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RISK IS AN INHERENT PART OF BEING IN BUSINESS; IT CAN BE MANAGED AND ITS ADvERSE OUTCOMES CAN BE MITIGATED. THE GREATEST CHALLENGE FOR SMALL BUSINESS OWNERS IS TO FIND THE PROPER BALANCE BETWEEN PEACE OF MIND AND PROFITABILITY, SAYS INDEPENDENT FINANCIAL ADvISOR GREG POGONOWSKI.

Trying to completely eliminate risk from your business is unrealistic and can be prohibitively expensive or cause you to institute policies that may be so risk averse that your business never grows.

When many business owners think about "risk management" it's usually limited to purchasing standard insurance protection without much consideration for other ways to protect the business. Risk management can be very complex, but it doesn't have to be at first. Get started with a simple, easy to follow plan for managing and mitigating business risks and if needed expand from there. Take these steps to put an initial risk management plan into place at your company:

Having a good grasp of risk management for your business will also be important if you plan to raise capital from investors. It is essential for getting them comfortable with the investment opportunity. Reckless leaders take reckless risks; prudent leaders take calculated risks

1 Identify risks

Some risks are common to most or all businesses. Others are very specific to your business and only you as the owner can know them. The best way to approach this is to use a standard risks checklist as a start and then add to it based on your specific expertise. Any business owner who wants one can e-mail me and I will be happy to send one that addresses potential risks.

Some initial risks to think about are:

- Property losses – typically occur from physical damage, loss of use and/or criminal activity.
- Business interruption losses – occurs if your business stops selling for some reason (say because of a fire). In addition to the property losses incurred, the company would not be able to produce goods and sell them. This "interruption in your business activities" can be protected.
- Liability losses – refer to legal liability for damages or injury caused to others by your company.
- Key person losses – refer to the costs associated with an important employee or owner becoming sick, disabled or dying. The impact of a key person loss on a small business can be catastrophic.
- Injury to employees – refers to the costs associated with an employee becoming injured while at work.

2 Determine your company's vulnerability for each risk

Vulnerability is a function of probability – what are the odds that a particular risk will materialise and cost – and how much does your company stand to lose as a result. The goal of this step is to quantify which risks are worth worrying about and which ones aren't. For the ones that are worth worrying about, the question becomes how affordable is it to protect your company against that risk. If a particular risk has a low probability of occurring and if it did it would cost your company a maximum of $50,000 in losses but it will cost $45,000 to protect against this risk, it may not be a good use of resources to protect against it.

3 Prepare contingency plans

Contingency planning goes beyond just buying insurance, although this is very important. There are many ways to manage risks, including:

- Implementing policies that value employee safety over speed
- Installing a security system to guard against property losses
- Avoiding transactions with dubious potential customers
- Training high potential managers on the roles and responsibilities of their superiors to protect against key person losses

An effective risk management plan is comprehensive and creative; it goes beyond insurance.

4 Acquire the right types of insurance

Insurance, however, should not be forgotten or minimised. It is a central part of risk management. The key types of insurance are:

- General liability insurance – This covers expenses related to legal liability for injury to a third party. It typically covers property damage, bodily injury, medical expenses and the cost of hiring legal counsel to defend your company.
- Product liability insurance – Covers expenses related to legal liability for injury or damage caused by a defective product. If your company manufactures, distributes or sells products at retail then it would be wise to obtain product liability insurance.
- Professional liability insurance – Similar to product liability insurance, but for services instead of products. This protects against malpractice, errors and negligence. It is sometimes referred to as "errors and omissions" insurance.
- Commercial property insurance – Covers the loss of and damage to business property. Property losses and business interruption losses discussed in the first step are typically covered by commercial property insurance.

5 Monitor and adapt as needed

Risk management plans should be reviewed and updated regularly. Taking a few days every six months with your financial adviser to review and update them for the current conditions of your business is a wise investment. This review meeting should also include the owners, department heads and (if warranted) a risk management consultant. Many times insurance companies – with an eye on reducing payouts on claims – provide hands-on advice on mitigating new risks as they come along. This is where your adviser will prove themselves. During the update period it would be a good time to reach out to them as well.

Having a good grasp of risk management for your business will also be important if you plan to raise capital from investors. It is essential for getting them comfortable with the investment opportunity. Reckless leaders take reckless risks; prudent leaders take calculated risks. Risk management is the "calculator". ■

There is a saying; youth is wasted on the young. Risks early in one's career tend to have much more upside potential than downside. If one tries something of greater risk and it does not work out, there's time to go back to a safer and more conservative path

Entrepreneurs are living the dream, but are they happy?

1. People who risk things earlier are happier. There is a saying; youth is wasted on the young. Risks early in one's career tend to have much more upside potential than downside. If one tries something of greater risk and it does not work out, there's time to go back to a safer and more conservative path.

2. People who live their lives through experiences are happiest. According to The New York Times, doers, not talkers, come out on top. Meaningful experiences, such as travelling and spending time with friends, create nostalgic happiness that lingers.

3. Keep close relationships. Entrepreneurs have no free-time, but they need to make time for friends if they want to be happy. In our professional careers, we think about relationships for their business networking value, but relationships give us something much more than connections to facilitate business; they can actually be the biggest drivers of a positive and healthy lifestyle. The leading health experts of our day emphasise this need.

4. Never stop learning. Intellectual curiosity and a desire to stay relevant are hallmarks of happier people.

Success comes from you knowing who you are and what your values are, and from being able to recognise success because you'd already defined it for yourself in the first place. Diving into an endeavour without those fundamentals is a pretty sure recipe for making sure you never accomplish the thing that it turns out you wanted. But there is a difference between being foolhardy (like jumping off a cliff with a tent strapped to your back!) and taking sensible calculated risks, tempered with a "back up" (or insurance) if things do not go to plan.

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ABOUT:

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