STRATEGIC AND OPERATIONAL RISK ASSESSMENT

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INTRODUCTION

Adverse economic environment and negative events on account of the Covid 19 pandemic significantly impacted the sustainability/ business continuity of organizations thereby creating a new or renewed emphasis on risk identification and its management. Board of Directors are focusing on new and emerging risks pertinent to their strategies and operations along with the robustness of the related risk management practices of their organizations. CFOs and management teams are being challenged to respond by actively participating in risk assessments and risk management initiatives.

The right place for a board to start, is to focus on the identification and management of strategic risks—those risks that are most consequential to an organization's ability to execute its strategy, achieve its business objectives, and build and protect value. This strategic focus is not intended to identify every risk facing the organization but to identify those that are most significant to its ability to achieve and realize its core business strategy and objectives. This focus on strategic risk reinforces the direct relationship and critical link connecting the organization's vision, mission, strategy, strategy execution, and risk management processes.

The starting point is a Strategic Risk Assessment designed to identify an organization's strategic risks and related action plans to address those risks.

STRATEGIC RISK ASSESSMENT

Strategic risk assessment begins by assessing the types of strategic risk that can affect an organization. The steps mentioned below define a basic, high-level process and allow for a significant amount of tailoring and customization in their execution to reflect the maturity and capabilities of the organization.

i. **Understanding organizational strategy**: To measure the potential consequences of strategic risk, understanding is required regarding the organization's strategy and objectives.
ii. **Gather data of strategic risk**: The objective is to gather data and views from management and directors on the key strategic risks associated with the core business strategy.
iii. **Prepare strategic risk profile**: The format and complexity of the risk profile should be tailored to match the risk maturity and capabilities of the organization.
iv. **Validate the risk profile**: The preliminary Strategic Risk Profile must be validated with key participants to ensure that it reflects their views on the most critical strategic risks.
v. **Develop an action plan**: This step outlines how the organization plans to face, mitigate, ignore or overcome strategic risks.
vi. **Communicate and implement the plan**: Once the strategic risk management plan is developed, the organization must convey an independent view of its strategic risks and the importance of executing the related action plans while implementing the plan.

INTEGRATING RISK MANAGEMENT WITH STRATEGIC PLANNING

Since strategic risk is tied to an organization's strategies, strategic risk management must integrate with the organization's core processes, to embed strategic risk management into the organization's inner workings. Steps mentioned below integrate the risk management with strategic planning:

i. **Develop the strategy:** Define your mission and vision, as well as the ways by which you will assess risks.
ii. **Communication:** Be sure to communicate with stakeholders and the internal team as to why strategic risk management is aligned with everyone's interests.
iii. **Align the organization:** Review existing processes and procedures to ensure that risk management is incorporated and addressed.
iv. **Plan operations:** Train everyone to understand how they can implement best practices to avoid or monitor strategic risks.
v. **Monitor:** Analysing data and monitoring KPIs is crucial to ensure that you are "doing the right things" to achieve business goals.
vi. **Test and adapt:** After implementation, perform quality-reviews and make changes if needed.

CONCLUSION

The Strategic Risk Assessment provides a valuable foundation and is the first step for risk management and governance that will clarify and define the path to develop risk management capabilities i.e., how risk is assessed, monitored, and managed.

OPERATIONAL RISK ASSESSMENT

Operational Risks are perhaps the most significant risks that organizations face on daily basis. Most of the corporate failures occurred in the past decade, are due to the operational risk's being materialized causing operations failures.

Operational risk assessment involves several key steps. Throughout the assessment each of the steps should be evaluated and validated that they meet the principles of operational risk assessment. The assessment steps are as follows:

i. **Identify the risk**: Identify risk associated with the objectives of the organization. List the risk associated with each phase of the project.
ii. **Assess the risk:** Once risks are identified, an assessment will determine the level of risks associated.
iii. **Analyze the risk:** Discover ways to prevent or reduce the risk.
iv. **Make risk decision:** A key element of the risk decision process is determined if the risk is necessary. The decision must be made at the appropriate level by the individual who can balance the risk against the potential benefit and value.
v. **Implement controls:** Once the risk decision is made, controls must be implemented to mitigate the risk.
vi. Supervise: Monitor the situation and provide assurance to leadership that the controls are effective and remain in place.

As a part of risk management, it is important that all steps and procedures are followed; this is to make sure that as the project is underway, it will have a smooth outcome once it is finished. This process continues and starts again when new risks are identified; it does not stop once one issue has been found or resolved.

STRATEGIES TO MITIGATE THE RISK

The risk mitigation strategies involves choosing a path for controlling the specific risks. In the Operational Risk Management process, there are four options for risk mitigation

i. **Transfer the risk:** Shifting the risk to another organization by way of outsourcing.
ii. **Avoid the risk:** Avoidance prevents the organization from entering the risk situation.
iii. **Accept the risk:** Based on the comparison of the risk to the cost of control, management could accept the risk.
iv. **Reduce the Risk:** Minimize the impact of risk when it occurs.

CONCLUSION

Operational risk management plays a crucial role in the success of all organizations. Many firms are intending to further enhance their approach towards operational risk management and measurement to ensure seamless continuity of their business operations.