Assessing risks and opportunities

Most people who start a business think they would rather work for themselves than someone else. They believe that by owning their own company, they will be in a better position to control their own destiny - in effect better able to manage opportunity and risk.

The reality is that 80% of start-ups don't make it beyond five years! Running a company is a lot harder than most people imagined, the risk of business failure is high, and it's a costly experience. Most of those who start companies end up working twice as hard and earning a fraction of what they would earn if they were working for an employer, earning a steady salary and retirement benefits.

Think like an investor

And yet people still want to start their own company. I've done it several times myself, some more successful than others. So, my mission is to help you be successful. And one secret to success is to think like an investor, because that's what you are: you're investing your life space, your energy, your time, and your money in something that you believe will provide a higher return on that investment than working for someone else. But thinking like an investor means rationally assessing both risks and opportunities – and developing strategies to mitigate risks and capitalise on opportunities.

Assessing risks

When I had my first company, I thought the mere act of acknowledging risk would somehow legitimise it or make it more likely to happen. I wanted to spend my thoughts and energy on the positive side of the equation, take risks and work as hard as I could to have a successful outcome, and not be dragged down by the negatives, the nay-sayers and those who were risk averse! I guess I believed that I could out-run or out-smart the risks and their negative outcomes – and that if I worked hard enough, those risks would magically turn into opportunities – and would lead us to great success!

It took some tough-love conversations with advisors who told me that my unwillingness to properly assess risks was quite childish, that I needed to "grow up" and recognise that I had no control over many of the risks the company would face, e.g., fire, changes in legislation, customers going bankrupt, employees falling sick, partners unexpectedly dying, changes in the bank's lending policies – so I needed to begin to calibrate the level of risk, and determine whether to go ahead, proceed with caution, or stop, because my future, and a lot of other people's futures, were riding on the decisions that I was making as owner and CEO of the company.

Creating a risk register

As companies grow from start-up, hire people, gain customers, begin to generate revenue, build a healthier balance sheet, i.e., grow larger, there is more to lose if things go wrong, and, typically, CEOs become more risk averse. After the conversation with my advisors, I did! So, we began to systematically identify and then assess risks, using a grading system:

- ***Level 1:*** risks we were willing to take, i.e., we could live with or manage the consequences if things went wrong.
- ***Level 2:*** risks that could be managed with legal agreements and contracts, or internal policies, procedures, and systems, i.e., a set of rules that people were required to follow to reduce risks, or that outlined a protocol to follow if terms were breached.
- ***Level 3:*** risks that had significant financial consequences and required insurance, e.g., keyperson insurance, worker's compensation, public liability, professional indemnity, Director and Officer's liability, business interruption, cybersecurity.
- ***Level 4:*** risks which were too big to take, because the result of something going wrong would be catastrophic for the business and possibly for me, e.g., travel to some countries, engagement in certain kinds of projects, no matter how much the client was willing to pay; or how profitable the work would be.

That was a simplistic approach, and it worked for a while. Over time we developed a more sophisticated approach. We outlined categories of risk, and then we developed the discipline of recording, then analysing, and discussing the potential impact of each risk. We'd then assess the likelihood (unlikely, possible, likely, almost certain) of it happening, and then consider what strategies would enable us to reduce or mitigate the risk.

The whole experience was freeing, because we felt like we had analysed and discussed most of the things that could go wrong and, in some cases, even had plans if it did go wrong. I recall that Michael Dell and his Chief Operating Officer had adjoining offices and were constantly discussing what they would do: if a competitor suddenly dropped its price; if there was a shortage of chips; if shipping costs increased 5X; if more disruptors like Apple entered the market; and so on. This was not an idle exercise, but one that enabled them to act quickly when any of those things happened.

So, we made sure our risk register captured those kinds of conversations, which made it easier to respond quickly when that "risk" appeared because: (1) we had already thought about it and weren't blind-sided, and (2) had already developed a mitigation plan and strategy about what to do.
The tools below can assist you in deciding the level and what to do about risks in your own company.

