



Analysis on risk management

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DESCRIPTION

Risk management is the identification, assessment, and prioritization of risks (defined in ISO 31000 as the effect of improbability on objectives) followed by coordinated and economical use of resources to minimize, monitor, and control the possibility or impact of unfortunate events or to maximize the realization of opportunities.

Risks can come from various sources comprising uncertainty in international markets, threats from project failures (at any phase in design, development, production, or sustaining of life-cycles), legal obligations, credit risk, accidents, natural causes and disasters, cautious attack from an adversary, or events of undefined or unpredictable root-cause. There are two types of events i.e. negative events can be categorized as risks while positive events are categorized as opportunities. Risk management standards have been advanced by various institutions, including the Project Management Institute, the National Institute of Standards and Technology, actuarial societies, and ISO standards. Methods, definitions and goals differ widely according to whether the risk management technique is in the context of project management, security, engineering, industrial processes, financial portfolios, actuarial assessments, or public health and safety. Strategies to cope threats (uncertainties with negative consequences) typically comprise avoiding the threat, reducing the negative effect or prospect of the threat, transferring all or part of the threat to another party, and even holding some or all of the potential or actual consequences of a particular threat. The contrary of these strategies can be used to respond to opportunities (uncertain

future states with benefits). Certain risk management standards have been critiqued for having no measurable progress on risk, whereas the confidence in approximations and decisions seems to increase. In ideal risk management, a prioritization method is followed whereby the risks with the greatest loss (or impact) and the greatest probability of occurring are handled first. Risks with lower probability of occurrence and lower loss are handled in descending order. In practice the process of assessing overall risk can be difficult, and balancing resources used to allay between risks with a high probability of occurrence but lower loss, versus a risk with high loss but lower probability of rate can often be botched.

Intangible risk management ascertains a new type of a risk that has a 100% probability of occurring but is ignored by the business due to a lack of identification ability. For example, when deficient knowledge is applied to a state, a knowledge risk materializes. Relationship risk acts when ineffective collaboration occurs. Process-engagement risk may be an issue when ineffective operational measures are applied. These risks directly diminish the productivity of knowledge workers, decrease cost-effectiveness, profitability, service, quality, reputation, brand value, and earnings quality. Intangible risk management sanctions risk management to create immediate value from the identification and reduction of risks that lessen productivity.

CONCLUSION

Opportunity cost signifies a unique challenge for risk managers. It can be difficult to determine when to set resources toward risk management and when to use those resources elsewhere. Again, ideal risk

management curtails spending (or manpower or other resources) and also minimizes the negative effects of risks. Risk is defined as the prospect that an event will occur that adversely affects the achievement of an objective. Uncertainty, therefore, is a key feature of risk. Systems like the Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management (COSO ERM) can succour managers in mitigating risk factors. Each company may have diverse internal control components, which leads to different outcomes. For example, the framework for ERM components embraces Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring.