Janmar Consultants Inc.

Ensure you Understand the Risks in Your Business and Then Mitigate The Critical/Important Ones

Risk

Assessment

A company needs to determine what risks are there, are these risks critical to the business or not, and which ones need to be mitigated.

There are many risks inherent in every business. The key is to have processes and procedures that identify what these risks are and provide a means to assess whether the risk is critical enough that it is something the business needs to proactively manage or address, or whether it is a risk that you don't or can't do anything about and accordingly, should move on and not worry about it.

Executive Summary

Ensure you understand the risks in your business and then mitigate the critical/important ones.

Every business has risk associated with it. If there wasn't risk associated with business, there would be a lot more people in business because there would be no downside or risk. With respect to risk assessment, a company needs to determine what risks are there, are these risks critical to the business or not, and which ones need to be mitigated. This assessment is important as part of the planning and forecasting process as a company needs to determine which business risks should be included in the go forward company plan.

Most business owners will be aware of what these risks are. These risks if left unchecked can cause tremendous fear and stress. There needs to be a process or procedure that documents the risks and assesses them on a regular basis. This regular review of a business' risks is essential, because if this process is in place it can provide massive benefits to the business, as well as provide peace of mind for you, the business owner.

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- **How a Janmar Consultants part-time CFO can assist you in setting up procedures to assess business risk now and regularly on a go forward basis**

Introduction

Not understanding risk in your business is like driving a car with your eyes shut. You think you are going in the right direction and believe things will work out, but you have no way of knowing if there is an impending accident you are not aware of. It is similar in business. If you are not aware of what potential accidents or issues are coming, there is a good chance you will not be able to avoid them.

Additionally, there is more and more accountability being placed on boards to ensure risk management is in place. As reported in the Harvard Law School Forum on Corporate Governance and Financial Regulation article Risk Management and the Board of Directors on July 28, 2015, "Corporate risk taking and the monitoring of risks have continued to remain front and center in the minds of boards of directors, legislators and the media, fueled by the powerful mix of continuing worldwide financial instability, ever increasing regulation; anger and resentment at the alleged power of business and financial executives and boards." Additionally, it says "In the wake of numerous high-profile cases over the recent years, risks related to cybersecurity and IT oversight continue to be issues that merit ever-increasing attention and oversight." It goes on to say "The focus on risk management is a top governance priority of institutional investors. A Pricewaterhouse Coopers survey report issued in 2014 indicated that risk management remains a top priority for investors, and a 2014-2015 National Association of Corporate Directors ("NACD") survey revealed that risk oversight was one of the top five issues discussed with institutional investors."

As the article says "the board cannot and should not be involved in actual day-to-day risk management. Directors should instead, through their risk oversight role, satisfy themselves that the risk management policies and procedures designed and implemented by the company's senior executives and risk managers are consistent with the company's strategy and risk appetite, that these policies and procedures are functioning as directed, and that necessary steps are taken to foster an enterprise-wide culture that supports appropriate risk awareness, behaviours and judgments about risk and that ensures that risk-taking beyond the company's determined risk appetite is recognized and appropriately escalated and timely addressed."

However, even if you are a small to medium size business owner, these same policies and procedures should be in place. Many business owners spend a lot of time worrying about what could go wrong, but at the same time do not put in place risk assessment and mitigation strategies and procedures.

Additionally, by not having these strategies in place you may limit your ability to access capital whether it be through equity investors or debt, and this in turn may unnecessarily limit the success of your business.

Many business owners spend a lot of time worrying about what could go wrong, but at the same time do nothing to address these worries

What are the Risks your Company Faces?

Business risks come in different forms.

