards

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Job Specification

Job specification focuses on the specifications of the candidate, whom the HR team is going to hire. The first step in job specification is preparing the list of all jobs in the organization and its locations. The second step is to generate the information of each job.

This information about each job in an organization is as follows −

- Physical specifications
- Mental specifications
- Physical features
- Emotional specifications
- Behavioral specifications

A job specification document provides information on the following elements −

- Qualification
- Experiences

- Training and development
- Skills requirements
- Work responsibilities
- Emotional characteristics
- Planning of career

Job Evaluation

Job evaluation is a comparative process of analyzing, assessing, and determining the relative value/worth of a job in relation to the other jobs in an organization.

The main objective of job evaluation is to analyse and determine which job commands how much pay. There are several methods such as job grading, job classifications, job ranking, etc., which are involved in job evaluation. Job evaluation forms the basis for salary and wage negotiations.

Recruitment Strategy

Recruitment strategy is the second step of the recruitment process, where a strategy is prepared for hiring the resources. After completing the preparation of job descriptions and job specifications, the next step is to decide which strategy to adopt for recruiting the potential candidates for the organization.

While preparing a recruitment strategy, the HR team considers the following points −

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- Make or buy employees
- Types of recruitment
- Geographical area
- Recruitment sources

The development of a recruitment strategy is a long process, but having a right strategy is mandatory to attract the right candidates. The steps involved in developing a recruitment strategy include −

- Setting up a board team
- Analyzing HR strategy
- Collection of available data
- Analyzing the collected data
- Setting the recruitment strategy

Searching the Right Candidates

Searching is the process of recruitment where the resources are sourced depending upon the requirement of the job. After the recruitment strategy is done, the searching of candidates will be initialized. This process consists of two steps −

- Source activation − Once the line manager verifies and permits the existence of the vacancy, the search for candidates starts.
- Selling − Here, the organization selects the media through which the communication of vacancies reaches the prospective candidates.

Searching involves attracting the job seekers to the vacancies. The sources are broadly divided into two categories: **Internal Sources** and **External Sources**.

Figure 60: internal sources of recruitment

Internal Sources

Internal sources of recruitment refer to hiring employees within the organization through −

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- Promotions
- Transfers
- Former Employees
- Internal Advertisements (Job Posting)
- Employee Referrals
- Previous Applicants

External Sources

External sources of recruitment refer to hiring employees outside the organization through −

- Direct Recruitment
- Employment Exchanges
- Employment Agencies
- Advertisements
- Professional Associations
- Campus Recruitment
- Word of Mouth

Screening / Shortlisting

Screening starts after completion of the process of sourcing the candidates. Screening is the process of filtering the applications of the candidates for further selection process.

Screening is an integral part of recruitment process that helps in removing unqualified or irrelevant candidates, which were received through sourcing. The screening process of recruitment consists of three steps −

Reviewing of Resumes and Cover Letters

Reviewing is the first step of screening candidates. In this process, the resumes of the candidates are reviewed and checked for the candidates’ education, work experience, and overall background matching the requirement of the job

While reviewing the resumes, an HR executive must keep the following points in mind, to ensure better screening of the potential candidates −

- Reason for change of job
- Longevity with each organization
- Long gaps in employment
- Job-hopping
- Lack of career progression

Conducting Telephonic or Video Interview

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Conducting telephonic or video interviews is the second step of screening candidates. In this process, after the resumes are screened, the candidates are contacted through phone or video by the hiring manager. This screening process has two outcomes −

- It helps in verifying the candidates, whether they are active and available.
- It also helps in giving a quick insight about the candidate’s attitude, ability to answer interview questions, and communication skills.

Identifying the top candidates

Identifying the top candidates is the final step of screening the resumes/candidates. In this process, the cream/top layer of resumes is shortlisted, which makes it easy for the hiring manager to take a decision. This process has the following three outcomes −

- Shortlisting 5 to 10 resumes for review by the hiring managers
- Providing insights and recommendations to the hiring manager
- Helps the hiring managers to take a decision in hiring the right candidate

Establishing risk management organization structure

Organizational structure is the framework that holds an organization together and defines the lines of authority within a company, nonprofit organization or governmental agency. A well-defined organizational structure provides a clear path for risk assessment procedures. Before risk assessment teams can begin to work, each member of the team must have a good working understanding of how the company is organized. The organizational structure will show team members who is responsible for each area or operation being evaluated.

Essential Steps for Designing a Suitable Organizational Structure

1. Clearly defined objectives: ...
2. Determining activities: ...
3. Assigning duties: ...
4. Delegating authority: ...
5. Co-coordinating activities: ...
6. Providing physical facilities and right environment: ...
7. Establishing **s**tructural relationships for overall control.

Types of organizational structures

1. Hierarchical organization structure.
2. Functional organization structure.
3. Horizontal organization flat organization structure.
4. Divisiona**l** organization structures (market-based, product-based, geographic)
5. Matrix **or**ganization structure.
6. Team-based organization structure.
7. Network organization structure.

