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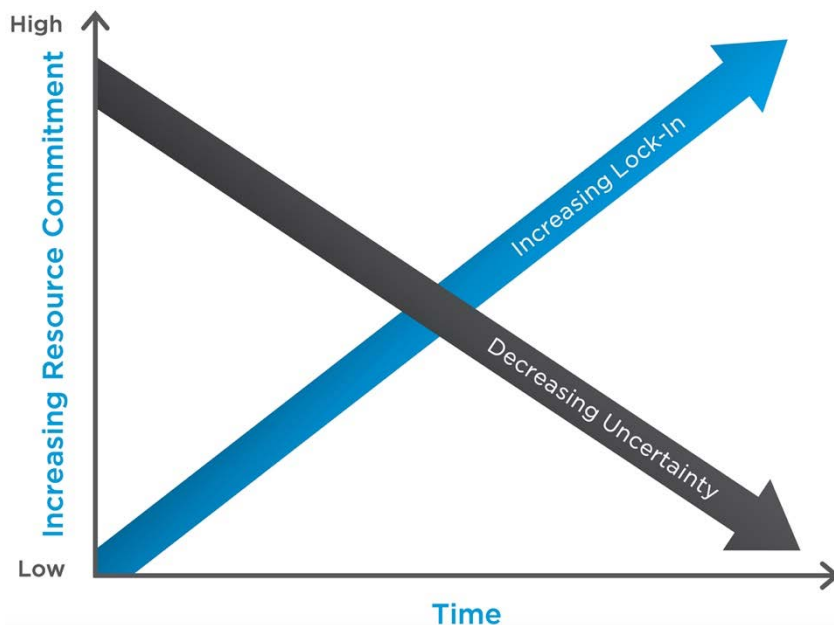
Innovation, Uncertainty and Risk Management

Life and business are full of uncertainties, giving rise to unexpected events that result in opportunities and threats and, therefore, a need for risk management.

You must manage risk and uncertainty to develop innovation as a core competency so that you can effectively capture opportunity and mitigate threats.

Risk management involves reducing uncertainty in a controlled and systematic manner in line with your increasing resource commitments so that you don't take

unacceptable risks that may jeopardise your innovation efforts and possibly your entire business and personal wealth.



Risk management and uncertainty

A risk is a future event or change in circumstances that, if it occurs, will have either a positive or negative impact on whether you attain your objectives.

While uncertainty gives rise to risk, it's not the same thing. Only uncertainties that impact your objectives are risks.

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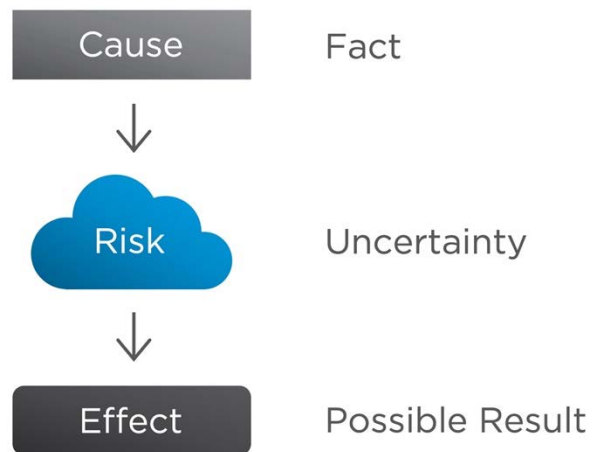
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A common difficulty in risk identification is to confuse risk with its causes (where risks come from), effects (outcomes), or simply issues (lack of resources, time pressures and so on) rather than risks that really matter. In this sense, risk is uncertainty that sits between the cause and the effect of an uncertain event, where:

- A cause is something true today (an existing condition/fact)
- A risk is an uncertainty that might or might not happen
- An effect is why it matters to our objective (the impact of the event).



For effective risk management, it's essential to understand all three components (cause, risk and effect) so you can treat the risk (the likelihood or impact of an uncertain event) rather than focusing on:

- An existing condition or fact that can be difficult or impossible to change
- The effects of an event after it has occurred because your options for managing its impacts may be severely limited or non-existent.

Sources of business risk

Risk arises from a wide variety of different sources and can be associated with:

- All suppliers (such as trade suppliers, employees, contractors, finance providers, landlords and so on)
- Resources (such as investments, plant and equipment, land and buildings)
- Operational and management activity (such as the effectiveness and compliance with internal processes and procedures, compliance with external obligations, codes of conduct, regulations and laws, financial control and management)
- External factors (such as industry trends, competitor behaviour, shifts in market conditions and changes in the macro business environment, including political, economic, societal, technological, environmental and legal factors).

By understanding the risk's source, you can clearly articulate it, prioritise it, and, where applicable, identify and implement suitable treatments.

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Risk and impact

In essence, risk can come from internal and external factors – that is, events inside your sphere of influence and those outside your control.

The size of the impact (how big a risk is) depends on how uncertain it is and the level of impact it would have on your goals and objectives.

While not all uncertainties matter and you can't influence all of them, with appropriate risk management and asset protection, you can do much to:

- Maximise opportunity
- Prevent or reduce losses
- Limit the impact of losses that do occur.



While you're not in control of everything, a little analysis and proactive planning can often eliminate, allocate or modify your risk exposure and its impact when things go wrong. However, your goal should be maximising opportunity while minimising threats, not just focusing on opportunity.

Risk management and asset protection need to be a conscious, systematic and forward-looking activity that takes a balanced approach to opportunity capture and threat management.

Risk management

Risk management lets individuals and businesses make appropriate decisions that create and protect value. As the name suggests, risk management is a management activity that involves coordinated value creation or protection. The five core aspects of managing risk involve:

1. Knowing your objectives and the context in which you need to manage risk
2. Identifying uncertainties (both positive and negative)
3. Prioritising relevant uncertainties in terms of likelihood and impact
4. Treating/responding to the risks that matter
5. Monitoring results and adjusting risk assessments and treatments as required.



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In other words, managing risk is a matter of answering the following questions:

- What are we trying to achieve?
- What could affect us while seeking to achieve this?
- Which of those factors are most important?
- What could we do about them, and have we done what's appropriate?
- Did it work, or do we need to adapt?
- What did we learn?

It's worth asking these questions whenever you're doing anything important.

Opportunities and threats – dealing with risk and uncertainty in business

While you're not in control of everything, a little analysis and proactive planning can often maximise the benefits and mitigate the threats associated with uncertainty.

As risk management is about dealing with uncertainty that matters, your goal should be to maximise opportunity while minimising threats, not just focusing on one or the other (positive or negative risk).

Managing upsides and downsides require the same five steps. Accordingly, risk management and asset protection need to be a conscious, systematic and forward-looking activity that takes a balanced approach to opportunity capture and threat management.

If you'd like to learn how to manage uncertainty and risk to maximise your opportunity and minimise the threats that stand in your way, call [Fortitude Business Consulting](tel:1300551040) now on **1300 551 040**.

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