MANAGEMENT OF RISK ASSESSMENT IN BUSINESS

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Abstract: *In the current conditions in which globalization and technologies are gaining ground, companies face risks and threats that can seriously affect their business. The purpose of the paper is to briefly present the problem of risk assessment management in business. After a brief introduction regarding the context of the theme, the types of risk that can affect business, the principles of risk management, the management plan for risk assessment and strategies for minimizing and mitigating risks are presented. The research methodology is based on theoretical and practical investigations, analysis, synthesis and conceptualization.*

Keywords*: business risk, management, process, plan, strategy*

JEL classification*: M19, M21.*

1. Introduction

As the pace of innovation increases and the global marketplace transforms, the significance of comprehensive risk assessment is only amplified (Schwenk, 2023).

Risk assessment is the process of identifying, evaluating and controlling risks within a company. Most businesses have areas that could present potential health and safety risks, so it is important that these are recorded and managed, either by the business owner or manager (Indeed, 2024).

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Over time, principles and methods have been developed for how to conceptualise, assess and manage risks. These principles and methods are still largely the foundation of this field today, but much progress has been made, related to both the theoretical platform and practical models and procedures (Aven, 2015). Companies that want to stay in the market must dynamically change their risk exposure (Cot & Dragon, 2015).

The perception of financial risk in positive financial performance indicators and the perception of financial risk as part of the company's daily life have the most significant impact on future business. Operational risk is reflected in the use of corporate resources, reducing customer complaints about the quality of the company's products and the company's independence from a limited number of suppliers. The adequacy of the firm's sales volume provides a source of market risk (Dvorsky et al., 2021).

A number of risk assessments are required by legislation or standards, such as (Business.gov, 2024):

- Accidents and injuries related to non-compliance with occupational health and safety regulations.
- Complaints from customers about their unfair treatment under consumer law.
- Damage to the environment.

Simply put, risk management aims to protect an organization from potential losses or threats to its continued operation. These may include financial loss, damage to the organization's reputation or damage to employees. However, in risk management there is no universal solution (Saftyculture, 2024).

Risk assessments are important for several reasons, including (Indeed, 2024):

- are a legal requirement;
- assure employees that they are protected at all times;
- protects the business from financial losses.

Risk management is too often treated as a compliance issue that can be solved by making lots of rules and making sure all employees follow them. Many such rules, of course, are sensible and reduce some risks that could seriously harm a company (Kaplan & Mikes, 2012).

The purpose of risk management is to protect the organization's assets, including its people, property and profits (Safetyculture, 2024).

Risk management not only helps to avoid crises, but also helps to remember and learn from past mistakes. This action increases the chance of successful completion of the project and reduces the consequences of these risks (Doval, 2019).

In this context, the paper focuses on the definition of the types of risk in business, the principles underlying this approach, the management of risk assessment as a process and the main strategies for reducing risks in business.

The research methodology is based on indirect data, collected from references, on analysis and synthesis, as well as on own observations and conceptualization.

2. Types of risk

Managers must know the types of risk the company faces. The main types of risk are presented in table 1.

Table 1. The main types of risk in business

No	Types of risk	Details	Examples
1	risk based on opportunities and options	It comes from choosing one option over other options. • a better opportunity is missed • an unexpected result is obtained.	• Moving the business to another location • selling a new product or service – buying a new property
2	risk based on uncertainty	It comes from uncertain or unknown events. It is difficult to	• damages caused by fire, floods or other natural disasters • unexpected financial loss due to

No	Types of risk	Details	Examples
3		predict and control, but also the damage they can cause.	an economic crisis or the bankruptcy of other businesses that owe money • loss of important suppliers or customers • decrease in market share because new competitors or products enter the market • action in court.
3	Hazard-based risk	It comes from hazardous situations at work	• physical hazards caused by high noise levels, extreme weather or other environmental factors • equipment hazards caused by faulty equipment or faulty processes when using equipment such as machinery • chemical hazards caused by improper storage or use of flammable, poisonous, toxic or carcinogenic chemicals • biological hazards caused by viruses, bacteria, fungi or pests • ergonomic hazards caused by improper design, arrangement or use of workplace equipment • psychological risks caused by bullying and harassment, discrimination, high workload or mismatch of employees' skills with work tasks.

