

Risk Thinking Process: Risk Mapping Template

The context for any risks is always related to the strategic objective of the company.

Risk is defined/described as anything that affects the achievement of the company's strategic objective. Some of these risks will be fairly certain while others will be uncertain. Managing risk is about looking into the future and asking "What do we anticipate that will or could affect our ability to achieve our objectives?"

Broadly, any risk mapping process is structured around the following key processes (which are iterative):

- Risk identification
- Analysis of risks
- Evaluation of risks

Risk mapping should be completed together with any decision-making in a company. This means that at whatever level of decision-making is mandated, the person/people making the decision need to apply 'risk thinking' to the decision in order to ensure that the decision achieves its ultimate objectives.

Process 1: Risk Identification

List as many risks as possible while avoiding just listing categories or groups of risks. Break any risk categories into as much granular detail as possible. The natural groupings or categories of risks will re-emerge as they are mapped in Process 4.

Process 2: Analysing Risks

Describe each of the risks identified in as much detail as possible or necessary in order to better understand the actual/real effect of each risk on the company's strategic objectives. At this stage the aim is not to evaluate the risk – it is simply to understand the risk landscape in as much detail as possible.

If there is no link between the risk identified and any of the company's strategic objectives, re-evaluate whether this is an actual risk.

If it is difficult to specifically link the risk to any of the company's strategic objectives, examine whether there is not another root cause or risk underlying the risk/category of risks identified.

What normally emerges during this process of analysis is that certain risks that initially may have felt to be/were seen to be unrelated may turn out to be related to one another in ways not anticipated or linked via another deeper root cause/risk.

NOTE: Only after Processes 1 and 2, can the risks be listed (columns 1 and 2 in the table)



Process 4: Risk Mapping

Map each risk on the risk map below based on the likelihood and impact scores allocated (indicate each with either an abbreviation or a number – it must be understandable and easy to access).

Impact	High									
	Low									High
		Likelihood								

Once mapped, review the overall groupings of risks that emerge, and ask:

- Do these groupings of risks make sense?
- Are there any insights that become evident as a result of this exercise?
- Are there any risks which we should re-score/re-look at in light of this?



