

Risk Management Plan Evaluation

Did you know 60% of small businesses are hacked each year?¹

“All of our data we’d built over the past four years was compromised. It was because of a plug-in one of our team members added on the site. Something we did on the cheap came back to bite us. We spent days trying to recover the data, and never got back some of it. Our developer once said, ‘Have you been backing up your data?’ We felt like idiots. Today: No rogue plugins, all software updated, and we have a back-up plan in place. We pay a consultant each year to review our processes and share that with our developer.”

— U.S.-Based Entrepreneur

“Risk” is a word we hear a lot, but what does it really mean for business owners? Basically, it’s a consideration of what can go wrong. One helpful way to look at and assess risks is thinking of them in two categories: internal and external.

INTERNAL RISKS are risks you can generally control (e.g., outdated IT systems).

EXTERNAL RISKS are risks you cannot generally control (e.g., severe weather).

Identifying and preparing for both types of risks is called **risk mitigation**. Risk mitigation can help business owners feel more prepared and—depending on the risk—help the business survive and thrive.

Risks should be rated before prioritizing. This exercise helps you identify risks that may be relevant for your business and your plans for growth.

To Do:

Review the columns below. The following are examples to prompt your thinking about risks in your business. On the next page, you can list what risks apply to your business and plan action steps.

INTERNAL RISKS

Human risks (associated with people in the company)

- Illness and death
- Theft and fraud
- Low employee morale
- Work-related injuries
- Medical emergencies
- Owner/employee vacations
- Complacency
- Personal conflicts (owner/team)

Equipment and information technology

- Site/data may be vulnerable to hack or loss.
- Older equipment may run slower.
- Worn parts can cause equipment breakdown.
- Downtime from outdated systems may slow business profit.

Other internal risks

- Physical appearance of your building (may dissuade customers)
- Damage caused to company property

EXTERNAL RISKS

Competition and market risks

- Market changes.
- Your competitor may recruit your employees, taking loyal customers with them.
- Rent may increase for your current space or any new space needed to grow.
- Your customer base may change as the needs, age groups, spending habits, and incomes of the population change.

Business environmental risks

- Federal, state, county, and city laws and ordinances can change.
- Weather and natural disasters can shut down a business for a short or long period or close it indefinitely.

Continue with questions on following page

INTERNAL RISKS

What internal risks from the list above apply to your business?

Define what your internal risks look like. For example, low employee morale—our risk is low productivity and/or attrition.

Add any additional internal risks that apply to your business.

EXTERNAL RISKS

What external risks from the list above apply to your business?

Define what your external risks look like. For example, competition—our risk is competing with free shipping.

Add any additional external risks that apply to your business.

To Do:

Fill out the chart below as a starter risk management plan. Pick your three to five most important risks and list them in the left column. In the right column, list ideas for mitigation strategies, or how to reduce negative outcomes for the risk you have chosen.

INTERNAL RISKS FOR MY BUSINESS

MITIGATION STRATEGIES A.K.A. HOW TO REDUCE RISK

To Do (continued):

EXTERNAL RISKS FOR MY BUSINESS	MITIGATION STRATEGIES A.K.A. HOW TO REDUCE RISK

Final Steps

Now that you have identified your top risks, evaluate risks with regard to growth (e.g., what risks would hinder potential expansion or future growth)?

Follow Up

To make your risk management plan actionable, consider the following steps:

DAILY/WEEKLY

- Consult with key people to understand their view of possible risks.
- Communicate the risks you see to your team, and develop mitigation strategies.

PRODUCT/SERVICE GROWTH PLAN PREP

Introduce a specific lens to the risk discussion around growth.

- 1. Analyze Problems:** Take your top internal and external risks, and review how those challenges may impact your growth process. What can go wrong with the new opportunity you are considering?
- 2. Evaluate the Business Environment:** Use your risk plan to thoroughly and critically assess, analyze, and determine what exactly is required of the business environment to make your situation successful.

THE RISK MANAGEMENT MIND-BENDER

Risk management is nonintuitive; it runs counter to many individual and organizational biases. Rules and compliance can mitigate some critical risks but not all of them. Active and cost-effective risk management requires managers to think systematically about the multiple categories of risks they face so that they can institute appropriate processes for each.²

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¹ Kevin Kerridge, *Not Just Equifax: 60 Percent of Small Businesses Get Hacked Each Year. Here's How to Fight Back*, Inc., <https://www.inc.com/kevin-kerridge/not-just-equifax-60-percent-of-small-businesses-get-hacked-each-year-heres-how-to-fight-back.html> (accessed Nov. 30, 2018).

² Robert S. Kaplan & Anette Mikes, *Managing Risks: A New Framework*, Harvard Business Review (2012), <https://hbr.org/2012/06/managing-risks-a-new-framework> (accessed Nov. 30, 2018).