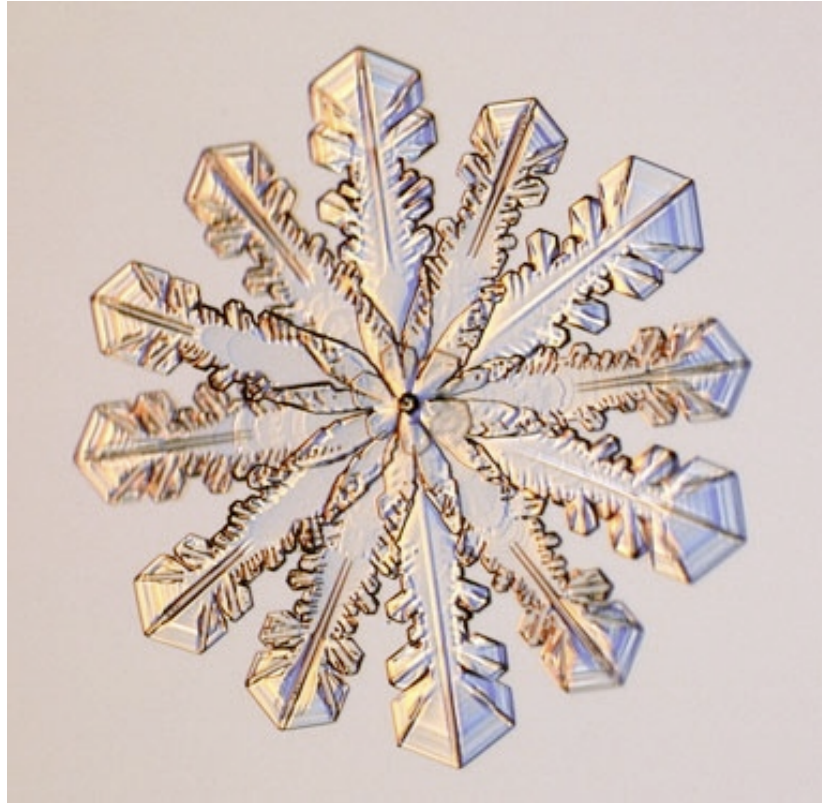


## 360° VIEW OF RISK



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# 360° View of Risk

"Most entrepreneurs are very positive. They're not thinking they will ever encounter disaster," says James Rivera, associate administrator for the Office of Disaster Assistance at the U.S. Small Business Administration in Washington.

Unfortunately, this rosy outlook often leads to trouble for the small business owner, because lack of preparedness is one of the easiest and often most cost effective ways to avoid disaster.

## Risk Mitigation

To make sure we are clear on definitions:

### risk |risk|, noun

- [in sing. ] the possibility that something unpleasant or unwelcome will happen : *reduce the risk of heart disease* | [as adj. ] *a high consumption of caffeine was suggested as a risk factor for loss of bone mass.*
- [with adj. ] a thing regarded as likely to result in a specified danger : *gloss paint can burn strongly and pose a fire risk.*
- the possibility of financial loss : [as adj. ] *project finance is essentially an exercise in risk management.*

### issue |'i sh oō|, noun

a risk that has become a reality, no longer a possibility but 100% certainty: *the volcano in Iceland* | *customers not paying in full or late.*

This distinction is important because with a risk, planning focuses on preventing the risk from becoming an issue. Once the risk becomes an issue the focus switches to reducing its negative impact on the company.

For many companies addressing risk is something avoided, or at best, identified and filed in some risk management plan which rarely sees the light of day. Maybe a level of risk severity is applied and a likelihood associated with the risk, but further consideration of what might be done to reduce the impact has not been considered.

## Consider Risk with a Panoramic Lens

Step back from the risk and consider it from a broader perspective; what might your company do **before**, **during** and **after** the event or risk becomes an issue that would mitigate its impact or even prevent it from happening.

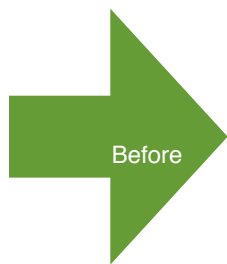
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For example, a company operates in California, so the odds are significant that a substantial earthquake will happen while this company exists. That this earthquake will negatively impact the business also

seems likely. What steps might mitigate the ill effects and increase the likelihood that the company will recover expediently, and potentially faster than their competitors?

### **Earthquake/Natural Disaster**

For this earthquake scenario, a company might consider implementing, at a minimum, some of the following...



- Develop an employer's response plan to address the threat of an earthquake:
  - ◆ Who is the central point of contact, who calls who?
  - ◆ How will information be communicated?
  - ◆ What are the primary functions that need to be focused on, what for the organization cannot stop, what can be shut down temporarily?
  - ◆ What are the immediate operating priorities what steps need to be taken first?
  - ◆ Does the company have a communications strategy to alert customers and critical partners as to its status and what is going to happen in the short term?
- Train employees in survival tactics during an earthquake; help them develop their own plans to handle the emergency at home. No one can function at their capacity if they are concerned about issues on the home front. Help them develop a plan for peace of mind.
- Insure that the company facilities are seismically sound.
- If continual power is required, does your company have battery backup, generators? Does your company have contracts with emergency generator providers?
- Check that the company has adequate insurance to cover the risk.



