

Why Risk Management pays for SMEs

by Jacoline Loewen

A black leather dress shoe is shown from a side profile, positioned as if about to step on a banana peel. The banana peel is yellow with brown spots, lying on a white surface. The shoe is on the left, and the banana peel is on the right, extending from the bottom right towards the center.

Employee theft. Privacy. Lawsuits from disaffected employees. SARS. Terrorism. The risks business owners face today are so much more complicated than the single challenge you envisioned at the outset: selling a unique product to a specific market. In fact, the risk list is so daunting that many entrepreneurs respond by ignoring most of these risks altogether.

Increasingly, though, business owners are realizing that risk management is a positive process with real benefits—not a costly defensive strategy. Risk management has gone beyond identifying major threats and taking preventative measures. It is now an ongoing process for sustaining and growing your business through more thoughtful, strategic management. When you go to raise funds, knowing your risks will give an enormous advantage in attracting investors.

At a CEO Retreat held by the Canadian Innovators Forum, a number of business owners came together to discuss the risks their businesses face—and share solutions and strategies.

To begin, the CEOs agreed that most entrepreneurs have an automatic dislike for risk management. It seems like another set of authoritarian rules taking them away from their most pressing goal: generating revenue. But the more they discussed the problems they faced, the more they realized that an active, integrated approach to risk management would actually pay off—and usually sooner rather than later.

Here are some of the risks identified by the forum participants, and a look at some of their solutions.

★ **Strategic Risk:** These are losses that stem from poor decision-making regarding strategic resources. Your choice of products and services delivered to carefully selected markets creates your risk profile. The biggest risk for Toronto book publisher Shore Publishing, says CEO Penny Shore, is selling the books it publishes. Recognizing that vulnerability, she says, encouraged her company to reduce its risks by switching from fickle consumers to the more stable business-to-business publishing market.

★ **Operational Risk** results from failed internal processes, people or systems, or external events. Often, it is only when things go wrong that

entrepreneurs recognize the importance of seemingly routine activities.

Toronto's 2003 SARS outbreak made news around the world. Peter Vanderplaat, CEO of Mississauga-based Desert Spring Products, has customers in Asia and Europe. Selling its flagship product, an innovative indoor humidifier, depends on a crucial train-

ing program for their sales reps and distributors. When SARS hit the headlines, British marketing staff refused to work with Canadians. "It nearly shut us down," says Vanderplaat. "The fallout lasted over a year. Next time, we will be well prepared as we recognize this is a key part of our sales process."

★ **Information Security Risk** involves the risk of losing control of your confidential customer data in an era of growing privacy legis-

lation. Although he does most of his business in Canada, Sam Dennis, CEO of Toronto-based Rydium Canada, a digital advertising company, noted that he has to keep on top of ever-changing U.S. regulations—because although his clients are American, the privacy law will apply in Canada.

★ **Outsourcing Risk** refers to losses stemming from interruption of services provided by outsourced suppliers. The risks arise from outsourcers who do not adhere to your company's quality and behavioural standards, says Arun Merawat, CEO of Novadaq Technologies, a Mississauga-based producer of medical devices. Merawat says he is relentless in assessing outside suppliers and the risk they pose. "With medical devices as products, you are dealing with safety issues and regulations that have enormous impact."

★ **Security Risk** involves the loss of an organization's assets, cash, or accounting information. This is a clear-cut example of how paying attention to risk can help your bottom line, not hurt it. Jack Hoang, CEO of i3DVR, says his company has developed software that can count how many customers are lined up in front of a restaurant counter. The program can then estimate revenues on a real-time basis and flag any anomalies—discouraging counter staff from attempting to intercept any of that cash.

★ **Legal Risk** involves losses from violations of the law or uncertainty regarding a company's legal position, rights, and duties. Many private companies address this risk by establishing high behavioural and cultural standards. They say something like, "ethical standards in our company surpass regulatory requirements. We do not wish to be 'clever' and push the boundaries."

★ **Reputation Risk** arises from the deterioration of your business' reputation among various stakeholder groups. Companies that offer advice, for instance, must be prepared to take responsibility for the quality of that advice. Your liability here could be growing as U.S.-style litigiousness spreads north. Toronto publisher Penny Shore notes that a few years ago, bad advice in a book might result in a negative letter from a disappointed reader. Today it could just as easily result in a lawsuit. Even if the case is thrown out, she warns, it could seriously damage your image.

When private companies actively manage risk, they gain a better understanding of their business, its weak points, and the best opportunities for expansion. Risk and governance becomes less about compliance and more about managing for growth and efficiency.

The sooner you begin managing risk, the sooner you will start to see the benefits. If your business is looking for funding, for instance, potential lenders and investors will be looking for clues that it is being managed well. They will look at the quality of your management team (*do you have enough talent to manage the company as it grows to the next level?*), your ethical practices, and the sustainability of your competitive advantage.

All of these factors can be enhanced by risk-management policies that help you move from reactive fire fighting to a purposeful, strategic approach that chooses how and where your business will grow. **E**

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