



How to Plan for Big-Time Trouble

By: Troy Snyder



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What would happen to your business if an earthquake did as much damage in California as Hurricane Katrina did in New Orleans last year? Would it just disappear, like much of the 9th ward in New Orleans?

How would you react if a computer hacker stole crucial customer information, or if an overseas manufacturer reverse-engineered your most profitable product and suddenly flooded the marketplace with cheap copies?

In the real world, big-time trouble doesn't happen only to other people. It happens to those who don't prepare, and it ruins some. So, what does "risk" mean to you?

Sure, "financial risk" seems most critical and those who don't manage cash flow wisely are flirting with disaster, yet it's only one hazard facing leaders today. The complexity of running a business in a global economy is such that it requires response to many constituencies - customers, employees, shareholders, and communities - and the job places high demands on the attention of armies of directors and senior executives.

The biggest risk in business is not knowing what your risks are. The first step to building a plan is to assess the risks your company faces. Some of the most critical risks facing the modern business enterprise include:

Here are some of the risks your business may face:

- Financial risks, including risks to cash flow and to sources of financing
- Legal, regulatory, compliance, and reporting risks
- Systems and information technology

- risks
- Natural disaster risks
- Communications risks
- Supply chain, operational, distribution, and business process risks
- Market and industry risks
- Reputational risks
- Economic risks
- Political risks

The essential tool for dealing with such risks is the comprehensive risk assessment - a formal investigative effort to identify and assess risk. Directors can and should take an active role in seeing that senior management develops such an assessment at the earliest opportunity and keeps it up to date as conditions change. The benefits that flow from undertaking a comprehensive risk assessment far outweigh the manpower and time costs involved in preparing it and can actually enhance the entrepreneurial spirit of the organization.

“You have to respond to many constituencies...”

A comprehensive risk assessment is particularly important for middle-market companies, which may lack the executive and financial resources of their bigger competitors. By reacting to risks only as they happen, instead of anticipating a response to the unforeseen, leaves these smaller companies at a greater disadvantage. For example, a supply chain disruption or an electronic intrusion into company information systems may result in a leak of confidential data about the company and its customers.

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For middle-market companies without contingency plans based on a comprehensive risk assessment, there are two dangers that any such emergency can provoke. First, the situation may prompt a bigger response than needed - for example, by shutting down all access to the company's servers if an intrusion occurs, thus making it impossible for workers to conduct ordinary business of any kind until the emergency passes. Second, in the wake of even a minor emergency, there is a tendency to be too cautious, backing down from the bold action needed, for fear of the unforeseen.

Are you doing the right things to show you care?

In any company, no matter what its size, the practical value of a comprehensive risk assessment, coupled with appropriate contingency planning, is that it can counteract both dangers. Should an intruder gain access to a company's servers, for example, the contingency planning can allow IT executives to locate and isolate the intruder so that employees can go about their daily tasks without interruption. And because the comprehensive risk assessment anticipates many scenarios while the contingency planning lays out practical means for dealing with problems happening, senior management no longer works under the threat of the unforeseen but instead remains flexible and free to seize opportunity as it comes along.

A comprehensive risk assessment is an essential tool for directors and senior management alike. Both have a duty to identify those risks, assign priorities to the high and medium risks, and develop contingency plans to hedge the fortunes of the enterprise well in advance of an emergency. Clearly, it takes time and money to identify and assess risk, and more of the same to figure out what to do about it. But the alternative is react to risk without a plan when it comes along - a sure invitation to disaster.

Singer Lewak Greenbaum & Goldstein LLP is the leading accounting firm headquartered in Los Angeles, founded in 1962. The firm performs audit, accounting, tax consultation, business management, SEC filing and transactions, SOX 404 compliance, enterprise risk management, forensic accounting, business valuations, litigation support, consulting, and entrepreneurial business services to public and private companies, nonprofit organizations, and high net-worth individuals.