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# EVALUATION OF RISK MANAGEMENT PLAN IN AN ORGANIZATION

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***Abstract***

*A risk management plan can never be perfect. However, the degree of its success depends upon risk analysis, management policies, planning and activities. A well-defined management plan can be successful only if risks are properly accessed. And if not, the main objective of risk management plan itself is defeated. Critical evaluation of a risk management plan at every stage is very necessary especially at an early stage. It will allow companies to discover the flaws before it gets into the action. Once you're through the process, you can address the issues and then introduce it.*

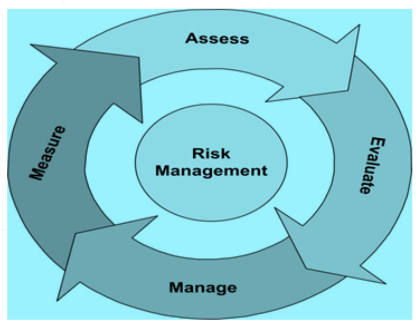
**KEYWORD:** *Risk Evaluation, Risk Plan, Risk Managements*

## INTRODUCTION

Risk management is the process of minimizing or mitigating the risk. It starts with the identification and evaluation of risk followed by optimal use of resources to monitor and minimize the same. Risk generally results from uncertainty. In organizations this risk can come from uncertainty in the market place (demand, supply and Stock market), failure of projects, accidents, natural disasters etc. There are different tools to deal with the same depending upon the kind of risk. Ideally in risk management, a risk prioritization process is followed in which those risks that pose the threat of great loss and have great probability of occurrence are dealt with first. Refer to table below:

| IMPACT | ACTIONS | | |
|---|---|---|---|
| SIGNIFICANT | Considerable Managment Required | Must Manage and Monitor Risks | Extensive Management essential |
| MODERATE | Risk are bearable to certain extent | Management effort worthwhile | Management effort required |
| MINOR | Accept Risks | Accept but monitor Risks | Manage and Monitor Risks |
| | LOW | MEDIUM | HIGH |
| | LIKELIHOOD | | |

The above chart can be used to strategize in various situations. The two factors that govern the action required are the probability of occurrence and the impact of the risk. For example a condition where the impact is minor and the probability of occurrence is low, it is better to accept the risk without any interventions. A condition where the likelihood is high and the impact is significant, extensive management is required. This is how a certain priority can be established in dealing with the risk. Apart from this, typically most of the organizations follow a risk management cycle. Refer diagram below:




According to this cycle there are four steps in the process of risk management. The first step is the assessment of risk, followed by evaluation and management of the same. The last step is measuring the impact.

Risk identification can start at the base or the surface level, in the former case the source of problems is identified. We now have two things to deal with the source and the problem.

***Risk Source:*** The source can be either internal or external to the system. External sources are beyond control whereas internal sources can be controlled to a certain extent. For example, the amount of rainfall, weather over an airport etc!

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***Problem:*** A problem at the surface level could be the threat of accident and casualty at the plant, a fire incident etc. When any or both of the above two are known beforehand, certain steps can be taken to deal with the same. After the risk/s has been identified then it/they must be assessed on the potential of criticality. Here we arrive upon risk prioritization. In generic terms 'likelihood of occurrence × impact' is equal to risk.

This is followed by development of a risk management plan and implementation of the same. It comprises of the effective security controls and control mechanisms for mitigation of risk. A more challenging risk to organizational effectiveness is the risk that is present but cannot be identified. For example a perpetual inefficiency in the production process accumulates over a certain period of time and translates into operational risk.

## PRINCIPLES OF RISK MANAGEMENT

Various organizations have laid down principles for risk management. There are risk management principles by International standardization Organization and by Project Management Body of Knowledge. The Project management body of knowledge (PMBOK) has laid down 12 principles. This article carries an amalgamation of both PMBOK and ISO principles. The various principles are:

***Organizational Context:*** Every organization is affected to varying degrees by various factors in its environment (Political, Social, Legal, and Technological, Societal etc). For example, an organization may be immune to change in import duty whereas a different organization operating in the same industry and environment may be at a severe risk. There are also marked differences in communication channels, internal culture and risk management procedures. The risk management should therefore be able to add value and be an integral part of the organizational process.

