December 2014 – strategic risk management

As a business, how are you identifying and managing risk at a strategic level so that it supports decision-making at all levels within your organisation? If you raise understanding and focus on the management of all significant risks that can affect the organisation it will improve performance and act as an enabler to a profitable business.

However, there is a need to recognise that not all risk is bad. Organisations must continually assess what risks to take in order to stay ahead of the competition, to maintain market share, be profitable, to seek continual improvement and to safeguard stakeholder and shareholder investment in the business.

A business risk management process provides visibility and control to the board and senior management of organisations and ensures that cost and risk are consistently applied as a core element of all management decisions.

The risk management process comprises two key stages:

Identification of risk:

A useful technique is to brainstorm the identification of risks using the experience and knowledge available within the organisation. Tools and information available within the business that can be used to identify risk include:

- Accident and loss data
- Stakeholder consultation
- Comparison to applicable standards
- Monitoring, inspections and audits
- Discussion with the workforce
- Scenario and emergency planning

Evaluation of risk:

Risk evaluation should be based upon economic, social and legal considerations, weighing up the probability and frequency of each occurrence and the severity of the outcome of each event being considered.

Control of risk can comprise one of four strategies:

- Risk avoidance – a conscious decision to avoid a risk by stopping the operation producing the risk
- Risk retention – managing the risk within the organisation. Any loss incurred due to the risk not being identified has to be borne by the business. It is worth noting that risk retention can occur consciously (ie a decision has been made) or unconsciously (ie the risk has not been identified or acknowledged)
- Risk transfer – the legal assignment of the costs associated with particular losses to a third party (ie by insuring the risk or by contractual transfer)

- Risk reduction – management of risk within the organisation to protect assets from accidental loss (ie risk assessment and controls, quality assurance, emergency preparedness, etc)

Effective monitoring, audit and review of the risks should be carried out at pre-determined timescales or when significant change occurs. The recognised PLAN – DO – CHECK – ACT principles can be applied to manage risk with information provided to the business in terms of assurance and to inform key decisions.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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