Source https://business.gov.au/risk-management/risk-assessment-and-planning/business-risks

Apart from the internal risks mentioned in table 1, external risks or threats may appear, among which (USI, 2021):

• setting the prices of materials needed for production

• increased competition from other companies

• changes in government or local regulations

• Fluctuating markets and economic booms and busts

• Security and fraud. Hacking and data breaches are a constant threat to online businesses. Ransomware and payment fraud are common risks in today's business world. This type of risk also affects reputation and public trust.

3. Principles of risk management

There are five key principles of risk management: risk identification, risk analysis, risk control, risk financing, and claims management (safetyculture, 2024).

- Risk identification – This is the process of identifying potential risks to an organization.
- Risk analysis – Assesses the likelihood and impact of those identified risks.
- Risk control – involves taking steps to communicate, mitigate, minimize or eliminate the impact of potential risks.
- Risk financing – This is the process of allocating financial resources to cover the costs associated with potential risks.
- Claims handling – This is the process of dealing with any claims that may arise as a result of a risk.

4. Risk assessment management

Risk assessment management is a managerial process that includes a plan with several stages and work steps "to identify, analyze and evaluate risks in the business" (business.gov, 2024).Fig. 1 presents a plan made by corroborating the ideas stated by several authors (ready, 2024; business.gov, 2024; Indeed, 2024; USI, 2023; Schwenk, 2023). Before creating a risk management plan, it is necessary to determine which areas of the business it will cover (business.gov, 2024).

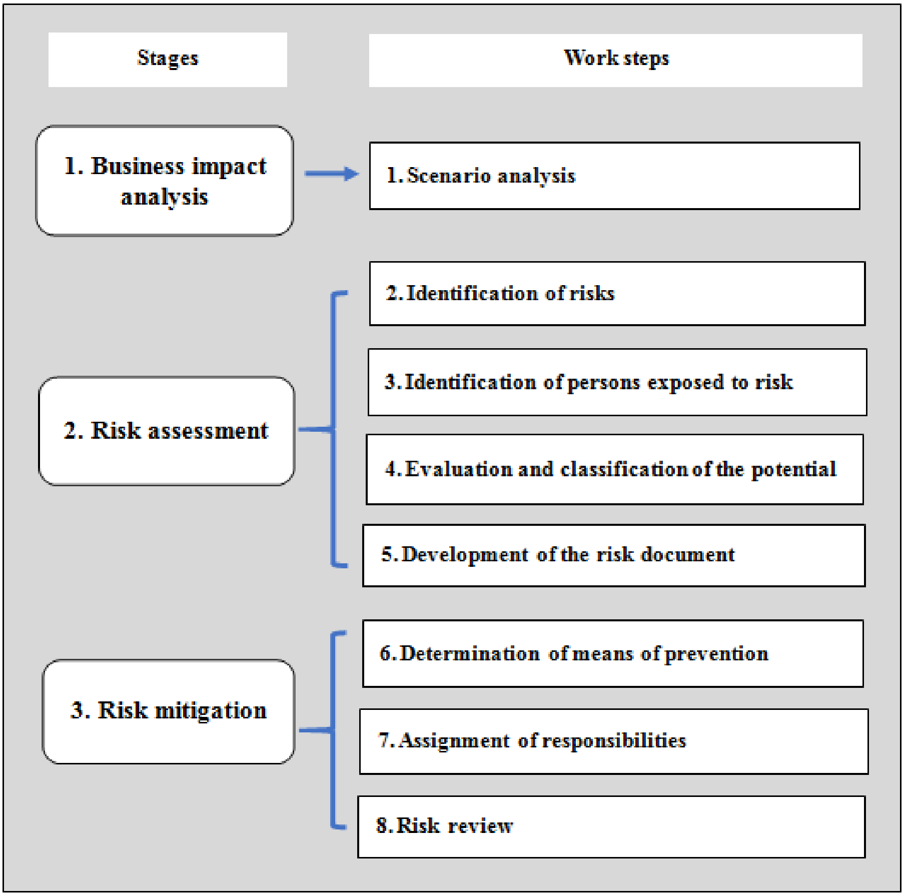

Fig. 1. *Business risk assessment management plan*

(Author's conceptualization)
(Sources: Ready, 2024; Business.gov, 2024; Indeed, 2024; USI, 2023; Schwenk, 2023)

Stage 1. Analysis of the impact on the business.

