Business Resilience Toolkit

What is risk and risk management?

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Transcript:

In this video, we are going to give you some simple definitions of risk and risk management which will help you to understand the concept of risk.

My name is Jane Arnott, and I am the General Manager for Consulting at Community Business Bureau (CBB).

Risk and risk management are important parts of business resilience.

The international standard on risk management defines risk as being "the **effect** of **uncertainty** on achieving **objectives**".

There are a three key parts to this:

- Firstly EFFECT: the effect can be either negative or positive. Usually when we say 'risk', we think of a negative, but an opportunity is a positive risk.
- Secondly UNCERTAINTY of whether an event will occur, or how an event will turn out
- Third and last, OBJECTIVES. In an organisational context, risk is linked to your strategic plan and the goals or objectives you want to achieve. This means that when you are looking at risks, you are thinking of the things that will stop you from achieving your goals.

Risks can happen at an operational level: management are generally responsible for overseeing and addressing operational risks. However you want your board to spend more time discussing strategic risk.

Risk management is about reducing the likelihood that something will happen that has a negative impact on your customers or your organisation, and limiting that negative impact if things do go wrong. You can have negative and positive risks. An opportunity is a positive risk as it may have a positive effect on achieving your objectives, but you are uncertain of whether it will happen and if it will achieve the outcomes you're looking for.

Organisations within the not for profit sector are often providing services that are critical to get right – for example when working with people living with disability, in aged care, or with children and young people, or with people that have experienced trauma. These organisations will have risk management requirements to meet which come from external sources such as: NDIS practice standards, Aged Care quality standards and insurance requirements.

In reality, you can't get rid of all risks and still function. There is an optimal amount of risk taking.

If your organisation is risk averse – which means that they really don't like to take risks – this could result in losing a lot of opportunities. For not for profits, this could also mean you don't achieve your mission or impact.

Taking on too much risk can lead to dangers – for your organisation, your workforce or your clients.

Somewhere in the middle is an optimal point where organisations take on the right amount of risk for them.

Building your risk management skills is important for your business resilience as it means that you can take on the right level of risk for your organisation. You are better able to realise the opportunities that could improve your resilience and sustainability and reduce your exposure to negative risks that could have damaging consequences to your organisation.

Related video to watch next: Managing the three different types of risk.