IDENTIFYING, ANALYSING AND MANAGING RISKS in a TURBULENT WORLD

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INTRODUCTION

Almost everything we do in today's business world involves a risk of some sort: customer habits charge, new competitors appear, factors outside your control could delay your project. Useful techniques for problem solving are important in achieving the optimum level of success in any business organization. But formal risk analysis and risk management can help to assess these risks and decide what action to take to minimize disruptions to your plans. They will also help you to decide whether the strategies you could use to control risk are after all cost effective.

WHAT IS RISK?

The term risk possesses a variety of meanings. But for the purpose of this paper, risk may be considered as the unpredictability implicit in any action or event particularly those actions or events having financial consequences. Different people have different views of the impact of a particular risk - what may be small for one person may destroy the livelihood of someone else completely, so it is also for business organizations.

One way of putting figures to risk is to calculate a value for it as follows:

Risk = probability of event x cost of event.
Doing this allows you to compare risks objectively. All risks contain the following two basic features:

They are capable of measurement, and
Their measurement is based on the estimate of probabilities associated with possible outcomes from particular actions or events.

RISK ANALYSIS
There are various steps that need to be taken in any system of risk analysis.

Firstly there must be a definition and recognition of the risk that is involved and an identification of threats facing an organization. These threats may be

Human
Operational
Financial
Technical
Project
Political
Reputational
Time
Procedural, and
Natural

Others: Michael Porter's five forces analysis can help identify other risks.

The analysis of threat is important because it is so easy to overlook important threats even when considering the project logic in terms of risks and assumptions. To achieve the objective it is necessary to know.

- The nature of the present situation.
- What the situation will be.
- The nature of obstacles to be encountered, and
- Means of overcoming the obstacles.

An analysis of the hazards with regard to prospective changes in the organization presents a considerable challenge in risk management. Identifying and controlling the risk in any structure before if it is installed is almost more economical and effective than doing so afterwards. In practice even the best project managers do find it difficult to plan major projects without missing important activities and without failing to spot all significant risks and issues.

THE INFORMATION SYSTEM

Risk analysis must be done economically and effectively. Therefore, all information that is needed must be done with satisfactory efficiency. The information output must recognize that after the hazards have been analysed, risk management methods will be needed to deal with them. The information required will include both internal and external inputs such as financial reports and records, loss records (historical data) spatial relations and operational inter-relations and techniques etc.

IDENTIFICATION AND ANALYSIS

First the risks must be identified in a preliminary fashion. Having identified a set of loss exposures, this will be followed by an analysis of them to determine what action seems appropriate. The analysis for considering loss control usually would be directed at determining whether loss experiences has been higher than usual for comparable operating condition, or comparison made against the best that has been achieved by others under similar operating condition.

For loss financing (reduction and transfer) and for determining how much additional loss reduction effort is worthwhile, the analysis needs to include:

Estimate of how much outlay of resources the identified loss possibilities would require.

An estimate of the probabilities that these outlays must be made.

The two estimated figures are conveniently referred to as the "potential severity" and "expected frequency" of loss.

PROCEDURE FOR RISK ANALYSIS

Procedures must be appropriate not only for the function to be performed but also the circumstance in which it has to be done and the people to do t. In other words no one single method s appropriate for all companies and for all situations.

Good procedures are the ones adapted to the result to be produced. The result sought in risk analysis is an organized collection of information about hazards for making intelligent decisions about the management. These decisions will be of two major classes viz:

Decisions about risk reduction and control, and

Decisions about financing of unprevented losses.

Generally the first goal in risk analysis is to identify the major problems quickly before they degenerate into causes. Two conditions place a risk in to the category of a major problem namely large loss potential and legal requirements.

SUBJECTIVE PROBABILITIES

Subjective probabilities are based not upon statistical observation but rather on personal judgements as to the degree of the risk. Consequently the value of such data must vary considerably depending on the experience and sense of judgement of the person making the judgement. Although subjective data are suspect, their use in risk management situations an insurance have been widespread.

Subjective judgement come into play where there is a paucity of internal data in many risk management situations and the need to interpret past loss data to forecast future experience. Therefore, subjective judgement must be well informed often based on a man of fact and expert opinions.

MANAGING RISK

Once you have worked out the value of risks an organization faces, the next thing is to look at ways of managing them. When doing this, it is important to choose cost — effective approaches in case, there is no point spending more to eliminating a risk than the cost of the event if it occurs. Often, it may be better to accept the risk than to use excessive resources to eliminate it.

In a turbulent world risks may be managed in a member of ways which include the following:

By using existing assets: Here existing resources can be used to counter risk. This may involve improvements to existing methods and systems, changes in responsibilities, improvements to accountability and internal controls, etc.

By contingency planning: One option is to decide to accept risk, but then develop a plan to minimize the risk's effect if it happens. A contingency plan will allow you to take appropriate action immediately with minimum of control if you find yourself in crisis management situation.

Contingency plans also form a key part of Business Continuity Planning (BCP) or Business Continuity Management (BCM).

- By investing in new resources: The risk analysis should give the basis for deciding whether to bring in additional new resources to counter the risk. This can also include insuring the risk. This is particularly important where the risk is so great as to threaten the organizations solvency and survival.

The above measures are actually taken in order to control the risks and deliver intended outputs in any given situation of risk management.

CONCLUSION

In our present turbulent world of business, risks and business ventures are inseparabIe. Once you identify the risks facing you, and carry out risk analysis and management exercise, it may be worthwhile carrying out regular reviews. ThIs may involve formal reviews of the risk analysis or may involve testing systems and plans appropriately.

Risk analysis allows you to examine the risks that you or our organization face objectively. It is based on structured approach to thinking through threat followed by an evaluation of the probability and cost. of events occurring. As such, it forms the basis for risk management and crisis prevention with emphasis on cost effectiveness. In a globalized world economy no serious business can afford to ignore risk analysis and risk management at any time because of the unpredictable environment in which we are operating.