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Conducting review meetings to report risk control and analyze risk

Managers in an organization should be tracking project risk on a regular basis. This allows them to log and respond to situations as they arise, to avoid issues before they happen. Risk reports are a way of communicating project and business risks to the people who need to know.

The Risk assessment meeting is an important part of any project. Projects are launched to take advantage of opportunities and with these opportunities come uncertainty and risk. The project risk management plan addresses the process behind risk management and the risk assessment meeting allows the project team to identify, categorize, prioritize, and mitigate or avoid these risks ahead of time. The team uses this meeting to determine the probability and impact of each risk, determine if the risk can/should be avoided by making changes to the project, plan an appropriate response, and catalog risks and responses in the Risk Register.

The risk assessment meeting should be a formal meeting conducted during the project's planning process. It is imperative that the project manager sends a meeting invitation and agenda to all attendees well ahead of time. This allows the meeting participants time to review what will be discussed and note any risks they may have already identified. At a minimum, the following should be invited to the risk assessment meeting:

Read more: https://www.projectmanagementdocs.com/blog/how-to-conduct-a-risk-assessment-meeting/#ixzz6hGBQAyv5

Learning Activities

Knowledge	Learning activity	Special instructions
• Carrying out risk management team job analysis • Establishing risk management organization structure	Identify a small business within the locality and conduct a risk management team job risk analysis	○ Prepare and administer the data collection tools ○ Prepare a job analysis
• Assessing existing Human Resource • Deploying existing Human Resources • Developing job specification	Visit the same business and carry out an assessment of the existing and required human resources	○ Data collection tools ○ Prepare a report
• Conducting recruitment process for risk management team	Using the same business, prepare a recruitment plan for the required human resources in the identified gaps	○ Steps in the recruitment process
Conducting review meetings to report risk control and analyze risk data	Role play on conducting review meeting	○ Conduct of a formal meeting ○ Prepare minutes/report

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Self-Assessment

Case study

XYZ limited is a small medium size enterprise dealing clearing and forwarding of used motor vehicles imported from Japan. The management is planning establish risk management team. Being a risk manager with level 5 qualification, the management is soon approaching for expert advice. Your role is to carry out risk management team job analysis for presentation to the top management.

i) Who is a risk manager?

ii) What are the five skills that a risk manager should possess?
iii) Define what a risk management team is all about.
iv) What are the roles of risk management team?

Tools, Equipment, Supplies and Materials

- Computer
- Tablet
- Internet connectivity
- Stationery
- Format templates
- Case studies

References

- http://bloomberry.ph/file-manager/files/ERM/BRC%20ERM.pdf
- The MITRE Institute, September 1, 2007, MITRE Systems Engineering (SE) Competency Model, Version 1, pp. 10, 40-41.

Proposed Answers for Self-Assessment Questions

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i) Risk Manager is an individual responsible for managing an organization's risks and minimizing the adverse impact of losses on the achievement of the organization's objectives.

ii) Should possess ample knowledge of risk assessment models, Should possess awareness of statistical tools and auditing and reporting procedures, Should possess the ability to execute office automation tools and risk monitoring and testing procedures, Should possess attention to minute details, Should possess exceptional verbal and communication skills, Should possess time management and organizational skills. Should possess negotiation and diplomacy skills.

iii) A risk management team (workgroup) is a separate and often independent unit within the project management team headed by the risk manager or the chief risk officer. It helps place a value on the project's activities (such as procuring, communicating, controlling quality, and staffing

iv) **They are responsible for:** Identifying project-related risks, Assessing those risks, Preparing strategies to address the risk and getting buy-in for risk management activities as required, Carrying out the risk management activities within the project, Reporting on risk management, Closing down risks that have passed.

6.2.3 LEARNING OUTCOME 3: IMPLEMENT RISK MITIGATION PLAN

Introduction to the learning outcome

Risk mitigation planning is the process of developing options and actions to enhance opportunities and reduce threats to project objectives. Risk mitigation implementation is the process of executing risk mitigation actions. Risk mitigation progress monitoring includes tracking identified risks, identifying new risks, and evaluating risk process effectiveness throughout the project. The risk mitigation step involves development of mitigation plans designed to manage, eliminate, or reduce risk to an acceptable level. Once a plan is implemented, it is continually monitored to assess its efficacy with the intent of revising the course-of-action if needed.

Performance Standard

- Evaluating risk impact
- Developing risk mitigation measures
- Carrying out risk mitigation plans
- Carrying out internal control
- Monitoring compliance with legal and regulatory requirements
- Determining and carrying out risks mitigation responses
- Preparing and sharing risk mitigation report

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Information Sheet

Risk mitigation handling options include:

- Assume/Accept: Acknowledge the existence of a particular risk, and make a deliberate decision to accept it without engaging in special efforts to control it. Approval of project or program leaders is required.
- Avoid: Adjust program requirements or constraints to eliminate or reduce the risk. This adjustment could be accommodated by a change in funding, schedule, or technical requirements.
- Control: Implement actions to minimize the impact or likelihood of the risk.
- Transfer: Reassign organizational accountability, responsibility, and authority to another stakeholder willing to accept the risk.
- Watch/Monitor: Monitor the environment for changes that affect the nature and/or the impact of the risk.

Each of these options requires developing a plan that is implemented and monitored for effectiveness.

- Determining Mitigation Plans
  - Understand the users and their needs. The users/operational decision makers will be the decision authority for accepting and avoiding risks. Maintain a close relationship with the user community throughout the

system engineering life cycle. Realize that mission accomplishment is paramount to the user community and acceptance of residual risk should be firmly rooted in a mission decision.

  - Seek out the experts and use them. Seek out the experts within and outside the organization’s technical centres exist to provide support in their specialty areas. They understand what's feasible, what's worked and been implemented, what's easy, and what's hard. They have the knowledge and experience essential to risk assessment in their area of expertise. Know our internal canters of excellence, cultivate relationships with them, and know when and how to use them.
  - Recognize risks that recur. Identify and maintain awareness of the risks that are "always there" — interfaces, dependencies, changes in needs, environment and requirements, information security, and gaps or holes in contractor and program office skill sets. Help create an acceptance by the government that these risks will occur and recur and that plans for mitigation are needed up front. Recommend various mitigation approaches — including adoption of an evolution strategy, prototyping, experimentation, engagement with broader stakeholder community, and the like.
  - Encourage risk taking. Given all that has been said in this article and its companions, this may appear to be an odd piece of advice. The point is that there are consequences of not taking risks, some of which may be negative. Help the customer and users understand that reality and the potential consequences of being overly timid and not taking certain risks in your program. An example of a negative consequence for not taking a risk when delivering a full capability is that an adversary might realize a gain against our operational users. Risks are not defeats, but simply bump in the road that needs to be anticipated and dealt with.
  - Recognize opportunities. Help the government understand and see opportunities that may arise from a risk. When considering alternatives for managing a particular risk, be sure to assess whether they provide an opportunistic advantage by improving performance, capacity, flexibility, or desirable attributes in other areas not directly associated with the risk.
  - Encourage deliberate consideration of mitigation options. This piece of advice is good anytime, but particularly when supporting a fast-paced, quick reaction government program that is juggling many competing priorities. Carefully analyse mitigation options and encourage thorough discussion by the program team. This is the form of the wisdom "go slow to go fast."
  - Not all risks require mitigation plans. Risk events assessed as medium or high criticality should go into risk mitigation planning and implementation. On the other hand, consider whether some low criticality risks might just be tracked and monitored on a watch list. Husband your risk-related resources.

- Mitigation Plan Content
  - Determine the appropriate risk manager. The risk manager is responsible for identifying and implementing the risk mitigation plan. He or she must have the knowledge, authority, and resources to implement the plan. Risk mitigation activities will not be effective without an engaged

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risk manager. It may be necessary to engage higher levels in the customer organization to ensure the need for the risk manager is addressed. This can be difficult and usually involves engaging more senior levels of the MITRE team as well.

  - Develop a high-level mitigation strategy. This is an overall approach to reduce the risk impact severity and/or probability of occurrence. It could affect a number of risks and include, for example, increasing staffing or reducing scope.
  - Identify actions and steps needed to implement the mitigation strategy. Ask these key questions:

- What actions are needed?
  - Make sure you have the right exit criteria for each. For example, appropriate decisions, agreements, and actions resulting from a meeting would be required for exit, not merely the fact that the meeting was held.
  - Look for evaluation, proof, and validation of met criteria. Consider, for example, metrics or test events.
  - Include only and all stakeholders relevant to the step, action, or decisions.
- When must actions be completed?
  - Backward Planning: Evaluate the risk impact and schedule of need for the successful completion of the program and evaluate test events, design considerations, and more.
  - Forward Planning: Determine the time needed to complete each action step and when the expected completion date should be.
  - Evaluate key decision points and determine when a move to a contingency plan should be taken.
- Who is the responsible action owner?
- What resources are required? Consider, for example, additional funding or collaboration.
- How will this action reduce the probability or severity of impact?

- Develop a contingency plan ("fall back, plan B") for any high risk.
  - Are cues and triggers identified to activate contingency plans and risk reviews?
  - Include decision point dates to move to fall back plans. The date to move must allow time to execute the contingency plan.
- Evaluate the status of each action. Determine when each action is expected to be completed successfully.

