RISK MANAGEMENT: PROCESS AND RESPONSE

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ABSTRACT

Risk management is an important process which identifies, analyzes and responds to the various risks associated with the running of a business. Risk management plays a crucial role since it enables a business with the necessary tools so it can satisfactorily identify and deal with potential risks. There are four steps of risk analysis process: first, identification of existing risks, second, assessment of the risks, third, developing an appropriate response and lastly, developing preventive mechanisms for recognized risks. Moreover, there are three type of risk responses – avoidance, mitigation and acceptance. All in all, an effective risk management process forms part of the overall organizational strategy and helps achieve the organizational goals and objectives.

Keywords: *Risk management, avoidance, mitigation, acceptance, assessment*

Introduction

Risk management includes the identification of risk, its analysis, and response to risk factors that form part of the existence of a business. Effective risk management implies attempting to control, as much as possible, future results by acting proactively rather than reactively. Therefore, compelling risk management offers the potential to decrease both the chance of a risk occurring and its potential impact.

Risk management structures are tailored to accomplish more than simply point out existing risks. A decent risk management structure ought to likewise compute the uncertainties and predict their influence on a business. Subsequently, the outcome is a decision between accepting risks or rejecting them. Acknowledgment or dismissal of risks is subject to the tolerance levels that a business has effectively defined for itself.

If a business sets up risk management as a disciplined and continuous process for the motivation behind identifying and resolving risks, then the risk management structures can be utilized to support other risk mitigating systems. They include planning, budgeting, organization, and cost control. In such a case, the business won't experience many surprises, on the grounds that the emphasis is on proactive risk management.

Risk management is an important process since it enables a business with the necessary tools so it can satisfactorily identify and deal with potential risks. When a risk has been recognized, it is then simple to mitigate it. Likewise, risk management furnishes a business with a premise whereupon it can attempt sound decision-making.

Literature Review

There is ample research available on the topic of risk management. Below are a few abstracts from the recent literature.

Samimi (2020), has posited that, this investigation has analyzed risk management planning in the field of Information Technology in industrial companies. Today, information is viewed as a significant factor alongside other factors of production. With quick innovative change, globalization and the expansion of efficient domain are among the necessities for accomplishing competitive advantage. Information innovation in the fields of hardware, software, volume and data type and telecommunication networks is quickly advancing and evolving. Most managers of associations have gotten mindful of the significance of utilizing this innovation in expanding the proficiency and adequacy of associations and more noteworthy customer satisfaction. As well as neglecting to meet the projected advantages, almost certainly, the disappointment of this IT won't be restricted to the financial and economic disadvantages. Concerning process of risk management or information security risks, there are strategies and systems which characterize steps to evaluation process and risk treatment as per the thought about approach. In any case, in the vast majority of these techniques, some essential standards and ideas are viewed as something similar.

Samimi (2020), has argued that, this study examines why risk management is needed in the energy industry. The variability of competitive laws in the realm of business and energy has been featured as a major policy strategy in numerous nations. The fast development of technology, increasing risk, risk in global markets and increasing changes in customer needs have been put new product development teams under pressure. In request to be effective in identifying opportunities and threats in the energy industry, the risks involved in this process should be distinguished and tended to. Hierarchical risk management permits the organization to expect changes and uncertainties as well as moving the correct way and achieving the intended vision. The best method to increase the effectiveness of risk management in the association is to foster it as a process in the arrangement of set processes. Forming risk management committees in the firm with the cooperation of managers and reporting to senior management about the risks ahead are other strategies for process management where the achievement rate has been exceptionally assessed.

Mvubu and Naude (2020), have opined that, the reason for this examination was to determine the supply chain risk management (SCRM) strategies that South African third-party logistics (3PL) service providers use to mitigate risks, the degree to which they embrace these strategies and the advantages inferred thereof. An exploratory and descriptive method strategy was received. The exact examination included email surveys administered to 398 supply chain managers utilized by South African 3PLs. The findings uncover that respondents place more prominent significance on risk identification than on the other SCRM strategies. Risk assessment attained the most minimal rating, implying that 3PL providers put minimal significance on this risk assessment strategy. Risk response and risk monitoring, reporting and control are totally embraced to an essentially lesser degree. The findings additionally uncovered that 3PL providers get huge advantages from all SCRM strategies.

