# Tool 6: Establishing Organisational Approach to Risk

**Risk Tolerance**

Risk tolerances are acceptable levels of variation in the organisation’s risk attitude based on specific circumstances. This falls within organisational risk threshold (i.e. the amount of risk the organisation could actually take before its capacity to deliver its mission is critically impacted).

Defining your approach to risk:

* Establishes clear parameters for teams to work within.
* Allows the systematic treatment of risk.
* Protects you from organisational collapse.

Process:

1. **Define the context:** Provide a brief explanation of how SRM risks relate to, and may impact, the overall strategy of the organisation, based on its mission, aims, objectives and operational context. Are there any external drivers that should be considered?
2. **Identify boundaries:** Specify, in clear terms, what there is zero attitude for, what there is cautious attitude for, and why in some circumstances there could be a higher level of risk attitude (for example, donor requirements, high-risk programme locations).
3. **Set indicators:** Outline the key risk indicators that will be used to assess whether the organisation is operating within, close to, or outside of risk thresholds. These indicators will also help determine a course of action regarding the management of different risks.

To make sure that your risk attitude is proportionate, use your Organisational Risk Register to inform what your key threats are. This can be done for every function of the organisation. Assess the impact and likelihood of these threats to occur. You can use established definitions or create your own. An example is shown below.

Likelihood

|  |  |  |
| --- | --- | --- |
| **Score** | **Term** | **Definition** |
| 1 | Very low | The threat is very unlikely to happen. |
| 2 | Low | The threat is unlikely to happen. |
| 3 | Medium | The threat is possible. |
| 4 | High | The threat is likely to occur. |
| 5 | Very high | The threat is highly likely to occur. |

Impact

|  |  |  |
| --- | --- | --- |
| **Score** | **Term** | **Definition** |
| 1 | Very low | Insignificant injuries or health effects, insignificant financial loss (<£1,000), insignificant business interruption (no lost time workdays), no negative reputational exposure, fully reversible impacts. |
| 2 | Low | Minimal injuries or health effects, minimal financial loss (<£5,000), minimal business interruption (<1 lost time workdays), minimal negative reputational exposure, mostly reversible impacts. |
| 3 | Medium | Moderate injuries or health effects, moderate financial loss (<£10,000), moderate business interruption (1-2 lost time workdays), moderate negative reputational exposure, outside assistance required to contain risk, partly reversible impacts. |
| 4 | High | Permanent disability or multiple hospitalisations, major health effects, major financial loss (£10,000-£50,000), major business interruption (3-6 lost time workdays), major negative reputational exposure, outside assistance required to contain risk, some reversible impacts. |
| 5 | Very high | Fatalities, multiple permanent disabilities or hospitalisations, significant financial loss (>£50,000), significant business interruption (>6 lost time workdays), major negative reputational exposures, outside assistance required to contain risk, significant impacts. |

Plot these on a risk matrix and continually monitor:

|  |  |
| --- | --- |
|  | Threat impact |
| Very low | Low | Medium | High | Very High |
| 1 | 2 | 3 | 4 | 5 |
| Threat likelihood | Very low | 1 | 1 | 2 | 3 | 4 | 5 |
| Low | 2 | 2 | 4 | 6 | 8 | 10 |
| Medium | 3 | 3 | 6 | 9 | 12 | 15 |
| High | 4 | 4 | 8 | 12 | 16 | 20 |
| Very high | 5 | 5 | 10 | 15 | 20 | 25 |

**Green** areas are within organisational risk attitude. They can be managed within normal mechanisms.

**Amber** areas are at the high-end of organisational risk attitude but within risk tolerance. These should be reported for awareness and review/contingency plans may be required.
**Red** areas are outside organisational risk thresholds. These should be reported, with immediate action required to improve controls.

*Source:* [*International Location Safety*](https://www.locationsafety.com/)