Fundamentals of a Risk Management Plan

Access the risk associated with your farm and your activities

Queensland Government
The State of Queensland
https://www.business.qld.gov.au/business/running/risk-management

Managing Risk

- Risk management is the process of identifying risks, assessing risks and developing strategies to mitigate risks. A risk management plan is an important part of your overall business plan. By understanding potential risks to your business and finding ways to minimize their impacts, you will be giving your business the best chance of success.
- Types of risk vary from business to business, but managing risk involves a common process.

- What are some potential risks?
  - Fire
  - Flood
  - Tornado
  - Violent Intruder

What is your plan?

Identify Risks

- The first step in risk management is to look closely at your business and identify potential risks. Until you know the scope of all possible risks, you cannot develop a realistic, cost-effective strategy for dealing with them. The aim of this stage of risk management is to create a database of risks relevant to your particular business.

Types of Risk

Operational and environmental risks

- These risks cover a range of environmental, human, systems and procedural impacts such as illness or retirement of key staff, equipment breakdown, natural disasters and software failures.

Legal risks

- These risks include contractual breaches and non-compliance with regulations such as changes to work health and safety standards.

Strategic risks

- These risks relate to your business strategies such as changes in customer demand, increased competition, adopting new technology and pursuing new business opportunities.

Privacy and information risks

- These risks relate to non-compliance with state and national privacy laws on recording, storing and disposing of customer information.

Ways of Identifying Risk

These methods will help you identify risks that are relevant to your particular business:

- Thoroughly review your business plan and ask as many 'what if?' questions as you can.
- Brainstorm with your accountant, financial adviser, staff and other interested parties. Get as many different perspectives as you can.
- Analyze a wide range of possible future events and their outcomes (scenario analysis). Analyze economic, political, legislative and operating scenarios.
- Use flow charts, checklists and inspections to break down and analyze your work procedures (systems analysis).
- For any method, always ask these questions:
- When, where, why, and how are risks likely to occur in this business?
- Are the risks internal, external or random?
- Who might be involved or affected if this occurs?
- Once you've identified risks, you'll need to analyze their likelihood and consequences and then come up with options for managing them.

Create A List

- Create a list of possible risks to your business, you need to analyze and evaluate each one.
- The most common way of analyzing risks is to use a scale that rates each risk on:
  - the likelihood of it occurring
  - the consequences of it occurring.

Likelihood scale example

Level	Likelihood	Description
4	Very likely	Happens more than once a year in this industry
3	Likely	Happens about once a year in this industry
2	Unlikely	Happens every 10 years or more in this industry
1	Very unlikely	Has only happened once in this industry

Consequences scale example

Level	Consequence	Description
4	Severe	Financial losses greater than $50,000
3	High	Financial losses between $10,000 and $50,000
2	Moderate	Financial losses between $1000 and $10,000
1	Low	Financial losses less than $1000

Rating Table for Risks

- Note: The scales above use 4 different levels; however, you can use as many levels as you need. Also use descriptors that suit your purpose (e.g. you might measure consequences in terms of human health, rather than dollar value).
- Once you have established the likelihood and consequences of a particular risk, you then need to create a risk rating table for evaluating the risk. *Evaluating a risk means making a decision about its severity and ways to manage it.*
- Use the following formula to calculate risk rating: ***Likelihood x Consequences = Risk rating***
- For example, you may decide the likelihood of a fire is 'unlikely' (a score of 2) but the consequences are 'severe' (a score of 4). Using the tables above, a fire therefore has a risk rating of 8 (i.e. 2 x 4 = 8).

Risk rating table example

Risk rating	Description	Action
12-16	Severe	Needs immediate corrective action
8-12	High	Needs corrective action within 1 month
4-8	Moderate	Needs corrective action within 3 months
1-4	Low	Does not currently require corrective action

Your risk evaluation should consider:

- the importance of the activity to your business
- the amount of control you have over the risk
- potential losses to your business
- any benefits or opportunities presented by the risk.

- Once you have identified, analyzed and evaluated your risks, you need to rank them in order of priority. You can then decide what methods you will use to treat unacceptable risks.

Treating Risk

- Risk treatment involves working through options to treat unacceptable risks to your business. Unacceptable risks range in severity; some require immediate treatment, others can be monitored and treated later.
- Before you decide which risks to treat, you need to gather information about the:
- method of treatment
- people responsible for treatment
- costs involved
- benefits of treatment
- likelihood of success
- ways to measure and assess treatments.
- Once you decide how to treat identified risks you will need to develop, and regularly review, your risk management plan.

What Do You Do?

- The following are different options for treating risk:

Avoid the risk

- You may decide not to proceed with the activity likely to generate the risk, where practical. Alternatively, you may think of another way to reach the same outcome.

Reduce the risk

- You can control a risk by: reducing the likelihood of the risk occurring - for example, through quality control processes, managing debtors, auditing, compliance with legislation, staff training, regular maintenance or a change in procedures reducing the impact if the risk occurs - for example, through emergency procedures, off-site data backup, minimizing exposure to sources of risk or public relations.

Transfer the risk

- You may be able to shift some or all of the responsibility for the risk to another party through insurance, outsourcing, joint ventures or partnerships.

Accept the risk

- You may accept a risk if it cannot be avoided, reduced or transferred. However, you will need to have plans for managing and funding the consequences of the risk if it occurs.

Developing and Reviewing Your Risk Management Plan

- A risk management plan details your strategy for treating risks. It details information about:
- identified risks
- the level of risks
- your planned strategy
- the time frame for implementing your strategy
- the resources required
- the individuals responsible for ensuring the strategy is implemented.
- Your final plan should include appropriate objectives, a budget and milestones on the way to achieving those objectives.

Reviewing Your Risk Management Plan

- The business environment is constantly changing. The type of risks you face will change as your business develops and grows. Regularly reviewing your risk management plan is therefore essential for identifying new risks and monitoring the effectiveness of your risk treatment strategies.