



Risk Management

Developing a strategy for analysing and responding to unforeseen events is a widely used business tool among bigger companies but the use of such strategies among smaller companies is patchy. All business-owners are advised to undertake an assessment of the risks facing the business and having identified them, take steps to deal with them one way or the other, or simply monitor them. Time spent doing this is much less painful than picking up the pieces after the event.

Business Risks can be External or Internal

External Environment

- Interest and foreign currency exchange rates
- Changes in legislation
- Competitive pressure
- Changing economic conditions
- Changes in demographic trends and lifestyles
- Weather

Internal or risk associated with the business itself

- Illness, injury or death of key member(s) of staff
- Retention of staff
- Inadequate staff training
- Reliance on one supplier/customer
- Customer service failure
- Fraud

Identifying Potential Business Risks

- A useful method for identifying potential business risks is to have brainstorming sessions involving senior management, a cross section of staff and an external consultant to act as facilitator (your accountant with his/her close knowledge of your business is well equipped to fulfil this role).
- Commence the session by thinking about the business;
Does it have any special characteristics? This should lead you on to identifying and thinking about the key issues and business drivers.
What are the risks linked with these issues/drivers?

Risk Management *continued*

- Risks identified should be put into priority order based on the likelihood of their occurring.
- A convenient way of describing the categories is;
 - a) Low likelihood/low impact e.g. theft of petty cash
 - b) Low likelihood/high impact e.g. major fraud or fire
 - c) High likelihood/low impact e.g. company car accident
 - d) High likelihood/high impact e.g. increase in oil prices for haulage company.

Consideration of the prioritisation and impact assessment should be undertaken in the context in which the business is operating e.g. is the business growing strongly and requiring a strong cash position?

What Next?

Having gone through the process, management then must decide what action, if any, is required to remove, mitigate or monitor the risks identified. Some can be insured against, some can be hedged e.g. the banks have instruments for covering interest/currency risks, and some will be reduced by strengthening internal controls...but some you will have to live with!

One thing is certain, out there in the dangerous waters which we call the business environment, lurk exocets of all shapes and sizes; instinctively they know your vulnerabilities and are waiting for that moment when you lower your guard. Undertaking a full assessment of business risks will not frighten them away, but it will make life more difficult for them.

A final thought...there will always be one risk that is over-looked!



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••• Contact

Broadhead Peel Rhodes address: 27a Lidget Hill Pudsey Leeds LS28 7LG
tel: 0113 257 4506 fax: 0113 257 7086 email: info@bpr.co.uk web: www.bpr.co.uk

