

# FUTURE PROOF YOUR BUSINESS

WITH A RISK  
MANAGEMENT PLAN

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OpusMagnum presents

# Future Proofing Your Business

With  
A Powerful Risk Management Programme

Your facilitator is Peter Messervy

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**At the end of this workshop you will be able to:**

- Understand the risk management process
- Determine effective risk management practices
- Learn to use the various tools and techniques to support the practice
- Practice using techniques with a case study
- Learn to create an effective project environment
- Discuss and explore risk management ideas, concerns, and issues

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## Syllabus

1. Risk Management Concepts
2. Risk Identification
3. Risk Assessment
4. Risk Response Planning
5. Monitoring and Controlling Risk
6. Summary & Conclusion

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**How to get the most out of this workshop**

- Keep an open mind
- Set aside the time to focus
- Participate in the practice exercises
- Avoid interruptions and distractions

*What you get from this workshop will be directly proportional to what you put into it.*

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One More Thing!

**NEVER BE  
EMBARRASSED BY  
WHAT YOU DON'T  
YET KNOW**

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**The  
Concepts of  
Risk**

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## Types of Risk

- **Natural Risk**  
Outside your control and cannot be avoided (accidents, hurricanes, earthquakes, elections, war)
- **Assumed Risk**  
Deliberately taken in order to achieve a benefit or realize an opportunity (the business case)
- **Activity Risk**  
Inherent in the daily activities of the business due to people, technology and the business environment

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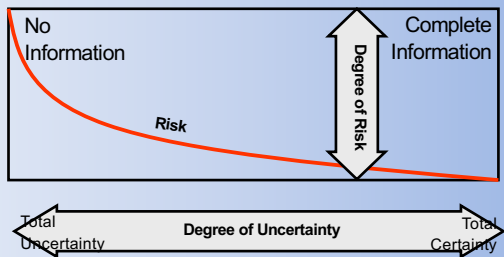
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## Uncertainty



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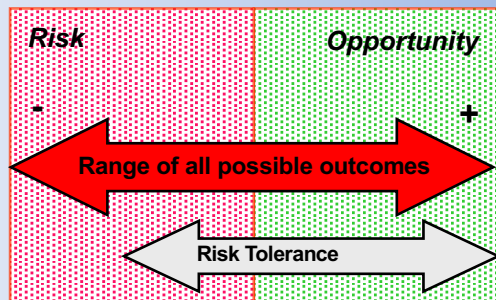
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## Risk vs. Opportunity



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### Assumed Risk

- Risk is assumed and accepted when:
1. Acquiring or creating a business
  2. Evaluating business viability
  3. Creating a Business Plan



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### Elements of Risk Management

- **Risk Identification:** Recognizing the risks that are likely to affect the business
- **Risk Assessment:** Quantifying the severity of the risks
- **Risk Response Planning:** Planning the avoidance, or mitigation of a risk
- **Risk Monitoring:** Tracking risk events and changes to risk conditions

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### Why Risk Management?

- Early identification of difficult projects
- Early recognition of difficult or impossible constraints
- Early warning of possible problems
- Focus on appropriate levels of process and governance
- Focus on the greatest threats

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## **Risk Management is a Coping Mechanism**



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***“The notion of bringing risk under control is one of the central ideas that distinguishes modern times from the more distant past”***

Peter Bernstein, 1996  
Wall Street economist

Opus Magnum

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Peter Messervy 2011

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## **Risk Identification**

***Risk identification involves systematically finding the sources of risk in the business***

- Difficult
- Involves predicting the future
- Templates and methods can help but do not replace the skill and good instincts required

***It is best done by involving people with different experience and viewpoints***

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### Where to look for Risks

*These are some of the things to consider to help identify risk:*

- Focus on business success criteria
- Create a list of risk categories
- Consider risk influencing factors
- Review the business plan
- Management and process risks

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### Business Success Criteria

- **Schedules** – impact of missing deadlines and delaying schedules
- **Costs** - impact of cost overruns or incorrect estimates
- **Quality** – Measured against desired standards of product or service
- **Value** – Variation in market value of product or service

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### Risk Influencing Factors

- Business Size
- Team Experience
- Business Structure
- Technical Complexity
- Technical Novelty
- Management Stability
- Market Conditions
- External controls and influences

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### Business Plan Factors

*Evaluate the components of the business plan for the following:*

- Knowns, unknowns and assumptions
- Dependencies on external resources
- Required and available skills
- Sensitivity of cash flow forecast

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### Management & Process Risks

- Communications Management
- Human Resource Management
- Procurement Management
- Cost Management
- Time Management
- Quality Management

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### Risk Categories

- Business Personnel
- Customers
- Administrative procedures
- Technology
- Financial
- Quality
- Political
- Market

Create a list of a few categories relevant to your own business

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### Risk Identification Techniques

- Group brainstorming sessions
- Interviewing stakeholders & Key team members
- Using historical data
- Using a master risk list
- Focusing on specific success factors such as schedule or budget
- Reviewing the Business Plan

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### Other Risk Analysis Techniques

