



# Risk Management Guide

Corporate Governance for Micro, Small and Medium Sized Enterprises (MSMEs)

Part of the Pearl Initiative's  
**Corporate Governance Fundamentals**

# Risk Management Guide



Risk Management is the process of planning, organising, leading and controlling the activities of an organisation to minimise the effects a risk can have on an organisation's objectives, goals and success. When formalised, risk management activities can not only look at risks associated with accidental losses, but also financial, strategic, operational and other risks that could have adverse effects on the business.

## How to Use this Document

This guide is part of Pearl Initiative's Corporate Governance in MSMEs programme. The goal of the programme is to provide the Micro, Small and Medium Sized Enterprises (MSME) community with tools and references that will help them implement practical and effective corporate governance capabilities commensurate with their specific internal requirements. Structured and cost-effective internal corporate governance capabilities will often enhance the efficiency, productivity, and resilience of any business, and allow leadership to maintain control yet focus on key business requirements such as strategy and growth.

We recommend that each business adopting this template independently evaluates and adjusts specific details in line with their business, operational, strategic and industry needs.

For more information on this programme please visit: [www.pearlinitiative.org](http://www.pearlinitiative.org).



# Risk Management Guide

# The Risk Management Tool

A structured and consistent risk management methodology will help businesses maintain a common language when talking about the risks and challenges they face. This will ultimately provide decision-makers with consistent, dependable, and accurate information on the internal and external issues and hardships that the business (and its employees) face, enabling the decision-makers to effectively prioritise and direct the business.



Risk Register Template.xlsx - Excel													
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1	Department Name:	[Insert Department Name]											
2	Department:	[Insert Department Manager Title]											
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4	Process Name	Process Owner	Risk	Root Cause	Whats in place	Unlikely	Impact	Level	Strategy	Action Plan	Target Date	Status	
5	[Process Name]	[Title]	[Description of the risk and the impact it will have on the business/department/process]	[Description of the root cause or current environment that has put this risk on the radar]	[Description of the current (confirmed) measures and controls in place to manage the risk]	1	5	5	Mitigate	[Description of what the process owner needs to do to further treat the risk (unless risk is accepted) and what resources are required to do so]		In-Progress	
6	[Process Name]	[Title]	[Description of the risk and the impact it will have on the business/department/process]	[Description of the root cause or current environment that has put this risk on the radar]	[Description of the current (confirmed) measures and controls in place to manage the risk]	5	2	10	Mitigate	[Description of what the process owner needs to do to further treat the risk (unless risk is accepted) and what resources are required to do so]		In-Progress	
7	[Process Name]	[Title]	[Description of the risk and the impact it will have on the business/department/process]	[Description of the root cause or current environment that has put this risk on the radar]	[Description of the current (confirmed) measures and controls in place to manage the risk]	5	4	20	Mitigate	[Description of what the process owner needs to do to further treat the risk (unless risk is accepted) and what resources are required to do so]		In-Progress	
8	[Process Name]	[Title]	[Description of the risk and the impact it will have on the business/department/process]	[Description of the root cause or current environment that has put this risk on the radar]	[Description of the current (confirmed) measures and controls in place to manage the risk]	3	5	15	Mitigate	[Description of what the process owner needs to do to further treat the risk (unless risk is accepted) and what resources are required to do so]		In-Progress	
9	[Process Name]	[Title]	[Description of the risk and the impact it will have on the business/department/process]	[Description of the root cause or current environment that has put this risk on the radar]	[Description of the current (confirmed) measures and controls in place to manage the risk]	1	1	1	Mitigate	[Description of what the process owner needs to do to further treat the risk (unless risk is accepted) and what resources are required to do so]		In-Progress	
10	[Process Name]	[Title]	[Description of the risk and the impact it will have on the business/department/process]	[Description of the root cause or current environment that has put this risk on the radar]	[Description of the current (confirmed) measures and controls in place to manage the risk]	5	2	10	Mitigate	[Description of what the process owner needs to do to further treat the risk (unless risk is accepted) and what resources are required to do so]		In-Progress	
11	[Process Name]	[Title]	[Description of the risk and the impact it will have on the business/department/process]	[Description of the root cause or current environment that has put this risk on the radar]	[Description of the current (confirmed) measures and controls in place to manage the risk]	5	5	25	Mitigate	[Description of what the process owner needs to do to further treat the risk (unless risk is accepted) and what resources are required to do so]		In-Progress	
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# Risk Management Guide

## Instructions

It is important that when identifying risks across a business, all information is reported consistently across departments, teams and functions. Furthermore, it is imperative that business leaders actively promote openness and transparency amongst the individuals who are ultimately responsible for managing a risk. Such individuals are often at the front line and hence best positioned to accurately report on and effectively mitigate the risks that a business faces.

The following table provides an overview of the main parts of the Pearl Initiative Risk Management Tool and what needs to be captured within each to allow for an exhaustive and value focused risk assessment exercise.

