1. What does risk treatment consist of?
2. When should we confront the risks?
3. Risk treatment strategies
1. What does risk treatment consist of?

Once the risks have been analyzed and quantified, together with the impact that they have on an entrepreneur’s business plan, he or she should analyze what the level of opportunity is, in the event of taking on the risk.

The graph contains a positioning matrix, which shows the different options depending on the level of risk and of opportunity; in the event that the entrepreneur decides to accept the risk, he or she must undertake a risk treatment process.

The risk treatment process consists of selecting and applying the most appropriate measures, in order to be in a position to modify the risk, with the aim of avoiding the damages intrinsic to the risk factor or of making use of the advantages it could provide us.

All risk systems must ensure as a minimum:

- The effective and efficient operation of the organization.
- Effective internal controls.
- Observance of current laws and regulations.
2. When should we confront the risks?

In order for the risk treatment to be effective, the entrepreneur needs to adopt certain measures and actions aimed at modifying, reducing or eliminating the risk. Such measures or actions involve a cost for putting them into practice, which must be assumed by the entrepreneur. Similarly, if we decide not to take any measures at all against the risk, such a decision could give rise to significant losses.

In order to choose the most appropriate strategy for confronting the risk in each specific case, an analysis must be made, on the one hand, of the cost for the entrepreneur of each of the different measures that could be effectively adopted; while on the other hand, we need to assess and quantify the possible losses that would ensue from failure to adopt measures against the risk.

On comparing the results, we will be able to know whether we should act or not in the face of the risk and, if we decide to act, what measures will be the most adequate.

The risk treatment should be the most appropriate course of action commensurate with the significance and relevance of the company in its business activity.

In a first approximation, we can mention:

- The low-level risks can be accepted by the entrepreneur, as it may not be necessary to take any additional action, although the control and monitoring of such risks is necessary.
- The significant-level risks should always be treated and controlled, and their acceptance or not will depend on the company’s strategy and the opportunity that the risk might generate.
- The high levels of risk will require a careful administration and management, as well as the preparation of specific plans in order to manage and remedy possible consequences.
The following graph provides a global overview of the most appropriate decisions that an entrepreneur should make in relation to risk management, taking into account the seriousness of each kind of risk and the possible opportunities that the risk could offer our business.

3. Risk treatment strategies

There are two main kinds of strategies:

- **Avoidance strategies**: this kind of strategy seeks to minimize the likelihood of a risk’s arising. For this purpose, there are 4 main options: transfer, reduction, elusion and diversification.

- **Minimization strategies**: this kind of strategy seeks to reduce the impact of the risk on the product or project. Minimization strategies are adopted when the avoidance strategies have failed and, thus, the risk is now a fact. In these cases, a Contingency Plan should be designed, with the intention of mitigating the adverse effects of the risk, once it has already materialized.
AVOIDANCE STRATEGIES

Once the entrepreneur has identified and analyzed the risks, he or she must have a clear idea as to which risks could offer an opportunity for gain, and which involve a threat, as well as the likelihood of each of them actually arising. Depending, therefore, on the type of risk being confronted and on the situation and characteristics of the company, we will need to choose the most adequate risk avoidance strategy.

We have 4 options in order to try to prevent a risk from becoming an adverse reality for our company:

- **Transfer**: this option represents the set of procedures whose aim is to eliminate the risk by transferring it from one place to another. It consists, for example, of selling a doubtful asset, insuring an activity with major risks, etc.

- **Reduction**: this strategy seeks either to reduce the likelihood of occurrence of a risk or to reduce its consequences, or to achieve both objectives at the same time. The likelihood of occurrence of a risk can be reduced through management controls, organizational arrangements and procedures designed to reduce the frequency of an error or the opportunity for an error to occur. The consequences can be reduced by ensuring or guaranteeing that all of the controls are in their proper place in order to minimize any adverse consequences.

- **Elusion**: there are two options in order to try to elude a risk: not to go ahead with the project or the activity that would involve the risk, or to choose alternatives for the activity that will achieve the same result and do not bring with them the risk detected. The problem in eluding risks is that we can lose business opportunities and, in addition, other risks that were not identified initially could become more significant.

- **Diversification**: this option consists of attempting to spread the risk from a specific area to different sections, in order to prevent the loss of the entire project. Examples of diversification include orienting your business towards new markets and suppliers, diversifying the list of products and services, etc.
RISK AVOIDANCE STRATEGIES. EXAMPLES APPLIED

As we have seen, there are different strategies, which, when correctly applied, will be extremely useful to us in our risk management and elusion tasks. The following chart offers a few specific actions, which will enable us to react to certain risks that affect the activity of our business.

<table>
<thead>
<tr>
<th>RISK</th>
<th>IMPACT</th>
<th>PROBABILITY</th>
<th>STRATEGY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delays in deliveries</td>
<td>High</td>
<td>Medium</td>
<td>Advise customers of the existence of difficulties and of the possibility that deliveries or projects could be delayed. The reason for the delays should be investigated and appropriate measures should be taken to prevent the same situation from reoccurring</td>
</tr>
<tr>
<td>Staff sickness absences</td>
<td>High</td>
<td>Medium</td>
<td>Reorganise the work in such a way that there is no overlapping or gaps in the production process, in order that all can be aware of their own responsibilities as well as those of the rest of the staff.</td>
</tr>
<tr>
<td>Defective materials</td>
<td>High</td>
<td>High</td>
<td>Replace defective materials as soon as possible with others in perfect condition, ensuring that they are of recognized quality and effectiveness</td>
</tr>
<tr>
<td>Changes in orders</td>
<td>High</td>
<td>Medium</td>
<td>Check the traceability of the requirements that have been modified or eliminated in order to detect the impact on the project already developed</td>
</tr>
<tr>
<td>Organizational restructuring</td>
<td>Medium</td>
<td>Low</td>
<td>Prepare a document that demonstrates to the company management the importance of the project for the business interests and objectives</td>
</tr>
<tr>
<td>IT systems failures</td>
<td>Medium</td>
<td>Medium</td>
<td>Investigate the causes of failures and sound out the marketplace, considering the possibility of replacing current information systems with other more modern systems, principally in cases where the system is obsolete or failures are repetitive</td>
</tr>
</tbody>
</table>
MINIMIZATION STRATEGIES

These are applied when the risks have already given rise to their effects and are, therefore, a reality. At this time the only option available is to take corrective measures in order to minimize the consequences. These situations give rise to delays in projects, formation of crisis-management groups, etc, for which reason they are not advisable and should only be used as an emergency measure.

The principal measure that can be taken in these situations, in order to mitigate the effects derived from the occurrence of the risk, is to make use of Contingency Plans.

A Contingency Plan defines the alternative procedures and processes that must be undertaken in an organization when a risk is no longer a risk but rather a reality, as well as determining the people involved in such procedures. Thus, it is assumed that the avoidance and risk monitoring strategies have failed and the effects are now unavoidable.

In such an event, the Contingency Plan must be activated and should cover three main activities: coordinate the handling of the crisis, ensure the use of alternative processes that will enable the continuity of the business and solve the problem in order to bring the processes and operations back to normal.

We must not forget that the return to normalcy is as complex as the move to contingency, as, during the period of transition, operations will have been carried out that will mean that the return to normalcy should not be made by restoring the conditions existing at the point where the operation moved on to contingency, but rather the updating should reflect the results of the alternative processes put into place during the crisis.