

Community Futures has achieved a major milestone, celebrating 30 years of service to entrepreneurs and communities across BC. As part of our 30 year celebration, we are publishing *The Future of Entrepreneurship Series*. Written by business leaders, this series of forward thinking articles will provide insights and opinions in regards to a number of key challenges and opportunities facing entrepreneurs in the future.

Reality of Risk

Dr. David E Bond

Humans can be certain that every day we are alive we are growing older – but we can be certain of little else. Every day we all face uncertainties or risks that affect our communities and businesses, some of which we can limit or neutralize and others which are beyond our individual or collective control. For example, we cannot prevent adverse weather events - wind, rain or snow, earthquakes or even, in some places, volcanic eruptions – though we can make plans to deal with them if they arise.

Every business, be it a start-up or long-established, faces business risks and most of these can be mitigated if not avoided. Therefore, recognizing risks and their potential impact and determining what, if anything, can be done cost-effectively to reduce negative impacts is one of the most important tasks faced by businesses.

First, consider your business' key resources. Your finance and accounting records, computer data, inventory, labour force and customer base are all key components. That means the business needs insurance against theft, fire, cyber security, perhaps earthquakes and floods, and certainly business interruption which would provide help after a disaster causing the business to shut down temporarily as seen in Fort McMurray. And, depending on the nature of the firm, key person insurance may be necessary. This insurance provides investors some confidence that either they will recoup their investment or have financial resources sufficient to find a replacement or potential purchaser if the founder or key manager is no

longer able to work. These basic actions are really essential.

The records of the company are normally kept in electronic files. First, make sure you have continuous back-up that is stored in at least two, and preferably three, distinctly separate places. Second, and this is just as important, make sure your operations are protected against viruses and hackers. There are any number of providers of the needed services, so take the time to examine your present needs as well as your foreseeable requirements and get knowledgeable advice from trusted and respected providers.

All businesses operate in a changing environment. You need to think seriously about the types and frequency of internal and external reports you will require to understand what is happening to your sales, costs of operation, growth, personnel, and, if possible, what the competition is doing. Those reports will, in turn, provide you with indications of what might lie ahead and alert you to any adjustments you should consider. More importantly, they should make you aware of any vulnerabilities and opportunities. Vulnerabilities require your prompt attention and opportunities may lead to growth - which brings its own financial risks.

To reduce operating risks as much as possible, consider assembling a Board of Advisors of experienced people you trust and respect. Two or more knowledgeable individuals who will provide frank and honest observations and opinions as to how things are going and what, if

any, corrective action you might wish to take can be invaluable. This is a vital and often overlooked source of advice to those running any enterprise. They may be interested friends, or have some skin in the game themselves, or be paid professionals, but they should have substantial experience in business. They should also be willing to make their views known and not always expect you to agree with them. They should know that you will accord their views respect and thoughtful consideration.

Finally, no matter what your enterprise does, it's highly unlikely you will be doing it alone. The people on your team constitute one of your most important resources and you want to avoid high turnover. Keeping good employees can be the difference between success and failure. My late friend Leonard Lee, the founder of Lee Valley Tools, understood this. He had two cardinal policies regarding his staff. First, every employee, himself included, shared an equal cut of 25% of pre-tax profits as an annual bonus. Second, no employee earned more than 10 times the salary of the lowest-paid worker. As he said, "Empowered and properly compensated employees work hard to make customers happy, and happy customers return often and encourage others to try Lee Valley."

Leonard was also quick to recognize risks and opportunities. What began as a mail-order operation became vulnerable to postal strikes as it grew and to offset that he started to open retail operations across the nation. Mail-order is still important for sales outside Canada but retail is now a major pillar of the company.

There are risks over which you have little control but they can play an important role in the success of your enterprise. Financial risk is a fact of daily life, but making sure you have a good relationship with your lender or financial institution will stand you in good stead as your business grows. Such a relationship won't prevent interest rates from going up, but you will be in a better position to ask for assistance if needed. Your lead financial institution can and should provide you with economic forecasts that will allow you to plan better.

There are other risks such as actions taken by governments, local, provincial or national, that include not only levels of taxation but also legislation and regulations regarding social policies from healthcare to labour laws and

information requests. Some of these can have enormous impact on your business' bottom line. Claiming ignorance of the rules is usually not either an effective or a successful defence if you are caught offside. Also, from time to time, these rules change. You will need early warning and perhaps some advice on actions to consider. Your local Chamber of Commerce is a good source of information as are provincial or national trade associations. Your lawyer and accountant should also be consulted from time to time, not only at start-up and year-end but throughout the year, as warranted.

Thinking about and preparing to manage risks is not always front and centre when an entrepreneur considers a new venture but it should form an essential part of any business plan. Your business plan should not be a promotional document full of hype and unrealistic sales forecasts. It needs to be a well-reasoned and conservative document showing that you have considered the potential risks and know how to deal with them. Potential risks should not automatically be regarded as reasons not to pursue a project you are excited about. But recognizing them and dealing with them, in a deliberate and cost-conscious manner, is a key to success for any enterprise.

Watch for our next article by Jeff Dawson - *The Art of Innovation*.

Community Futures is a non-profit community business financing organization created to support small and medium sized enterprises throughout rural BC, paving the way for diversified local economies and job creation.

[Learn more](http://goo.gl/o5BAjI) (<http://goo.gl/o5BAjI>)

