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Article

The Rewards of Risk Management for Small Businesses

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Please note this content was curated for SME businesses in the UK

Risk management might feel like yet another time-consuming but important concern for small business owners. But with a little planning and by taking some straightforward steps, the right approach could help improve your company's resilience, give you much-needed peace of mind, and even build your credibility among customers, investors and insurers.

In this article, we will cover:

- The meaning and importance of risk management for small businesses
- Some critical business benefits of effective risk management
- Four practical steps towards better risk management for small businesses.

What does Risk Management mean for small businesses?

Risk management is about identifying risk or threats that might pose a problem to your business and then taking action to mitigate them.**(1)** Common areas include physical, legal and compliance, financial, operational, technological, and reputational risks.**(2)**

Steps such as creating policies and making employees aware of risk management could enhance your business's ability to withstand a range of threats. Understanding the importance of risk management and having the mitigating processes and protocols in place could also present you as a better business with insurers, investors and customers.

Although risk management does not always attract the same attention as environmental and social policies, it is a critical part of any small business's ESG (Environmental Social and Governance) strategy.

The Business Benefits of Risk Management

Risk management isn't a tickbox governance exercise; it could provide many advantages to your business. Here, we outline some of the key positive benefits of an effective approach to risk.

- **Enhanced Resilience**

Most small business owners value predictability. But sometimes, disruptive events happen beyond our control, such as vandalism, flooding, cyber crime, negligence, machinery or equipment breakdown, or the death or illness of a key employee. While you can't always anticipate an adverse event, preparing your business for when things go wrong could help ensure you quickly get back on track.**(3)**

- **Improved Decision-Making**

Understanding risk management could help you make more informed, insightful strategic decisions. Considering the risks to your business now and in future could help make sure you make the right – and avoid the wrong – choices about the direction your business takes.**(4)**

- **Insurance and mitigating the financial impact**

Ensuring that you have the right business insurance is key to protecting you in the event something adverse / unexpected happens and robust risk management processes could also help you achieve more competitive premiums and improved terms with insurance companies.

- **Increased Investor and Customer Confidence**

Having strong risk management practices in place demonstrates your business's foresight and stability, which could make you a more reliable proposition for investors. Equally, robust risk management could protect your business's reputation, building customer confidence and trust.**(5)**

- **Operational Efficiency**

Attention to risks in your business could help streamline your processes, reduce waste and improve performance. For example, the Harvard Business Review suggests proportionate risk management helps strike the right balance between recklessness and being over-cautious – which could help make your business more efficient.**(6)**

- **Compliance and Legal Advantages**

Risk management strategies and policies could help ensure that your small business complies with the relevant legal and regulatory requirements for your sector. Compliance could help avoid fines, legal challenges and damage to your reputation.**(7)**

It's true to say that risk management is chiefly about helping your business survive when the unexpected or unwelcome occurs. However, it could also help deliver many positive commercial outcomes.

Practical Steps for Implementing Governance Practices

Putting risk management into action means implementing a range of healthy governance practices. However, they needn't be too daunting. Below are four examples of steps you may choose to make:

1. **Establish a Risk Management Framework**

Draw up a Risk Management Framework (RMF). This will help you identify the risks affecting your business, prioritise them according to likelihood and potential impact, and take appropriate steps to mitigate them. Risks might be internal, such as operational issues, or external, like natural disasters. Mitigations could include making contingency plans or taking out new insurance.

2. **Develop Policies and Procedures**

Once you have understood the potential risks affecting your business, you could create appropriate policies. To help make sure your colleagues understand and adhere to the policies, you could also develop procedures to monitor their effectiveness and make the necessary adjustments.

3. **Build a Risk-Aware Culture**

With clear, easy-to-follow policies and procedures, you're on the way to building a strong risk-aware workplace culture.**(8)** You could also consider training and education programmes to make employees more risk-aware. At the same time, open communication channels could help increase the chances that risks are identified and addressed early.

4. **Regularly Monitor and Review**

Inevitably, the nature and likelihood of certain risks may change as your business and the wider economy and society evolve. So it could be a good idea to monitor your risk management strategy, noting things like new regulations or changes to your environment. For example,

regular health and safety risk assessments help protect your employees and ensure you’re always legally covered.**(9)** You could update your policies and procedures as necessary after each review.

Taking straightforward, practical steps towards better risk management could be critical for protecting your business; it could also be an essential building block for business confidence and success.

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1 Risks or threats refer to potential events or conditions that could negatively impact a business's operations, assets, or reputation.:
2 Bionic: https://bionic.co.uk/blog/small-business-risk-management-guide/
3 Insurance Information Institute: https://www.iii.org/publications/insuring-your-business-small-business-owners-guide-to-insurance/risk-management/risk-management-basics
4 Smart tools your business needs: https://www.sumup.com/en-gb/running-business/management/small-business-risk-management/
5 Linkedin: https://www.linkedin.com/pulse/importance-risk-management-small-business-operations-edwin-mungai/
6 Harvard Business Review: https://hbr.org/2023/09/smaller-companies-must-embrace-risk-management
7 British Business Bank: https://www.british-business-bank.co.uk/business-guidance/guidance-articles/business-essentials/why-compliance-is-important-for-smaller-businesses
8 Skillcast: https://www.skillcast.com/blog/build-strong-risk-culture-work
9 Simply Business: https://www.simplybusiness.co.uk/knowledge/articles/2019/05/health-and-safety-risk-assessment-guide/
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