Risk Management

In every business there are common challenges with insurance, liability, procedures, and various forms of risk in general. Buildings can be damaged by fire, someone could slip and fall, vehicle accidents often occur, or losses can occur as a result of defective products.

Riskmanagement is the process of identifying, assessing and controlling threats to an organization's capital and earnings. These threats, or risks, could stem from a wide variety of sources, including financial uncertainty, legal liabilities, strategic management errors, accidents and natural disasters.

General process of risk management:

Identify Risk

Assess Risk

Control Risk

Review Controls

Risk management is the process of minimizing the adverse effects of an event on an organization. The adverse effects of risk can be objective or quantifiable like insurance premiums and claims costs or slips and falls by customers, or subjective and difficult to quantify such as damage to reputation or decreased productivity.

By addressing risk and committing the necessary resources to control and mitigate risk, a business can protect itself from uncertainty, reduce costs, and increase the likelihood of business profitability and success.

Common responses to risks:

* **Avoidance**: A business strives to eliminate a particular risk by getting rid of its cause.
* **Mitigation**: Decreasing the risk associated with an identified risk by lowering the possibility of the occurrence of the risk.
* **Acceptance**: In some cases, a business may be forced to accept a risk. This option is possible if a business entity develops contingencies to mitigate the impact of the risk, should it occur.

A risk exists where there is an opportunity for loss. It can refer to potential risks and exposures. A fire is an physical exposure. Defective products or defamation are liability exposures. The loss of business that results from a damaged building or tarnished reputation is its own form of exposure.

Risk management structures are tailored to do more than just point out existing risks. A good risk management structure should also calculate the uncertainties and predict their influence on a business. Consequently, the result is a choice between accepting risks or rejecting them. Acceptance or rejection of risks is dependent on the tolerance levels that a business has already defined for itself.

If a business sets up risk management as a disciplined and continuous process for the purpose of identifying and resolving risks, then the risk management structures can be used to support other risk mitigation systems. They include planning, organization, cost control, and budgeting. In such a case, the business will not usually experience many surprises, because the focus is on proactive risk management.

Risks management is an important process because it empowers a business with the necessary tools so that it can adequately identify and deal with potential risks. Once a risk’s been identified, it is then easy to mitigate it. In addition, risk management provides a business with a basis upon which it can undertake sound decision-making. Having a dedicated risk manager can provide your business with the protection it needs to avoid costly problems in the future.

Many businesses do things to prevent losses or mitigate risks every day but don’t think of it as risk management. Most prudent business people and managers take great care to do things like prevent accidents, protect property, and keep customers and employees from harm. Any effort to manage risks is positive.  It is important, however, to follow a formal process to ensure consistency and thoroughness.