RISK MANAGEMENT

MITIGATING RISKS IN YOUR BUSINESS

CONTENTS

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INTRODUCTION

What is a business without some risks? Risks are an inevitable part of developing a business. In this video and Eduzine, you will learn about how circular economy can help in risk mitigation, risk analysis, and risk management plans, among other things.

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EXPECTED LEARNING OUTCOMES

KNOWLEDGE	• Knowledge of the ability of circular economy innovation to de-risk a business • Knowledge of risks start up and transitioning businesses have faced in the circular economy and how they have managed them • Knowledge of concepts/tools/ processes for risk analysis and management at start up and mature business levels
SKILLS	• List 3 key risks for a start-up circular economy business and 3 key risks for a transitioning business and ways to overcome them. • Develop a risk analysis and risk management plan for your own business
ATTITUDES	• Appreciation of the wider context and risks associated with unsustainable business operation • Open to identifying, taking and mitigating risks • Willing to adopt a flexible and practical approach to risks

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SELF-REFLECTION EXERCISE

This self-assessment exercise will help you reflect on what your current knowledge about risk management is.

[Click here to be taken to the quiz.]

RISK MANAGEMENT AND THE CIRCULAR ECONOMY

Risk Management is a process of identifying, analysing, and proposing solutions for possible risks that a company is exposed to. It is used within organisations and businesses to anticipate situations that may compromise the company's development. This process identifies the points of vulnerability and defines appropriate countermeasures. A business needs good risk management, as that is how we can take measures to prevent any losses.

Any entrepreneurial endeavour has risks. The ability to detect and mitigate them is what makes a difference. However, the business models adopted can also have an impact in the quantity and gravity of certain risks.

In fact, by adopting a circular economy model rather a linear one, a business can de-risk itself.

Different from a business with a linear model, a circular economy one seeks to gradually remove finite resources from their operations.

This means investing in longlasting goods made of recyclable materials, keeping them in use for a long time through effective maintenance and repair or guaranteeing ethical end-of-life procedures such that little to no waste is produced. It also includes, for example, developing products and business models that eliminate waste from conception, reducing the use of raw materials and planning the return/recovery of products and packaging.

This means that the implementation of circular economy measures into a business, can help reduce costs, consequently decreasing the risk of not having enough resources or defaulting in debt.

Additionally, it's important to note that consumers are increasingly showing preference for sustainable businesses that comply with ethical principles. With, sometimes, businesses that don't follow sustainable practices being subjected to boycotts.

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RISKS IN START-UPS AND TRANSITIONING BUSINESSES

A business risk is every possible source of uncertainty in the different stages of a business activity.

They are the external or internal factors that may generate some kind of loss or prevent a productive activity from continuing.

A risk is, therefore, a threat to be neutralised or controlled, and, for that to be possible, it must be previously identified.

Although risks also exist in established businesses, new circular economy businesses or already existing businesses transitioning to a circular economy model are more prone to risk. It is, therefore, important that these risks are analysed when developing the business.

Financial risk
It is a risk that is inherent to the financial management of the business. It can be an exchange rate risk, a risk of the company not having sufficient funds to meet its obligations in the short term (liquidity risk), a risk of rising interest rates, among others.

Environmental risk
It is related to the environment where the company develops. It can refer to nature, for instance, when mining companies operate in a deposit, running the risk of some leakage as a result of the extractive activity. Similarly, this type of risk may be linked to social risk, for example, the company may face opposition from residents in the area where it intends to build a new factory or facility.

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Market risks

Organizations need to be aware of market developments as well as how external influences, such as currency exchange rates, shifts in global politics, and global crises, might impact their operations.

By keeping an eye on market factors, spotting dangers, and developing a strategy to deal with them in the future, this risk can be reduced.

