

Risk management

Although the actual risk management procedures will be different in smaller businesses from larger businesses, the problems that come about because of poor management of risk will be the same. If the risk is not managed well, financial loss will result.

What is risk management?

Risk management, regardless of who does it, consists of:

- Identifying and analysing the things that may cause loss to the business.
- Choosing the best method of dealing with each of these potential things that could cause loss.

Exposure to loss

Identifying exposure is a vital first step. Until you know the scope of all possible losses you will not be able to develop a realistic, cost-effective strategy for dealing with them. The last thing you want to do is come up with a superficial band-aid approach that may cause more problems than it solves. It is not easy to recognise the hundreds of hazards or perils that can lead to an unexpected loss.

Unless you have experienced a fire, for example, you may not realise how extensive fire loss can really be. Damage to the building and its contents are obvious exposures, but you should also consider damage from smoke or water, from the fire hoses, damage to employee's property (personal belongings, tools etc) and to property belonging to others (machinery and equipment leased from other firms). There are also the losses from business that you lose during the weeks that it takes to get the business back to normal again and the loss brought about by customers who may not return when you reopen the business, because they will be lost to competitors. Risk management strategies should be included in your overall business plan.

You begin the process of identifying exposures by taking a close look at each of your business operations and asking yourself these questions:

- What could cause a loss?
- How serious would that loss be? - That is, what kind of costs in dollars would be involved? This is not to determine where the money will come from, but how costly the loss could be.

Many business owners use a "risk analysis" questionnaire or survey as a checklist. These are available from various agents (insurance etc), most of whom will provide the expertise to help you with your analysis.

Benefits of risk management

Risk management programmes are all about businesses reviewing their administrative, accounting, financial, insurance and personnel areas to evaluate possible risks and putting in place strategies for covering those risks. Sound strategies would produce the following benefits:

- It can reduce insurance premiums.
- It can reduce your chance of being sued in certain circumstances.
- It reduces any losses to property.
- It reduces the time when the business may be unable to operate.
- It allows for a plan to replace key people in the business, should they be incapacitated for some reason.
- It reduces losses to automobile and other equipment that is necessary for the efficient running of the business.

Risk and small business

Is your business a risky business? Every business is. We all know that. Just think for a moment about the hundreds of things that most business owners worry about. While a few are predictable, others are not. Perhaps you can plan and control to a certain extent some of them. These would be:

- Expected sales volumes.
- Salary costs.
- Taxes.
- Overhead expenses.
- Equipment and supply costs.
- The price you charge for the goods and services you offer to your customers.

Others are unpredictable, largely beyond your control. Some of these include:

- Actions your competitors may take.
- Changing tastes and trends.
- The effect they have on your market and your customers.
- The local economy and its impact on your customer base.
- Climate, eg flood, cyclone.
- Global competitiveness.

And then there are the events that can and do happen to small businesses all the time. They can directly affect your day-to-day operations or impact profits and result in financial losses that may be serious enough to cripple the business or even bankrupt it. You have probably already considered the most obvious risks and bought insurance to protect against the financial losses that could result from them. Most business owners recognise the loss potential from fire and injury, for instance.



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Fire can damage or destroy the building a firm occupies and turn the building's contents into a pile of smoking rubbish. Whether you rent or own your place of business, your ability to continue to do business may seriously be affected. If someone is injured on the premises, or injured by a product that you manufacture or market, or because of the way your firm performed a service, your firm may be held responsible for that person's costs and legal action may result. There are hundreds of other losses and liabilities that every small business faces, many of which are often overlooked or ignored.

Many larger businesses have a full-time person whose responsibility it is to manage risks within that organisation. They take steps to protect the firm against accidental and preventable losses and to minimise the financial consequences of losses that cannot be prevented or avoided. However, most small business owners cannot afford the services of a specialised person looking after that function, so the owner often has to take on that responsibility.

Insuring against risk

The most common method of transferring risk is by the use of insurance. By insuring your home and your car, you have transferred much of the risk of the loss to the company that issues the policy. You pay a premium, rather than run the risk of not being protected against the possibility of a much larger loss.

In business insurance you can decide which exposures you absolutely must insure against and which ones you can cover yourself. Some decisions in this regard have already been made for you, such as those required by law (eg workers' compensation) and others required by customers or clients (where lenders will finance a vehicle, but require you to take out insurance before they pass over the loan).

As far as obtaining insurance is concerned, make a time for full discussion with an insurance professional who will take you through all the methods of risk cover and put in place what the business needs.

Further information

The following fact sheets provide further information on these issues:

- Alternative dispute resolution
- Business planning
- Business records you should keep
- Control against fraud
- Control your business problems
- Control your costs
- Control your debt
- Control your stress
- Dealing with fraud in your business
- Examples of business losses
- Insurance
- Problem solving
- Professional indemnity insurance
- Reduce exposure to business losses