

Harmony Alliance Guides:
Risk Management

Identifying, Analysing & Evaluating Risk



Identifying, Analysing & Evaluating Risk

Detailed Risk Analysis

This guide outlines the process of identifying, analysing, and evaluating risks that not-for-profits (or for-profit) organisations, start-ups, social enterprises, and small community organisations may face. Risk analysis is where plans turn into action. A thorough understanding of risks is essential for making informed decisions about how to handle them, whether that's reducing, avoiding, or accepting them.

Risk Assessment

The steps involved in assessing risk are as follows:

1. Identify the risk:

Pinpoint the potential risk that could impact your organisation.

2. Conduct the risk analysis:

- › Assess the consequence or *impact* of the risk.
- › Determine the likelihood or *probability* of the risk occurring.
- › Map the impact versus the probability on a risk matrix.

3. Evaluate the risk level:

Decide what actions are required to address the risk.

4. Review the effectiveness of controls:

Assess how effective current measures are in managing the risk.

5. Develop actions if controls are inadequate:

Implement additional steps to reduce risk to an acceptable level.

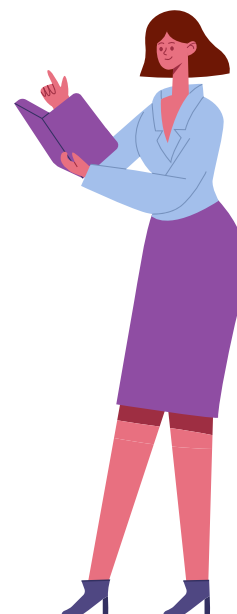
Risk Identification

Risk identification is the first step in the process, focusing on finding, recognising and recording risks. The process involves conducting a thorough internal and external examination of the organisation and its environment, much like a SWOT analysis used in strategy development. Identified risks should be recorded in a risk register—a “living” document that evolves with the organisation.

- Risks can emerge from events such as (but not limited to) near misses
- Changes in strategy
- New investments introducing new risks

Shifts in the external environment, including government, legal, regulatory, environmental changes. Workshops involving both the Board and management can help uncover risks, particularly those of a strategic nature. An internal audit also may provide valuable insights into potential risks.

Risk evolves over time, and monitoring for emerging risks is essential. These risks could arise from the sector, economy, government policies, technological advancements, or broader environmental factors.



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Risk Analysis: Impact vs. Probability

Risk analysis evaluates risks and how they should be managed—whether to avoid, share, or accept them.

This analysis is often visualised using a two-dimensional matrix that plots:

- **Impact:** Typically measured in dollar terms along the horizontal axis, ranging from “Insignificant” to “Catastrophic.”
- **Probability:** Expressed as a percentage along the vertical axis, indicating the likelihood of the risk occurring. This matrix, sometimes called a heat map, visually overlays risks to prioritise them based on their combined impact and probability.

By plotting risks, organisations can compare and prioritise them, ensuring focus on those with the most significant potential consequences. The categories and parameters for impact and probability should be tailored to the organisation’s size and needs.

Both **inherent risk** (before controls) and **residual risk** (after applying controls) can be plotted within this framework to understand the effectiveness of mitigation strategies.

			Impact				
			1. Insignificant	2. Minor	3. Moderate	4. Major	5. Catastrophic
Probability	A	Almost certain to occur in most circumstances	High	High	High	Extreme	Extreme
	B	Likely to occur frequently	Medium	High	High	Extreme	Extreme
	C	Possible and likely to occur at sometime	Low	Medium	High	Extreme	Extreme
	D	Unlikely to occur but could happen	Low	Low	Medium	High	Extreme
	E	May occur but only in rare and exceptional circumstances	Low	Low	Medium	High	High

The organisation’s risk appetite, as defined by the Board, can also be shown on the heat map. In the example below, the purple line represents the organisation’s risk appetite, indicating the level of risk the organisation is willing to accept.

