

SAVVY ENTREPRENEURSHIP

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Risk Management for Small Businesses

LEARNING OBJECTIVES

- Identify sources of risk for small-business owners
- Evaluate some of the risks small businesses face
- Distinguish among risk transfer, acceptance, mitigation, and avoidance
- Develop a plan that identifies resources to aid in risk management
- Summarize the best practices for when disaster strikes

Risk Areas for Small Businesses

- Definition of a risk: An event, scenario, or circumstance that can negatively affect a business
- Harvard Business School's Four Risk Types:

Economic Risk

- Includes loss of income from product damage, poor investments, theft, and rising costs

Technological Risk

- Ranges from equipment failure to cyber hacking

Environmental Risk

- External situations that can range from extreme weather events to local community policies

Competitive Risk

- The impact of the actions of rival businesses

Risk Areas for Small Businesses (cont.)

- Common internal and external risk areas:
 - Business Interruption: Catastrophic sales loss when a business must shut its doors
 - Internal Property Damage: Damage to products or tools that stops or slows production
 - Injury to Customers or Employees: Accidents like slipping on wet floors or equipment injuries
 - Key Personnel Losses: The risk of a business being unable to survive if an entrepreneur cannot be reached for major decisions
 - Data and IT Breaches: Digital information being intercepted, changed, or held for ransom
 - Employee Practices: Undesirable behaviors such as absenteeism or theft
 - Broken Contracts: Supplier or partner failures that disrupt delivery schedules

Risk Management Plan

- Definition: A strategy that identifies uncertainties or obstacles and creates a plan to deal with them
- Four Steps to Creating a Risk Management Plan:



Risk Management Plan (cont.)

- Foundations of a strong plan:
 - Establishing financial reserves
 - Implementing robust cybersecurity
 - Developing diverse revenue streams
 - Training employees effectively
 - Staying current on industry policies, permits, and licenses

Evaluating and Managing Risk

- Risk management matrix chart: A tool used to prioritize and manage risk areas requiring constant vigilance
 - Assign a 5-point rating to both the impact of a risk and the likelihood of it occurring.
 - Risk-probability score: Multiply the effect by the probability to determine priority; scores in the 15–25 range require immediate attention.

Evaluating and Managing Risk (cont.)

- Risk Response Strategies:
 - Risk avoidance: Taking planned action to completely avoid a known risk
 - Risk transfer: Contractually shifting risk to another party, such as through insurance or extended service plans
 - Risk mitigation: Actions taken to reduce the likelihood of a known risk occurring (e.g., safety training)
 - Risk acceptance: Acknowledging a risk exists without taking specific steps to avoid or reduce it

Evaluating and Managing Risk (cont.)

- Where to Get More Help:
 - Small Business Administration (SBA): Guidance on liability and business insurance
 - OSHA: Safety standards and injury prevention training for manufacturing and horticulture
 - ServSafe: Training to mitigate risks in food handling
 - Federal Trade Commission (FTC): Guidance on cybersecurity and fraud

What to Do When Crisis Strikes

- The absolute first step is to ensure the safety of yourself and your employees.
- Actionable emergency steps (SCORE best practices):
 1. Ensure the safety of your employees and customers
 2. Have multiple means of contacting employees (phone, text, etc.)
 3. Restrict access to the workplace until a safety check is performed
 4. Check for equipment that needs to be taken offline or replaced for safety
 5. Back up computer data
 6. Inform your clients and customers of what's going on
 7. Know your insurance rep's contact information and use it
 8. Allow you and your business time to recover

CHAPTER SUMMARY

- Risk is inherent in all facets of business, including financial, operational, physical, and personnel domains.
- Identifying risks early across economic, technological, environmental, and competitive categories allows for planned responses.
- A risk management plan utilizes a matrix to prioritize threats based on their probability and impact.
- Entrepreneurs can manage uncertainty through avoidance, transfer, mitigation, and acceptance.
- In any crisis, safety is the absolute priority, followed by clear communication with employees, insurers, and customers.