Risk mitigation planning includes: the specifics of what should be done, when it should be accomplished, who is responsible, and the funding required to implement the risk mitigation plan. The most appropriate program approach is selected from the mitigation options listed above and documented in a risk mitigation plan

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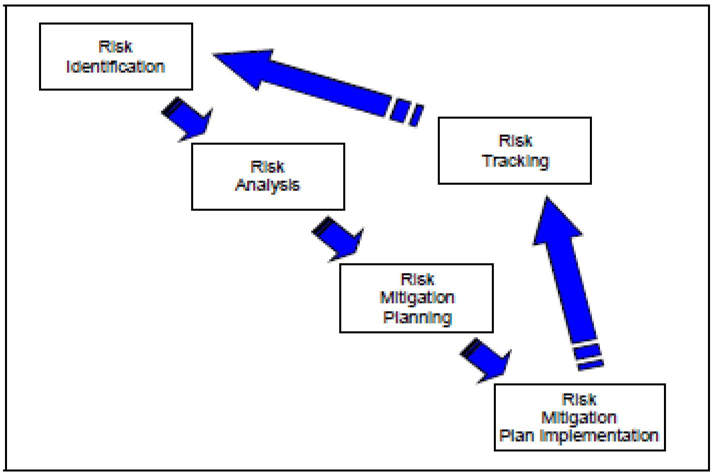

Figure 61: Risk mitigation planning

Learning Activities

Schedule a visit to a nearby learning institution and with the assistance of this learning outcome; develop steps

Knowledge	Learning activity	Special instructions
Develop risk mitigation process.	Visit a nearby learning institution	○ Seek proper authorization ○ Prepare data collection tools

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Self-Assessment

i) Risk mitigation handling options include, Assume/Accept, ___________, ___________, ____________, Avoid, ____________, _____, and______________.

ii) What are the contents of risk mitigation plan?

iii) What are the six ideal aspects for determining risk mitigation plans?

Tools, Equipment, Supplies and Materials

- Computer
- Tablet
- Internet connectivity
- Stationery
- Format templates
- Case studies

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- Project Management Institute, *A Guide to the Project Management Body of Knowledge, (PMBOK Guide),* Fourth Edition, ANSI/PMI 99-001-2008, pp. 273-312.

- The MITRE Institute, September 1, 2007, MITRE Systems Engineering (SE) Competency Model, Version 1, pp. 10, 40-41.

Proposed Answers for Self-Assessment Questions

i) Control, transfer, monitor

ii) Determine the appropriate risk manager , Develop a high-level mitigation strategy, Identify actions and steps needed to implement the mitigation strategy, Develop a contingency plan ("fall back, plan B") for any high risk, Evaluate the status of each action

iii) Understand the users and their needs, Seek out the experts and use them., Recognize risks that recur, Encourage risk taking, Recognize opportunities, consider whether some low criticality risks might just be tracked and monitored on a watch list. Husband your risk-related resources.

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6.2.4 Learning Outcome 4: Monitor and Evaluate Risk Management Process

Introduction to the learning outcome

Monitoring and evaluation are integral parts of the risk management decision-making process. Risk management is only as good as its weakest link – every step from risk characterization to monitoring and evaluation is important.

Objective: To evaluate the progress and impact of the risk management options and determine whether adaptive action is required.

Suggested outcomes: An evaluation of the risk management effectiveness as measured against the baseline situation and in light of the risk reduction goal. Also determine whether the current options should be continued, and if not, recommendations for adaptations. Any results from monitoring and evaluation should be communicated to stakeholders as part of a public accountability process.

Monitoring

Monitoring is the continuous assessment of the risk management actions. It takes place at all levels of management and uses both formal reporting and informal communications.

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Monitoring of risk management actions involves collecting information that will help you answer questions about the effectiveness of your project. It is important that this information is collected and reported in a planned, organized and routine way.

Monitoring information is collected daily, monthly or quarterly. Monitoring can answer questions such as:

- How well are we doing? (Performance)
- Are we doing the right things? (Any deviation)
- What difference are we making? (Impact)

Monitoring is an ongoing process which reviews:

- Whether resources are being mobilized and utilized;
- Whether activities are being undertaken; and
- Whether the intended outputs and outcomes are being achieved.

This process may apply both to particular risk management projects or programs and to government-wide sector strategies or multi-sector strategies. It includes both day-to-day and less frequent progress reviews.

<u>Monitor and evaluate risk management process</u>

Monitoring and review should be a planned part of the risk management process and involve regular checking or surveillance. The results should be recorded and reported externally and internally, as appropriate. The results should also be an input to the review and continuous improvement of the firm's risk management framework.

Responsibilities for monitoring and review should be clearly defined. The firm's monitoring and review processes should encompass all aspects of the risk management process for the purposes of:

- Ensuring that controls are effective and efficient in both design and operation
- Obtaining further information to improve risk assessment
- Analyzing and learning lessons from risk events, including near-misses, changes, trends, successes and failures
- Detecting changes in the external and internal context, including changes to risk criteria and to the risks, which may require revision of risk treatments and priorities
- Identifying emerging risks.

