52 Risks® Guide for Start-Up & Tech Companies

A guide to the identification, assessment and management of business risks

Better management of business risks will assist Start-Up and Tech Companies – in the short, medium and longer term - achieve their strategic and financial goals

Contents

- About 52 Risks®
- Introduction to risk management
- Road map for start-up and tech companies
- Common business risks for start-up and tech companies
- Further information

© Notwithoutrisk Pty Ltd

About 52 Risks®

52 Risks® is a unique, innovative framework designed to assist organizations identify, assess and manage their business risks. The framework comprises 17 Strategic Risks, 16 Financial Risks and 19 Operational Risks. All potential business risks will map to one of these risk categories.

52 Risks® provides a high-level, end-to-end framework that enables organizations to understand and determine their risk profile. In addition, organizations can, on an ongoing basis, measure and manage changes in its risk profile. The risks can be internal or external, short, medium or long-term.

The framework enables both a top-down and bottom-up analysis of key strategic, financial and operational risks. By systematically working through each risk category, a core list of key business risks can be identified for further investigation. Very low risk categories can be discarded early in the top-down approach, leaving a relevant list of risk categories to be explored and assessed further.

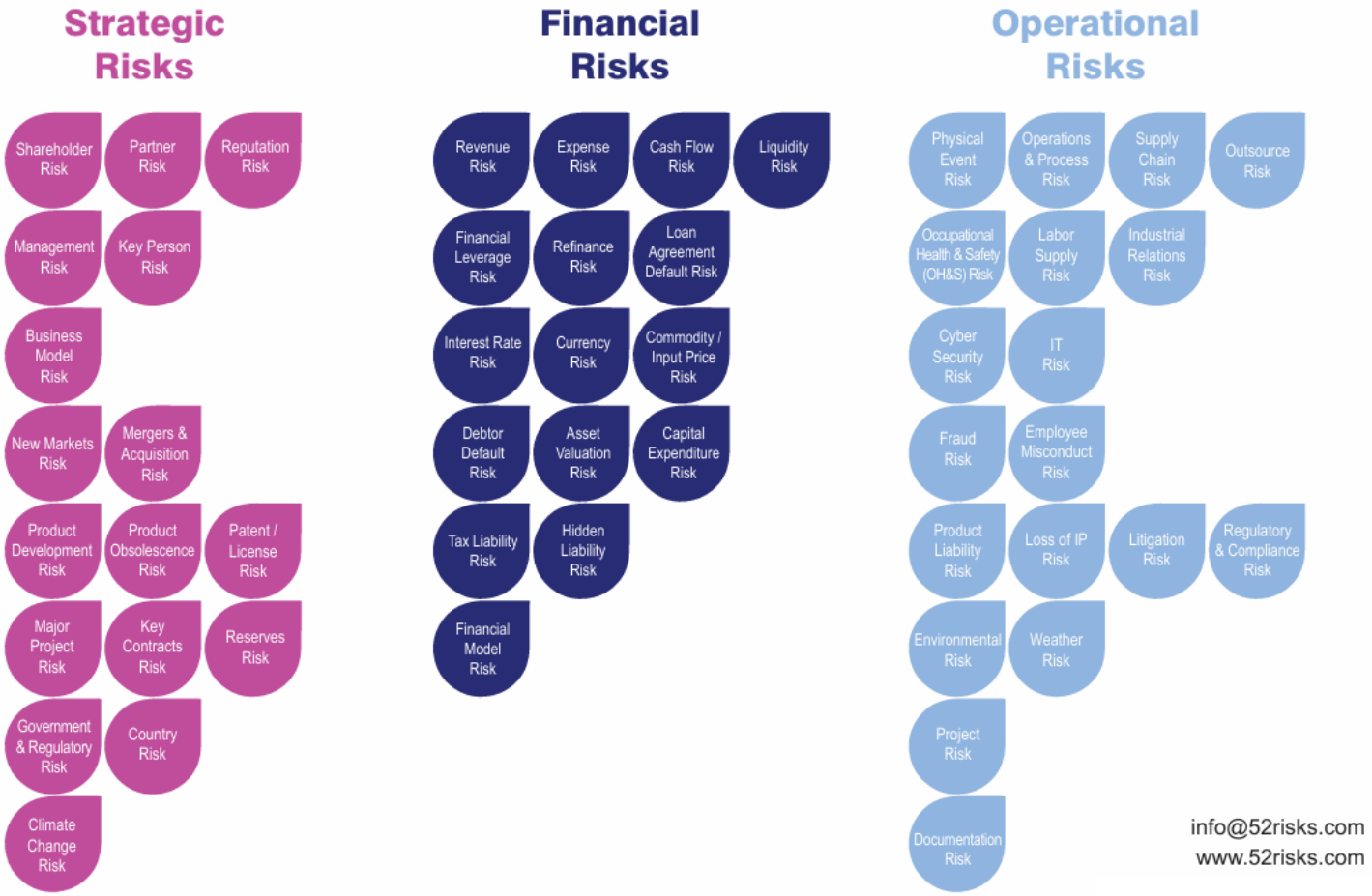
For smaller start-ups and tech firms, 52 Risks® provides a starting list of high-level risk categories to consider. This can be used in the design stage or in the early pilot / start-up phases. The 52 Risks® framework can also be used as a business expands and grows with more customers, new geographic areas and new products and customer segments.