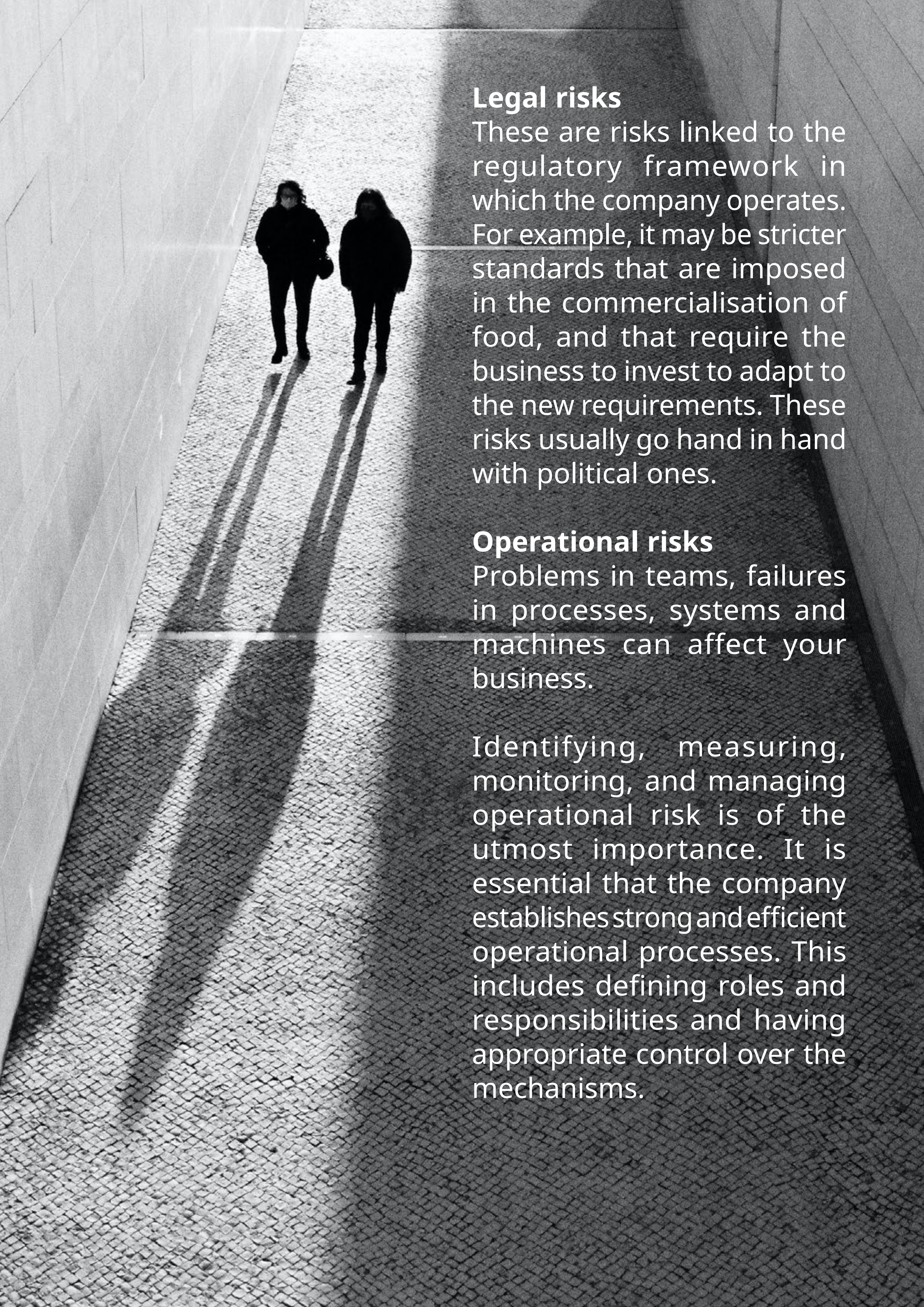
Political Risk

Refers to risks related to the political environment. It may be measures taken by the authorities or the government, such as tax increases, or actions that confront the state, such as terrorist attacks.

Reputational risks

Reputation is something that, once shaken, is difficult to recover from. Even more so when we talk about smaller companies, which do not have the money to invest in marketing actions that can reverse the situation and make the organisation regain credibility.