1.2.4.4 Performance Standard

- Identifying new risk areas
- Preparing risk monitoring and evaluation plans
- Modifying risk impact and likelihood
- Carrying out risk management training for all staff
- Integrating risk management

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1.2.4.5 Information Sheet

Monitoring Risk

- Include risk monitoring as part of the program review and manage continuously. Monitoring risks should be a standard part of program reviews. At the same time, risks should be managed continuously rather than just before a program review. Routinely review plans in management meetings.
- Review and track risk mitigation actions for progress. Determine when each action is expected to be completed successfully.
- Refine and redefine strategies and action steps as needed.
- Revisit risk analysis as plans and actions are successfully completed. Are the risks burning down? Evaluate impact to program critical path.
- Routinely reassess the program's risk exposure. Evaluate the current environment for new risks or modification to existing risks.

What is an Evaluation?

While monitoring is routine and ongoing, evaluation is a systematic and objective assessment of the design, implementation and outcome of an on-going or completed intervention.

The two main purposes of evaluation are:

- improve future RM policy and interventions through feedback of lessons learned

- provide a basis for accountability

Types of Evaluations

Different types of evaluations include:

- project evaluations
- program evaluations
- sectoral evaluations
- thematic evaluations
- policy and management evaluations
- audits and
- Reviews.

Project evaluation is the most common evaluation type. II the project design is well done, the evaluator can base his or her work on fixed, clearly defined objectives with relevant and measurable indicators. As the eventual project may finish up looking very different from its original design, the monitoring data and records of the changing circumstances leading to changes in project design becomes crucially important for effective evaluation.

Program evaluation becomes more common with the planned shift away from individual project towards program approach.

Policy evaluations look at issues relating to policy and management of various steps in POPs life cycle.

Thematic evaluations focus on issues such as participation, gender or cost effectiveness.

Management evaluation assesses organizational structure and behavior necessary to be able to propose improvements in the performance of organizations, and to judge whether the financing of their operations is justified.

Other related assessments include **audits**, which assess the conformity of the intervention to procedures, norms and criteria established in advance by the financiers.

Reviews are mid-way between monitoring and evaluation, as they involve a fresh look at the objectives, design and performance of a project. Compared to evaluations, reviews are more limited in scope, time and focus with less emphasis on lessons learned or accountability.

Benefits of Monitoring and Evaluation

Monitoring and evaluation helps quantify the attainment of program goals and sub-goals:

- whether the actions were implemented as planned – as conducted in Step 3;
- whether assumptions made during identification of the problem and its context (Step 1) were correct;
- whether the actions have resulted in risk reductions; and

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- whether new information has emerged that requires a strengthening and/or modification to the risk management plan.

Monitoring and Evaluation also prompts fresh thinking within organizations and their contacts with external stakeholders.

Key Issues to address in an Evaluation

Defining issues to be addressed is essential in all evaluation work. The following are the basic groups of questions to be asked:

- **Relevance** - whether the results, purpose and overall objectives of the project are in line with the needs, priorities and aspirations of the beneficiaries, and with the policy.
- **Impact** - Whether there has been a change towards the achievement of the overall goals as a consequence of the achievement of the RM action - intended and unintended impacts
- **Efficiency** - how economically have the various inputs been converted into outputs and results?
- **Effectiveness** - how far have the programme's impacts contributed to achieving its specific and general objectives?
- **Utility** - how do the programme's impacts compare with the needs of the target population(s)?
- **Sustainability** - to what extent can the positive changes be expected to last after the programme has been terminated?

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Monitor and evaluate risk management process

Monitoring and review should be a planned part of the risk management process and involve regular checking or surveillance. The results should be recorded and reported externally and internally, as appropriate. The results should also be an input to the review and continuous improvement of the firm's risk management framework.

Responsibilities for monitoring and review should be clearly defined. The firm's monitoring and review processes should encompass all aspects of the risk management process for the purposes of:

- Ensuring that controls are effective and efficient in both design and operation
- Obtaining further information to improve risk assessment
- Analyzing and learning lessons from risk events, including near-misses, changes, trends, successes and failures
- Detecting changes in the external and internal context, including changes to risk criteria and to the risks, which may require revision of risk treatments and priorities
- Identifying emerging risks.

1.2.4.6 Learning Activities

Knowledge	Learning activity	Special instructions
• Identifying new risk areas • Preparing risk monitoring and evaluation plans • Modifying risk impact and likelihood • Carrying out risk management training for all staff Integrating risk management	A field trip to a business of choice and identify new risk areas, prepare monitoring and evaluation plans, modify risk impact and likelihood, carryout risk training for all staff and integrate risk management	• Seek proper authorization • Prepare a checklist • Prepare the necessary data collection tools

1.2.4.7 Self-Assessment

(i) The objective of risk monitoring and evaluation is to ______.

(ii) Monitoring is an on-going process which reviews ________, _________ and _______.

(iii) What is risk evaluation

(iv) What are the different types of risk evaluations?