According to Parashkevova (2020), the article plans to present possibilities for integrating project risk management processes into public sector organizational risk management strategies. The general isolation of project risk from management systems is a weakness in organizational functioning. Integrating project risk management processes into the general management system and in risk management strategies specifically, fundamentally adds to enhancing organizational culture. Consequently, a practice is set up for systematic and purposeful impact on risks accompanying each project.

According to Ahmed and Huma (2021), in this competitive era when there are unforeseeable changes and undeniable degrees of environmental instability in the market, supply chains are more centered around implementing dynamic strategies to get a fast response with minimal cost. The motivation behind this examination is to propose a conceptual framework to investigate driving factors for the leagile strategy and further to give experimental confirmations of effectiveness of lean and agile supply chain strategies on risk management in term of creating a robust and resilient supply chain. Data were collected from 140 supply chain managers employed in the manufacturing industry for testing the hypotheses via structural equation modeling. The findings of this investigation uncover that market orientation as an external force greatly affects driving the agile strategy when contrasted with lean, while the Quality management system as an internal force is exceptionally identified with developing lean supply chain strategies.

Moreover, Mokhaukhau (2020), Ozyuksel and Gezgin (2020), Vorgers (2020) and Ito (2021) have dealt with various aspects of risk management.

Response to Risks

Response to risks for the most part takes one of the following forms:

1. Avoidance: A business endeavors to eliminate a specific risk by getting rid of its cause.

2. Mitigation: Decreasing the projected financial worth related with a risk by lowering the possibility of the occurrence of the risk.
3. Acceptance: In some cases, a business might be forced to acknowledge a risk. This alternative is conceivable if a business entity creates contingencies to mitigate the impact of the risk, should it occur.

Risk Analysis Process

1. Identify existing risks:
Risk identification mainly involves brainstorming. A business gathers its workers together with the goal that they can audit every one of the different sources of risk. The subsequent stage is to arrange every one of the distinguished risks in order of priority. Because it is absurd to expect to mitigate every existing risk, prioritization guarantees that those risks that can influence a business significantly are dealt with more earnestly.
2. Assess the risks:
In many cases, problem resolution involves identifying the problem and then finding an appropriate arrangement. In any case, prior to figuring out how best to handle risks, a business ought to locate the cause of the risks by asking the question, "What caused such a risk and how is it possible that it would influence the business?"
3. Develop an appropriate response:
When a business entity is determined to assess likely solutions to mitigate identified risks and forestall their recurrence, it needs to pose the following inquiries: What measures can be taken to keep the recognized risk from recurring? Likewise, what is the best thing to do in the event that it does recur?
4. Develop preventive mechanisms for recognized risks:
Here, the thoughts that were discovered to be helpful in mitigating risks are developed into number of tasks and then into contingency plans that can be conveyed later on. In the event that risks occur, the plans can be put to action (Corporate Finance Institute, 2021).

Conclusion

Risk management encompasses the identification, analysis, and response to risk factors that form part of the existence of a business. Risk management is an important process since it enables a business with the necessary tools so it can satisfactorily identify and deal with potential risks. When a risk has been recognized, it is then simple to mitigate it. There are four steps of risk analysis process: first, identification of existing risks, second, assessment of the risks, third, developing an appropriate response and lastly, developing preventive mechanisms for recognized risks. Moreover, there are three type of risk responses: First, avoidance or getting rid of the risk by removing its cause; second, mitigation or lowering the possibility of occurrence and third, acceptance or creating contingencies to mitigate the impact of the risk, should it occur. All in all, an effective risk management process forms part of the overall organizational strategy and helps achieve the organizational goals and objectives.

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