

# Risk Management Techniques: Know When and When Not to Take Risks

Unforeseen threats can have a catastrophic impact on your business if you don't carefully plan and manage potential risks. From financial to operational to new global health and safety risks, many companies may find themselves wishing to avoid every type of risk out there. Yet not all risks are created equal – some are worth the reward and are essential to business growth.



The trouble is, how do you prepare for the countless number of threats all with varying scope and severity? Following a standardized process for assessing, managing, and monitoring risk can help. Not only are following these three risk management techniques great for managing all your potential threats, but they are also valuable for creating alternative solutions – ones where your business can reap the rewards of staying ahead of carefully assessed risks.

In this article, we go through the three main techniques for risk management so your business can stay on a resilient and agile track and ensure every risk is evaluated.

## Top Three Risk Management Techniques

To have a successful risk environment, you must first have a thorough knowledge of all the potential hazards and threats. It would help if you also decided how much risk your company is willing to accept, what measures you will put in place to manage these risks, and what resources you are willing to invest in monitoring risks.

Here are three steps to get you started in determining and managing risks:

### Technique #1: **Assess the Risk**

Assessing risks is when you identify and analyze the impact of future events. The assessment risks are broken down into three subtasks: identifying threats, analyzing their impact, and determining the likelihood of their occurrence.

- **Identify Threats**

In risk management, the first and most crucial step is to identify the dangers to your company. Risks and their complexity are constantly changing, so you must always watch for emerging trends and threats that affect your sector.

There are a variety of resources available to help you stay ahead of the competition and avoid future risks. Reading trade publications, participating in industry conferences and loss prevention forums, and obtaining case studies are just a few examples. Several sources also provide crime data, some of which are industry-specific, which can be very useful in detecting security risks.

It's also important to categorize the threats as internal or external to ensure you have the proper risk mitigation measures in place. It's easy to think of threats coming from outside the organization, but internal threats, such as occupational fraud, can be just as – or more – devastating to your business.

Make sure to include threats and risks for all areas of your organization, including:

- Health & safety risks (e.g., slips, trips, and falls, or global pandemic)
- Operational risks (e.g., employee errors, data breaches)
- Financial risks (e.g., interest-rate fluctuations, credit availability)
- Strategic risks (e.g., competitive pressure, consumer demand shifts)
- Regulatory risks (e.g., data privacy laws, OSHA)

- **Identify Likelihood of Threat Occurrence**

When considering the impact of any one threat, you need to consider two factors: likelihood and outcome. The **likelihood** is how probable it is for the risk event or threat to occur. The **outcome** is what would be the overall ramifications of the occurrence.

No matter how similar, all threats should be evaluated for their unique combination of occurrence and outcome likelihoods.

- **Identify Impact of Threats**

Next, it's essential to analyze how the damage of a threat may impact your business through a heat map or risk matrix. To do this, rate each threat on its potential likelihood and outcome severity on a scale of 1 to 10, with 1 being low and 10 being high. Identifying the threat's impact will help you determine how to prioritize risk management strategies. You can categorize threats in terms of business, technical, or high vs. low impact – whichever is most beneficial to your business.

## Technique #2: **Manage the Risk**

After you have identified the threats along with their potential impact and likelihood of occurrence, you'll want to begin the process of managing them. Generally, there are four main buckets you can choose from in managing specific risks:

- **Avoid the Risk**

Some risks aren't worth it. For instance, a particular type of trading or business acquisition may be too risky. In general, if the downfall from risks is too detrimental to move forward, then remove the threat or abandon the activity.

The key advantage of this technique is that it's the most successful method of mitigating risk. You eliminate the possibility of suffering losses by stopping the threat altogether. This strategy is best used as a last resort after you've exhausted your other risk mitigation strategies and found the risk level is still too high.

- **Accept the Risk**

It may be best to accept small threats in certain situations. If you do want to mitigate them, look for simple, low-cost options. Or simply continue as business as usual.

The advantage to accepting risks is that there are no costs, and it frees up your budget for higher priority, more severe threats. Just be sure to continue monitoring even the smallest of hazards to reduce any unwanted surprises.

- **Transfer the Risk**

Businesses can transfer risk to a third party, typically by buying insurance. You can also transfer financial risks through hedging strategies, futures contracts, and derivatives. Or you can pool risks, where a group decides to spread the risk among its members. If any of the group members suffer a loss, everyone contributes to the restitution (similar to traditional insurance).

The advantage here is that you can take some or most of the burden from risks and share it with a third party.

- **Mitigate the Risk**

If, after assessing the risk, you decide you don't want to eliminate it, you can take measures to mitigate or reduce it. This strategy aims to reduce the likelihood that the threat will occur or minimize the impact in the chance it does happen.

An example of reducing a risk occurrence is providing incentives for clients to pay your invoices, such as a 10 percent discount for early payment. An example of reducing impact would be to arrange a short-term credit with a bank, so you don't have to worry about running out of money when payments are late.

The advantage of mitigating risk is that you can continue conducting activities that are essential to business growth all while having measures in place to protect your business.

## **Technique #3: Monitor the Risk**

Risk management is an ongoing process, so it's essential to maintain a risk monitoring strategy as part of your plan. New risks constantly emerge, and existing risks may grow or change in size and scope. Continue to monitor risks, reassess threats, and apply lessons learned to become more adaptable, proactive, and agile in responding to hazards.

One way to make monitoring risks easier and less of a drain to your resources is by using a Risk Management Information System or RMIS.

An RMIS brings all your risk data together into one place to give you a clear view of your risks, risk connections and relationships, and the impact on your organization. It helps you save time and improve accuracy by automating tasks and streamlining workflows. An effective RMIS can also help you reduce risk exposure and the total cost of risk.

Every year, risks are growing in complexity and increasing in number. Unpredictable events, stricter regulations, and increased scrutiny from employees, customers, and investors put more pressure on companies to stay ahead of unforeseen and adverse circumstances. Formalizing your defense with industry-standard risk management techniques is critical to combating this pressure, improving your company's reputation, and increasing risk protection for the long haul.

For more information, check out how Riskconnect's [Risk Management Information System](#) can turn risk intelligence into better business results.