(v) What are the benefits of monitoring and evaluation?

(vi) What are the key issues to address in an evaluation of risk?

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1.2.4.8 Tools, Equipment, Supplies and Materials

- Computer
- Tablet
- Internet connectivity
- Stationery
- Format templates
- Case studies

1.2.4.9 References

- Performance Monitoring Indicators - A handbook for task managers*) Operations Policy Department, World Bank, 1996*
- http://www.popstoolkit.com/riskmanagement/module/step5/evaluationkeyissues.aspx

1.2.4.10 Proposed Answers for Self-Assessment Questions

i) To evaluate the progress and impact of the risk management options and determine whether adaptive action is required.

ii) Monitoring is an on-going process which reviews Whether resources are being mobilized and utilized; Whether activities are being undertaken and Whether the intended outputs and outcomes are being achieved

iii) Risk evaluation is a systematic and objective assessment of the design, implementation and outcome of an on-going or completed intervention.

iv) Project evaluations, program evaluations, sectoral evaluations, thematic evaluations, policy and management evaluations, audits and Reviews

v) Monitoring and evaluation helps quantify the attainment of program goals and sub-goals: whether the actions were implemented as planned – as conducted in Step 3; whether assumptions made during identification of the problem and its context (Step 1) were correct; whether the actions have resulted in risk reductions; and whether new information has emerged that requires a strengthening and/or modification to the risk management plan.

vi) **Relevance** - whether the results, purpose and overall objectives of the project are in line with the needs, priorities and aspirations of the beneficiaries, and with the policy. **Impact** - Whether there has been a change towards the achievement of the overall goals as a consequence of the achievement of the RM action - intended and unintended impacts **Efficiency** - how economically have the various inputs been converted into outputs and results? **Effectiveness** - how far have the programme's impacts contributed to achieving its specific and general objectives? **Utility** - how do the programme's impacts compare with the needs of the target population(s)? **Sustainability** - to what extent can the positive changes be expected to last after the programme has been terminated?

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6.2.5 Learning Outcome 5: Prepare Business Risk Management Report

Introduction to the learning outcome

Enterprise Risk Management (ERM) has been in the limelight for some years now; but entrepreneurs have started perceiving ERM seriously only after the blighting economic crisis. Decision making has never been easy for organization boards. If anything goes wrong, they take the full wrath of the public and stakeholders. That is why top-level executives begin to rely on ERM. Evidence-based decision making has helped them confront many hurdles and interrogations. From the massive amounts of accumulated risk data, smart Risk Managers filter the right ERM information for their reports so as to make clear and definite choices.

As a senior manager, or Board member you need to ask yourself, does the Risk Management team check on the quality of risk reports? Are the risk management approaches (identify, assess, mitigate and monitor risks) functioning appropriately? Are the resulting decisions aligned with the organization's objectives? Do ERM reports aid you in improving business performance? Have the reports helped you in mitigating risks or did they fail you? These are questions you need to ask before depending on your ERM reports completely.

1.2.5.1 Performance Standard

- Identifying major changes in risks
- Reporting changes in risk impact and likelihood
- Implementing risk management recommendations
- Preparing and sharing business risk management report

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1.2.5.2 Information Sheet

What is a risk report?

Risk reports are a way of communicating project and business risks to the people who need to know. Below, we explain four different types of risk reporting that enable teams to communicate risk to the right people at the right time.

What are the key elements of risk?

Risk consists of three parts: an uncertain situation, the likelihood of occurrence of the situation, and the effect (positive or negative) that the occurrence would have on project success."

How to Create a Constructive Enterprise Risk Management Report

Here are some key tips that will help create constructive ERM reports:
1. Communicate using the 'risk' language A common risk language should be used across the organization to avoid any sort of miscommunication, misinterpretation or misunderstanding. Every entity of an organization should understand risks and risk terminologies. This can be achieved by conducting enterprise-wide Risk Awareness training courses and programs.

2. Data quality Data quality is a matter of serious importance for every organization. It determines how informed a strategic decision you can make. Among the major challenges of enterprises is data inaccuracy and inadequacy. They can invite immense perils, leading to immense losses. It is painful for organizations to lose information in spite of investing in high-cost IT systems, just because data inaccuracy could not be addressed. Inferior data quality is also one of the factors that pushed companies into the recent financial crisis. Getting your data right is important even if you have to invest in expensive technology. That said, accurate data is just not enough. It has to be integrated well all across the organization to deliver consolidated reports. Risks can be inter-linked, such that if one risk occurs in one area of the business, it can trigger other risks across the organization.

3. Clear and holistic presentation When managers look into the ERM report, they should get a clear picture of risks and threats at first glance. The name, subject and purpose of the report must be stated clearly. Title the fields of the report precisely, define the field titles if required, and specify the technique used to carry out un-automated calculations and actions. The mantra is – keep it simple.

