

Managing Business Risk

By Necol Russell-Washington

Today's complex business environment presents a host of potential risks that surround the activities of a business, which risks must be methodically identified, analyzed and prioritized to effectively manage the exposure to the business. Generally, business risks can be categorized as external or internal.

External risks can be categorized as **strategic** (e.g., impact of merger/acquisition activity; industry/technology changes; adverse impact to brand quality or business reputation; increased competition; political and economic instability in your foreign markets; impact of emerging markets and innovation, lack of contingency planning, etc.) and **financial** (e.g., commodity pricing, credit and liquidity changes; impact of interest and exchange rates; supplier or customer over-reliance, etc.).

Internal risks can be categorized as **compliance** (e.g., changes to applicable laws/ regulations; foreseeable legislative activity that may adversely impact product market-ability; potential product or service liability issues from a product's speed to market, etc.) and **operational** (e.g., impact of supply chain disruption; workforce/ management instability, etc.).

Risk Analysis. Analyzing such potential, and often covert, risks entail determining the **probability** of its occurrence (ranging from rare to reasonably certain over time) and its **consequence** to the business (ranging from minor to disastrous). Business risk is reality, and in today's multifaceted business environment, such risks cannot always be economically managed through insurance due to exorbitant premiums and stripped coverage. Rather, the business must take steps to effect — and monitor — processes and tools to prepare for such uncertainties, which can be the difference between an adapting, thriving business that outperforms its competition — despite the occurrence of the uncertainty or being profiled as an example of a failed business in a business school textbook case study.

Risk Management Advantages. Good and demonstrable risk management can have a profound impact on a company's ability to gain a competitive advantage across its industry, reduce its earnings volatility and probability for large losses and, thereby, obtain less expensive and better access to capital and ultimately increase shareholder or stakeholder value.

For more detailed information regarding developing a risk management program or for assistance in performing a risk analysis for your business or company call Necol Russell-Washington or your CPM attorney.