***Involvement of Stakeholders:*** The risk management process should involve the stakeholders at each and every step of decision making. They should remain aware of even the smallest decision made. It is further in the interest of the organization to understand the role the stakeholders can play at each step.

***Organizational Objectives:*** When dealing with a risk it is important to keep the organizational objectives in mind. The risk management process should explicitly address the uncertainty. This calls for being systematic and structured and keeping the big picture in mind.

***Reporting:*** In risk management communication is the key. The authenticity of the information has to be ascertained. Decisions should be made on best available information and there should be transparency and visibility regarding the same.

***Roles and Responsibilities:*** Risk Management has to be transparent and inclusive. It should take into account the human factors and ensure that each one knows it roles at each stage of the risk management process.

***Support Structure:*** Support structure underlines the importance of the risk management team. The team members have to be dynamic, diligent and responsive to change. Each and every member should understand his intervention at each stage of the project management lifecycle.

***Early Warning Indicators:*** Keep track of early signs of a risk translating into an active problem. This is achieved through continual communication by one and all at each level. It is also important to enable and empower each to deal with the threat at his/her level.

***Review Cycle:*** Keep evaluating inputs at each step of the risk management process - Identify, assess, respond and review. The observations are markedly different in each cycle. Identify reasonable interventions and remove unnecessary ones.

***Supportive Culture:*** Brainstorm and enable a culture of questioning, discussing. This will motivate people to participate more.

***Continual Improvement:*** Be capable of improving and enhancing your risk management strategies and tactics. Use your learning's to access the way you look at and manage ongoing risk.

## RISK MANAGEMENT PROCESS

There are several bodies that lay down the principles and guidelines for the process of risk management. The steps involved remain the same more or less. There are small variations involved in the cycle in different kinds of risk.

The risks involved, for example, in project management are different in comparison to the risks

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involved finance. This accounts for certain changes in the entire risk management process. However the ISO has laid down certain steps for the process and it is almost universally applicable to all kinds of risk. The guidelines can be applied throughout the life of any organization and a wide range of activities, including strategies and decisions, operations, processes, functions, projects, products, services and assets.
As per ISO 31000 (Risk Management - Principles and Guidelines on Implementation), risk management process consists of the following steps and sub-steps:

- Establishing the Context
- Identification
- Assessment

***Establishing the Context:*** Establishing the context means all the possible risks are identified and the possible ramifications are analyzed thoroughly. Various strategies are discussed and decisions are made for dealing with the risk. The break-up of various activities in this stage is as follows:

- Identification of a risk in one particular domain.
- Planning out the entire management process.
- Mapping the manifestations of the risk, identification of objectives of risk etc.
- Outlining a framework.
- Designing an analysis of risks involved at each stage.
- Deciding upon the risk solution/s.

***Identification:*** Once the context has been established successfully, the next step is identification of threats or potential risks. This identification can be at the level of the source or the problem level itself.

Source analysis means that the source of risks is analyzed and appropriate mitigation measures are put in place. This risk source could be either internal or external to the system. Examples of the risk source could be employees of the company, operational inefficiency in a certain process etc.
Problem analysis on the other hand means the effect rather than the cause of the risk is analyzed. For example a drop in production, threat of losing money etc!

The choice of the method varies across industry, organizational culture and other factors. However some common methods of risk identification are:

- Taxonomy based Risk Identification: The possible risk sources are broke down, hence taxonomy. A questionnaire is made best on existent knowledge; the answers to the questions are the risk.

- Objective based Risk Identification: An organization or any business activity has a certain objective/s. Any activity that is deemed an obstacle in the achievement of the same is perceived as risk.

- Scenario based Risk Identification: Here various scenarios, which may be alternative ways to achieve an objective, are created. If an undesired scenario is created, a threat is perceived with the same.

- Common Risk Check: There are certain risks that are common to an industry. Each risk is listed and checked on time.

***Assessment:*** Once the risks have been identified, they are then assessed on their likelihood of occurrence and the impact. This process can be simple as in case of assessment of tangible risks and difficult like in the assessment of intangible risks. This assessment is more or less a guessing game and the best educated guess decides the success of the plan. The industry practice or formula for arriving upon the risk is:

*Frequency of occurring × Impact*

## ANALYZING AND EVALUATING A RISK MANAGEMENT PLAN

The below mentioned steps can help in analyzing and evaluating a risk management plan:

***Problem Analysis:*** Keep a note of all the events and activities of a risk management plan. Check out the problems arising from their implementation and assess if they have a serious impact on the whole process. Make a note of those that have serious implications.