A business impact analysis is the process of determining the potential impacts resulting from the disruption of critical or time-sensitive business processes. This process predicts the consequences of the disruption of a business function and process and gathers the information needed to develop recovery strategies (Ready, 2024).

Step 1. Scenario analysis

Scenario analysis empowers business by presenting a range of potential future situations. It helps outline the best, worst, and most likely scenarios, allowing firms to visualize and weigh potential risks and rewards (Schwenk, 2023).

Examples of business disruption scenarios to consider (Ready, 2024):

- Physical damage to a building
- Damage or failure of machines, systems or equipment
- Restricted access to a site or building
- Disruption of the supply chain, including the failure of a supplier or disruption of the transport of goods from the supplier
- Utility outage (e.g. power or water outage)
- Damage, loss or corruption of information technology, including voice and data communications, servers, computers, operating systems, applications and data

Potential impacts can be (Ready, 2024):

- Lost sales and revenue
- Delayed sales or revenue
- Increased expenses (eg additional manpower, outsourcing, cost acceleration, etc.)
- Regulatory fines
- Contract penalties or loss of contract bonuses
- Customer dissatisfaction or defection
- Delay of new business plans

Stage 2. Risk assessment.

A risk assessment is a process of identifying potential hazards and analyzing what might happen if a hazard occurs. Potential loss scenarios should be identified during the risk assessment. (ready, 2024). This can be done by reviewing all possible risks that could affect the business and recording them in a risk management plan (Safetyculture, 2024).

Step 2. Risk identification (EAG, 2024; Indeed, 2024; Business, gov, 2024; Schwenk, 2023).

The first step in creating a risk assessment is to identify all risks. These risks are dangers that your employees may face while working. An easy way to identify these hazards is to take a close look at all work areas and note potential hazards. Some examples of hazards are: wires that employees could trip over, a slippery portion of the floor, heavy machinery that could cause serious injury if used incorrectly, any work that involves working at heights (Indeed, 2024).

In order to identify risks, another research and analyses are carried out, such as (Business.gov, 2024):

- past events and risks
- possible future changes in the business environment, such as changes in economic trends
- social and community issues that could affect the business
- reviewing audit reports, such as financial audit reports or workplace safety reports
- discussions with clients, suppliers and advisers.

Once the risks are identified, they are grouped into internal risks and external risks (EAG, 2024).

Interior

• Compliance – the safety of your physical building and operational processes

• Financial – internal fiscal and accounting health

• Human – the choices made by employees

• Technological – the software and hardware that support the work

Outer

• Economic – external market forces acting on you

• Government – any local, national and international law

• Location – the impact of weather, climate, traffic and more

• Competition – the influence of similar businesses on the company's activity

Although there is more control over internal risks than external, both must be considered in any business impact analysis.

Step 3. Identifying people at risk (Indeed, 2024)

To understand who may be at risk, it is recommended to talk to each employee to understand any risks they have observed, as they may notice risks that have not been considered. It is also important that people are grouped in different sections of the company (offices, production, warehouses, etc.) and that the risks are grouped in these sections, identifying the effects over time of the risks (for example, exposure to loud noises). All company stakeholders are consulted

Step 4. Assess and rank potential risks (EAG, 2024; Indeed, 2024; Business, gov, 2024; Schwenk, 2023).

This is the most technical, data-intensive and context-specific component of the assessment process. Critical business risks that deserve the most attention and planning are determined and possible impacts with each risk on staff, infrastructure, technology, customers, investors are considered. Cost-benefit analysis would be useful as it can highlight the severity of potential risks across a spectrum.

