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Operational Risk Management

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Operational risk management is the constant management of risks caused by human actions, internal processes, systems, and external

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incidents within an organization. With increased requirements and a rising volume of risks, information systems provide benefits for integrating risk management activities with optimized performance. Operational risk management continues to be an issue of concern across industries because uncertainties abound everywhere. Cyber risks are pervasive as ever with a political change like “Brexit” or threatened deregulation in the US, which brings new difficulties to compliance activities. Many organizations are facing disruption, whether it is technology, new entrants, and new methods of doing things, forcing a closer look at systems, processes, and skills. It can be tough to recognize and manage the various operational risks facing an organization.

The collection of threats and opportunities can be overwhelming in compliance with laws and regulations, new product and service creation, strategic opportunities, cyber exposures, information security, and keeping a high performing employee.

Organizations should have a risk management plan that should detail its risk management process. The process starts with the creation of stakeholders in an organization that will manage and discovers potential risks in the organization. The team should involve senior management staff, the chief risk officer, compliance officer, and unit heads. The team should review the business objective, product development, and third-party business

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partnerships that can affect the progress. Once the risks are identified, the team will assess them because risks, like early product delivery, can also lead to adverse risks and customer's failure to meet a payment plan. An organization needs to foresee risks to find a way to analyze its potential impact.

Any risk identified and assessed by the team must be reviewed to know the likelihood of the event occurring and the estimated impacts on the business if it does occur. Increasing the possibility of the estimated impact will give an understanding of the risk's impact. Any risk with a low likelihood may lead to a devastating financial impact. Furthermore, a risk with a high probability may have no impact. A quantitative or qualitative analysis will help the risk assessment matrix. These allow the risk team to use the risk analysis and assign ratings such as high, medium, and low. The board of directors must take the lead in creating a robust risk management culture.

The board of directors with senior management must establish a corporate culture that is guided by robust risk management that supports and provides proper standards and incentives for professional and responsible behavior in the organization. According to Fontnouvelle et al. (2006), the authors believe an operational risk can happen anywhere, not just in the business organization. It can be injuries at the park. Operational risk can be inadequate labeling on a product, and this can lead to the wrong usage of the product by the consumers.

Organizations in the financial sector are required by regulatory authorities to manage their operational risks. The authors said in the early 2000s, and international banks had financial reserves account to manage operational risks. Operational risk is different from credit risk or market risk because the operational risk is usually not taken to retrieve an expected return. Operational risk exists in every organizational activity, and if it is not professionally managed, it can result in substantial losses to the organization.

Successful risk management practices require a structured process. In 1974 Gustav Hamilton developed the "risk management circle" that shows risk management as a continuous process.

All public quoted organizations face many risks, and the stake is very high in making a profit because their shareholders except a lot from them and also require top management and staff to manage risk well so that they can get a good return on their investment. That is the reason top management must quickly put in place a strategy with oversight in managing risk so that it will not jeopardize the existence of the organization. For public quoted firms, the stakes are enormous, and they do not set the benchmark of their performance.

No company is resistant to operational issues because if it happens, it can impact business unit profitability. Much company experiences operational risk annually, and the issues may be loss of revenue, unforeseen price pressure from new competitors, and unexpected change in production costs of their products or services. All these problems require corrective action, and the speed of that action is critical to containing the financial impact. Operational risk management is getting attention as organizations are faced with different threats, new technologies, new competitors, and persistent anxiety to grow bigger.

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