

Risk Management

Some possible risks to consider in a wholefood grocery co-operative:

- Banking /card collapse
- Cashflow issues
- Change in government policy, e.g. increase in Corporation Tax
- Competition (existing/increasing)
- Currency (£) crash, impact on imports, offer, pricing
- Drop in sales
- Economic crash
- Fire
- Flood
- Food scares
- Fridge failure
- Fuel crisis/price rises
- High wastage
- Human error
- Increase in sickness
- IT failure
- Litigation
- Loss of Key Members
- Loss of reputation
- Loss of suppliers
- Major investment failure/over-expenditure
- Pests.
- Power cut
- Public Liability
- Recession (increase in crime, loss of suppliers, loss of currency, loss of sales)
- Robbery/Shoplifters
- Theft/Fraud
- Watering down of ethics

Sample Risk Assessment

Risk	Likelihood	Impact	Score	Precautions
Cash Flow Issues	5	5	25	A good financial planning/forecasting, good invoice paying, being aware of cash flow crisis in 2008
Perception - being perceived as expensive/extravagant.	4	5	20	Keep prices as low as possible Lots of UK produce keep staff informed re: price comparison, updates from buyers or in newsletter
Existing/Increasing Competition, Threat of New Rival Stores	5	4	20	Education, competitive pricing, flexibility in labour to cope with sales fluctuation
Loss of Key Members	4	4	16	More staff development, better pay, sharing knowledge, passing on skills/roles to new members, keyman insurance dropped
Food Scare -contamination -shortage	4	5	20	
Fuel Crisis/Price rise	5	4	20	More local sourcing, & keeping good relationship with our suppliers & hauliers, considering land investment, bakeries etc
Fire/Flood/Work of God	3	5	15	Adequate insurance
Recession Less income, buy less 'luxuries' falling sales, lower basket, fewer customers, lower spend, lower volumes - smaller margins	4	3.5	14	Monitor sales/hr and average basket closely; reconsider what prices hours are used for; keep contact with suppliers; keep margins realistic and be distinct; newsletters and price check; Keeping on top of USP; value for money
Suppliers going under	4	3	12	Finding local produce; Offering support
Loss of Reputation & Credibility	2	5	10	Better customer service training, reduing a number of out of stock products, etc
Economic Crash/Banking Collapse	3	3.5	10.5	Seeking for local production/suppliers
Overexpenditure on Development	3	3.5	10.5	Forecasting, issuing loanstocks, increase in efficiency,etc
Fridge Failure	2	5	10	Temperatue recording, repair people available
Euro strong against the £	4/3	2/3	8/9	
Human Errors in Important Processes, e.g. takings, till transactions	3	3	9	Training ongoing for till operators, T/Ss & F/Ws, limited number of members covering tasks with areas of risks
Substantial Drop in Sales	3	3	9	Flexibility in casual labour (5-10%), monitoring daily takings closely,
Robbery	2	4	8	CCTV, Insurance, Alarms
Theft/Fraud	4	2	8	Tightened cash handling, till sampling,
Public Liability	1	5	5	Adequate insurance, Health & Safety Risk Assessments
IT Failure	1	5	5	Weekly back-ups ongoing, more frequent & offsite backups for finance needed
Change in Gov.Policy, e.g. Increase in Corporation Tax	2	2	4	Keep an eye on policy changes
Power Cut	1	4	4	Generator installed

How To Approach Risk Management (from the Charities Commission)

Risk assessment process

In order to make the required risk statement and to facilitate the planning of your audit trustees have to work through 3 steps:

- Identify the risks
- Review them and
- Ensure suitable systems are in place to mitigate those risks

Risk management that is embedded within the charity will deliver further benefits, such as prioritising management actions.

Definition of risk

Risk can be defined as:

“Uncertainties surrounding opportunities and threats which have the potential to enhance or inhibit performance, achievement of objective as and meeting stakeholder expectations”

In other words, a risk can be anything which has the potential to prevent you reaching your goal. For charities and organisations, it can be very helpful if the risk identification process is rooted in the objectives of the charity.

Step 1 – Identifying risks

Firstly, trustees need to identify risk to which the charity is exposed. Starting from the charity’s objectives, the trustees should think about the risk which might prevent the charity from achieving those objectives. This will produce a “top level” review of risks, looking at the overall scene both inside the charity and externally.