Other useful techniques in risk assessment are (Safetyculture, 2024):

- SWOT Analysis – Strengths, Weaknesses, Opportunities and Threats or SWOT helps identify risks by evaluating each area of the company.
- Root Cause Analysis – It is a method of identifying the root source of a problem or risk and finding a solution to solve it.

- Risk register – A risk register is useful for identifying potential risks in a project (eg construction projects) or organization – which can be useful to avoid any potential problems that could affect the desired results.
- Probability and impact matrix – A probability and impact matrix is a way to prioritize risks. It is important to prioritize the risk, because a small risk consumes time and resources.
- Brainstorming – This tool allows the evaluation of any information that can help solve any problems that arise within the company.
- Another technique, the Delphi method, orchestrates a structured dialogue between a group of experts (Schwenk, 2023)

Quantitative assessment uses numerical data. By leveraging statistical, financial or numerical analyses, it provides a more systematic and data-centric perspective on potential risks.

Techniques in this category include Monte Carlo simulation, which uses an algorithm that relies on constant random sampling to derive numerical results. The decision tree provides a visual representation of decisions and their possible outcomes. In addition, sensitivity analysis explores how changing values of one variable can influence another (Schwenk, 2023).

Step 5. Develop the risk document (EAG, 2024; Business.gov, 2024).

Next comes the combination of quantitative and qualitative data in a document, or physical or electronic register, which can have the following configuration: arrangement according to the type of risk, ordering them according to the probability of occurrence, preparing the response to each risk.

To analyze the risks of an event, the following should be determined (business.gov, 2024): the probability that the event will occur and the consequence or damage if it does.

A rating system is being developed for probability and consequence. For example (Business.gov, 2024) it can be quantified with 1 to 4 for probability (1 for very unlikely and 4 for very likely) and with 1 to 4 for consequence (1 for low and 4 for serious). These assessments are used to determine the level of risk for each risk.

These risk assessments should serve as the basis for all future actions, reactions and decisions of the company when faced with dangerous circumstances (EAG, 2024).

Stage 3. Risk mitigation.

There are many ways to reduce the potential impact on life, property, business operations and the environment. Risk reduction allows business owners and planners to identify ways they can prepare to deal with these disasters before they occur (Ready, 2024).

Step 6. Determination of risk prevention means (EAG, 2024; Safetyculture, 2024)

Risk prevention consists of measures to mitigate the probability that each risk will occur. These measures can be more effective regarding internal risks, which can be controlled, than external ones, which can only be anticipated.

Step 7. Designation of risk managers (EAG, 2024; Saftyculture, 2024)

Once the most effective means of risk reduction have been determined, key employees responsible for all risk management processes should be designated. It is recommended that such persons be senior managers to ensure compliance with established risk directives.

Step 8. Risk review/review (EAG, 2024; Indeed, 2024; Safetyculture, 2024)

The risk document must be revised annually, aiming at: the evaluation of the events of the previous year (increase, decrease), the evaluation of the controls carried out for all risks, the update of the risk managers.

Risk assessment is a careful examination of what could harm a business and prevent it from achieving its goals. It's important because it can reduce the likelihood of injury, prevent fines and lawsuits, and protect company resources. Some of the potential consequences of ignoring risk assessment and management are lawsuits, catastrophic financial loss, theft, damaged or negative reputation, failure to succeed, high employee turnover, customer dissatisfaction, missed opportunities, and product failure. Some risks are more threatening than others (USI, 2023).

Risks are inherently dynamic, fluctuating over time and circumstances. Regular audits, feedback mechanisms and even third-party assessments ensure that the strategies used remain effective and that emerging risks are promptly identified. This continuous monitoring helps companies remain agile by adjusting their strategies to the evolving risk landscape, better ensuring both survival and prosperity in an uncertain world (Schwenk, 2023).

The following actions may also be helpful (Business.gov, 2024):

- the objectives. business are linked to the risk management plan
- clear communication of the risk management plan to everyone in the business
- use of support staff for risk management
- establishing a way to measure the success of the risk management plan
- use feedback to update your plan.

