



UNIT-2

The Risk Management Process

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Describe the 7 R's and 4 T's that form the framework of risk management activities

Unit 2

The Risk Management Process

This graphic shows the seven R's and four T's that traditionally represent the key activities of risk management:



We will review each of these activities during this course.

A Risk Assessment Process

Types of Processes

The first step in risk management is to recognize and identify risks. Remember, your risk assessment process should be proportionate to your organization, so if you have a large, complex organization, you will need a formal, complex risk identification process. If you have a small organization, a short, informal process may suffice. Either way, you need to spend time recognizing and identifying risks.

Sample Template

You should have a template to track and record all relevant information. The template will vary in complexity according to your organization's needs, but basic information should include the following elements.

Basic Information

- Risk identifier, such as a number
- Date risk reported
- Who the risk was identified by

Description of Risk

- Classification (usually based on organization's business or operating units, but should be customized for each organization)
- Why is it a risk?
- Is this a hazard, opportunity, or uncertainty?
- Tangible impact (people, time, money, etc.)
- Non-tangible impact (reputation, morale, objectives, etc.)
- Data gathered or studies completed

Timeline

- When might the risk occur?
- How long could it last?
- Could it reoccur?
- What signals or alarms will we see?

Scope of Risk

- What could happen as a result of this risk?
- What is the likelihood of the overall risk and each consequence?
- What data do we have about the consequences of this risk?
- What other risks could occur from this risk?

Ratings and History

- Rate the impact (low, medium, or high) and the likelihood (likely, neutral, not likely)
- Outline previous experience with this risk
- Describe risk attitude and organizational tolerance for the risk

Existing Risk Systems

- Existing controls and estimated effectiveness
- Monitoring procedures
- Improvement recommendations and information
- Related policy or procedural information

Identifying Risks

How do you identify risks? Some common methods include:

- Using real or hypothetical case studies
- Drawing on personal and organizational experience
- Looking at similar projects and learning from their experience
- Consulting experts
- Mind mapping or brainstorming techniques
- Considering points of failure
- Extrapolating from past incidents reports or complaints
- Interviewing and/or surveying stakeholder groups
- Using systems analysis techniques like flow charting
- Operational modeling
- Formal auditing or inspections
- Conducting new studies or consulting previous studies
- Work breakdown structure analysis

You can also use formal analyses such as:

- **SWOT:** Stands for Strength, Weakness, Opportunities, and Threats. A good system to create a broad picture of any situation.
- **PESTLE:** Stands for Political, Economic, Social, Technological, Legal, and Environmental. Used to assess the current market conditions and create a strategic plan.
- **HAZOP:** Stands for HAZard and OPerability study. Provides a structure and system to examine a process or operation to identify risks.
- **FMEA:** Stands for Failure Mode and Effects Analysis. A system that analyzes system failures and their effects.

In order to ensure your risk identification is complete:

- Information gathering should always be a group activity.
- Gather hard data whenever possible.

Evaluation Methods

Once risks have been identified, you can evaluate risks and choose how to rank and evaluate them. One common method is a 3 x 3 matrix.

Likelihood	Severity		
	Low	Medium	High
Likely			Focus efforts here first
Neutral			
Not Likely	Focus efforts here last		

This tool can be customized and expanded to include additional levels of severity and likelihood.

Case Study: General Motors (Part One)

Background Information

General Motors (GM) has long been the world’s number-one manufacturer of cars and trucks. Their brand line has included Buick, Cadillac, GMC, Chevrolet, Pontiac, and Saab. Their business model includes overseas operations such as Vauxhall and Opel, Hughes Electronics, Allison Transmission, and GM Locomotive. They also have stakes in other brands, including Isuzu, Subaru, Suzuki, Fiat, and Daewoo.

After years of a downward spiral in their market share, GM finally achieved two straight years of increase in 2002. In 2003, GM planned to continue this gain by launching 30 new gas-powered vehicles.

Task One: Risk One

Identify one risk for General Motors' plan.

Risk Area:

- Legal
- Regulatory
- Marketplace
- Financial
- Operating
- Other: _____

Possible Tangible Effects (such as money, time, and resources):

Possible Intangible Effects (such as morale and reputation):

Impact:

- Low
- Medium
- High

Likelihood:

- Unlikely

- Neutral
- Likely

When might this occur?

How long could it last?

What other risks could result?

Task One: Risk Two

Identify a second risk for General Motors' plan.

Risk Area:

- Legal
- Regulatory
- Marketplace
- Financial
- Operating

- Other: _____

Possible Tangible Effects (such as money, time, and resources):

Possible Intangible Effects (such as morale and reputation):

Impact:

- Low
- Medium
- High

Likelihood:

- Unlikely
- Neutral
- Likely

When might this occur?

How long could it last?

What other risks could result?

Task One: Risk Three

Identify a third risk for General Motors' plan.

Risk Area:

- Legal
- Regulatory
- Marketplace
- Financial
- Operating
- Other: _____

Possible Tangible Effects (such as money, time, and resources):

Possible Intangible Effects (such as morale and reputation):

Impact:

- Low
- Medium
- High

Likelihood:

- Unlikely
- Neutral
- Likely

When might this occur?

How long could it last?

What other risks could result?

Task Two

Plot each risk that you identified on the matrix below.

Likelihood	Severity		
	Low	Medium	High
Likely			
Neutral			
Not Likely			

Further Reading:

- ✓ *Risk Assessment and Risk Management,(1998), edited by Ronald E. Hester, Roy M. Harrison*
- ✓ *Risk Management, (2006), By Satyajit Das*