The Great Recession made many managers wish they'd better assessed the risks they took in boom times.

But organizations that cut costs or deferred spending at the bottom of the recession now want to reinvest: in hiring, facilities, equipment or acquisitions. By taking a smarter and comprehensive approach to risk planning, companies and their owners can lower their risks *and* raise financial and social ROI.

Eyes wide open: The six categories of risk

A simple way to categorize risk is by the core management disciplines (see worksheet):

1. Business structure: *Sale/exit, M&A, facility project*
2. Market: *Product or service launch, new territory*
3. Operations: *Equipment use, operational method*
4. Information: *Internet initiatives*
5. Personnel: *Key hires, succession plan*
6. Financial: *Refinancing debt or equity*

It's wise to consider external forces that create risk:

- Demographics: *Market population trends*
- Macroeconomics: *Global trade, inflation, interest*
- Regulation: *Taxation, compliance*
- Technology: *data, production, distribution*
- Management innovation: *Models and practices*
- Acts of God: *Weather, accident, war*

Assessing preferences and risks: Meteors and fire

Some people freeze if there's any risk at all, while their daredevil cousins charge ahead. The *probability* and *consequence* for each risk should be considered. We don't insure against meteor strikes because the probability is tiny. We do insure against fire: though the probability is low, the consequence is high.

Managers vary widely in their risk tolerance. Entrepreneurs, directors, managers and family business members range from risk-averse to reckless. And personal circumstances can change their preferences from year to year.

There needs to be a well-managed, open and constructive conversation about people's risk preferences.

ASIS: The four ways to minimize risk

There are four basic ways to mitigate risk:

> *Accept:* One can accept a risk, but also creatively reduce its probability or consequence. With careful assessment of risk—in each transaction and overall—managers can sometimes negotiate compensation for accepting a risk.
>
> *Shed:* Some risks can be passed on to others, such as contractors, JV partners and investors. There are many types of agreements to do this. Here's where a good attorney is invaluable.
>
> *Insure:* Some insurance is required by law, contract or common sense. Good contracts can limit liability and reduce ratings and premiums. Standard contracts should be reviewed annually.
>
> *Share:* Risk-sharing is often at the center of a negotiation. If both parties haven't assessed their risks objectively, negotiations will go in circles, wasting time and legal fees. Spotting how the other party *perceives* risk differently is often the key to success.

If your advisors know your plans and attitude towards risk, they'll be better negotiating partners, knowing when to speak up and when to let things unfold.

The directors' fiduciary duty of risk management

A board of directors must have this kind of assessment and not just when big projects or transactions loom. It must be done annually, objectively, systematically and thoroughly. The chief executive should be able to answer key questions:

1. What are all risks we face?
2. What were the best risks we've taken?
3. What were the worst risks we've taken?
4. Does our business plan address risk?
5. When were our key documents reviewed?
6. What are our overall risk preferences today?

Whatever one's attitude about risk, the riskiest thing is not thinking about it. Please call Derrick Van Mell for more information.

ASIS risk planning worksheet sample

The risks listed below are only some of the risks an organization faces. Risk planners must use their judgment to assign each risk a probability and consequence (right).

Clearly, risks with "**HH**", "**MH**" or "**HM**" should get immediate attention.

But the ultimate question is, Is this risk worth it?

Probability
- **L** 10-25%. Not just merely possible
- **M** 25-75% probability
- **H** 75%+ probability. Nearly certain

Consequence: cost, time, opportunity, reputation
- **L** Will limit important initiatives
- **M** Threatens current year's income
- **H** A multi-year threat to the organization

2011 RISKS	Probability	Consequence	ACCEPT	SHED	INSURE	SHARE
Business structure						
1. Failure of JV	L	M	Increase reporting			
2. Facility problem	M	H		Sale/leaseback		
3. Owner dispute	L	H	Increase reporting			Update buy/sell
Marketing & sales						
4. Competitive risk(s)	H	M			Loss of income	
5. Bad press	L	L	PR training, plan			
6. Failed product launch	M	H				Revisit JV deal
Operations						
7. Loss of key supplier	M	H	Meet their CEO			Create incentives
8. Spike in key supply cost	H	H	Source globally	Hedging strategy		Create incentives
9. Missed turnaround times	M	M	Change workflow	Change terms		Update std. PO
Information						
10. Theft of IP	L	M	Update policies	Employee liability		
11. Reporting error	L	L	No action needed			
12. Downtime of key system	L	M	Maintain backups			Vendor penalties
Human resources						
13. Injury	L	M	Safety training		Raise coverage	
14. Malfeasance	L	M		Employee liability		
15. Loss of key person	M	M	Succession update		Review coverage	
Finance						
16. Inflation	L	H		Hedging strategy		
17. Interest rates	H	M		Pay down LOC		
18. Receivables	L	M	Addressed 1QTR			Revise terms

Risk planning isn't meant to *keep* you from doing anything; it's to *free* you to take the smart risks on which success depends.