***Match the Outcomes of a Risk Management Plans with its Objectives:*** Ends justify means. Check if the possible outcomes of a risk management plan are in tandem with its pre-defined objectives. It plays a vital role in analyzing if the plan in action is perfect. If it produces desired results, it does not need to be changed. But if it fails to produce what is required can

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be a really serious issue. After all, an organization deploys its resources including time, money and human capital and above all, the main aim of the organization is also defeated.

***Evaluate If All the Activities in the Plan are Effective:*** It requires a thorough investigation of each activity of a risk management plan. Checking out the efficiency of all the activities and discovering the flaws in their implementation allow you to analyze the whole plan systematically.

***Evaluate the Business Environment:*** A thorough study and critical evaluation of business environment where a risk management plan is to be implemented is essential. Take time to assess, analyze and decide what exactly is required.

***Make Possible Changes in Faulty Activities:*** After evaluating the effectiveness and efficiency of all the activities, try to make possible changes in the action plan to get desired results. It may be very time consuming but is necessary for successful implementation of your risk management plan.

***Review the Changed Activities:*** After making changes in already existing activities and events of a risk management plan, go for a final review. Try to note down the possible outcomes of the changed activity and match them with the main objectives of the risk management plan. Go ahead in case they are in line with them.

## OUTSOURCING RISK MANAGEMENT FUNCTION

Managing risk efficiently and effectively can be a determining factor in the overall success of any organization. Most of the companies try to develop a risk management plan on their own and some outsource this function. Outsourcing risk management function is not a new concept and is being widely used by many organizations nowadays. However, contracting out risk does not guarantee an organization's success at all but yes; there are greater chances of success. Reason being, the program is designed, developed, implemented and reviewed by risk management professionals and therefore, can improve the quality of your overall plan.

Outsourcing may or may not be necessary. There are several factors that influence this decision including type of firm, type of risk, company's current financial status, interior and exterior business environment and level of human intellect. If company possesses and retains intellectual and knowledgeable people, requirement of outsourcing risk is less. But if, it is an entirely different situation to deal with or company does not possess that level of people, chances of hiring services from outside increase.

***Outsourcing or contracting out non-core services may deliver good results and substantial benefits to the organization***. In today's world, any company can employ external sources and utilize their specialized services. The main benefit is that it reduces your cost as well as saves your time. You no longer need to employ all your resources for this particular task. Once you outsource risk, the routine work within and outside the organization will not be affected. Moreover, it will save your human hours. In addition to this, these specialized services are far less expensive than an in-house risk management plans. So, in wider terms, contracting out risk management can give you triple benefit.

Even after considering all above advantages, outsourcing risk is still a critical decision and needs careful considerations and planning. Unbiased advice from experts is one of the most essential requirements so that they can advise you if you really need to develop a risk management plan or if it so, should you purchase external services. There are several companies offering such specialized services. The need is find one that understands your requirements and suits your budget. Therefore you need to decide before something terribly goes wrong.

Another major issue is that controlling risk is not always required. Sometimes, you can simply let it go. But it doesn't mean to be careless about it. It simply means you don't need to develop a full-fledged risk management plans. Initial two-three steps can help averting risk. A defensive strategy can prove to be extremely useful in some cases. It not only saves your efforts but also your time, money and human resource. If you require only minor alterations avoid contracting out.

***Outsourcing risk has its own advantages and disadvantages***. The major advantages are reduction in cost, development of specialized plan, decreased time consumption and lessened employee hours. On the other hand, the process itself can be very risk as you may need to disclose the confidential information to the outsourcing firm so that they can better understand the current standing of your organization. It may also bring undesirable changes in your company. The need

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is to keep a check on outsourcing companies and taking a note of their activities.

## CONCLUSION

Evaluating a risk management plan sometimes can be very frustrating. It is definitely a time consuming process and also requires more of human efforts. Therefore, it is always better to analyze and evaluate a plan at every stage otherwise it will result in wastage of time, finances and efforts. In order to keep a check on it, specialized teams of risk managers can be appointed. The whole event can be outsourced to a risk management firm. The professionals at the firm can help you design, develop, implement and evaluate a risk management plan for your company.

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