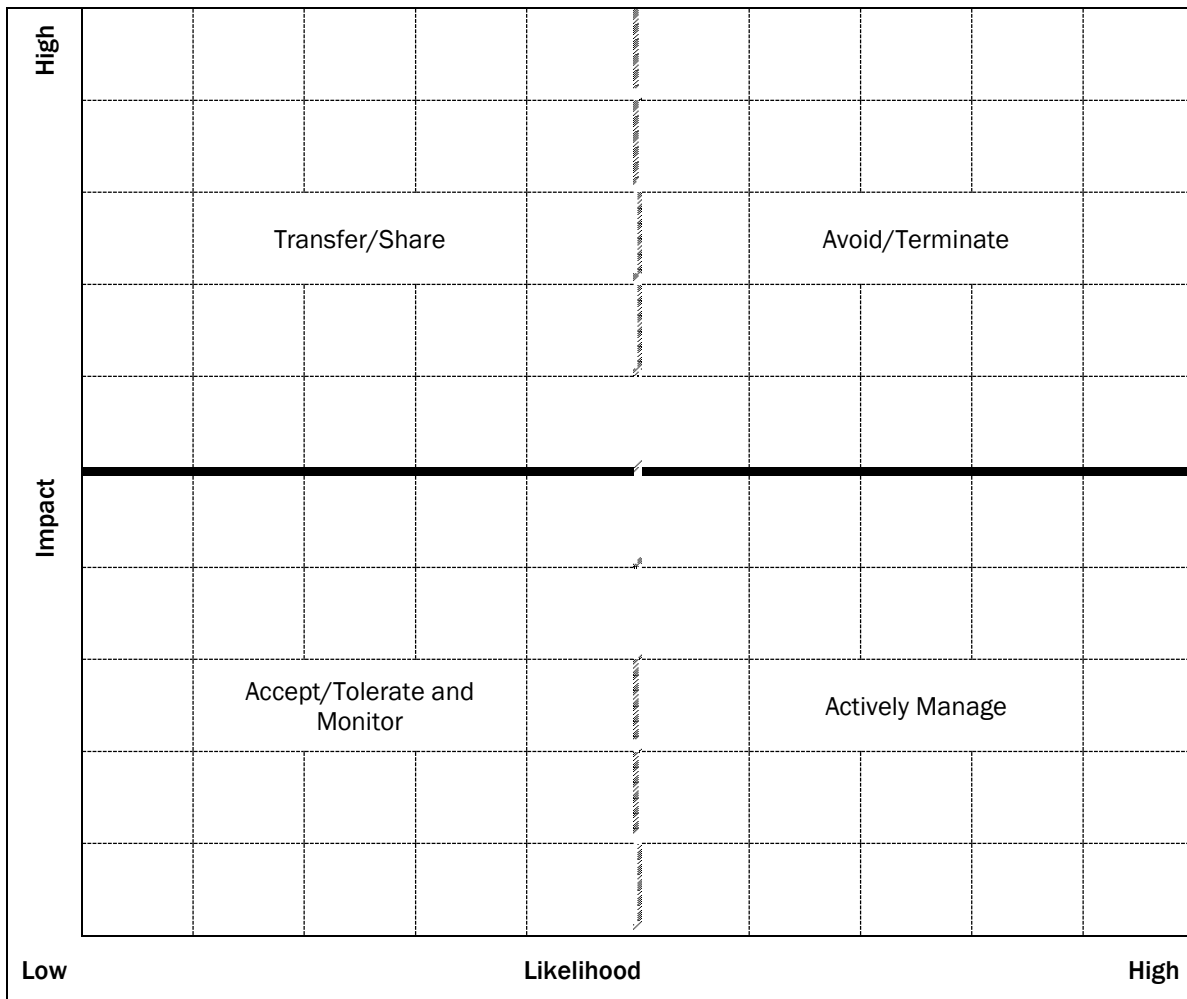
Process 5: Risk Management Strategy

At the centre point of each axis draw a line across the risk map. A broad risk management strategy is overlaid for each risk quadrant (see graphic below).

Notes per block:

- **Quadrant 1: Low Impact, Low Likelihood – Accept/Tolerate and Monitor**
These risks are accepted or tolerated as part of the company's strategy. No major plans for their active management are designed or implemented since it is believed that the current management systems in place in the business will cater for the ongoing management of these risks. Vital however is to monitor these risks – they need to be reported on as part of the regular risk reporting cycle. As such, it would be necessary to determine the risk appetite and risk tolerance levels for each of these risks. The aim of monitoring these risks is to ensure that they do not 'drift' in either likelihood into the Transfer/Share quadrant, or in impact into the Actively Manage quadrant.
- **Quadrant 2: Low Impact, High Likelihood – Actively Manage**
These risks would be the subject/target of the bulk of the company's risk management activity. It is necessary to determine the risk appetite and risk tolerance levels for each risk and to build into the business/embed in the business systems the ability to both manage and monitor these risks. The management of these risks should be able to demonstrate a significant decrease in risk (i.e. the residual risk after management should be significantly less than the inherent risk initially identified). The purpose or intent of the management of these risks is to prevent any drift in likelihood into the Avoid/Terminate quadrant as well as to reduce the impact of these risks to as low as possible – towards the Accept/Tolerate and Monitor quadrant.
- **Quadrant 3: High Impact, Low Likelihood – Transfer/Share (Insure or Outsource)**
For each of these risks two broad options exist:
 - Insure for this risk and any resultant impact
 - Outsource the activity/function related to this risk
- **Quadrant 4: High Impact, High Likelihood – Avoid/Terminate**
These risks indicate strategic objectives that contain/hold/have an inherent fatal flaw. If encountered, these risks will almost certainly destroy significant value. These risks are a good indicator that a review of strategy or of the business model may be necessary – especially if there is a strong feeling that the company's strategic objectives are robust and worth pursuing. This remains an indication that given the current strategy and business model, these strategic objectives may be unachievable, or contain a fatal flaw. Once the strategy and/or business model and the risks have been reviewed (in this new light), these risks should have moved into either the Actively Manage quadrant or the Transfer/Share quadrant. If a review of the strategy and/or business model does not change the profile/scoring of these risks, then avoid the action/strategy or terminate any existing or current action/activity.

Important pointer regarding above and below the line: The company should not be addressing any high-likelihood risks internally i.e. the company should only be managing risks internally that fall below the solid horizontal (hence the line being solid).



Following this risk mapping exercise (Identification, analysis and evaluation), one would need to determine the risk appetite and risk tolerance of each risk, being either Accept/Tolerate and Monitor, or Actively Manage.