Risk Taking Decision Tool				
IMPACT ⇒	Acceptable	Moderate	Major	Severe/ Non-recoverable
LIKELIHOOD ⇓				
Unlikely				
Possible				
Likely				
Almost Certain				

	Proceed
	Review mitigation options and agree on triggers for implementation
	Develop mitigation plan and implement immediately
	Do not proceed

Risk Assessment Tool					
Category	**Situation**	**Likely Impact on our Company**	**Risk**	**Mitigation Strategy**	**Does it give rise to Opportunity?**
Products/ Services - Design - Materials & Supply chain - Manufacturing - Quality Control - Shipping & delivery - Customer Service					
Marketing & Sales - Customers - Competitors - Serviceable Market - Brand - Placement - Channels - Promotion - Price - Sales - Marketing					
Externalities - Competitors - Exchange Rates - Interest Rates - Regulations - Politics - Climate - Geo-political - Global Economics					
Organisation - Culture - People - Executive team - Infrastructure - Plan - Leadership					
Strategy - Low cost provider - Differentiator which customers value - Focus on specific market					

Recognising opportunities

It's one thing to be able to assess risks, but it takes a different mindset to be able to spot a great opportunity, move quickly, and pro-actively capitalise on it. The key is to be able to decide which opportunities are the best ones for your company to pursue and which ones to ignore. And that requires discipline.

The flip side of a Risk Register is an Opportunity Register. Opportunities appear all the time, and it's very easy for the CEO and executive team to be swept away by the possibilities that a new opportunity presents. It's exciting, it's shiny bright, and it can be a big distraction. On the other hand, there are some opportunities which could make (or break) a company. And as the leader, you need to develop the ability to recognise the risk and the potential that's inherent in each opportunity, and "keep enough powder dry" to be ready to pursue an opportunity that could have a significant, positive impact on your company.

Categories of opportunities include brand enhancement, new customers, new employees, additional profit and revenue, a move to new markets, a merger or acquisition for customers, markets, technology, or even employees.

Opportunity Assessment Tool			
RISK ⇒	Low	Moderate	High
REWARD ⇓			
Low			
Moderate			
High			

	Do not pursue, low reward opportunities are not worth the time, energy or risk to your company.
	Investigate opportunity and consider if risk mitigations are required before pursuing.
	Focus attention on high reward and low risk opportunities. *Where risk is high ensure appropriate mitigation strategies can be implemented.*

Making an opportunity register

Over time we got better at identifying opportunities and, like the risks, we would analyse them, assess their potential impact on our company, discuss the likelihood of the opportunity coming to fruition – and what we could do to make it bigger or come sooner. Finally, we'd either agree to let it go, or decide how many resources we were willing to make available to capitalise on that opportunity.

Opportunity Register					
Category	***Situation***	***Impact on our Company***	***Rating (High, Moderate, low)***	***Capitalisation Strategy***	***Does it give rise to Risk?***
Products/ Services - Design - Materials & Supply chain - Manufacturing - Quality Control - Shipping & delivery - Customer Service					
Marketing & Sales - Customers - Competitors - Serviceable Market - Brand - Placement - Channels - Promotion - Price - Sales - Marketing					
Externalities - Competitors - Exchange Rates - Interest Rates - Regulations - Politics - Climate - Geo-political - Global Economics					
Organisation - Culture - People - Executive team - Infrastructure - Plan - Leadership					
Strategy - Low cost provider - Differentiator which customers value - Focus on specific market					

Growth requires discipline

Regardless of whether you are assessing risks or opportunities, you need to have the discipline of an investor. Ask yourself, “What do we need to do to make sure that risk does not impede our ability to grow?” Alternatively, you need to ask, “How are we going to recognise, then have the resources available to capitalise on those few opportunities which will really enable our company to grow rapidly and scale?”

I like to define luck as “what happens when opportunity meets a prepared mind”. Sometimes opportunity knocks, but we are simply not ready or prepared for it. Perhaps we’ve been off chasing a lot of little opportunities and have no time or energy left to respond to the “big” one when it comes along. And sometimes we fear the risks associated with pursuing that opportunity, if it means the company will grow and change. I remember a great line from the movie Chariots of Fire where the track star had just lost his first race and said, “If I can’t win, I won’t run.” to which is girlfriend responded, “If you don’t run, you can’t win.” Venture capitalists make a lot of money for their investors by taking risks on small companies with disruptive technologies because they know what to do to increase the probability that they will become successful companies and “win the race” by either going public or being sold for millions of dollars.

Better manage risk and opportunity – and grow

You will never be able to control all the risks; but a disciplined approach to risk, using a risk register, will enable you to decide which ones you’re willing to accept and which ones you’re not, and then what to do to mitigate the rest. You’ll never be able to pursue all the opportunities that could lead to growth, but if you create an opportunity register and are as disciplined about reviewing opportunities as risks, you’ll get better and faster at recognising opportunities with real potential. You will waste less time and money on small insignificant opportunities, and will be better positioned to execute on the ones that will really enable your company to grow and scale.

Next topic: Attracting and retaining people who can accelerate your growth