- Hunker down, find a safe space and wait for the “all clear” to come out.
- Apply the action plans from having prepared for responding to an earthquake or other natural disaster.



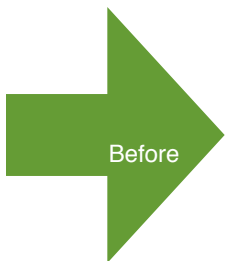
- Follow the communications plan.
- Focus on the previously identified priorities.
- Contact the insurance company for their assistance.

Do not develop your plans in isolation; work with your customers and vendors. What could you provide immediately after a natural disaster that might help them with their recovery? Both parties may offer some insights or knowledge of the situation that you had not considered.

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Here’s another example that may help you think of risk from a broader perspective, and how multiple parties can improve the odds.

### **Car Accident**



- Roads are designed with good visibility, few uncontrolled crossings (Government)
- Driver has license indicating some training (Driver)
- Insurance was purchased (Driver)

- Vehicle maintained to operate safely (Driver)



- The driver applies good driving behavior, i.e.maintaining safe speeds and distances, not talking on a cell phone. (Driver)
- The occupants wear seat belts. (Driver)
- The car compacts along its designed crumble zones protecting the passenger space (Car Manufacturer).
- The car's air bags deploy (Car Manufacturer)
- Crash barrels or barriers prevent more serious accident (Government)

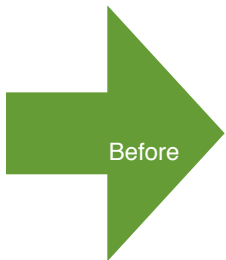


- Emergency crews respond swiftly to address injuries (Government)
- Insurance covers rental car and damages (Insurance)

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Late payments by customers is an issue many a small company can appreciate. Here are some sample steps a company might take to avoid cash flow issues.

### **Late Payments by Customers**



- Clearly defined payment terms (Company)
- Pre-qualify customer to determine payment history - complete credit and reference checks (Company)
- If possible, have a portion of the payments due before delivery of product (Company)
- Have tracking mechanism to identify payments of customers (and keep it current with information) (Company)
- Send out accurate an invoice (easy to ready) for goods in timely and regular manner (Company)
- Offer discounts for early payment of the full amount (Company)



- Track status of payments from customers and identify problems. (Company)
- Notify customers of actions to be taken if payment not made. (Company)
- Be prompt and persistent with follow through (sporadic correspondence does not convey the desired message) (Company)
- Develop a regular practice for working on accounts payable so that you know as early as possible if your cashflow will be interrupted and what steps are needed to mitigate the issues.

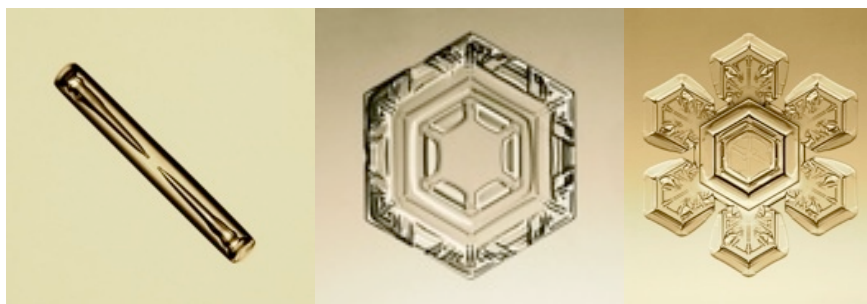


- Have a clearing process, take legal action, follow through on contract terms. (Company)
- Track payment history and fire or divorce problem customers. (Company)
- Review agreement and process that company had with customer and determine if changes in approach are required (Company)

While the previous examples are not applicable to everyone, the intent of the examples is to highlight how considering the consequences of risks and issues at its various stages can minimize the consequences, and reduce their likelihood of being repeated.

The following questions can help your team focus on what actions needs to be in place:

- \* What can your team do before a risk becomes reality that would reduce its impact on your company?
- \* What plans should be in place?
- \* Does each person on the team understand their responsibilities when the issue occurs?
- \* What escalation steps must be deployed?
- \* How will the team communicate?
- \* What steps can the team take to reduce the impact of the event once it happens?
- \* How does the team know when the issue has been resolved or the risk has been diverted?
- \* What lessons might be applied so in the future the company is better prepared?



#### **Still Not Sure or Want More Ideas to Consider**

[Small Business Owners Take Precautions Against Power Outages](#)

[IT Security Breaches - Response Plans Sadly Lacking](#)

[6 Companies That Did Not Survive 2010](#)

Interested in learning more about SagaciousThink, or have questions on addressing risk?

Contact the author, [LouAnn Conner](#), Founder and CEO of [Sagacious Think](#)