



Preparing A Risk Management Plan and Business Impact Analysis

The process of identifying risks, assessing risks, and developing strategies to manage risks is known as risk management. A risk management plan and a business impact analysis are important parts of your business continuity plan. By understanding potential risks to your business and finding ways to minimise their impacts, you will help your business recover quickly if an incident occurs.

Types of risk vary from business to business but preparing a risk management plan involves a common process. Your risk management plan should detail your strategy for dealing with risks specific to your business. It is important to allocate some time, budget, and resources for preparing a risk management plan and a business impact analysis. This will help you meet your legal obligations for providing a safe workplace and can reduce the likelihood of an incident negatively impacting on your business.

Identify Risks to Your Business

The first step in preparing a risk management plan is to identify potential risks to your business. Understanding the scope of possible risks will help you develop realistic, cost-effective strategies for dealing with them. It is important that you think broadly when considering types of risks for your business, rather than just looking at obvious concerns e.g., fire, theft, market competition.

Assessing Your Business

Before you begin identifying risks, you need to assess your business. Think about your critical business activities, including your key services, resources and staff, and things that could affect them, such as power failures, natural disaster, and illness. Assessing your business will help you work out which aspects you could not operate without.

Ways of Identifying Risk

Once you have a clear picture of your business, you can begin to identify the risks. Review your business plan and think about what you could not do without, and what type of incidents could impact on these areas. Ask yourself:

- When, where why and how are risks likely to happen in your business?
- Are the risks internal or external?
- Who might be involved or affected if an incident happens?

Consider the What If Questions

Review your business plan and ask as many questions as you can. What if:

- You lost power supply or had no access to the internet?
- Key documents were destroyed?
- One of your most valued staff members quit.
- Your suppliers went out of business?
- The area your business is in suffered from a natural disaster?
- The services you need, such as roads and communications, were closed?



Analyse Other Events

Think about other events that have, or could have, affected your business. What were the outcomes of those events? Could they happen again? Think about what possible future events could affect your business. Analyse the scenarios that might lead to an event and what the outcome could be. This will help you identify risks that might be external to your business.

Assess Your Processes

Use flow charts, checklists, and inspections to assess your work processes. Identify each step in your processes and think about the associated risks. Ask yourself what could prevent each step from happening and how that would affect the rest of the process.

Consider Worst Case Scenario

Thinking about the worst things that could happen to your business can help you deal with smaller risks. The worst-case scenario could be the result of several risks happening at once. For example, someone running a restaurant could lose power, which could then cause the food to spoil. If the restaurant owner were unaware of the power outage or the chef decided to serve the food anyway, customers could get food poisoning and the restaurant could be liable and suffer from financial losses and negative publicity. Once you have identified risks relating to your business, you'll need to analyse their likelihood and consequences and then come up with options for managing them.

Analyse And Evaluate Impact of Risk

Once you have identified the risks to your business, you need to assess the possible impact of those risks. You need to separate minor risks that may be acceptable from major risks that must be managed immediately.

Analysing The Level of Risk

To analyse risks, you need to work out the likelihood of it happening (frequency or probability) and the consequences it would have (the impact) of the risks you have identified. This is referred to as the level of risk, and can be calculated using this formula:

$$\text{Level of risk} = \text{consequence} \times \text{likelihood}$$

Level of risk is often described as low, medium, high, or very high. It should be analysed in relation to what you are currently doing to control it. Keep in mind that control measures decrease the level of risk, but do not always eliminate it.



A risk analysis can be documented in a matrix, such as this:

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 £10,000 to £50,000
2	Moderate	Financial losses £1000 to £10,000
1	Low	Financial losses less than £1000

Note: Ratings vary for different types of businesses. 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 monetary value

Evaluating Risks

Once you have established the level of risk, you then need to create a rating table for evaluating the risk. Evaluating a risk means deciding about its severity and ways to manage it. 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 and formula above, a fire therefore has a risk rating of 8 (i.e., $2 \times 4 = 8$).



Risk Rating Table Example

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, analysed and evaluated your risks, you need to rank them in order of priority. You can then decide which methods you will use to treat unacceptable risks

Treat Risks to Your Business

Treating risks involves working through options to deal with unacceptable risks to your business. Unacceptable risks range in severity; some risks will require immediate treatment while others can be monitored and treated later.

