
HOW TO IDENTIFY AND MANAGE **RISK**

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It's a smart idea to reach out to an insurance professional about insuring your business against certain risks.

How to Identify and Manage Risk



Understanding risk and planning accordingly can go a long way to ensuring successful business risk management.

Managing risk is an important part of every business strategy. By understanding the most common types of risk experienced by small businesses, you can successfully plan to mitigate or eliminate those risks and stabilize and grow the company. In this article, we'll identify five risk categories and offer five strategies to effectively manage risk.

5 Types of Risk

Your business may face several types of risk. These include:

1. Operational Risk

Because it can lead to the disruption of critical systems, operational risk is an important risk category to consider. Operational risk refers to an event that could negatively impact your day-to-day



operations. IT system failures, supply chain management issues, or even the loss of key personnel are all operational risks. These events not only interrupt cash flow but are costly to fix and can damage your reputation.

2. Strategic Risk

The business strategy your company was founded on was based on certain beliefs and expectations. Strategic risk refers to your company's business model and execution of its long-term objectives. When change happens – such as market fluctuations, shifts in customer demand, or the emergence of new technologies – the ability to effectively adapt your business strategy lessens your strategic risk.

3. Financial Risk

Linked to your cash flow, debt, and accounts receivable, financial risk affects the money flowing in and out of your company. Taking on a considerable amount of debt, losing a large customer, or doing business internationally and being at the whim of geopolitics and fluctuating exchange rates are all examples of financial risk.

4. Economic Risk

Both macroeconomic and microeconomic conditions are a constant concern in business, and changes in these conditions, such as shifting industry trends or a change in demand for your product or service, increase risk. Unemployment, inflation, and government regulations all affect the interest rates that factor into economic risk. Developing a plan to manage these eventualities is key to mitigating risk.

5. Environmental Risk

The environment also exposes your company to risk. Natural disasters can damage a supply chain and facilities. Exposure to toxic chemical or environmental agents can affect employees and lead to costly litigation. Best-in-class businesses think about environmental risks associated with doing business and plan how to deal with issues that can arise from these risks.

5 Steps to Effective Risk Management

Risk assessment and management involve a methodical process that is imperative to achieving your business objectives and building and protecting value. But for many, determining which risks to manage immediately, which to delegate, and which to monitor can be challenging. A thorough, five-step process is an important framework to support an effective risk assessment and management plan.

1. Review Your Company's Objectives

Before you can identify or manage risk, you must focus on your company's objectives. Think about your overall business goals; what products or services you provide; what channels you use to deliver those products or services; the people who make, distribute, and purchase your products or services; and the shareholders and/or lenders who supply the capital. As you work to meet your objectives, you create exposure to risk. Clearly defining your objectives will help you understand what those risks are.

2. Identify and List Your Risks

After reviewing your objectives, identify all possible risks to achieving your company's goals. These should include both obvious and unexpected risks. Listing potential risks is an important step that your team can learn from. Pull together senior management and come up with ideas about the impact each



risk might have on your business objectives, even those that seem unlikely. By clearly identifying risks, you can better manage them, and, in some cases, prevent them.

3. Prioritize Risks

Once you've identified them, rank your risks by the possibility of each one occurring and the impact each would have if it did. Some risks can be dealt with at a later date, while others may require immediate action. Prioritizing risks allows you to determine where your focus should be and helps you develop workable solutions.

4. Formulate Your Risk Management Plan

After you've listed and decided on the possibility and impact of each potential risk, you can begin to set up your risk management plan. Identify, by risk, what actions to take to mitigate or reduce exposure. Outline risk-monitoring activities to gauge what risks are decreasing or increasing or if you discover any new risks. Set benchmark goals for these action items.

5. Continually Monitor Your Plan and Make Adjustments

Effective risk management is dynamic, so you should periodically review your plan and action items. Review the identified risks and how actions changed those risks. Identify where modifications can improve risk management. Finally, add newly discovered risks and the actions to manage them.

Be Proactive

Staying ahead of issues that might derail your company's day-to-day functioning and overall performance is key. Use the five simple steps above to design a successful risk management plan. If you have questions or need help managing your business finances, reach out to your financial institution.



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