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SMEs Risk Mitigation

Ranim Badenjki
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SPARK provides access to higher education and supports entrepreneurship development in fragile states so that young, ambitious people can lead their societies into stability and prosperity.

SPARK provides a variety of full-service business and entrepreneurship programmes in Europe, the Middle East and Africa. We believe that sustainable, economic growth is essential for the alleviation of poverty. By offering private-sector development services to young people in conflict-affected regions, we believe that the potential for further conflict is significantly reduced.



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Designed by: Rami Shabarek

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Why Risk Mitigation?

Uncertainties and crises in the past have had a major impact on how organizations and businesses operate nowadays. It's because when we face a threat, we learn to adapt in order to survive, and then we set up strategies and plans to avoid or minimize our losses in case a similar threat comes back.

In Iraq, there's a growing need for risk mitigation because SMEs operate under an unstable environment and work conditions,

having to face variable threats to their businesses from political unrest, collapse in international oil prices to the most recent threat of COVID-19, all of which have created more and more challenges for SMEs to thrive.

When put into action, a risk mitigation strategy can protect your SME by minimizing the impact of such threats, allowing you to grow your business and getting you ready to face any potential challenges in the future.



How to use this toolkit?

This toolkit has guidelines and tools to help you protect your SME from current and future risks. You will find steps to create a new Risk Management Process (RMP) or adapt the existing process if you already have one.

The second part of this toolkit is dedicated to COVID-19; How to respond to the pandemic and its threats, recover, mitigate and build resilience within your SME.

Please take the time to read through each step and tool with your team, discuss any possible way of adapting those tools to your business and together, decide on a plan to implement it effectively and efficiently.



What is Risk Mitigation?

It's the action you take to reduce your enterprise's exposure to potential risks, to respond to existing risks, and to reduce the likelihood of being impacted in case those risks happen again.

Risk mitigation is one of the steps in risk management, which consists of: Identifying, assessing, prioritizing, mitigating and monitoring the risk.

SMEs face many types of risks, some

of which can cause serious loss and damage to your business or personnel, and they can even lead to bankruptcy. To be successful and to keep everyone and every core value in your enterprise protected, you must be aware of those risks and to work with your team on developing an effective risk management process including the risk mitigation strategies.



Ok, there's a crisis: What do you do?

When a crisis is threatening your business, whether it's a natural disaster, political conflict, economic recession or a pandemic, you can't completely isolate your enterprise from being impacted, but you can definitely reduce the risks to the minimum, adapt, and learn lessons for a better future. Here's a few steps you can take, but you'll have to act fast:

- 1. People come first:** In all crises, the most critical assets for a business are the people, including employees, clients, partners, suppliers, etc. The first thing to do when there's an emergency is to make sure everyone in your enterprise is protected and safe.
- 2. Identify what is essential for your business to survive:** Once your people are safe, the next step is for you and your team to identify and secure the core values of your business, and to make sure

they are up and running during the crisis to reduce losses as much as possible. Core values can be a product, a website, a delivery system, a loan payment, etc.

- 3. Communicate, communicate, communicate:** As a leader, you need to focus on continuously sharing information, concerns and assumptions with key stakeholders, whether with your team, partners or suppliers so they stay informed and take part in your risk management plan. Communication is key in times of crises.
- 4. Put a risk management process into action:** In the following sections in this toolkit, you will learn how to set up an effective Risk Management Process (RMP) to be ready to respond to risks that are threatening your business.

5. Keep communicating: Even after you've managed to reduce or eliminate a risk, you need to keep communicating with everyone involved and to follow up on the mitigation plan in case there are any changes that require new actions.

6. Think about the future: When you have the immediate risk under control, you will need to assess

the impact on your business whether it's financial, operational or something else, and you might make a decision to change your RMP based on what you learned. This will help you learn valuable lessons in case you face similar risks in the future.

