Tool: Risk Analysis

Business ventures are inherently risky. Sometimes these risks are outside your control, as when a disruptive technology changes the basis of competition. Planning and making contingencies can help control risks.

because **innovation** needs **direction**

1. Identify threats

The first step is to identify what threats you might face. These can fall into the following categories:

- **Human:** Lack of people within and around the system; lack of necessary skills; illness, death
- **Materials:** Lack of equipment, materials, software, waste
- **Project:** Risks of cost over-runs, jobs taking too long, of insufficient product or service quality, etc.
- **Technical:** From advances in technology, technical failure, etc.
- **Operational:** From disruption to supplies and operations, loss of access to essential assets, failures in distribution, etc.
- **Process:** From failures of accountability, internal systems and controls, organisation, fraud, etc.
- **Reputation:** From loss of business partner or employee confidence, or damage to reputation in the market
- **Supplier power:** Ability of suppliers to control market, e.g. drive up prices
- **Buyer power:** Ability of buyers to control market, e.g. drive down prices
- **Competition:** Number and capability of other competitors
- **Substitution:** Ease with which your customers could use other product
- **Threat of new entry:** Ease of entry for new competitors
- **Financial:** Lack of budgets, grants, funding; from business failure, stock market, interest rates, unemployment, etc.
- **Information:** Tacit and explicit; Intellectual Capital, books, internet
- **Space:** e.g. individual work space, facilities, space within product
- **Time:** e.g. insufficient time before, during or after process
- **Energy:** Within and around the system
- **Natural:** Threats from weather, natural disaster, accident, disease, etc.
- **Political:** From changes in tax regimes, public opinion, government policy, foreign influence, etc.

2. Estimate risk

Having identified the risk, you now need to evaluate a) the impact should such an event happen and b) the likelihood of it happening. One approach is to rate the likelihood on a scale of 1-5 and then multiply with the cost of setting things right. This will give you a value for the risk and the means to sort and prioritise the list.

3. Manage risks

Once you have a priority list, you can consider how best to manage the risk. This can be done in a number of ways:

- *Accept it* – you may decide that the cost of eliminating a risk is too high
- *Transfer it* – typically this is done by means of insurance
- *Reduce it* – you might introduce new measures into processes or product to reduce the risk
- *Eliminate it* – again you might change processes or product to completely eliminate a risk if it is seen as highly likely and/or very costly.

Good risk management allows you to examine the risks your business faces in a structured manner. Contingency planning, combined with making best use of existing and new resources can improve the company's effectiveness and quality.

Contact Rowan Norrie now on **01698 389 456**

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