



## Identifying Business Risk

Types of risk can vary from business to business but there are some risks most businesses have in common. As well as listing the risks, it's also useful to list what the consequences could be if the risks actually happen.

### Compliance risks

Compliance risks are part of the laws and regulations you must meet, such as taxation, employment, health and safety, and fair trading.

Some potential risks are:

- regulations might increase your production costs, e.g. higher quality standards
- health and safety changes could add to your costs, e.g. having to provide safety equipment to your workers

Possible consequences: fines or legal problems.

### Employee risks

Although employees are vital to business success, there are risks associated with having employees. Some risks are:

- key staff being ill and unable to work at an important or extended time
- industry strike action

Possible consequences: customer service suffers, disruption to production.

### Environmental risks

Each location and its business practices will influence the likelihood of each risk, but some to consider are:

- natural disasters such as bush fire, hail, flooding and wind storms
- property damage such as water pipes bursting or power failure

Possible consequences: loss or damage to stock or building, disruption.

### Financial risks

Financial risks are part of the financial structure of your business, business transactions, and the financial systems you use.

Some possible risks to consider are:

- being overly reliant on a single customer
- changes in interest rates



Possible consequences: your entire operation stops after your main customer stops ordering from you, cash flow shortage.

### **Health and safety risks**

Apart from the legal and moral reasons for keeping your business safe for employees, customers and others, your business could suffer if you don't manage the health and safety risks.

Possible consequences: your business could be sued, get a bad reputation or be heavily fined. Your WorkSafe Injury Insurance premiums will also increase.

### **Operational risks**

These are part of your operational and administrative procedures. These include:

- disorganised or inaccurate record keeping
- outdated or faulty IT systems
- interruptions to your supply chain

Each operation's potential risks need to be looked at, preferably independently, and then prioritised. For instance, would a truck drivers' strike stopping deliveries be more damaging than forgetting to send a monthly statement?

Possible consequences: customers see you as unreliable, IT system causes loss of all data.

### **Political and economic risks**

Some businesses can be affected by a change of government and government policy. Likewise, economic changes, such as a recession or interest rate fluctuations, could be a risk to your business.

The risks are not always direct - an economic slump may stop consumers buying from you, or simply buying far less. The reverse is also true, e.g. sudden increased demand.

### **Strategic risks**

These affect particular industries. They include the effects of:

- changes in customer demand
- new technology or practices

Possible consequences: the market sees your product or service as outdated, or your competitors offer a much lower price or better quality.



## Identifying Risk

There are many different ways of identifying risks to your business ranging from team brainstorming and 'what-if' scenarios to detailed studies. Picking the right method for your business depends on the type of risks you're considering. It also depends on the time and money you can spend.

### Team brainstorming

Team brainstorming uses the perspectives and experiences of your employees and business partners to identify possible risks and develop solutions.

### 'What if' scenarios

Scenarios can be useful if the risks are ill-defined e.g. identifying strategic risks when you're about to trade in a new market. Risks involved in strategy decisions are often 'high level', so many factors might be outside your control. In this case use a more general approach.

### Structured analysis

At the more complex level, structured analysis uses flow charts (with other techniques) to assess risks. Use this approach if the consequences are potentially major or serious and it's cost effective to do so.

If your budget is limited, consider fewer and the most important risks. Another approach is to look at the risks from a higher level (a 'big picture' approach). Or use a checklist to simplify listing the risks to assess.

### What to ask about risk

Key questions to ask about risk:

- What is the source of each risk?
- Could your business goals be affected, which ones, and how?
- When, where, why, and how are these risks likely to occur?
- Who might be involved or affected?
- Do you already have a way to deal with the risk?
- What would stop today's solution for a risk, from working tomorrow?

Once you've identified the risks, you'll need to assess their potential consequences and come up with a plan to deal with them.

**Tip:** Taking risks often clears the path to business survival or growth. The important thing is to plan ahead for risks and manage them.

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