

MANAGING RISK

You've got to speculate to accumulate. Next year, we'll be millionaires. Just two clichés applied to entrepreneurs and company owners. But how should successful leaders evaluate and manage risk as a business develops?

living on the edge

A pound on the lottery. £20 on the nose for the Grand National winner. Your house on the tables in Vegas. All risks of varying degree. Each carries the prospect of success, but there's a risk that comes before the reward. And risk plays a part in every business story one way or another.

But is every entrepreneur a high roller? Can you build and lead a successful business if you're naturally cautious? And how much is it really a risk to bet the house?

Robert Myatt, managing consultant at business psychologists Kaisen Consulting says that it's not necessarily a question of going all-in. "Risk taking often differentiates businesses, but not every leader of a business is a risk-taker. Many leaders are risk-averse, stick with the tried and trusted and prefer to make incremental changes, calculating and quantifying at every stage."

Myatt says there's no hard-and-fast definition of the risk profile of an entrepreneur and their business. "There's a difference between people who want to lead a business and those who want to manage one. The 'managers' are generally more cautious throughout their lives and are more interested in the

mechanics of making something work. Entrepreneurs are more driven by the act of taking a risk. And they don't just tolerate it – they thrive on it."

These behaviours are often apparent right from the start. "You don't necessarily have to be a risk-taker to start a business. Many start as freelancers or consultancies in sectors that the person knows," Myatt says. "But the difficulty is that they're fishing in the same market – a lower risk but a potentially lower reward. The classic entrepreneur has a chance of greater reward as they're innovating and creating a slightly different market."

Margaret Craton, partner in **asb law's** commercial team, echoes the point. "The thought of taking a risk can put someone outside their comfort zone. But taking risks successfully is all about being proportionate."

Of course, there are a myriad of risks facing every business owner. There are big, strategic issues that must be addressed – such as the fundamental risk of starting the business, market positioning and launching new products and services – as well as innumerable gambles in the day-to-day operational sense, such as choosing suppliers and making decisions on stock levels and staffing. But is

there such a thing as an ideal approach? "It's all about the context," Myatt says. "If the situation requires a business owner to take a risk, that's what they should do. But they need to be flexible to make the risk as favourable to them as possible."

Craton explains further. "It's a question, for example, of walking through what would happen if you won the contract you're bidding for and the things that could go wrong. If you work through your liability in those worst-case scenarios and understand what each liability could cost you, you start to put a real value on the risk. That helps you prioritise your risks, as well as identify the parts of the proposal you may be able to trim back to make your price more competitive. But then you've made it an informed gamble rather than an instinctive dash to pick up the deal."

She adds that when internally evaluating a risk, you need to look at what you control. "Generally, if you rely on others in any part of the process, it's a risk and you need to manage it. It's always useful to talk things through – with insurance brokers, professional advisers, other businesses. You can get invaluable input there. But risk management has got to be more

"Looking at your liability in worst-case scenarios allows you to start putting a real value on a risk" Margaret Craton, **asb law**

REAL-LIFE RISK

Jamie Malcolm, co-founder of garden centre Shoots UK in West Sussex, explains his approach to risk.

"I take risks, but the risks I take are calculated. I've always got an idea what the outcome might be. When we entered the garden centre industry less than 12 months ago the barriers to entry into such an established sector were a huge risk. But we knew we could make a difference and it has paid off already.

"Anything new and innovative, like a start-up business, needs to take risks – you just can't succeed without it. But there is a difference between taking risks to develop the business and what you do operationally. Risk in a business needs to be completely controlled. After all, we've got a duty to the people who work so hard for us. I'll try anything to grow the business, but I make sure it will never suffer catastrophically if it doesn't pay off.

"Risk can be dangerous if you're taking it because of your own personal desire to do so. You don't necessarily have to lower your appetite for risk as the business grows – you just have to analyse it more as there's more at stake. Sure, I've taken gambles that didn't pay off – but I'm glad I did, and learned from them. Anyone who has had any success in business knows that.

"The word 'risky' can have negative connotations. But innovation is the key to progress and is by its very nature risky. What we would never do is take a risk on the fundamentals of running a business, such as finance, insurance, legal matters and so on.

"I'll always be prepared to take a risk in order to innovate. The innovation required to grow the business is what drives me."

"There can be significant problems when both the CEO and COO thrive on risk-taking. If no-one is attending to the routine processes – monitoring, evaluating, motivating – the organisation will struggle. Decisions will be made for the wrong reasons and no business can survive without the day-to-day processes being under control."

And, of course, pragmatism can cause problems, too. "If someone is a leader in a mature business that has become a cash cow, they may not need to be particularly open to risk-taking," Myatt adds. "Close monitoring of performance and incremental improvements will be key. But this type of leader may be too slow to react and play it safe if the market moves on and big changes are needed. The best leaders have the ability to take risks when the situation calls for it."

The consensus is that every business will take risks and has to do so to survive. But, when making the gamble, there seem to be two essential questions: What's at stake? And, remind me... what were those odds again?

sophisticated than simply taking out an insurance policy."

Of course, the appetite for risk is determined by other issues, such as the lifestage of both the business and its owner. Just as you don't often see 85-year-olds paragliding, maturity in a business often leads to a decreased desire to take chances.

As a business matures, external investment often comes in, along with an influx of specialist management. Myatt says: "Change management is often a very significant struggle for owner-managed businesses. Ideally, the person who started the business will stay as a driving force as chairman or CEO but bring in a chief operating officer (COO) for day-to-day management. But to make that work, there have got to be clearly delineated roles and responsibilities. If the CEO is a dominant character and wants to come in and make the big decisions and take the risks, that's where the tension builds up."



WHERE NEXT

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