

Responding to Risks

Unit

3

Unit 3

Responding to Risks

Learning objectives:

On successful completion of this unit the learner will be able to:

- ✓ Determine the appropriate response to risks and create a plan for those responses
- ✓ Describe the key components of reporting, monitoring, and evaluation of a risk management program

The Four T's

The best risk response plans usually provide a few response options, ranked in order of preference. There are generally four ways that you can respond to risks.

Tolerate

Accept that the risk exists and tolerate the possible consequences.

Treat

Perform an action to mitigate the risk. For example, if you know that the bank may not approve you for as much money as you need, you may want to look for other sources of funding.

Transfer

Transfer the responsibility or the consequences of the risk to a third party. This is often done through a guarantee or insurance.

Terminate

Stop the activity that causes the risk.

Key Considerations

Keep the following points in mind when choosing a mitigation strategy.

- Any strategy should do as much as possible to ensure normal business practices are not interrupted or are delayed as little as possible.
- In any large company, a risk materializing will almost certainly require media engagement to make announcements, clarify details, and provide on-going information to stakeholders and the general public about what your organization is doing. Managing the media should be part of your plan.

- Direct communication with stakeholders is critical. It should be either general but informative or very specific to the impact the risk has on them.
- If there is any chance that people may be injured or worse, you should include medical support in your planning. This can mean having an emergency response team standing by or providing emergency support numbers to your staff.
- Depending on the risk, you may be required by law to obtain insurance against it occurring. If this is not the case but insurance is available you should perform a cost/benefit analysis to determine if insurance should be part of your risk mitigation strategy.

Case Study: General Motors (Part Two)

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

In the chart below, list the risks that you identified in previous Units. Then, outline one or more strategies to mitigate each of them.

	Tolerate	Treat	Transfer	Terminate
Risk One				
Risk Two				
Risk Three				

Resourcing Controls

Identifying and Evaluating Controls

Once a risk has been identified, and you have chosen to treat it, it's time to look at controls that can be put into place to mitigate the risk.

Possible controls can include:

- Re-allocating existing people or equipment
- Additional people
- New equipment
- Skills and training
- New information

Your evaluation should look at:

- Does the control meet laws and regulations?
- How well does each control mitigate the risk?
- What is the cost of the control vs. the implementation benefit?
- What is the sustainability of the control?
- What changes might have to be made to this control?
- What other effects will this control have?

Case Study: General Motors (Part Three)

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Task

Choose one or more of your identified risks to treat. Identify what controls you could use to mitigate that risk.

Risk	Control

Reaction Planning

The Worst-Case Scenario

You should build a contingency plan for each major risk that has been identified. What will you do if the risk does occur? The plan should detail the following elements.

When

- How will we know when the risk will happen?
- What will alarms look like?
- When should we start acting?

Who

- Who has responsibility for this risk?
- What other resources might they need?
- Who else should be informed?

What

- What will happen when the risk occurs?
- What will we do when the risk happens? (Depending on the risk, this plan could be very detailed or very simple. A step-by-step, timed plan may be necessary.)
- What consequences could the risk have?
- What other risks might this event create?

Where

- Where is the risk going to happen?

Case Study: General Motors (Part Four)

Background Information

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Task

Choose one risk and outline a reaction plan.

Reporting and Monitoring

The Reporting Structure

When your organization establishes its risk management framework, a reporting hierarchy should also be established. Your reporting structure will differ depending on the complexity of your risk management program. Some common setups include:

- A part-time risk manager
- A risk management committee
- A full-time risk management champion
- A risk management team
- A risk management department with an internal audit team

Reporting and Monitoring Framework

Your organization will need to develop a checklist of items that will need to be reported on and monitored on a regular basis. This checklist should include:

- What data is to be gathered
- What form it is to be presented in
- Templates to be used
- When data should be gathered and reported
- Who is responsible for measuring, reporting, and monitoring

Reporting Checklist

Items that will need to be reported on include:

- Changes to risks
- Near misses and incidents
- Changes that will affect the risk management program, such as legislative changes, industry developments, and changes in supporting elements of risk planning

Depending on your organization, you may also need to provide reporting according to external guidelines, such as Sarbanes-Oxley or Turnbull.

Monitoring Checklist

Items that should be monitored include:

- Effectiveness of risk controls
- Cost of controls vs. benefit achieved
- Laws and legislation
- Industry climate
- Alignment of risk management plan with corporate goals

Reviewing and Evaluating the Framework

A Review Checklist

A plan for periodic review and evaluation of the risk management framework is a critical element of any risk management program. Typically a thorough review is performed annually.

Things that should be covered in the review process include:

- Analysis of risk response measures and whether they achieved the desired result, and did so efficiently
- Review of reporting and monitoring procedures

- Knowledge gap analysis for risk assessments (Were people able to find the information they needed?)
- Compliance check with appropriate regulations and organizations
- Opinions of key external and internal stakeholders
- Self-certification
- Risk disclosure exercise, to identify future risks
- Repeat of risk assessment
- Lessons learned
- Recommendations and implementation plan

Remember, the review should be proportionate to your organization. If your organization is small, an afternoon meeting to review your risk management program may be sufficient. For larger organizations, the review process may take weeks or even months and require outside assistance.

Back at Work

What kind of risk management framework would be most appropriate for your organization?

What kind of review procedures would need to be put in place?