They can be broken down into these types:

1. Strategic Risks – risks related to the industry you operate in. They can occur at any time. For example, you sell hamburgers made from meat, but for some reason a change in consumer behaviours results in consumers switching to non-meat hamburgers overnight. Examples of strategic risk are as follows:
    a. Competitive risk – risk your competitors improve and innovate
    b. Change – risk that change such as new technology will affect you
    c. Regulatory risks – new regulations impact your business
    d. Political risk – political events disrupt your business
    e. Economic risk – economic conditions affect your strategy
2. Compliance Risks – risks related to having to comply with laws and regulations. For example, if minimum wage is increased provincially, and you pay employees minimum wage you would need to increase employees' wages up to or over minimum wage. Examples of compliance risk are:
    a. Environmental risk – risk of damage to living organisms or the environment from your business activities
    b. Workplace health and safety – risks related to health and safety in the workplace
    c. Corrupt practices – risk of illegal practices
    d. Social responsibility – risk your business will harm your workers or people in the community
    e. Quality – releasing a low-quality product or service that fails to meet laws and regulations
    f. Process risk – risk your processes fail resulting in legal violations
3. Financial Risks – risks related to the financial health of your company. Can your company survive if your main customer leaves you? Can you survive if your lender stops lending to you? Examples of financial risk are as follows:
    a. Market risk – uncertainty due to changes in market prices
    b. Credit risk – uncertainty due to a failure of an external entity to keep a promise
    c. Operational risk – institutional uncertainties other than market or credit risk
    d. Liquidity risk – uncertainty about terms and the ability to conclude a transaction when needed
    e. Funding risk – uncertainty about whether investors will provide sufficient funds

4. Operational Risks – risks related to your business' systems or procedures. For example, what happens if one of your key pieces of equipment breaks down? Examples of operational risks are as follows:
    a. Human error – risk of a human making an error
    b. Information technology ("IT") – risk your IT systems experience a failure
    c. Insufficient processes – risk your processes cannot handle the level of activity they need to
    d. Process failure – risk a process breaks down or does not work as it should. For example, lack of training
    e. Quality risk – risk that your product or service does not meet promises levels
5. Market/Environmental Risks – external risks you have no control over. For example, natural catastrophes like floods or tornados. Also, if you were in the horse whip business when the car was invented what happens if your market disappears? Examples of market/environmental risks are as follows:
    a. Air pollution/climate change – risk that air pollution/climate change shuts down your business
    b. Disease – risk of a disease impacting your business
    c. Radiation – risk of radiation impacting your business

The key is to identify the potential risks to your business and then once you understand what the risks are you can develop cost-effective strategies to address them. You need balance as you cannot eliminate all risks, but you do need to eliminate or mitigate the critical ones.

How to Establishing a Procedure to Analyze your Business' Risks

In looking at your business, you need to identify all risks that may impact your business. This includes what you consider both major and minor risks. Risks cannot be avoided so they need to be addressed in order to mitigate the impact on your business, if you choose to.

Once you understand what the risks are you can develop cost-effective strategies to address them

Steps to work through this are:

1. Identify all sources of risk that may cause issues. These will be both internal and external. Some things to consider are:
    a. What business information/records do you use every day?
    b. What are critical pieces of equipment?
    c. Are there any critical employees?
    d. Any external investors or lenders needed that you can't survive without?
    e. Any legal or regulatory obligations?
    f. What happens if your business ceases operations?
    g. Where is your business located and any issues?
    h. Any critical processes?
2. Identify which risks are threats that need immediate action. If a risk is identified as a threat it needs to be addressed before it becomes an issue…don't wait until it becomes an issue to act.
3. Involve your employees. Don't just rely on executives and managers to identify risks, involve your employees as it is in their best interest to make sure all risks are identified and considered.
4. Are there industry specific risks? Think and look outside the box. If your industry has specific risks and/or other companies within your industry have specific risks, your company has these same risks.
5. Create a record of risks. Many businesses see the same risks over and over. If you have a listing of all historical risks that have been identified for your company, by maintaining this listing, you will be able to detect any patterns that occur as the company goes forward.

Lastly, to assist with identifying risks you need to consider the worst-case scenario. By doing this you will ensure you have considered all possibilities.

Assessing the Level of Risk

Once all risks are identified you need to assess what the level of risk of each item is.

