**RISK MANAGEMENT**

# *The BEST Approach for Profit Retention*

## INTRODUCTION

The concept of managing risk is an inherent part of every CEO and Executive Team's life and as such is a crucial aspect of every corporate effort. Many Executives often assume risks without ever formally assessing the risk or attempting to mitigate the risks. Risk management is an attempt to predict future outcomes based on current knowledge, so it is not a precise science. However, it is possible to reduce risks and prevent risk events from occurring by using a risk management approach.

Risk management is an important element of corporate life because almost every effort contains elements of uncertainty, i.e., varying amounts of funding, changes in contract delivery date(s), changes in technical requirements, increases/decreases in staffing or quantity. Risk management should be thought of as an independent function distinct from other functions and mandated by the executive team.

In general, business opportunities are becoming increasingly larger and more complex. In today's environment, it is not uncommon for business solutions to consist of several products and combination of service components from within as well as outside an organization.

This complexity brings with it new business opportunities and risks and your corporation needs to decide at what point you wish to assure the value and profit are retained and when a risk assessment should occur.

## WHAT IS RISK??

Risk is the measure of the probability of a risk event, an unwanted change, occurring and the associated effect of that event. In other words, risk consists of three components:

- ✓ A risk event (an unwanted change)
- ✓ The probability of occurrence (uncertainty)
- ✓ The significance of the impact (the amount at sake)

## WHAT IS RISK MANAGEMENT??

The primary goal of the risk management process is to continually seek ways to asses and mitigate risks to achieve margin as well as revenue. Simply stated, risk management gives you, the executives of the company, a process designed to provide management with a realistic assessment of risks and proven methods to effectively deal with events that have a potential for causing unwanted change which includes effort overruns, lost in profitability and security breaches.

Risk management is an iterative process approach to managing those unwanted events which may occur during the course of any effort that could adversely affect the success of that effort. Once identified, the probability of each event's occurrence and its potential effect on the effort are analyzed and prioritized or ranked from highest to lowest. Beginning with the highest risk events and working down, the risk team determines what options or risk mitigation strategies are available and chooses the best strategy to reduce or prevent the identified risks from occurring. This information is the basis for the risk management plan, which is continually used and updated during the efforts planning and implementation phases.

Here is an example of what one company encountered that I think most people can relate to; During a natural disaster this Web Based companies main data center was taken off-line for five days and although they did have a disaster plan it did not contemplate all communications in a area this wide spread to be without power or communications. Some might say this was an over-reaction but put yourself in the executive teams place where they were facing millions of dollars of daily loss in income.

## WHAT ARE THE MAJOR CHARACTERISTICS OF RISK??

*Risks Are Situational* - Risks vary dramatically from one situation to another. There is no single textbook solution that is applicable for every case. Risk management requires a process approach that allows flexibility to adapt unique responses to one-of-kind potential problems.

*Risks Are Often Interdependent* - The effects of risk may appear subtle but many individual risks may be related to one another. While working to reduce one risk, another risk may be affected. A executive should always consider the "big picture," including any possible side effects and long-term effects of a decision.

*Risks Are Magnitude Dependent* - Risk acceptability is generally considered to be divided into two sharply distinguished parts or classifications relationship. Simply stated, the greater the reward, the more risk is acceptable.

*Risks Are Value Based* - Personal values can and do affect organizational risk-taking. Conversely, organizational values affect individual choices either encouraging or discouraging risk-taking.

*Risks Are Time-Based* - Risk is a future phenomenon and the consequence is not certain; it may or may not occur. People often look at risk as if it were a problem to be solved; it is not. Risks are potential problems which usually manifest themselves as symptoms that have to be analyzed so you can understand the cause of the risk. A risk is often brought about by a lack of time, which causes a lack of reliable information, and may result in a lack of informed control over the decision-making process.

## INTEGRATING RISK MANAGEMENT INTO YOUR CORPORATE EFFORTS

Some managers rely solely on their intuitive reasoning as their basis for decision-making. But, in today's complex business environment, an astute executive understands the importance of using a highly skilled senior risk team to identify risk events, assess the risk impacts, and develop strategies to reduce risks.

Executives must continually be aware of possible negative effects on their potential costs, schedule, and technical performance. Frequently, the success and survival of an effort depends on the company's effective control of these elements. Executives cannot be everywhere they need to be so they must have a full and complete understanding what is facing them and when do they need to review the risk.

To successfully integrate risk management into corporate management, the risk manager must ensure that a risk management plan is included as part of the overall efforts management plan. The corporate management plan and the integrated risk management plan should be continually reassessed as the effort or project until it is implemented or change occurs.

It is vital that risk management becomes a mindset for management and for project management to ensure that the corporate team never forgets the possible problems that could occur.

## RISK TYPES AND CATEGORIES

Overall risks are described as being either a business risk or a pure and insurable risk:

- Businesses Risks are those normal risks of doing business that carry opportunities for both gains and losses.
- *Pure or insurable risks* are those risks that present only an opportunity for loss.

With these two types of risks are two general categories applicable to each type of risk. These types are used for grouping related risks together for ease of risk analysis:

- **External** risk events are outside the direct control of the organization managing the project.
- **Internal** risk events are within the control of the organization managing the project.

Risk events may be more specifically categorized:

- **External**
  - Unpredictable
  - Predictable
- **Internal**
  - Technical
  - Financial
  - Schedule
  - Legal

There is no single best list of risk category titles; rather, each project manager should understand the purpose for organizing risks and tailor these category titles as applicable depending on the unique requirements of each project. The following list provides a few risk examples for each of the specific risk categories previously mentioned:

## *Risk Management Process*

All decision-makers, especially the executive team members, need to truly understand the situation they are facing, including the things that can go wrong, how they can go wrong, and what the potential impact is, when they do go wrong. A risk management process serves as an information empowering process that allows for the retainage of profit and allowing decision makers to make better informed choices.

Remember, risk is concerned with the future effects of current decisions and the successfully implementing an effective risk management process will reduce or eliminate losses that can take a profitable deal and turn it into a devastating loss affecting your bottom line.

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