- Brainstorming
- Sensitivity Analysis
- Probability Analysis
- Delphi Method
- Monte Carlo Simulation
- Decision Tree Analysis
- Utility Theory
- Decision Theory

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### Defining the Risks

- Create a brief statement describing the risk **condition**
- Create a brief statement describing the **consequence** of the risk occurring

*Good definition leads to good understanding*

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### Risk Response Planning

*The creation of an environment, condition or strategy that reduces the probability or impact of a risk*

- Pro-active
- Evaluate comparative cost of responses
- Consider new risks created by the response

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### Risk Planning Process

- Begin with the prioritized risk list
- Decide which risks will be managed and which will be ignored – usually a cut-off point in the prioritized list
- Determine if each risk is controllable or uncontrollable
- If controllable – deal with the causes
- If uncontrollable – deal with the effects

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### Risk Response Plans

- **Mitigation Plans (Proactive)**
  - Avoid incurring the risk
  - Reduce the probability
  - Minimize the impact
- **Contingency Plans (Reactive)**
  - Plan of action or options to be invoked if the risk should occur

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### Risk Response Strategies

- **Acceptance**—live with it
- **Avoidance**—eliminate the cause
- **Transfer**—to another party
- **Mitigation**—reduce the severity

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### Risk Acceptance

*Acceptance is a valid strategy when:*

- The risk is understood
- The probability and consequences have been analyzed
- The cost of mitigation outweighs the severity
- A conscious choice is made to only react if it occurs
- A contingency plan should be prepared in case it occurs

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### Risk Avoidance

*Taking action to remove the risk from possible occurrence*

May be achieved by:

- Not doing the project or activity
- Creating a condition or strategy that will not encounter the risk
- Creating a condition or strategy that will recover immediately from the risk if it occurs

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### Risk Transfer

*Transferring the risk to someone else*

- Usually achieved by contracting the work to someone who will provide guarantees and take on the risk for you

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### Risk Mitigation

*Reducing the severity*

- Reducing the probability
- Reducing the impact

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### Contingency Planning

*Preparation of a strategy for action if the risk occurs*

- Identifies actions to be taken and resources needed in the event of the risk occurrence
- May identify more than one option
- The cost of the actions should be estimated and budgeted
- Reduces the possibility of panic or destructive action when a problem occurs

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## Contingencies

*Contingencies are resources identified to deal with risk occurrences*

- Resources may be money, people or time
- At least 10% should be allowed for unidentified risks
- Having contingencies is like being self insured

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**Risk Planning Worksheet**

Risk Condition		Probability
Risk Consequence		Impact
		Severity
<b>Action Plan</b>		
	Action	Estimated Plan
Elimination		
Mitigation		
Contingency		

Risk condition from your assessment worksheet with more detail

Risk consequence from your assessment worksheet with more detail

Copy the probability, impact and severity from your assessment worksheet

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**Risk Planning Worksheet**

Risk Condition		
Risk Consequence		
		Severity
<b>Action Plan</b>		
	Action	Estimated Plan Impact
Elimination		
Mitigation		
Contingency		

Identify possible actions to avoid incurring the risk

Identify possible actions to reduce the severity of the risk

Identify possible actions to take if the risk occurs

Identify the business impact for each of the actions

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### Risk Monitoring

**Review and update the risk plan**

- Periodically
- When the business changes
- When there is a major disruption
- Keep a risk log
- Monitor risk events and effectiveness of response strategy

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### Business Changes

**Link business changes to risk management so that:**

- Each change is evaluated for risk as part of the change impact analysis
- For each approved change, Identify new risks and responses

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### Summary & Conclusion

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### The Risk Management Method

- Create a list of risks
- For each risk:**
  - Estimate the probability of occurrence (1-10)
  - Determine the consequences
  - Estimate the seriousness of the impact (1-10)
  - Calculate the severity (probability x impact)
- Using the compiled list:**
  - Sort the list in order of severity
  - Choose range of risks to manage
- For each risk event:**
  - Decide on the response strategy
  - Develop contingency plans for selected conditions

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### The Risk Management Plan

- Unique to every business
- Clearly documented
- Shared with staff and other stakeholders
- Reviewed regularly
- Updated over time and change

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### The Value of Risk Management

- Helps you survive a major disruptive event
- Gets you up and running soon after a disruption
- Insurance doesn't cover everything
- Credibility with lenders, investors, insurance
- Minimizes stress and panic
- An effective coping mechanism
- Sends a powerful message to your customers reassuring them of your ability to survive.

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### Your Next Steps

- **The Workshop Club**
  - Regular powerful business workshops
- **The Planning Club**
  - Monthly and quarterly planning workshops
- **The Alpha Group**
  - Peer to peer executive advisory board
- **GOLD Coaching**
  - Expert coaching programmes

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# Thank You

For your attendance

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## Risk Planning Worksheet

Risk Condition	Probability	
Risk Consequence	Impact	
Severity:		

### Action Plan

Action	Estimated Plan Impact
Elimination	
Mitigation	
Contingency	