

# Free essay on risk management

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Identification of risks is the first step in managing risks. There are many ways through which risks can be identified. The first is brainstorming. This is where several people come together and a facilitator encourages them to give their inputs on possible risks while one of them takes notes. Another method is through surveys, although this may sometimes fail to yield accurate information. Interviews can also be used, although the quality of information yielded may be limited by the facilitator. Working groups can also be formed to analyze a situation and identify the risks. Experiential knowledge can also be used but with caution, because it may not necessarily be applicable to the situation at hand. This is also true for documented knowledge. One can also conduct a risk oriented analysis and try to identify any potential risks.

The term risk assessment refers to the determination of qualitative or quantitative value of risks which are related to a situation and an identified threat or hazard. This is done by first identifying the hazard. The management team or other relevant body should then decide on who or what is likely to be harmed by this particular hazard and how. They should then evaluate this risk and make decisions on the necessary precaution to take. This should then be recorded and implemented. The assessment should then be reviewed and updated if necessary.

There are several risk control strategies which can be employed by a company to minimize risks. The first is risk dissection. The risks should be analyzed so that management knows the probability of each risk occurring and what it would mean to the business. The second strategy is risk avoidance. This is reducing the possibility of certain risks occurring by creating a risk management plan that incorporates this. It involves removing

unnecessary items from the business plan if these items are likely to prove problematic in future. The third strategy is by controlling the risk. This could involve coming up with another plan, for instance, changing the process through which certain things are done. This makes it easier to handle should the risk occur. Finally, one could include potential risks in the budget. One very big risk companies must always be prepared for is financial risks. The company should always have some money set aside to help keep the business afloat should this become a reality. Another way through which this could be done is by transferring all transferable risks to insurance companies.

### **Minimizing Risks**

In order to minimize risks, it is very important to be conscious of all the money that goes into and out of the business. Not properly managing cash flow could lead to financial hardships for the business. It is also very important for the business to be insured against specific risks that could threaten the business. In the event that the company includes online components, the business owners or the managers should be careful to ensure that they insure these as well. It is important to find out which policies best cover these aspects of the business.

In the event that the business undergoes some changes, it is very important to ensure that the insurance cover is also changed. It is important to have a trusted insurance advisor to help determine the necessary changes that need to be made to the insurance cover so that any new change is also covered. Such changes include acquiring a company, introducing a new product, beginning to do business in new states or countries or hiring

different people. These are all things that could trigger new risks. It is also very important to insure all the key people whose failures or absence could adversely affect the business.

If key people in the company are already insured, it is important to review this insurance policy every four months or so to ensure that this insurance policy remains valid and does not become outdated as the business continues to grow.

The company should also seek indemnification for any potential damage caused by other companies or businesses and also caused by people the business relies on, on a regular basis. For instance, a company that distributes certain computer software to its clients could receive complaints that the provider packaged the wrong one, leading to the company being sued. In such a case, indemnification would come in very handy. However, this can only work if the other company involved is financially capable of delivering on this issue. In the event that the company suspects that the other company might not be able to cover such risks, they contractually require them to maintain insurance.

When getting into a new area of business or signing a new contract, the company should ensure that they are able to cut their losses should things go bad. This should all be covered in the contract. Losses should not affect their other areas of business or lead to bankruptcy.

It is also very important to create separate entities when venturing into areas that create new risks. This is especially important if it involves the same clients or customers. However, if it brings in additional risks from lawsuits, partnerships, or monetary standpoints, one may need to create a

separate entity. It is also important to have separate legal structures when business is crossing state lines, adding partners, or adding legal risks current business. This helps in preventing losses.

## **References**

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