One tip to help monitor reputational risks, and prevent them from occurring, is to implement Corporate Governance principles.



Legal risks

These are risks linked to the regulatory framework in which the company operates. For example, it may be stricter standards that are imposed in the commercialisation of food, and that require the business to invest to adapt to the new requirements. These risks usually go hand in hand with political ones.

Operational risks

Problems in teams, failures in processes, systems and machines can affect your business.

Identifying, measuring, monitoring, and managing operational risk is of the utmost importance. It is essential that the company establishes strong and efficient operational processes. This includes defining roles and responsibilities and having appropriate control over the mechanisms.

RISK ANALYSIS

What is a risk analysis?

Assessing the chance of an event occurring and its possible consequences is essential to establish a prevention strategy that prioritises the most probable or potentially serious risks. Conducting a risk analysis will allow you to understand what measures need to be taken to avoid the problem, as well as helping to establish emergency plans.

Risk classification

A risk analysis requires a classification of priority risks to be made. The risk analysis classifies the risks of a business taking into account the needs of the company. The two main classifications include the chance of the risk occurring and the severity of its impact.

- Likelihood of Risk

This analysis considers the chance of a damaging event occurring. It can classify risks into:

Very low - The chance of a particular event happening is more theoretical than practical.

Low - These are occurrences that are not expected but are possible.

Medium - Occurrences that, despite their low probability, cannot be ignored.

High - Expected to occur at least once.

Very high – Expected to occur several times.

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- Severity of risks

A risk can be classified according to the severity of its consequences. The severity of the effects of a given event can be divided into:

Catastrophic - This is the highest rating on the scale. It can include severe accidents involving employees, irreparable damage to the environment, high financial losses, total loss of equipment or facilities, among others.

Critical - These are events that generate serious injuries and incapacities of workers, partial loss of equipment, serious damage to facilities and the environment, and large financial losses.

Marginal - They may generate a slight partial disability to the injured worker, slight damage to the company's equipment or facilities. In the case of damage to the environment, these are easily recoverable, and the financial losses caused by the event are small.

Negligible - These include events that are not harmful to the environment but may cause minor damage to equipment or minor injuries to a worker, with immediate return to work after medical attention.

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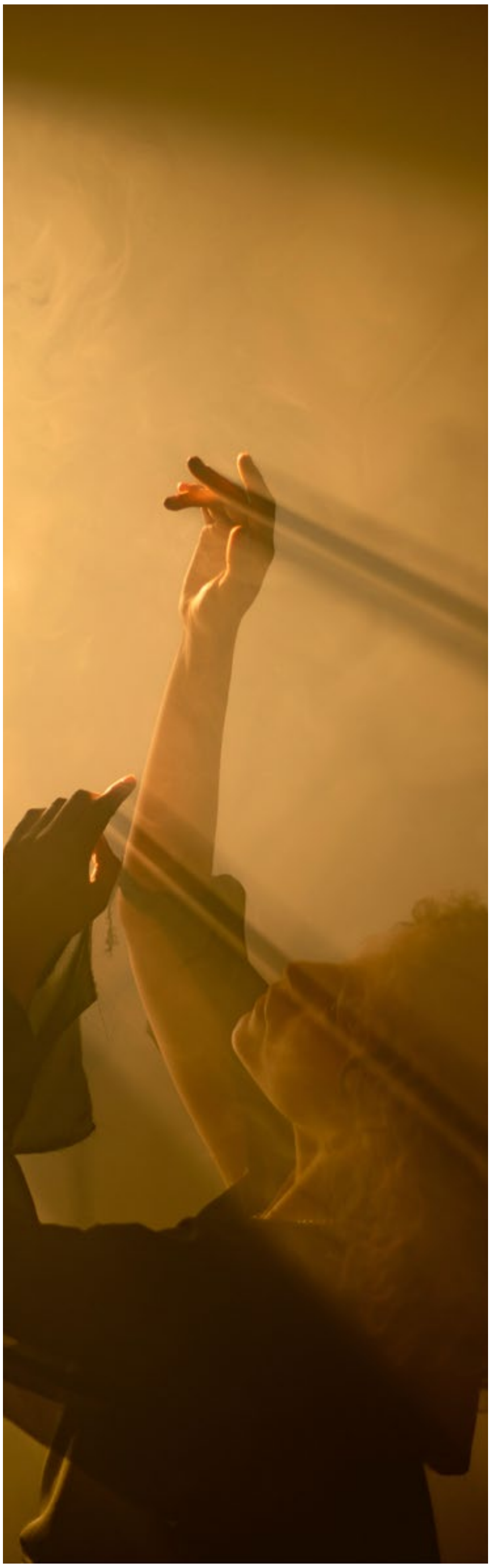
Conducting a risk analysis