5. Risk minimization strategies

All businesses face risks. It is important to understand these risks and find ways to minimize them (Business.gov, 2024).

There are five main types of risk management strategies (Safetyculture, 2024): risk acceptance, risk transfer, risk avoidance, risk reduction and prevention, and risk sharing.

1. *Acceptance of risk*. Acceptance is when an organization decides to accept the risks associated with a particular situation. With this type of risk management, the company has recognized that it is not worth the cost and effort to mitigate the events that may occur due to the risk.

Sometimes companies choose to accept risks and not spend resources to avoid them. Among the reasons, it could be: the cost is much higher than the potential results of the risk, the level of risk is very low, or the benefits of taking the risk far outweigh the possible damages (Business.gov, 2024).

2. *Transfer of risk*. Risk transfer is when an organization transfers risks to another party, such as through insurance. For example, when an individual or organization obtains insurance, the financial risk associated with an unfortunate event is transferred to the insurance company.

3. *Risk avoidance*. Risk avoidance is when an organization takes steps to prevent or avoid the occurrence of a particular risk, such as an injury, illness or death. The company mitigates such risks by not engaging in risky activities or situations.

4. *Risk reduction and loss prevention*. Loss prevention and risk reduction are when an organization takes measures or methods to reduce the impact of a certain risk that occurs. It combines risk acceptance as it recognizes the risk involved while also focusing on how to reduce and limit losses from the spread.

For this purpose, the company can take preventive measures, such as (Indeed, 2024): Staff training regarding the correct use of machinery; Training of staff and clients regarding evacuation routes in case of fire; Visual signals regarding certain dangers, etc.

To reduce the impact of uncertain events on the business, actions can be implemented, such as (Business.gov, 2024):

- Develop an emergency management plan to reduce damage to the business in the event of an emergency
- Building a database of suppliers to efficiently manage inventory and equipment.

• Regular use of customer feedback to anticipate risks such as changing trends and customer expectations.

• Requesting expert advice to check the financial status of the business and ways to improve the business exposed to external risks.

6. *Sharing of risks*. Risk sharing is when an organization distributes risk to the entire team. This method removes the burden of problem events from one department and shares it with others so that those who can help and provide support for that problem can help and control those risks.

For example (Business.gov, 2024), if the business is part of a larger supply chain involving retailers, distributors, or primary manufacturers, it may spread risk across a number of areas.

Strategic decisions come into play, determining how each identified risk should be addressed. Depending on the nature and extent of the risk, companies may choose to transfer the risk through mechanisms such as insurance, change their business processes to avoid it entirely, implement safeguards to lessen its effect, or even accept it outright. Effective risk management, in this sense, becomes a double-edged sword; while it protects against potential adversities, it can also pave the way for opportunities, enabling growth and improvement (Schwenk, 2023).

Management strategies to prevent risks ensure that the business can recover quickly if something happens (EAG, 2024).

But risk management is not the end of the business when it comes to effective risk management. It is a constant learning process for project managers to continuously improve their practices to increase process efficiency (Doval, 2019).

Conclusion

Any company focused on business and profit faces a series of risks in its activity. These can be internal or threats from outside the company. In order to effectively manage the probable risks that may arise, it is necessary to know what the internal risks are in order to be able to control them and to anticipate the external risks. The risk management process is based on a well-designed, implemented and periodically evaluated plan. The plan is completed with strategies regarding how to act on risks.

Each company must develop risk management models depending on the purpose pursued, the targeted objectives, the needs generated by business development. Regardless of the designed model, it is necessary to constantly reassess the categories of risks that can affect the development of the business and, consequently, measures to update the methods and techniques of their evaluation and control (Dragomir, 2023).

As the saying goes, "An ounce of prevention is worth half a pound of cure." Unfortunately, far too many managers fail to embrace this truth and never prepare for the unknown (EAG, 2024).

The proposed risk management plan can be a useful tool for managers of companies of any size and operating in any industry.

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