For more on 52 Risks® go to the website 52Risks.com

© Notwithoutrisk Pty Ltd

52 Risks®- The Definitive Guide to Business Risks

Definition of Risk: The possibility, likelihood or threat of liability, loss, damage or any other adverse outcome caused by internal or external factors that may be probable and expected, or unexpected and unforeseen



info@52risks.com
www.52risks.com

© Notwithoutrisk Pty Ltd

Introduction to Risk Management

What is risk management, what is a business risk, what is a risk ?

Unlike law, medicine or accounting, there continues to be no clear consensus what risk management is or means. As a result, there are numerous definitions of risk.

In simple terms the best way for organizations to think of risk is: *the possibility, likelihood or threat of liability, loss, damage or any other adverse outcome caused by external or internal factors, that may be probable, expected or envisioned or unexpected and unforeseen*.

Risk Management is the overall approach and end to end process of the identification, assessment and management of risks arising in the operation of a business or enterprise. The activity of risk management is also often referred to as **Enterprise Risk Management**.

Business owners and managers should, in the first instance, consider what can go wrong with either existing business practices or the design and implementation of any new business models, initiatives or investments.

The full range of possible business and risk outcomes need to be considered. This provides a basis for considering what risk mitigations strategies can be take, business plans tailored or changed, or the risk profile accepted (eyes wide open).

For start-up ventures, the initial design of the business model provides an opportunity to implement upfront risk mitigation techniques. For example, the outsourcing of business activities and processes to a third party can be an acceptable risk mitigation technique.

© Notwithoutrisk Pty Ltd

Road Map for start-up and Tech Companies

The steps below provide a road map for companies looking to implement processes for the management of business risks for the first time. Each of the steps can be quickly undertaken and will provide immediate, tangible business outcomes.

❑ Initial Risk Management Workshop(s)

Use the 52 Risks® framework to systematically go through each Strategic, Financial and Operational Risk. Discuss each risk category, identify the key business risks in each category (there is often more than one), rate each risk and agree on any action to be taken. This can include additional work on understanding a business risk more.

The 52 Risks® website has a template for mapping the risks that can be used for this exercise. Click here for the template.

❑ Develop a Risk Management Strategy or Action Plan

Using the outputs of any initial risk management workshops and the existing understanding of the business, either write a Risk Management Strategy for the company or simply prepare an initial Action Plan.

The strategy or action plan should document the key business risks that the company needs to manage, and the proposed business strategies and actions.

For larger, more established businesses this should document any risk management processes in place, key business polices and roles and responsibilities for the management of business risks.

For start-up ventures a simple action plan of things to be done, by when and by whom will suffice.

© Notwithoutrisk Pty Ltd

Road Map for start-up and Tech Companies

❑ Allocate Responsibility for Each Business Risk

As with any business strategy or initiative, it is important to allocate responsibility for management of each identified business risk.

