

Anyone in business takes risks. Risk goes with the territory. *Gambling* with your business is another story entirely. The stakes are too high. Unless you assess your risks regularly and manage them effectively, you're betting with your business.

Take fire, for example, the most frequent cause of business losses for small and mid-size firms. How much would it cost you to rebuild after a serious workplace fire? Where would you start?

Managing risk effectively

Effective risk management contains elements of both art and science. Risk, after all is uncertain. That's why it's important to take steps now to reduce your vulnerability. That isn't as difficult as it sounds, since it involves just three steps:

- Assess your risks and vulnerabilities.
- Create prevention, contingency and crisis management plans.
- Choose financing options that reduce your risk and protect your key business assets.

Let's look at a practical example to illustrate this straightforward, practical approach.

Example: Managing the risk of fire

1. **Start by assessing the potential impact on your business.** From shop floor to executive office, we're all vulnerable to fire to some degree. Within minutes, fire can destroy furnishings, equipment, supplies and inventories, along with critical business data records. Consider the impact of injury to key employees and the loss of clients to competitors while waiting for you to rebuild. How vulnerable are you?
2. **Plan to prevent or mitigate significant losses.** Planning enables you to manage your risk effectively. As a result of planning, you'll identify steps you can take to prevent fire and limit its

impact, should one occur. Some steps are obvious: enforce non-smoking policies; schedule regular inspections and maintenance for heating, electrical and sprinkler systems; and unplug coffee pots—a significant cause of fires. Backup your critical files regularly, and store at least one set off site. Additional steps, such as preparing emergency communication strategies, could make a critical difference in your relationships with your customers, suppliers and the media.

"By failing to prepare, you are planning to fail." - Benjamin Franklin

3. **Determine how to spread your risk.** Instead of automatically buying more insurance against business hazards, preparing a loss-prevention plan can help you identify options for prudent coverage and significant savings, for example through self-insurance or higher deductibles. Some risk is transferable to others, as when tenants assume a portion of the owner's risk through their lease agreement, or maintenance companies accept risk through service contracts. Talk to an insurance professional about hold harmless or indemnity clauses.

When you take time to manage your risk, you reduce your vulnerability, mitigate your potential costs, and speed recovery, should disaster strike. By restoring your operating and communication infrastructure smoothly, you remain free to focus on the important issues following an emergency, such as taking care of your employees and customers. Knowing that your assets are covered also brings peace of mind and frees you to focus on new opportunities that will advance your business.