Level of Risk =

Consequences x Likelihood

To assess the level of risk the formula is:

Level of Risk = Consequence x Likelihood

Level of risk is identified as low, medium or high. You may even have a very high rating. There are a variety of ways to rate levels of risk, generally you use a rating system from 1 to 3 or 4, with 1 being low likelihood and 3 or 4 being high likelihood. These ratings are assigned to both consequence and likelihood. These 2 are then multiplied together to come up with the level of risk. Obviously the higher the number the more important the risk is to address.

Once the level of risk is quantified, there are 4 choices of addressing risk. They are as follows:

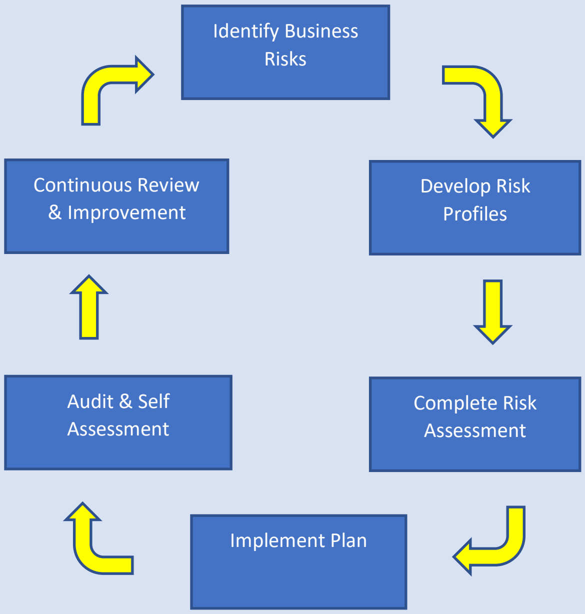
1. Avoid the risk – this is done by going the other way, away from the risk. If we say risk exists in all businesses and it is unavoidable, then this does not seem to be an option. However, you can implement or use options that results in the company not facing the risk. An example of this is you relocate your plant to move away from a flood plain.
2. Prevent the risk – when a company takes steps to not have the risk happen. For example, you have a flu shot clinic so employees can get flu shots to avoid them missing work because of the flu.
3. Retain the risk – this results with risks that cannot be avoided or prevented. For these the company is aware of them but decides to accept the risk. An example of this is tornados are a risk, but you choose to not take out any tornado insurance.
4. Transfer the risk – when the risk is transferred to another company or person. An example of this is when a company takes out insurance to transfer the risk to the insurance company.

Lastly, these processes once implemented need to be revisited and assessed on a regular basis to ensure no new risks have emerged that need addressing.

What you do with risk?

- **Avoid it**
- **Prevent it**
- **Retain it**
- **Transfer it**

This continual process can be summed up in the following chart:



The key to risk assessment is to have proactive processes and procedures working on a continual basis

How a Janmar Consultants part-time CFO can assist you in setting up procedures to assess business risk now and regularly on a go forward basis?

A Janmar Consultants part-time CFO can provide you with a seasoned, experienced, common sense CFO, to help you and your team, work through setting up and maintaining the processes and procedures required to perform a risk assessment on your business. Additionally, with our professional's expertise it will be done quickly, and it will provide you with the confidence that it is done correctly, and that will allow you and other stakeholders to relax and not worry.

One thing to bear in mind is our assessment will likely highlight some weaknesses within your company's risk assessment processes and procedures. However, the main thing to bear in mind is your CFO will help you and your team develop a proactive approach to address all areas of concern.

We will help you to understand what risks your business faces, develop the risk profiles, complete the risk assessment to determine which risks to deal with and which ones to accept, help develop self assessment of the risks and then to implement procedures to review and improve this on a continuous basis.

We will be there for you when you need us. Our experience in this area is no owner enjoys having to focus on, so it is one thing that you as an owner can outsource that you likely do not have in house expertise to address.

Conclusion

There are many risks inherent in every business. The key is to have processes and procedures that identify what these risks are and provide a means to assess whether the risk is critical enough that it is something the business needs to proactively manage or address, or whether it is a risk that you don't or can't do anything about and accordingly, should move on and not worry about it.

Your part-time CFO from Janmar Consultants is here to take this burden off your mind. The sooner you call us the sooner you can stop worrying and sleep better at night.

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