Strategic Risks can be allocated to specific individuals (for example the CEO) or groups of people (the Board, key executives or a project team).

Financial Risks are naturally best allocated to the CFO, Finance Director or Finance Manager.

Operational Risks need to be carefully assessed to identify the best owner of each risk category. Operational Risks cover a diverse group of risks than can span a wide range of operational, supplier and business partner, technology, regulatory, and employee risks.

❑ Establish a Management Rhythm

The management of risk is not set and forget. The final step in the road map is to establish a management rhythm.

Firstly, identify regular forums to discuss key business risks, receive updates on any changes since the initial workshops, and review any management reporting in place.

Secondly, progressively develop and implement 'fit for purpose' risk management reporting. This will depend on the nature and size of the company.

Best practice for larger companies will be to also conduct half yearly or annual risk management workshops. These workshops will revisit the risk assessments undertaken in the initial workshops.

© Notwithoutrisk Pty Ltd

Common Strategic Risks for start-up and Tech Companies

Strategic Risks are larger, macro and often enterprise-wide risks that can affect the shape and nature of a significant part of a firm or organization's businesses, in the short, medium or long term.

For start-up ventures, these risks are often at the heart of the business plan or strategy – for example, the development of the venture's product suite will inevitably entail **Product Development Risk** and **Major Project Risk.**

Many of the risks will be known, agreed risks that are being taken – and the risk response will be to accept the risk for a period of time until the venture is up and running.

Strategic Risks that are common among smaller, startup companies will include those listed below (with some suggested ways to identify the risk):

- ❑ **Shareholder Risk.** Is the venture dependent upon one shareholder to provide equity capital, management personnel, technical resources or support, or sales distribution channels ? Are these arrangements appropriately documented ?
- ❑ **Partner Risk.** Are there any key strategic, business partner dependencies ? Are there any circumstances in which a key business partner may not be able to continue these arrangements ? For start-up and tech companies, key technology partners here may also be a focus.
- ❑ **Management Risk**. Is management able to successfully launch and manage the business activities of the startup or venture ? Do enough skills, expertise or resources exist within the management team ?

© Notwithoutrisk Pty Ltd

Common Strategic Risks for start-up and Tech Companies

- **Key Person Risk.** Is the business dependent on a key person (or a small number of key personnel) to deliver on its business plan or key initiatives ? The key personnel can be involved in product development, technical or project work or sales and marketing. For start-up ventures, reflecting their nature, it is inevitable that there is likely to be key person risk.
- **Business Model Risk**. This risk is more evident in businesses and ventures that are already up and running. The risk goes to the sustainability or viability of the business in the longer term.
- **New Markets Risk.** This risk is more evident in businesses and ventures that are already up and running. This is the risk involved in expanding into new markets –new lines of business, new customer segments or geographic areas.
- **Product Development Risk.** The risks involved in development of new products are often inherent in the nature of start-up ventures. The failure to develop and deliver the core product or service offering will often be the number one business risk.
- **Major Project Risk.** Like **Product Development Risk** above, a start-up venture will revolve around delivery of a major project. Failure to successfully deliver the project will have significant cost, revenue, contractual and reputation implications.

© Notwithoutrisk Pty Ltd

Common Strategic Risks for start-up and Tech Companies

- **Key Contracts Risk.** A start-up venture will almost always commence with only one or a handful of contracts. Key Contracts Risk will therefore inevitably exist. As the business grows, however, it will be important to remain focused on Key Contracts Risk – particularly as the business builds up more overhead infrastructure, employs more staff and takes on more financial commitments. The loss of one major contract in a company's infancy may be financially catastrophic.

The above list is not exhaustive. Each business will be different and the risks facing each unique. For the full list of **Strategic Risks** categories go to the 52 Risks® website by clicking here.

© Notwithoutrisk Pty Ltd

Common Financial Risks for start-up and Tech Companies

Financial Risks are present for all business ventures, start-up or established. For smaller or start-up ventures the management of financial risks will, however, be the difference between financial success or failure.

start-up and tech companies need to be acutely aware of the cash burn. This will be the amount of cash consumed in a period and is, in simple terms, revenue less expenses (both operating and project expenses).