4. Focus towards critical aspects of the reports Managers may not have the same knowledge about risks as the report author. Managers are always on the move and short of time. Highlight key information and key risk areas to grab attention, even from those who might just skim the report.

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5. Produce reports relevant to decision making often, the effort and resources spent on generating reports are simply wasted, as they are not relevant for decision making. The object of a report is to provide key risk data to the management and to generate remedial action where required.

6. Compile the quantitative and qualitative data into one report relevant risk data involves quantitative and qualitative content. Both the data forms have to be combined and integrated when creating reports.
7. On-time delivery of reports Timing matters a lot! Late reports cripple the effectiveness of decision making. Report analysis is done differently in every organization. Some look into daily reports, some do it on a weekly basis and most of them carry out a monthly or quarterly review of the reports. Depending on the schedule, reports should be produced in real-time for the best results.

8. Constant review of the reporting system and report structure Organizations are continuously evolving. Report delivery and structure should also be developed with respect to the changes in the organization. Conduct regular checks on risk taxonomy, risk indicators, performance indicators, risk profiles and control measures, as they are susceptible to change, and reflect the changes on risk reports. Increasing the length of the risk report doesn't matter, it is crisp and precise content that makes the difference.

9. Transparency in risk ownership every risk must have a risk owner who is responsible for securing data integrity of the risk report. At the same time, an effective risk report

serves the interests and obligations of risk owners. So it is advisable to have clear designations for them. Remember, a constructive ERM report has a powerful influence on business decisions and acts as the true essence of risk management.

Implementing risk management recommendations

Implementing of the risk management plan consists of first getting set up to carry out the plan, and then actually implementing the various elements of the plan:

- Organizationally committing to the plan
- Assigning responsibility for the plan
- Providing adequate authority and resources to carry out the plan, and
- Gathering and distributing information

Impacts of Poor risk Management

1. Poor User Adoption

User adoption refers to the process of getting your team members to actually follow a process, use the tools you have mandated and stick to the methodology. If they don't do this, you'll have poor results because your colleagues are not working to a standard, best practice way of managing risk.

When you don't 'right-size' your approach to risk management, one of the biggest challenges you'll face is user adoption. This happens because:

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The process is too bureaucratic to be efficient, so users shortcut the prescribed process and do their own thing, just to keep work moving along

- The process is not robust enough, so project managers have to implement their own workarounds to ensure adequate control is maintained in a changing environment
- The process is too complicated, so project teams streamline what is required and do what they think is best.
- All of these scenarios lead to sub-optimal processes, lack of standardization across the business and more work for your teams.

What To Do: Any change to the way people work requires change management. Talk to the people involved about how they work. Make sure the process reflects your organizational culture and is workable.

2. Unrealized Benefits

Risks can kill a project's benefits overnight, or they could be slowly eaten away through inefficient management practices. When your team isn't working efficiently, every additional admin task adds cost and time to your project, which in turn has an impact on how quickly your benefits can be delivered – if they are delivered at all.

What to Do: Make sure your risk management efforts are the right size for your company. Tailor the best practice advice to seamlessly fit your office culture so that your team isn’t bogged down in bureaucracy, eating up all the benefits in unnecessary admin.

3. Late-running Projects

Unforeseen risks can significantly slow down a project because it takes time to understand them, analyse them and prepare management plans to monitor, act on and track them.

Delays can also happen when risk management activities take longer than you expected and they push out other activities on the project schedule.

What to Do: As the delays tend to happen when you are hit by a risk you didn’t see coming, early identification is important. Schedule risk workshops throughout the project to prompt the team to spend time reviewing and identifying new risks. Work with your project managers to ensure that they are scheduling enough time for risk management activities and including a buffer of time on highly risky projects, according to your methodology.

4. Overspent Budgets

Risk management costs money. However, the cost of dealing with poor risk management if a risk materializes and becomes a real issue for your business, is normally far, far more. Budget overruns happen when risks and the associated actions related to managing them effectively aren’t budgeted for. Overspends are also common when a risk isn’t identified at all – and then the project team has to find money from somewhere to do something about it before the project falters.

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What to Do: Calculate budgets include an element that relates directly to the perceived riskiness of the project. Cover any mitigation or management activities in this contingency fund, and then call off against it. This will help keep your project budget on track and not used for ad hoc spending on risk management activities.

5. Unhappy Clients

Clients don’t want to be involved in something that is perceived to be high risk. They need to know what you are doing to mitigate any potential threats and that you’ve got a sensible Plan B in place.

What to Do: Involve your clients in your risk management so that they know what professional steps you are taking to protect them and their investment. Regularly report on risks and what you are doing to monitor and manage them.

6. Reputational Damage

You don’t want to be known as the company that always gets caught out by something. Your clients need to have confidence that you are effective at handling risk. This leads on from the point above: dissatisfied customers are a huge risk to your organization's reputation. One bad review can have far-reaching implications for future work.

