

# Risk Management

FOR A SMALL BUSINESS



# Welcome



1. Agenda
2. Ground Rules
3. Introductions

# Objectives

- Identify the common risks associated with a small business
- Identify the external and internal factors which affect risk for a small business
- Identify situations which may cause risk for a small business

# Objectives, continued

- Identify the common warning signs of risk for a small business
- Implement, monitor, and evaluate a risk management plan for a small business

# What Do You Know?

What do you know or want to learn about risk management?



# Why Risk Management?

- Identifying areas of threat to the business
- Assessing the potential impacts and managing these
- Growth and continued existence of the business



# Discussion Point #1: Risks from Positive Situations

What positive situations or opportunities can you think of that may be risks?



# Internal Risks



# Human Risks

- Death
  - Owner
  - Employee
- Illness
  - Short term
  - Long term
  - Indefinite



# Human Risks (continued)

- Theft and fraud
  - Product and inventory theft
  - Time sheet fraud
  - Accounting and cash fraud
- Low morale, dissatisfaction
  - Failure to perform
  - Sabotage of systems, equipment or customers



# Equipment and Information Technology Risks

- Equipment breakdowns
- New equipment integration
- Worn older equipment
- Damage to vehicles



# More Equipment and Information Technology Risks

## Information technology downtime

- Lack of backup or recovery system
- Updates and repairs
- Power and connectivity (physical damage and outdated systems)
- Lack of administrative controls



# Other Internal Risks

- Physical plant repairs
  - Breaks in lines or utilities
  - Routine maintenance
  - Incidents
- Work related injuries
  - Damage to others' property by employees
  - Damage to your property by others



# Cash-Related Internal Risks

## Cash flow changes

- Unexpected costs
- Loss of credit lines
- Expenses to establish lines of credit



# Activity 2: Internal Risks

What other internal risks can a business owner control?



# External Risks



# Competition and Market Risks

- Loss of clients or customers
- Loss of employees
- Decrease in sales prices/fluctuating markets
- Increases in vendor costs
- Oil or gasoline price increases
- Fixed cost changes (e.g., rent)

# Business Environment Risks

- Laws
- Weather
- Natural Disaster
- Community



## Discussion Point #3: External Risks

You own a steak house. A tainted meat scare in your area changes demand. How do you manage this risk or control its effects?



# Personal Conflict Risks

- Family obligations, illnesses or deaths
- Events of disaster that affect the home
- Community involvement
- Complacency

# Discussion Point #4: Risks to Continued Operations

What is required for your business to continue operations?



# Risk Identification

- Written business plan
- Outside sources to assist in identifying
- Risks of your vendors or supplier
- Business continuity assessment



# Warning Signs

- Excessive debt in relation to owner's equity (total liabilities / owner's equity)
- Reliance on a small number of customers
- Reliance on one product
- Reliance on one or a small number of vendors

# Warning Signs (continued)

- Cash flow problems
- Irregularities in accounting, bank or timecard records
- Irregularities in computer system administrative reports
- High employee turnover rate



# Risk Evaluation

- Identify needs for business continuity
- Identify needs for potential or planned growth
- Discuss risks with managers
- Communicate risks to managers

# SWOT Analysis

- Strengths
- Weaknesses
- Opportunities
- Threats



# Other Resources

**Small Business  
Administration**

**Audit Firm or  
CPA**

**Bank or  
Commercial  
Lender**

**Risk Insurance  
Provider**

**Internet Source**

# Risk Measurement

- Effect on potential earnings and cash flow
- Impact on the business for future growth
- Costs related to the risk, should it occur
- What would change in your business as a result
- Weighing costs versus the benefits of the control

# Importance of Risk Management

Cash Flow

Stability

Credit

Longevity

# Risk Control Management and Implementation

# Equipment and Vendors

- Inclusion in initial written business plan
- Readdress, monitor and update business plan periodically
- Insure equipment and use service plans
- Know your vendors and suppliers – backup relationships

# Business Continuity

- Location to continue business operations
- Establish a manual system
- Train staff to continue operations
- Backup operating systems, list staff duties and contacts
- Review contracts with vendors for provisions
- Know systems provider backup and contingency operational plans



# Information Technology Systems

- Do not share login information
- Protect systems with firewalls
- Institute levels of access
- Perform other reports
- Sample transactions or use trial transactions
- Conduct scheduled and surprise audits

# Competition

- Shop them
- Check advertising
- Product lines
- Pricing
- Customer interaction
- Employee retention



# Activity 5: Assets

What is your most liquid asset? How can you protect it?



# Accounting and Cash Control

- Separation of duties
- Dual control of cash
- Levels of authority observed
- Periodic audits
- Surprise audits
- Insured deposits – FDIC
- Plan for reserves in the budget

# Employee Management

- Pre-employment screening and background checks
- Job descriptions and duties
- Communicate clear expectations
- Cross train staff
- Identify temp agencies that specialize in your field
- Periodic evaluations and feedback

# Employee Management (continued)

- Manage by being present or walking around
- Audit for payroll or time fraud
- Benefits and compensation for retention
- Incentives to avoid injuries and damages

# Business Work Strategy

How can you manage your own risks?

- Set work hours
- Plan work with a balance
- Set realistic goals
- Train support staff or an assistant
- Include in disability or death in business plan
- Support system
- Anticipate family and home needs

# More on Control Management

- Communication within organization
- Routine assessment of physical plant
- Be alert to changes in the community and laws
- Awareness of news in the economy
- Utilize lines of credit only when needed
- Insure against damages from weather and disasters
- Backup utilities – phones and generators



# Lead by Example

Ethical and honest behavior will begin with management



# Exit Strategy

- Include exit strategy in business plan
- Revisit it periodically
- Insurance payment and liquidation of assets
- Liquidation of assets without insurance
- Trustee to handle
- Family member
- Employees

# Plan and manage risks to succeed!



# Eight Key Points to Remember

- There are internal and external risks associated with a small business
- Begin assessing the risks by completing a list of those events or resources involved with the business that could impact continued operations and cash flow
- The costs to insure or minimize risks should be weighed to the potential impact involved
- A business continuity plan should be part of your overall business plan

# Eight Key Points to Remember (continued)

- Strategies to avoid risks can include communication, setting expectations, support systems, training staff, insurance, assessment and contingency planning
- Be honest in reviewing your business for risk and warning signs
- Seek assistance from others
- An exit strategy is important

# Summary

- What final questions do you have?
- What have you learned?
- How would you evaluate the training?



# Conclusion

You learned about:

- Internal and external risks of a small business
- How to identify and reduce the negative effects these can have on your business
- Warning signs of risk
- The steps in risk management planning
- The importance of containing these risks
- The need for an exit strategy