For ventures that are established and trading, this will be further impacted by the timing of receipts from customers for product and services sold. It will be critical to model and monitor cashflow and the inherent Financial Risks.

Using the 52 Risks® framework, common Financial Risks for start-up and tech companies – including those that are established and trading - will include:

- ❑ **Revenue Risk.** This is the risk of future revenues being materially lower than planned. This is a large risk category and there are numerous drivers of revenue risk, including changes in economic conditions, competition from other companies, or changes in demand for the company's products or services.
- ❑ **Expense Risk.** This is the risk of future expenses being materially higher than that planned. This can also be due to many factors including unexpected increased costs of production or operations (either directly or from third parties), higher labor costs or other input costs.

© Notwithoutrisk Pty Ltd

Common Financial Risks for start-up and Tech Companies

- **Cashflow Risk.** Cash flow risk for start-up and tech companies is most often the risk of cash burn exceeding cash reserves. As noted earlier, the amount of cash consumed in a period is, in simple terms, revenue less expenses (both operating and project expenses). For trading businesses, this can also be impacted by a change in the trade terms and conditions (debtors or creditors). For example, slower payment by a customer than was anticipated.
- **Debtor Default Risk.** This will be the risk of loss from a debtor failing to make a payment or payments due. This can be due to an unwillingness or inability to pay for a variety of reasons, but usually is due to financial distress on the part of the debtor. For smaller companies, debtor default can be financially painful if not fatal. It is important to be managing and monitoring the debtor ledger in the start-up phase.
- **Capital Expenditure Risk.** Smaller startups and tech companies need to ensure that they have sufficient financial resources to meet project and other capital expenditures that they commit to. Failure to do so may incur financial distress if the business is unable to secure additional equity or debt funding to meet pre-committed, contractual expenditures.

The above list is not exhaustive. Each business will be different and the risks facing each unique. For the full list of Financial Risks categories go to the 52 Risks® website by clicking here.

© Notwithoutrisk Pty Ltd

Common Operational Risks for start-up and Tech Companies

Operational Risks are a category of risks that will occur in the day-to-day operation of a company's business activities. These risks will give rise to a range of regulatory, operational and/or financial risks as a result.

Operational Risks can be small, micro and isolated risks in the myriad of activities a company is involved in, or they may be enterprise-wide risks (but operational in nature).

Even for smaller, start-up and tech companies, there will be many Operational Risks from the list of 19 risks in the 52 Risks® framework that are applicable.

It is important to systemically go through the detailed list of risks on a regular basis and allocate management responsibility for each risk identified.

A brief summary of selected Operational Risks that are common among smaller, startup companies are, however, covered below:

- ❑ **Operations & Process Risk.** This risk will arise from being unable to conduct business activities as normally planned or budgeted. The loss can be due to short, medium or long-term factors, and may be due to a variety of technical, operational, management or other constraints/issues. It can often be the result of other factors or parties (external business disruption or issues with an outsource service provider for example). For all identifiable, potential business disruptions, it will be important to develop a Business Continuity Plan.

© Notwithoutrisk Pty Ltd

Common Operational Risks for start-up and Tech Companies

- **Outsource Risk**. This will be the impact on the company from the failure of a key outsource party (or parties) to continue to deliver on their obligations. This may involve short, medium or long-term disruptions, and may result in operational or financial issues. For all identifiable, potential disruptions to outsourced activities a Business Continuity Plan should be developed.
- **Cyber Security Risk.** Cyber Security Risk is a major business risk for all companies, irrespective of size or nature of the business. The risk of loss arising from the failure of a company to adequately and securely protect its data (customer, supplier and/or employee data), intellectual property, proprietary information, processes and operating systems from accidental release or deliberate theft, hacking or sabotage is significant. For start-up and tech companies the impact can be severe, if not fatal, given the adverse reputational, regulatory and financial impact of a cyber security event.
- **IT Risk.** This is the risk of business loss or interruption as a result of a failure of one or more of the components of its IT systems, processes and infrastructure (other than due to a cyber risk event). The impact of this can be reputational, regulatory and/or financial.
- **Product Liability Risk.** start-up ventures need to be careful to ensure that there are adverse consequences from the purchase and use of their products or services due to failures in the design, manufacture or sale/distribution of the product or services. The impact of this can be reputational, regulatory and/or financial.