From this, management and staff will be able to focus down to more detailed operational risks and consider appropriate actions. As prompts for identifying risks, it may be helpful to think in terms of:

- | | |
|-----------------------------|-----------------------|
| • Failure to | • Inability to |
| • Loss of | • Inappropriate |
| • Concentration of | • Reliance on |
| • Non-compliance with | • Disruption to |
| • Lack of | • Inadequate |
| • Reduction of | • Increase in |
| • Conflict between | • Delay in |

Risk in this review is not simply financial risk. In identifying risks, you need to think widely about internal and external factors that could affect the charity.

Consider the following categories:

- | | |
|---------------|-----------------|
| • People | • Information |
| • Operational | • Property |
| • Financial | • Reputation |
| • Strategic | • Regulatory |
| • Funding | • Technological |
| • Social | • Political |
| • Competition | • Governance |
| • Management | • Natural |

Step 2 – Assess risks

Once the risks have been identified, and it is very likely that there will be an extensive list, a risk profile is needed for which the key factors are:

- Probability
- Impact

This prioritises the risks, so that the long list becomes more manageable. The focus moves to the risks with the highest ranking. A scoring system should be agreed. One system is:

Probability

- 1 = very unlikely
- 2 = unlikely
- 3 = possible
- 4 = likely
- 5 = highly likely

Impact

- 1 = insignificant
- 2 = fairly serious
- 3 = serious
- 4 = very serious
- 5 = major disaster

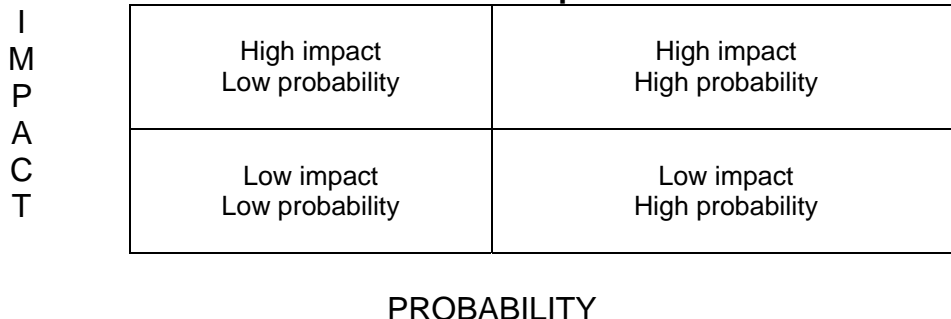
You have to use your judgement in scoring. Undertaking this as a collective exercise will focus the organisation’s attention on a key issue: risk appetite. One person might score a potential event as low probability, whereas another person may perceive the risk as highly likely. The process of assessing the risks can be a very positive exercise in sharing the different perceptions of risk. As part of the process the organisation should come to a reasonable consensus about the level and types of risks it is prepared to accept. This process may take some time and risk assessment will have to be revisited several times.

Multiply the scores to produce the priority ranking.

	Probability	Impact	Total
Database crash	4	3	12
Key person leaves	3	2	6
New procedure fails	4	3	12

The prioritised risks can be mapped to provide a graphic illustration of key areas of risk:

A Risk Map



Step 3 – Decided on action

Appropriate action will depend on the nature of the risk. Consider:

- Avoidance

- Minimising the likelihood
- Mitigating the effects
- Transferring the risk
- Accepting the risk

In general terms, the appropriate actions for the 4 quadrants on the risk map:

		Suggested Actions	
I M P A C T	High impact Low probability	High impact High probability	
	Mitigate effect/transfer	Avoid/minimise likelihood	
	Low impact Low probability	Low impact High probability	
	Accept	Minimise likelihood/accept	
		PROBABILITY	

Risk register

A register draws together the key information for the highest priority risks:

- A clear identification of the risk.
- Consequences of that risk becoming a reality.
- Action required for dealing with the risk. This should identify the timescale and responsibility for the action.

Example	
Risk	Consequences
Database containing names of all members crashes	Loss of information. Damage to relationship with members.
Actions	
Ensure database is backed up daily. Ensure contract with IT support company is valid and provides for immediate action. Provide IT training for membership team.	

Outcomes

As well as a statement in the annual report, the organisation should have a clearer sense of priorities, with action plans to do something about the major risks facing the charity. You do need to revisit your risk assessment – at least annually, as clearly priorities may change.

For more detailed information and guidance you should look at:

Charities and Risk Management

Guidance published by the Charity Commission on their website

<http://www.charitycommission.gov.uk/supportingcharities/charrisk/asp>