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Risk Management in Small Businesses

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Abstract— Risk is something which is inherent in almost all business functions and decisions. Therefore, it is essential that organizations identify the risk areas in their business as well as implement appropriate risk management strategy to eliminate or reduce the negative impact of a risk as well as keep reviewing the risk management strategy implemented in order to ensure that the risk management strategy implemented is effective. The monitoring of risk becomes all the more imperative in case of small sized businesses as they have access to limited resources and funds and thus tend to be exposed to a greater extent to a number of risks and the related harmful effects. Thus, the report focuses the ways in which small business owners can manage their risks and the strategies that need to be implemented by them in order to deal with the different types of risks.

INTRODUCTION

Risk can be understood as a possibility of an organization suffering financial, human or physical losses or damages due to the level of uncertainty associated with the action proposed to be taken. However, risk cannot always be associated with negative effects alone. Thus, an organization needs to keep the risk levels at such a point that they are within the acceptable limits given the size of the organization and the nature of operations (Verbano1, 2013).
Some risks undertaken by the organization through the management decisions can also be opportunities for growth or expansion and therefore, would involve positive outcomes as well. The types of risks faced by an organization can specifically be divided into two categories which are internal risks and external risks. While the risks posed by the external environment is difficult to manage or control as it is due to the changes taking place in the external environment in which the organization operates and is therefore beyond the control of the management. On the other hand internal risks are risks associated with the internal processes and management decision making and thus, management can definitely take steps to bring down the risks to acceptable levels (Verbano1, 2013).

INTERNAL RISKS

Some of the risks generated internally within the organization include human risks, technological risks, as well as potential risks of damage to physical assets of the company are also risks that are internally generated within the organization. Considering the fact that the size of the organization is small, the negative impact of a risk undertaken can eventually hamper and bring production to a halt thereby causing huge financial losses and lowering of efficiency levels. Therefore, it is necessary that the risks should be minimized by having appropriate internal controls in place. For instance with regards to the reduction of risks for potential that damage that can be caused to the physical assets maintained by the organization, the company can undertake insurance of an appropriate coverage which shall reduce the risk of loss borne by the company in case of damage to physical assets due to any natural disaster or accident.
Another form of internal risk that is being faced by organizations include rise in costs or rise in bad debts considering the fact that cash flows forms the lifeline of businesses as they are part of the working capital without which the firms shall fail to operate and meet its day to day expenses. Therefore, it is important that an organization has a plan to maintain cash flow and recover dues from the debtors on time. It is always important to include an escalation clause in the contracts entered into by the organization due to potential rise in the costs of raw material and labor that could eventually impact the overall cost of contract. Therefore, if an escalation clause is not included to protect the contractor from escalating prices of the material and labor in the external environment then in that case the negative impact of the same shall have to be borne by the contractor therefore, impacting the profit margins of the company (Verbano1, 2013).

EXTERNAL RISKS

The external risks include the factors and changes taking place in the external environment which is beyond the control of the organization and is considered by the management as the risk of doing business. The external risks include business external environment risks such as unfavorable changes in Government policies that may lead to negative impact upon the business and are not possible for the management to immune the business from such risks and thus, needs to have a flexible business plan in place in order to deal with the changes that might have occurred (Vadiveloo, 2015). Other external risks that the small sized organization needs to take into account are the growing level of competition in the business segment in which the organization is operating. In order to deal with competition and at the same time maintain its market share, the organization needs to have a sustainable long term advantage which could either be a cost leadership or the provision of a product or service which has differentiated features from the rest of the market players which cannot be easily imitated by others and therefore, enable them to not lose out on customers in the long term. Though, it is not possible to completely eliminate the impact of external changes upon the organization, but the impact can be reduced by the adoption of appropriate risk management strategies and ensuring that the business has a flexible risk management plan in place in order to deal with adversities (Vadiveloo, 2015).

CONCLUSION

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Thus, from the discussion above it can be seen that all organizations face risks in operation of a business however, the impact may be severe specifically in the case of small sized enterprises due to the limited funding and resources available at their disposal. Therefore, it is essential that the management evaluate and identify potential risks that might impact the organization and take appropriate steps to protect the organization from the same. It can be seen that the organizations are faced by two categories of risks which are internal and external in nature that need to be dealt with accordingly.

Bibliography

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