© Notwithoutrisk Pty Ltd

Common Operational Risks for start-up and Tech Companies

- **Regulatory & Compliance Risk.** Start-up and tech companies will often not have dedicated legal or compliance resources. Care, however, needs to be taken – even in the early stages – to ensure that the company is not unknowingly failing to comply with various laws and regulations that apply to its business activities, employees and products or services. The impact can be reputational, regulatory (including civil or criminal risk for the company and its officers) and/or financial.

  The type and nature of Regulatory & Compliance Risk will vary according to the nature of the business activity. For virtually all businesses, issues arising from the handling of customer information and data privacy will be a key business risk.

  For fintech businesses there will be a range of consumer regulation, financial regulation and AML/CTF regulation to consider.

- **Documentation Risk.** As noted under **Regulatory & Compliance Risk,** start-up and tech companies will often not have dedicated legal or compliance resources. Care likewise needs to be taken to ensure that the company is not exposed to the risk of loss due to the inaccurate documentation of key contracts or agreements. This can be due to omission, oversight, incorrect advice or negligence.

The above list is not exhaustive. Each business will be different and the risks facing each unique. For the full list of **Operational Risks** categories go to the 52 Risks® website by clicking here.

© Notwithoutrisk Pty Ltd

Additional Information - Risk Rating Methodology

RISK RATING METHDOLOGY

The most effective way to use the 52 Risks® framework for the first time, is to assess the net risk exposure that a company carries in each risk category, using the scale detailed below.

The risk rating assigned should be net exposure that a firm or organization has **after** considering any measures that may already be in place to reduce the risk exposure. This is often referred to as **residual risk** – after controls are established and/or risk mitigation strategies are implemented.

For start-up ventures that have no measures in place to manage a particular risk category, a separate exercise will need to be undertaken to develop and implement procedures, processes and controls to ensure that a category of risk is managed.

For example, when considering **Fraud Risk**, simple controls can be put in place around the company's banking and payment arrangements to prevent internal and external fraud.

To simplify the exercise, first discard any risks that do not exist (ie the N/A category).

❑ Very High Risk

The firm or organization has little or no control over the risks and/or is uncomfortable with the level of risk.

❑ High Risk

Limited or some control over the risks, which are High, and/or needs to be monitored closely.

❑ Medium Risk

Risks appear to be acceptable or are being managed to an acceptable level.

© Notwithoutrisk Pty Ltd

Additional Information - Risk Rating Methodology

❑ Low Risk

Low risk exposure to the firm or organization. This can be either because the nature of the organization or because the risks are well managed to an acceptable level.

❑ Very Low Risk

Negligible risk exposure to the firm or organization.

❑ N/A

The organization has no risk exposure whatsoever to this category.

The template on the for mapping and rating risks can be found here on the 52 Risks® website.

© Notwithoutrisk Pty Ltd

“As ever, the accountant in me saw the risk, the entrepreneur saw the possibility. So, I split the difference and kept moving forward”

Phil Knight. Nike

© Notwithoutrisk Pty Ltd

Further Information

52 Risks® is the idea of **Peter Deans**, an Australian-based former Chief Risk Officer. Drawing on Peter's 30+ years banking experience, 52 Risks® was created. The aim has been to design a framework that is the definitive list of Strategic, Financial and Operational Risks that any business – irrespective of size and industry – need to be concerned about. The framework combines 'top down' and 'bottom up' analysis – in a clear and easy to follow format.