The following matrix will help you brainstorm all of the above with your team:



Get a Risk Management Process Ready

During any phase in your business lifecycle, it is very normal to face risks that you can't avoid. But what you can do is to anticipate and mitigate those risks which means your business continues to thrive at a minimum loss. Once you have a solid RMP (Risk Management Process) set up in advance, you and your team will find it much easier to respond to any crisis effectively and efficiently.

Setting up an RMP is like setting up a fire alarm at your office. You hope you don't ever have to hear it but think of how safe you and your team feel knowing it's there! Everyone is protected and it costs you way less than fixing a burnt office.

So, gather your team and plan for a well-established RMP at your enterprise through the following 4-steps:



Identify:

Think of any potential risk that may face your business whether in the near or far future. Ask everyone in your team to share based on their field of work or previous experience.

You might use the following table and customize the categories to help you sort out risks based on their nature.

Table: Potential Risks					
Internal Risks		External Risks		Market Risks	
Business operations/ technology	Employees/ work environment	Natural	Government/ Political/ Economic	Supply chain	Competitors
.....
.....
.....

Examples of potential risks:

Lower prices by a new competitor (Market risk)

Another wave of COVID-19 (External risk)

Economic crisis due to drop in oil prices (External risk)

Unsatisfied employees (Internal risk)

New technology in your industry (Internal risk)

Assess and Prioritize:

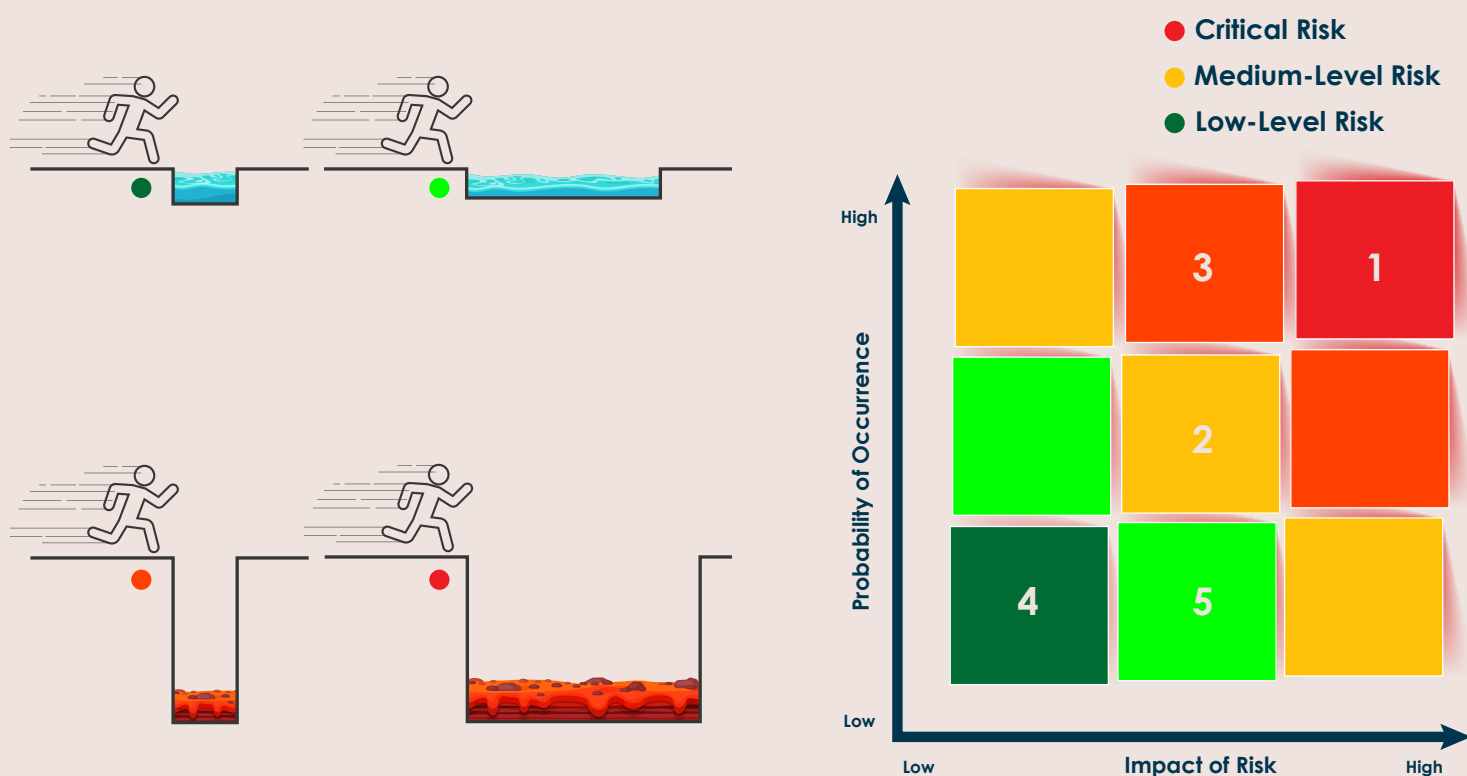
Once you've identified all the threats and risks to your business, you need to look closely with your team at each one of these risks, assess its probability of occurrence and its resulting impact.