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			Impact				
			1. Insignificant	2. Minor	3. Moderate	4. Major	5. Catastrophic
Probability	A	Almost certain to occur in most circumstances	High	High	High	Extreme	Extreme
	B	Likely to occur frequently	Medium	High	High	Extreme	Extreme
	C	Possible and likely to occur at sometime	Low	Medium	High	Extreme	Extreme
	D	Unlikely to occur but could happen	Low	Low	Medium	High	Extreme
	E	May occur but only in rare and exceptional circumstances	Low	Low	Medium	High	High

Risks are placed on the impact vs. probability matrix to represent their status at a specific point in time. The initial risk level, or “inherent risk”, is shown, along with the “residual risk”, which reflects the risk level after mitigation measures are applied. In the figure below, the arrows indicate the shift in risk from inherent to residual for three different risks.

Risk levels are dynamic, and a heat map can track changes over time. Pay close attention to risks that trend upward and diagonally towards the top-right corner, as they represent increasing severity.

Heat maps serve as valuable tools for Board reporting and play a key role in categorising risks for prioritisation during the evaluation phase.

			Impact				
			1. Insignificant	2. Minor	3. Moderate	4. Major	5. Catastrophic
Probability	A	Almost certain to occur in most circumstances	High	High 1	High	Extreme	Extreme
	B	Likely to occur frequently	Medium	High	High 2	Extreme	Extreme
	C	Possible and likely to occur at sometime	Low	Medium	High	Extreme	Extreme 3
	D	Unlikely to occur but could happen	Low	Low	Medium 2	High	Extreme 3
	E	May occur but only in rare and exceptional circumstances	Low	Low	Medium	High	High 3

Note: Risk analysis can be complex, involving both quantitative and qualitative assessments. Ensure it is conducted by qualified and experienced staff and be peer reviewed for accuracy. For complex analysis, translate the results into clear, accessible language that managers can easily understand.

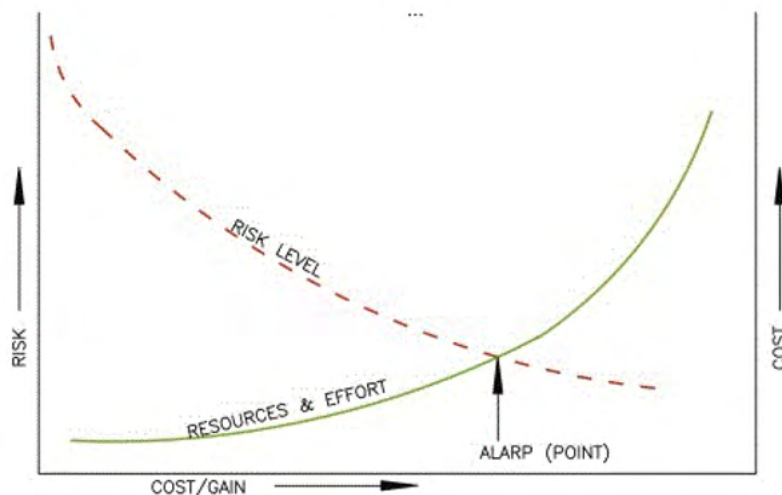
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Risk Evaluation

The second step involves evaluating risks to prioritise them for treatment. This is best done using the ALARP principle (As Low As Reasonably Practicable).

ALARP is achieved when:

- The risk level is tolerable, and further reduction would require costs or efforts that are disproportionate to the benefit gained or would be impractical to implement.



ALARP ensures that risks are not excessively mitigated, as over-controlling risks can be as costly as having insufficient controls. Every risk evaluation should also consider a “do-nothing” option for comparison.

Some risks may not be practical or cost-effective to mitigate. In such cases, it is crucial that this is clearly understood, accepted by the Board, and highlighted in any reports.

Other Harmony Alliance Guides in the Risk Management Series

- Risk Management
- Risk and Culture
- Crisis Management
- Emerging Risks
- Business Continuity Planning – Overview
- Pandemic Planning

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