Field	Description
<b>Control Name</b>	A descriptive title of the control
<b>Process Owner</b>	The process owner is the individual responsible for the correct execution of the process (not always the department manager) and will ultimately be responsible for taking any actions needed to mitigate risks, within acceptable levels.
<b>Risk Description</b>	Description of the risk and the impact it will have on the business/department/process.
<b>Root Cause</b>	Description of the underlying cause or internal/external environment that has put the specific risk on the department's radar.
<b>What's in Place</b>	Description of the current (implemented) measures and internal controls in place to manage the risk.
<b>Likelihood</b>	The chance that a risk event will occur; refer to next section for more details.
<b>Impact</b>	The outcome of an event that affects the achievement of objectives; refer to next section for more details.
<b>Risk Priority</b>	The magnitude of a risk or combination of risks, expressed in terms of a combination of impact and likelihood; refer to next section for more details.
<b>Strategy</b>	Strategy adopted to address a risk and gaining management approval on the way forward; refer to next section for more details.
<b>Action Plan<sup>1</sup></b>	Description of what the process owner needs to do to further treat the risk (unless risk is accepted) and what resources are required to do so.
<b>Expected Outcome</b>	Description of what the expected outcome of the action will do to reduce the risk (i.e. how will it reduce likelihood and/or impact).
<b>Action Status</b>	The status of the action plan refers to the stage it is in its implementation. Existing fields include not started, under planning, in-progress, under review, implemented.

<sup>1</sup> **Note:** once an action is implemented, the 'What's in place' field must be updated as the action plan becomes an established control. Subsequently, likelihood and Impact ratings will also be updated to reflect the new status of the risk.

# Risk Management Guide

## Annex A: Risk Management Metrics

This annex has been prepared to provide guidance on how to define and structure the various metrics<sup>2</sup> associated with a risk management activity. It is recommended that each business independently reviews these metrics to make sure they are aligned with the nature of their business. We recommend that each business develops and communicates separate internal procedures on the adopted risk management methodology (similar to those present in this annex), that outline the specific criteria to be used by those involved in the risk management process.

### Understanding Impact

Impact is the outcome of an event that affects the achievement of objectives. The following scale has been developed and can be used across the business.

Impact Rating Scale		
		Extreme
5		<ul style="list-style-type: none"> <li>• Financial loss of \$X million or more</li> <li>• International long-term negative media coverage</li> <li>• Game-changing loss of market share</li> <li>• Significant prosecution, fines, litigation, incarceration of leadership</li> <li>• Significant injuries/fatalities to employees or third parties</li> <li>• Multiple senior leaders leave</li> </ul>
3	Moderate	<ul style="list-style-type: none"> <li>• Financial loss of \$X million up to \$X million</li> <li>• National short-term negative media coverage</li> <li>• Report of breach to regulator with immediate correction to be implemented</li> <li>• Out-patient medical treatment required for employees or third parties</li> <li>• Widespread staff morale problems and high turnover</li> </ul>
2	Minor	<ul style="list-style-type: none"> <li>• Financial loss of \$X million up to \$X million</li> <li>• Local reputational damage</li> <li>• Reportable incident to regulator, no follow up</li> <li>• Minor injuries to employees or third parties</li> <li>• General staff morale problems and increase in turnover</li> </ul>

<sup>2</sup> Suggested metrics have been developed in alignment with the internationally recognised COSO standard however they have been adapted to be suitable for MSMEs implementing initial/baseline risk management capabilities.

# Risk Management Guide

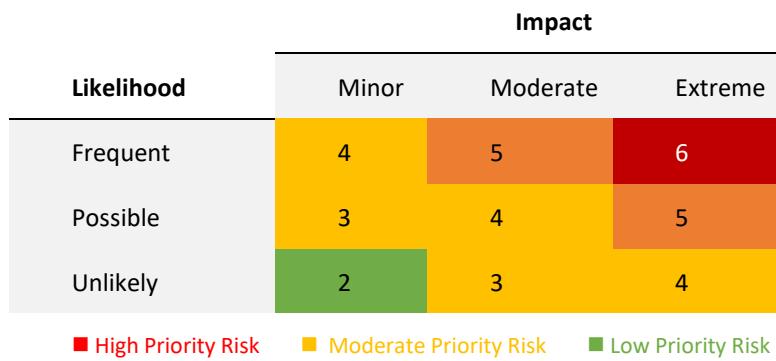
## Understanding Likelihood

Likelihood is the chance that a risk event will occur, and hence is a critical component when measuring risk. The following likelihood scale has been developed and it can be used across the business.

Impact Rating Scale		
5	Frequent	<ul style="list-style-type: none"> <li>&gt;60% chance of occurrence over the asset/project life</li> <li>May occur multiple times a year</li> </ul>
3	Possible	<ul style="list-style-type: none"> <li>30 - 60% chance of occurrence over the asset/project life</li> <li>May occur once in 2 years</li> </ul>
2	Unlikely	<ul style="list-style-type: none"> <li>0 - 30% chance of occurrence over the asset/project life</li> <li>May occur once in 4 years</li> </ul>

## Understanding Level of Risk

Level of risk refers to the magnitude of a risk or combination of risks, expressed in terms of a combination of impact and likelihood. The likelihood and impact rating of a risk event are combined to estimate the overall risk level of a risk event (as it affects the business). The following table illustrates a risk prioritisation model.



## Understanding Risk Mitigation Strategy

While existing controls may in fact mitigate risks to within acceptable levels, certain risks will require a dedicated mitigation strategy to reduce risk levels to within acceptable levels. The table below highlights the various mitigation strategies than can be used to mitigate a risk.

Mitigation Strategy Descriptions	
Treat	Implementing additional controls/revising existing controls to reduce the impact and/or likelihood of the risk event. Additionally, the business may seek to transfer the risk (i.e. acquire insurance or outsourcing) or terminate the activity to completely avoid the risk.
Tolerate (Accept)	Accepting the risk (or residual risk) of the risk event knowing there is nothing further that can be achieved (factoring cost vs. benefit). Note: risk acceptance requires approval from various stakeholders as per the Risk Management Criteria set out above.