

Risk Identification

STAGE 1 : RISK IDENTIFICATION

1. Risk identification
2. Sources for identifying risks
3. Other procedures for identifying risks
4. Classification of risks

1. Risk Identification

How can you identify the causes and effects of the risks in your company?

What can happen?

- ✓ In this first stage of the methodology, the possible specific causes of business risks are identified in a systematic manner, together with the range and possible effects thereof, which an entrepreneur must confront.
- ✓ The proper identification of risks calls for a detailed knowledge of the company, of the market in which it operates, of the legal, social, political and cultural environment in which it is set.
- ✓ Risk identification must be systematic and begin by identifying the key objectives of success and the threats that could upset the achievement of these objectives.

Perception of the risk:

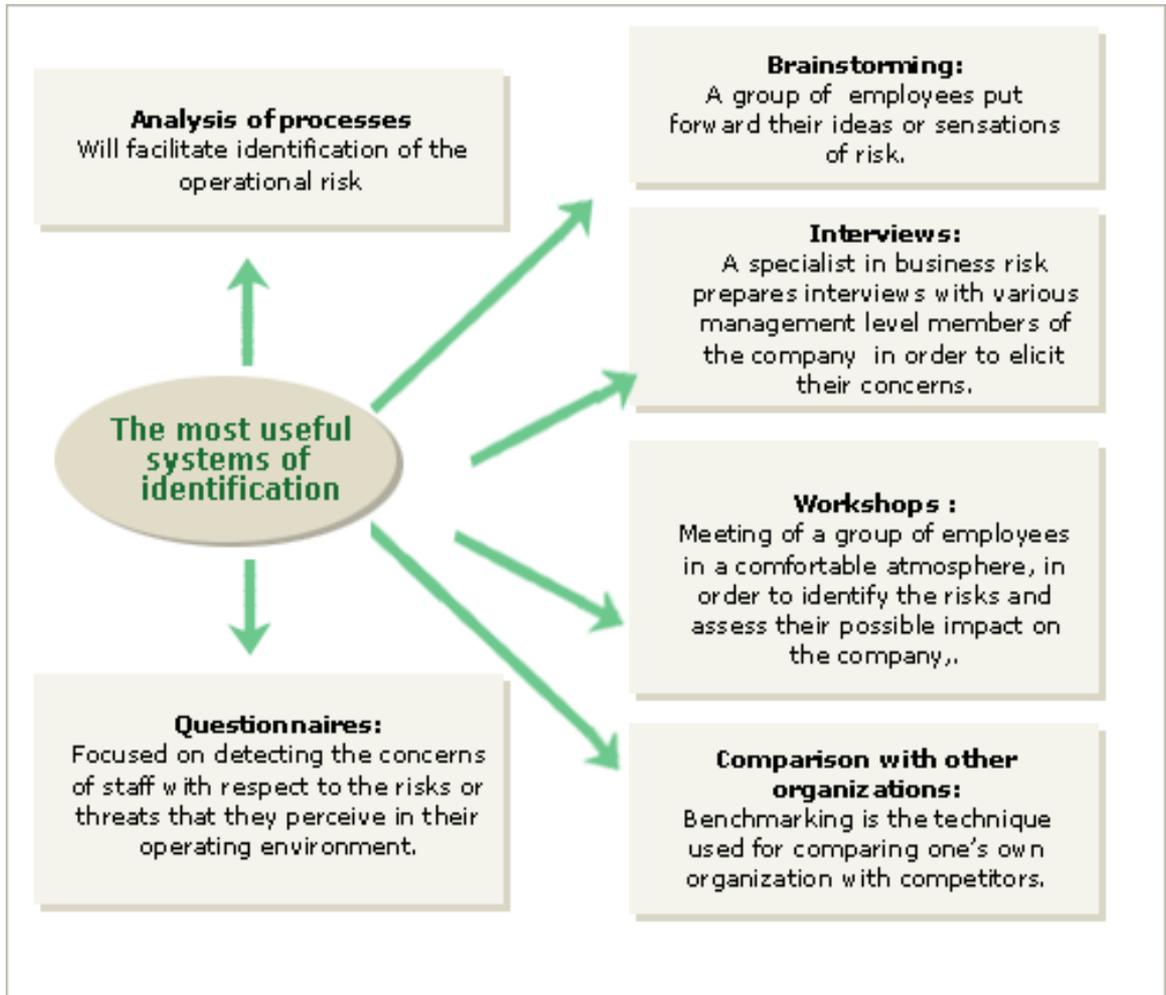
- The perception of risk as a threat is the system most often used in order to identify it. In this context, managing the risk signifies installing control systems that will minimize both the likelihood that adverse events will occur as well as the severity of such events (the financial loss that would be involved for the entrepreneur). It is a focus of a defensive nature; its aim is to allocate resources in order to reduce the likelihood of sustaining adverse impacts.
- From the perception of risk as an opportunity, risk management signifies using techniques that will maximize the results, limiting the possible damages or costs. The focus is aggressive in nature.
- Risk management from the perspective of risk as uncertainty is aimed at minimizing the deviation between the results that an entrepreneur wishes to obtain and those that he or she actually does obtain.