Peter is now a strategy and risk advisor assisting businesses with strategic and business planning, the design and implementation risk management frameworks, the identification of key business risks and, in general, helping managers make better business decisions. More information can be found here: www.notwithoutrisk.com

General Enquiries: info@52Risks.com

Licensing, Workshop & Consulting Enquiries: info@notwithoutrisk.com

© Notwithoutrisk Pty Ltd

Important Information

Copyright

The 52 Risks® Overview and related materials including the logo, framework, infographic and definitions (collectively referred to as the "52 Risks® Materials") are protected by copyright under Australian and other national and international laws. Notwithoutrisk Pty Ltd (as licensee) has sole rights, title, and interest in the 52 Risks® trademark and the 52 Risks® Materials. 52 Risks® Materials includes all content on 52 Risks® website (https://www.52risks.com) and includes any documents stored and available for download in the Resources Center of the 52 Risks® website (https://www.52risks.com/resources-center/). Any use of the 52 Risks® Materials that is not described in Acceptable Use below is unauthorized, unless written permission or specific licensure has been secured. Unauthorized uses include, for example, publicly displaying (online or otherwise); copying; distributing; creating derivative works or inserting into, processing with, or displaying through any commercial or non-commercial product, including computer systems and software. These uses will constitute copyright infringement and a violation of Notwithoutrisk Pty Ltd's rights.

Acceptable Use

Acceptable Use of any of the 52 Risks® Materials is listed below and each user has a limited license to do any of the following (each defined as Acceptable Use):

- Download and store the 52 Risks® Materials for personal use;
- Distribute free copies of the 52 Risks® Materials; in print or electronic form, in their entirety and in their present form to others for no charge;
- Post the 52 Risks® Materials to websites, blogs, intranets, or other group access sites;
- Use the 52 Risks® Materials within an academic institution as part of any vocational, undergraduate and/or post graduate university degree, diploma or certificate program; and
- Use the 52 Risks® Materials within a firm or organization to undertake risk management education or training, management discussions and/or workshops, strategic planning, risk assessments and related activities.

Acceptable Use (as outlined above) is subject to attribution, in each and every instance used, in electronic and written materials as follows: *© Notwithoutrisk Pty Ltd [year]. All rights reserved. Used with permission. Refer www.52Risks.com for further details.*

© Notwithoutrisk Pty Ltd

Important Information

Acceptable Use (continued)

Use of any of the 52 Risks® Materials for regular management reporting and/or incorporation into computer systems and/or software for regular management reporting or other risk management purposes is prohibited and excluded from Acceptable Use.

Use of any of the 52 Risks® Materials for commercial training (including executive education or short courses by an academic institution), risk advisory, management consulting or any other related consulting services in prohibited and excluded from Acceptable Use.

For any requests for licenses to use any of the 52 Risks® Materials for any uses outside Acceptable Use please contact Notwithoutrisk Pty Ltd on info@notwithoutrisk.com

© Notwithoutrisk Pty Ltd

Important Information

Disclaimer

The 52 Risks® Materials have been developed to assist with understanding the types of risk issues that affect businesses, firms and organizations and is intended as a general guide only. The contents of this document and any accompanying materials are not intended to provide specific advice on strategic planning, business planning, business management, financial management or risk management, nor is it intended to be comprehensive. If specific advice is required, or if you wish to receive further information on any matters referred to, specialist advice should be sought.

Notwithoutrisk Pty Ltd assumes no liability for the use of any information included in the 52 Risks® Materials. In no event will Notwithoutrisk Pty Ltd be liable for any damages of any kind or character, including without limitation any compensatory, incidental, direct, indirect, special, punitive or consequential damages, loss of use, loss of income or profit, loss of or damages to property, claims of third parties or other losses of any kind or character, arising out of this document or any subsequent action taken in connection with any real (or perceived) business issues or risks identified in any business, firm or organization.

Any person should carefully consider the content and issues raised in 52 Risks® Materials in light of their (and their respective organization's) own circumstances before implementing any of the tools and techniques or taking any other action, based on the material contained in the 52 Risks® Materials. If necessary, any person and/or their respective organization should seek external professional advice before proceeding. Notwithoutrisk Pty Ltd is not liable to any individual, organization or any other parties for any loss suffered in connection with the use of the 52 Risks® Materials.

© Notwithoutrisk Pty Ltd