Two important components of a risk analysis are the steps to be followed and the tools that be used. These will operate as a foundation to detect potential risks and take strategic action to avert any potential issues.



Step 1. Identifying the potential risks
Step 2. Evaluating and prioritising risks
Step 3. Deciding on preventive measures
Step 4. Taking action
Step 5. Follow-up and review

The most common tools used for risk analysis are:

- Risk matrix
- Decision tree
- Failure modes and effects analysis (FMEA)
- Bowtie model

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RISK MANAGEMENT PLAN

A well thought out risk management plan can make a big difference and be the answer to mitigate the risks of a business.

A risk management strategy is divided into different steps with the purpose of detecting, analyzing, addressing, and monitoring potential risks. To develop a strategy addressing the risks identified, you must first perform a risk analysis.

The risk management plan should not be set aside immediately after its conclusion. Many of the risks will still exist, even if with a reduced impact, and must continue to be monitored for their corrective actions to be implemented as soon as possible. It is essential to maintain a constant evaluation of the plan to understand how effective the processes adopted have been and how much of the probability and impact of risks have been reduced.

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FINAL ASSESSMENT TASK

TITLE OF THE TASK:
Risk Analysis

AIM OF THE ACTIVITY:
With this activity, you will reflect on the risks of your business by conducting a risk analysis.

TIME REQUIRED:
90 minutes

MATERIALS REQUIRED:
Device with Internet access for research
Writing software or supplies, or design software/tool

FORMAT FOR THE PRESENTATION:
Written document or presentation

STEPS TO COMPLETE THE TASK:
Using the innovation matrix below, make a risk analysis for your business or business idea. Note down all of the potential risks, rating their likelihood and severity, according to the matrix. Then, order the risks by priority (from most likely to happen and cause more damage to less likely to happen and cause less damage).

Finish by writing a short report or creating a visual presentation about your findings.

Additional optional task: find strategies that you can implement to mitigate each one of the risks.

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SEVERITY

SEVERITY

	1 very low	2 low	3 medium	4 high
1 very low	1	2	3	4
2 low	2	4	6	8
3 medium	3	6	9	12
4 high	4	8	12	16
5 high	5	10	15	20

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FINAL TEST

This quiz aims to assess your knowledge about Risk Management upon the completion of the EduZine. Check out how much you have learned since the self-assessment exercise at the start.

https://forms.gle/2LoSqxg6GVt8EoDCA

FURTHER READING AND RESOURCES

What is risk management
https://www.ibm.com/topics/risk-management

New research shows that the circular economy has a de-risking effect and drives superior risk-adjusted returns
https://ellenmacarthurfoundation.org/news/new-research-shows-that-the-circular-economy-has-a-de-risking-effect-and

Business risk
https://corporatefinanceinstitute.com/resources/knowledge/finance/business-risk/

Three imperatives for businesses to mitigate risks and thrive in an uncertain world
https://www.weforum.org/agenda/2022/04/three-business-imperatives-to-thrive-in-an-uncertain-world?

Risk assessment
https://safetyculture.com/topics/risk-assessment/

Risk management planning
https://opentextbc.ca/projectmanagement/chapter/chapter-16-risk-management-planning-project-management/

LEARNING CIRCLE

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