Your risk analysis and evaluation will help you prioritise the risks that need to be treated. When you are developing a plan for treating the risks, consider the:

- Method of treatment
- People responsible for treatment
- Costs involved
- Benefits of treatment
- Likelihood of success
- Ways to measure the success of treatments.

How and why you have chosen to treat risks should be outlined in your risk management plan. It is important to review your plan regularly to consider any new risks associated with changes in your business or improvements in techniques for treating risks. The following are different options for treating risks.



Avoid the Risk

If it is possible, you may decide not to proceed with an activity that is likely to generate risk. Alternatively, you may think of another way to reach the same outcome that does not involve the same risks. This could involve changing your processes, equipment, or materials.

Reduce the Risk

You can reduce a risk by:

- Reducing the likelihood of the risk happening - for example, through quality control processes, 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, minimising exposure to sources of risk, or using public relations.

Transfer the Risk

You may be able to shift some or all the responsibility for the risk to another party through insurance, outsourcing, joint ventures or partnerships. You may also be able to transfer risk by:

- Cross-training staff so that more than one person knows how to do a certain task and you do not risk losing essential skills or knowledge if something happens to one of your staff members
- Identifying alternative suppliers in case your usual supplier is unable to deliver
- Keeping old equipment (after it is replaced) and practicing doing things manually in case your computer networks or other equipment cannot be used.

Ensure You Have Adequate Insurance

Speak to your insurer to ensure you have the right insurance cover for your business. Be sure to clarify whether you are covered for the risks you have identified in your risk management plan. Particular attention should be paid to ensuring you have:

- Coverage for the loss of income you could incur if customers affected by the crisis stop ordering your product or service
- Appropriate insurance to cover other related issues such as on-site injuries to staff or visitors, or for loss of your customers' goods or materials
- Coverage in case your suppliers are affected by a crisis and cannot deliver necessary supplies for your business
- Are meeting your workers' compensation obligations in case any of your staff are injured in a crisis.

Accept the Risk

You may accept a risk if it cannot be avoided, reduced, or transferred. Other risks may be extremely unlikely and therefore too impractical or expensive to treat. However, you will need to develop an incident response plan and a recovery plan to help you deal with the consequences of the risk if it occurs.



Review and Update Your Risk Management Plan

You will need to test, evaluate, and update your risk management plan regularly as risks can change as your business, your industry, and the environment you operate in change. Regularly reviewing your risk management plan is essential for identifying new risks and monitoring the effectiveness of your risk treatment strategies. Develop strategies for testing, evaluating, and updating your risk management and business continuity plan.

Business Continuity

Your risk management plan should be part of a broader business continuity plan that includes strategies for responding to and recovering from incidents if they do happen. Making sure your business continuity plan is reliable and up to date will help you resume operations quickly after an incident and reduce the impact to your business. While you may be able to predict and deal with many potential risks, there will be some that are unexpected or impossible to plan for. Preparing an incident response plan and a recovery plan as part of your overall business continuity plan can help you deal with the unexpected.

Consider Impact Upon Critical Business Activities

A business impact analysis identifies the activities in your business operations that are key to its survival. These are referred to as critical business activities and include

1. The records and documents you need every day, the resources and equipment you need to operate, the access you need to your premises, the skills and knowledge your staff have that you need to run your business.
2. External stakeholders you rely on or who rely on you, the legal obligations you are required to meet, the impact of ceasing to perform critical business activities and how long your business can survive without performing these activities.

As part of your business impact analysis, you should assign recovery time objectives to each activity to help determine your basic recovery requirements. The recovery time objective is the time from when an incident happens to the time that the critical business activity must be fully operational to avoid damage to your business. Your business impact analysis will help you develop your recovery plan, which will help you get your business running again if an incident does happen.

Key Questions in A Business Impact Analysis

To conduct a business impact analysis for your business, ask yourself:

- What are the daily activities conducted in each area of my business?
- What are the potential losses if these business activities could not be provided?
- How long could each business activity be unavailable?
- Do these activities depend on any outside services or products?
- How important are the activities to my business?

As the risks to your business change, so will their potential impacts. Update your risk management plan and conduct a new business impact analysis.