
MANAGE
YOUR
RISK

Managing Risk

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You invest time, money and make sacrifices to bring your dream to reality—with no guarantee of success. A successful entrepreneur is ever the optimist but also aware of the possibility of failure. What are the odds that you can stay the course?

According to Bloomberg, eight of ten small businesses fail within the first 18 months. Forbes says 96% of small businesses fail within ten years. The odds are against us.

How do you become a calculated risk taker, improving the odds? There is a process called "Risk Management" that assesses risk levels and puts procedures in place to mitigate the worst possibilities. It is the process of identifying what could go wrong and implementing strategies to deal with those risks.

Most business risk falls under the categories of strategic (new product failure), compliance (increased industry regulations), financial (increased interest rates), operational (loss of key management), and reputable (negative publicity). Potential threats or weaknesses can be due to internal and/or external forces such as employee theft, data breaches, equipment breakdown, new competition, product recalls, or even natural disasters.

There are significant benefits to mitigating these potential dangers before they develop into a crisis. Those that make Risk Management a central part of their business more effectively manage these hazards. Forewarned is forearmed. If you have a plan, you already have a first line of defense. You may be able to move around, go through, or even jump over some of the obstacles that affect business success.

The benefits to instituting Risk Management include improved business planning, preventing a disaster before it becomes a financial loss, more effective use of resources, avoiding legal action, the ability to grasp new opportunities, fewer equipment or operational breakdowns, improved communication within the organization, and a higher quality product or service which can lead to enhanced reputation. The list goes on. . .

How to Start the Process

- Identify the risks – What are your business activities? Make a list and methodically go through worst-case scenarios for each activity, both internal and external. This is the most crucial aspect of the process. Each risk you identify should be attached to a business function or process. You may even stumble upon some opportunities.
- Prioritize the list – How likely is it that the event will occur?

- How to respond – If the worst case is realized, what steps will you take? Be specific. You are creating your own risk treatment plan.
- Monitor effectiveness – Are the steps you identified mitigating the risk?

Risk Management is an on-going process. It allows you to put methods and controls in place that provide an approach to minimizing consequences of business risk. Risk assessment helps to improve decision making and planning and can significantly help improve profitability. Risk-management programs provide both the strategic basis and the operational framework for handling crisis within your company.

Strategic risks are looked at on a qualitative level (quality instead of quantity) and as such, have more potential future business impact than other risks. When we start working on a strategic contingency plan, we need to understand the key strategies and objectives of the organization to be able to prioritize the potential risk. What you consider a risk opportunity (moving into a new market) may be another business' adverse risk (opening yourself up to new competition).

Some examples of strategic risk are brand positioning (a business dependence on easily imitated technology), competitors (price wars), economic trends (our only vendor went out of business) and customer behavior (our product or service is obsolete or consumers have found a replacement). Do you have a plan to adapt? The Risk Management process gives us a tool. As discussed above, we can use this tool to create a risk scorecard and rank the severity of the risk.

The key is recognizing and managing weaknesses while identifying the risks that lead to innovation and competitive advantage.

There is no one-size-fits-all Risk Management plan. Do not let the process intimidate you. The sooner you start, the easier it will be to stay the course toward business success.

To Accomplish your Goal
- Identify the risks
- Prioritize the list
- Create a risk management plan
- Monitor its effectiveness

Identifying Risks that Lead to Innovation + Competitive Advantage
Analyzing strategic risk is a bit of a challenge. These risks are more about what the organization does not know, for instance, potential changes in the business environment or shifting consumer trends, versus risks that can be measured such as the cost of equipment failure. Strategic risks are also different in that they can potentially be used to identify an organization's next opportunity. These are the high-level goals that support the core of the organization's strategy.

You can do the following:
- Identify and list the risk in a table.
- Assign a number to the likelihood that the event will happen—maybe from 1-5, least likely to most likely.
- Estimate the impact on your business—1-5, low impact to catastrophic event.
- Total the numbers.

You now have four columns titled Risk, Probability, Impact and Total. Once you have the risk score, you have a basis to begin mitigation. Create an action plan for the highest score and work your way down.

Action plans for mitigating risk:
- Avoid the risk—Create a new business strategy

to circumvent the problem, usually the most expensive solution.

- Control the risk—Take intermediate steps to try and avoid the issue while accepting that it may occur, but reducing the likelihood of occurrence. This is the most commonly used strategy.
- Accept the risk—To address the risk may outweigh the cost of the risk itself. You accept the risk exists and make no effort to control it. You might consider budgeting monies to address the risk down the road.
- Transfer the risk—Find a willing third party and outsource the risk. As long as this is not a core competency of the business, it may be beneficial to pay a third party. You could also reassign the risk by purchasing insurance to cover a risk possibility.
- Monitor Effectiveness—As always, continue to review the risk environment and your response to it. Remember to touch base with personnel and even external professionals (accountants, attorneys, et al.) to help create and implement your plan.

Risk Management is not always about negative outcomes. Companies prosper by taking risks. The key is recognizing and managing weaknesses while identifying the risks that lead to innovation and competitive advantage.

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