

DEALING WITH RISKS - Name of the Tool

1) NAME AND DESCRIPTION OF THE TOOL

Measuring Risks is one of the main components of **Dealing with Risks** for an entrepreneur. As such:

- It has specific objectives;
- It has specific outcomes;
- It needs four steps to be done;
- It has a specific sequence of steps to be taken;
- It needs about 30 minutes to be done.

2) OBJECTIVES OF THE TOOL

3 Main Objectives of the Tool:

- Become aware of business risks;
- Improve one's management skills;
- Improve one's perception of organisational issues.

3) CONNECTION OF THE TOOL WITH THE ENEMY

This tool helps entrepreneurs to properly **measure risks** in their enterprise. Four steps are needed in this case:

- Identifying risk type (compliance, financial, operational, reputational, or strategic);
- Estimating risk likelihood (very unlikely, quite unlikely, medium likely, quite likely, or very likely);
- Estimating risk impact (minimal, low, medium, high, or devastating);
- Creating a risk scorecard (see the document at the end of this document).

4) RESOURCES & MATERIALS

Materials and resources that are needed to develop the tool

Materials: The *Risk Scorecard* at the end of this document and a pen.

Resources:

- Artzner, P., Delbaen, F., Eber, J.-M. & Heath, D. (1998). *Coherent Measures of Risk*. Available at: <https://people.math.ethz.ch/~delbaen/ftp/preprints/CoherentMF>. Accessed on April 27, 2021.
- Blackman, A. (2014). *How to Measure Risk in Your Business*. Available at: <https://business.tutsplus.com/tutorials/how-to-measure-risk-in-your-business--cms-22763>. Accessed on April 27, 2021.
- Linsmeier, T. J. & Pearson, N. D. (1996). *Risk Measurement: An Introduction to Value at Risk*. Urbana, IL: University of Illinois.
- Parsons, J. E. & Mello, A. S. (2010). *Measuring Risk – Introduction*. Cambridge, MA: Massachusetts Institute of Technology.
- Rockafellar, R. T., Uryasev, S. & Zabarankin, M. (2002). *Deviation Measures in Risk Analysis and Optimization*. Seattle, WA: University of Washington.



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5) IMPLEMENTATION OF THE TOOL

The sequence of steps and an approximate timing of the actions to be taken are as follows:

- Step 1, 15 minutes. *Identifying risk type by asking oneself the following questions:*
 - *Compliance risk:*
 - Are we expanding to any new markets that may expose us to new regulatory requirements?
 - How sure are we that we have been complying with every single rule and regulation that applies to our business?
 - If we hire more employees, does that expose us to any new employment regulations?
 - What if the government decided to put new, onerous restrictions on our core business activity?
 - What if there's a rule we have unwittingly been breaking, and we have to pay a fine?
 - *Financial risk:*
 - Are we doing business internationally, or planning to? How vulnerable are we to changes in exchange rates?
 - Do we have a high debt load? How much of it is at variable rates?
 - How much money do our clients owe us, and what would happen if many of them were late paying?
 - What if our biggest client went bust and couldn't pay its latest bill?
 - What if the interest rate on our loans increased dramatically? Could we still pay?
 - *Operational risk:*
 - Do we have sufficient controls on the flow of money in and out of the company? Are we liable to losses either from abuse/scams or from human error?
 - How reliable are our systems and technology? How often do they fail?
 - What natural disasters are possible in our location?
 - What would happen if we lost power for more than 24 hours?
 - Would the loss of a key employee cause serious problems?
 - *Reputational risk:*
 - Do we have any effective ways of gauging public sentiment? Do we have PR people or other staff who are capable of managing a crisis?
 - How would our business be affected by a mass of negative comments on social media?
 - Is there a chance of a major lawsuit against us from customers or other businesses?
 - What if one of our key employees became involved in a scandal?
 - What would happen if we got a negative review from a very influential magazine or website?
 - *Strategic risk:*
 - Can people survive without our product/service?
 - Is the business highly dependent on a particular technology that could be superseded?
 - Is there a chance that what we provide will simply go out of fashion?
 - What if the cost of our raw materials doubled?
 - What would happen if a powerful competitor entered the market and started a price war?
- Step 2, 5 minutes. *Estimating risk likelihood by scoring it as "very unlikely", "quite unlikely", "medium likely", "quite likely", or "very likely") on a scale from 1 to 5.*
- Step 3, 5 minutes. *Estimating risk impact (minimal, low, medium, high, or devastating risk) by scoring it as "minimal impact", "low impact", "medium impact", "high impact", or "devastating impact" on a scale from 1 to 5.*
- Step 4, 5 minutes. *Creating a risk scorecard (see the document at the end of this document) by multiplying the two scores.*



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6) WHAT TO LEARN

With this tool, one can learn:

- How to identify risk type appropriately;
- How to estimate risk likelihood appropriately;
- How to estimate risk impact appropriately.

Measuring Risks

Risk Measurement Scorecard (the text in red is an example)

Risk	Likelihood Score	Impact Score	Total Risk Score
Compliance risk: Your Chief Operating Officer has just informed you that the government decided to put new, onerous restrictions on our core business.	4	4	16
Financial risk: Your client XYZ is late paying its invoice.	5	2	10
Operational risk: There has been a loss of power for 24 h.	1	3	3
Reputational risk: An influential website has just severely criticised your main product.	3	2	6
Strategic risk: A new competitor has just undercut the price of your main product.	2	5	10
Compliance risk			
Financial risk			
Operational risk			
Reputational risk			
Strategic risk			