2..Sources for identifying risks

- Sources of risk are all of those company environments, whether internal or external, that can generate threats of losses or obstacles for achieving the company's objectives.
- A procedure that facilitates the identification of risks is to ask oneself, with respect to each of the sources, whether weaknesses or threats exist in each case.
- A brief list is set out below:
 - Pressure by competitors
 - The employees
 - The customers
 - The new technologies
 - Changes in the environment
 - Laws and regulations
 - Globalization
 - The operations.
 - The suppliers...
- The identification of the risk must be systematic and should begin by defining the entrepreneur's objectives, analyzing the factors that are key to the business in order to achieve success and reviewing what the weaknesses of the project are and the threats it has to deal with.
- For this purpose, it is advisable to make a SWOT analysis (Strengths, Weaknesses, Opportunities and Threats); particularly the weak points and the threats will offer a view of the risks facing the entrepreneur. As an example:

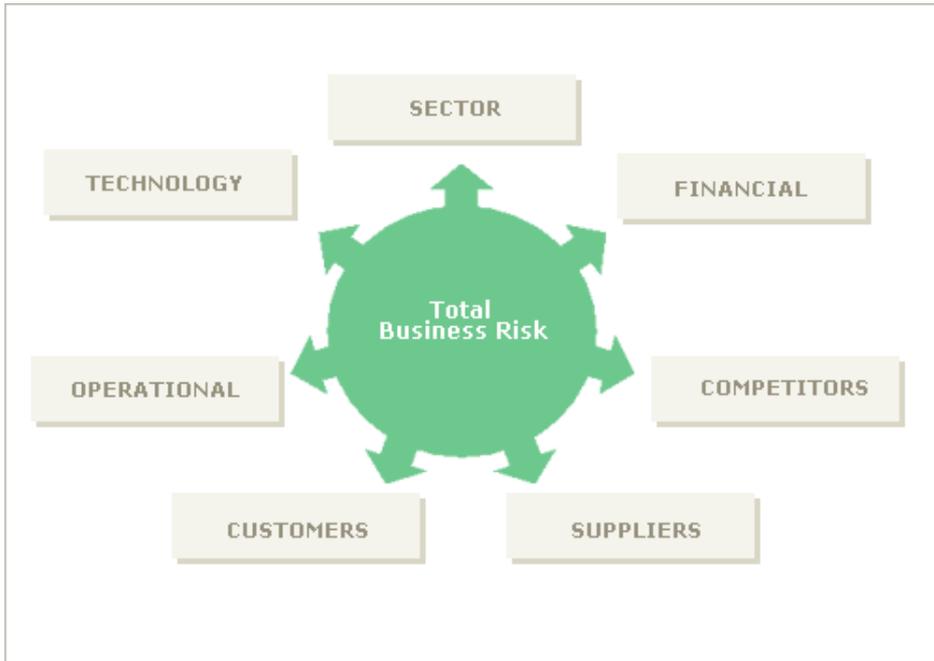
<p style="text-align: center;">STRENGTHS</p> <ul style="list-style-type: none"> - Location of establishments - Highly flexible cost structure - Proximity to customers 	<p style="text-align: center;">WEAKNESSES</p> <ul style="list-style-type: none"> - Commercial fragmentation - Limited access to financing - Lack of specialized and trained personnel
<p style="text-align: center;">OPPORTUNITIES</p> <ul style="list-style-type: none"> - Sector in expansion - Specialization in market niches - Increasingly better informed consumers 	<p style="text-align: center;">THREATS</p> <ul style="list-style-type: none"> - Regulatory changes - Entry of new competitors - Customer tastes change quickly

3. Other procedures for identifying risks:



4. Classification of risks:

✓ The purpose of the classification of risks is to show the risks identified in a structured manner, for example, in relation to their origin, as set out in the following graph.



SECTOR:

A risk that external factors independent from the entrepreneur's management could directly or indirectly influence the achievement of his or her objectives and strategies to a significant extent.

Examples:

- Strong exposure to regulatory changes
- Business fragmentation
- Appearance of new markets

OPERATIONAL:

The operational risks are associated with the entrepreneur's ability to convert the strategy chosen into specific plans, by means of an effective allocation of resources.

Examples:

- Need for making an advertising effort
- High staffing costs
- Lack of operational and financial planning
- Tendency toward subcontracting. Tendency towards concentration

TECHNOLOGY:

This measures the entrepreneur's exposure to the technological risks derived from the need to undertake heavy investment in order to ensure the feasibility of his or her business project within a specific period of time or the need for training the company's employees in the use of the technology.

Examples:

- Significant investments
- Low level of implementation
- Low level of technological training

COMPETITORS:

The size, the financial and operational capacity of the agents in a sector determine the degree of rivalry in that sector and set the rules of the game that any new agent has to consider in order to operate in the marketplace; this can involve risks for the entrepreneur.

Examples:

- Appearance of new competitors
- Intense competition
- Specialized competition

SUPPLIERS:

The role played by the suppliers in the sector could generate risks for an entrepreneur due to variations in the price of raw materials, to the availability of a variety in the supply and for a continuous period of time, as well as the degree of concentration of the suppliers, which will determine the method of payment traditionally accepted in the sector.

Examples:

- Exposure to changes in the price of goods
- Dispersion in the supply
- Non-determination of the quality of the service provided
- Increase in power of negotiation

CUSTOMERS:

The customer can be a crucial focal point of risk for an entrepreneur, since they are the generators of revenues; the risk can stem from changes in their tastes and needs, from generating pressures forcing prices down or from lengthening the payment period, among other factors, in such a way that the entrepreneur's value proposal must always be customer-oriented.

Examples:

- Increase in power of negotiation
- Lack of loyalty
- Social and demographic changes
- Seasonality and decline in the demand

FINANCIAL:

The financial risks refer to the uncertainty associated with effective management and the control of finances carried out by the entrepreneur, as well as to the effects of external factors such as the availability of credit, exchange rates, movements in interest rates, etc.

Examples:

- Long-term financial incapacity
- Exposure to interest rate changes
- Lack of knowledge of advantageous sources of financing, subsidies, etc