What to Do: Good risk identification processes will help you spot anything on the horizon that has the potential to undermine your company's good name.

7. Project Failure

Ultimately, the worst case scenario for failing to adequately manage risk is that your project fails. It never completes or never delivers anything of value. The objectives in the business case aren't reached and you waste all that investment in time and effort that has gone into your project to date.

What to Do: Incorporate risk management in your project controls so that you have early warning of when a risk could potentially cause a project to collapse. Implement robust escalation processes so that project teams know what to do when a serious risk is identified and who should be making the decisions about what to do next.

Risk management doesn't have to be difficult. When you right-size your processes, and have the support of your team, it's easy to see how a risk management approach fits right in to your existing business. It gives you an underlying support framework that heads off the impacts above, and provides a secure foundation for all of your project work.

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Prepare business risk management report

To make Risk Management become a part of the organization's culture and philosophy, the organization must collect and document experience and knowledge through a consistent monitoring and review of events, treatment plans, results and all relevant records. This information, however, will be pertinent to information risks. Technical details concerning operational issues of the underlying technology have to be filtered out.

Each stage of the Risk Management process must be recorded appropriately. Assumptions, methods, data sources, results and reasons for decisions must be included in the recorded material.

Besides being an extremely valuable information asset for the organization, the records of such processes are an important aspect of good corporate governance provided of course that they are in line with:

- The legal, regulatory and business needs for records,
- The cost of creating and maintaining such records,
- The benefits of re-using information.

Risk management records along with all relevant documentation contain extremely critical and confidential information that should be treated with the appropriate classification level requirements

Every report should include information on potential impact of a risk in the following areas:

- Financial
- Operational
- Strategic
- Reputational

The report should explore how the compliance program is trying to address the risk in question. For example, state whether the company's existing policies and controls are producing desired results; or what weaknesses exist in controls meant to govern the risk. The discussion should also include a timeline for action to resolve any control weaknesses you have, identify the owner of the risk, and ask for any guidance from the board or management if that's necessary.

The risk report should be easy to read and digest. That means an executive summary of the risks and why they're included in the report, followed by in-depth discussions of each risk and your supporting data. The length of the summary can vary, but as a rule of thumb, any summary that goes above 10 pages is edging toward too long.

After that executive summary, you can dive into the details—which might be voluminous. This is where you can include supporting data (the more you use charts or graphics from data visualization tools, the better), audit reports, case histories, cost projections, and so forth. In electronic format, you can even structure your risk report with links to let the reader skip back and forth from the summary to in-depth discussion.

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An effective report also clearly ties each risk to a stated business objective. After all, most people who read the risk report will hail from business operations or management functions, without much background in compliance or risk management. Connecting the risk to a business objective tells the reader why the risk matters, and is worth his or her attention.

Lastly, an effective report maps out a plan of action or poses questions that the board or senior management needs to answer. An effective report *involves the reader*, either by reassuring him or her that a plan exists to bring risk under control, or soliciting guidance about what to do next. A risk report captures the state of a company's risk management challenges at the moment and charts potential ways forward.

What a risk report *isn't* is an exercise unto itself. It is not a check-the-box exercise to show that the compliance function has done its job. It's a tool to help senior leaders do *their* job of governing the company—and the more expertly you handle that tool, the more successful your compliance program will be.

Every report should have the following sections:

- ✓ Title page
- ✓ Table of content

- ✓ Executive summary
- ✓ Introduction
- ✓ Discussion
- ✓ Conclusion
- ✓ Recommendations
- ✓ References
- ✓ Appendices

Learning Activities

Schedule a visit to enterprise within your reach and find out how they report their risks. From them, draft your own sample report.

Self-Assessment

i) What is a risk report?
ii) What are the key elements of risk?
iii) What are the nine key tips on how to create a constructive Enterprise Risk Management Report?
iv) What are the steps for implementing risk management recommendations
v) What are the seven impacts of poor risk management?

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Tools, Equipment, Supplies and Materials

- Computer
- Tablet
- Internet connectivity
- Stationery
- Format templates
- Case studies

References

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- https://www.stakeholdermap.com/risk/risk-management-report.html
- Kaye, D. (2004). Risk Management, London: Chartered Insurance Institute.

Proposed Answers for Self-Assessment Questions

i) Risk reports are a way of communicating project and business risks to the people who need to know.
ii) Clear and holistic presentation, Data quality, Communicate using the ‘risk’ language, Focus towards critical aspects of the reports, Produce reports relevant

to decision making, On-time delivery of reports ,Constant review of the reporting system and report structure Transparency in risk ownership,

iii) What are the nine key tips on how to create a constructive Enterprise Risk Management Report?

iv) Organizationally committing to the plan, Assigning responsibility for the plan, Providing adequate authority and resources to carry out the plan, and Gathering and distributing information

v) Poor user adoption, Unrealized benefits, late-running projects, Overspent budget, Unhappy clients, Reputational damage, Project failure

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