By calculating the value of each risk, you will be able to prioritize the most critical risks which require to be managed first.

Do not rush this step, take your time and have your team involved in gathering as much data and research as possible so that your estimations are more accurate.

Use the following chart to help you categorize the risks based on both probability and impact:

Chart: The Risk Probability/Impact



As we can see in the chart above:

- The high probability/high impact risks are the most critical and must be your top priority to respond to.
- **Example:** Another drop in oil prices in Iraq can have a chain of high impact risks on your business such as higher taxes imposed by the government or slower demand on your products.
- The low probability/high impact risks are critical but very unlikely to occur, which means you should have a mitigation plan ready in case they happen.
- **Example:** A defect in your product is unlikely to happen if you have good quality control in place but if it did, the impact will be high as your business will encounter losses.
- The high probability/low impact risks are of medium-level and you should be ready to adapt and respond when they happen.
- **Example:** New competitors entering your market is of high probability, but if you have a well established market share, the impact on your business can be low.
- The low probability/low impact risks can often be ignored.
- **Example:** A sudden increase in prices by one of your suppliers is unlikely to happen if you have a

good relationship, but even if it did, you can lower the impact by negotiating the prices or look for other sources.

Risk Value:

Another way to calculate the risk value in order to identify which are most, medium and least critical is to use this equation:

Risk Value = Probability of risk x Cost of risk

For example: Let's say you identified two risks:

Risk 1 is to lose some customers to a competitor, the chance of this happening is 80%, and based on your evaluation, the loss that will occur in sales will be at \$100,000, then the risk value will be:

$$0.80 \times 100,000 = \$80,000$$

Risk 2 is the government imposing a new tax on SMEs, the chance of this happening is 50%, and it will cost your business \$10,000 a year, then this risk value will be:

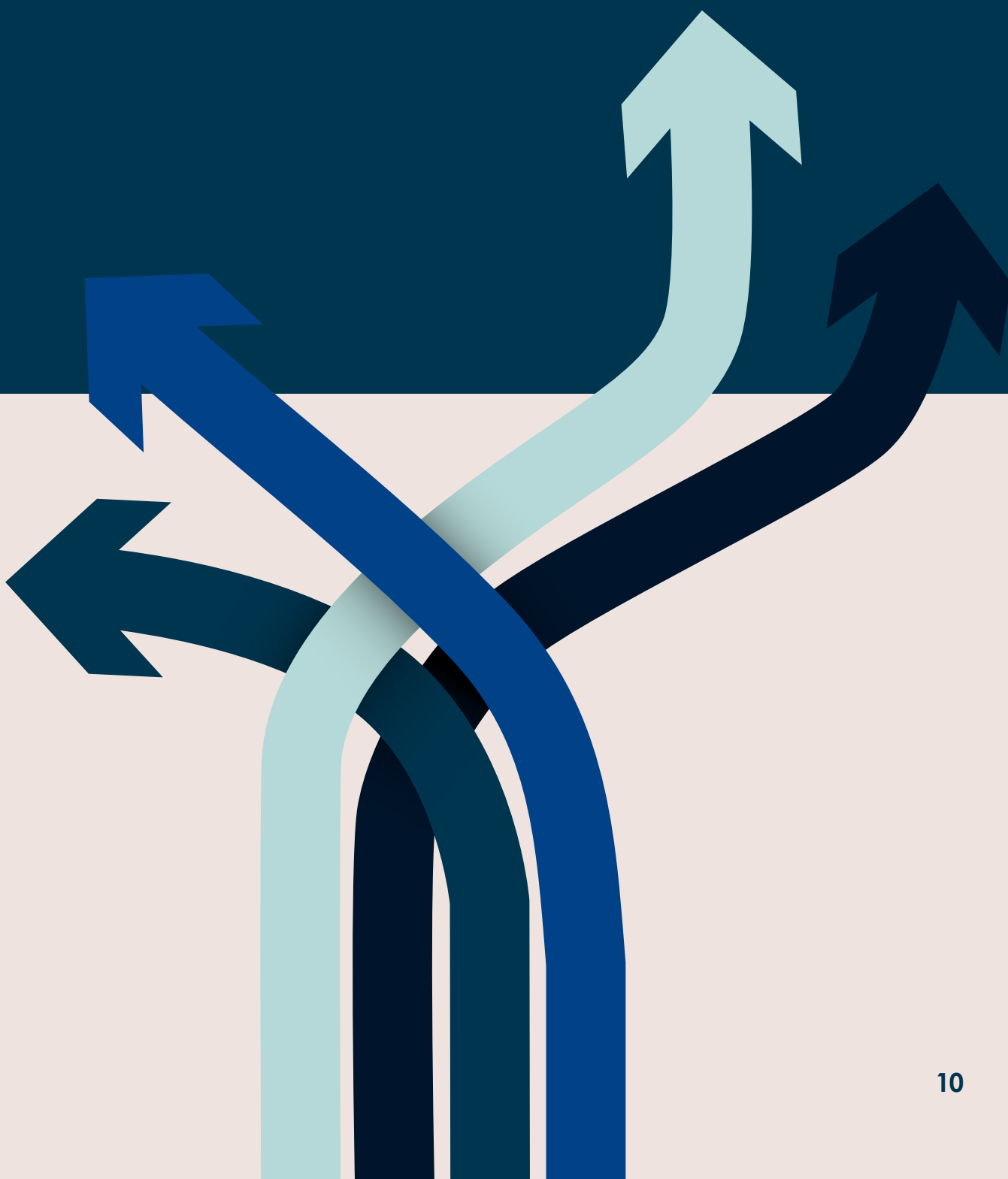
$$0.50 \times 10,000 = \$5,000$$

Based on these calculations, it only makes sense to respond to Risk 1 first because it's more critical and has the highest impact.

Mitigate:

Now you know which risks require immediate response and which can be managed on a longer term, set up a mitigation plan to respond to each one in the most cost-effective way possible.

There are 4-Strategies that you can choose to implement based on the nature, level and impact of each risk:



The Accept Strategy:

You apply this strategy when the consequences of the risk are at an acceptable and affordable level for your business. It's usually applicable for commonly-identified risks such as over spending on a project, not meeting deadlines or not performing well, which are all acceptable as long as the impact is reduced to the minimum.

For example: You estimated the risk value of losing one of your suppliers at \$4,000, the risk is unlikely to happen (20% probability, Low level), and it will cost you \$10,000 to switch to another supplier due to higher prices, then the smartest decision here is to accept this risk and at the same time think of other alternatives.

The Avoid Strategy:

This strategy presents you with opportunities to avoid the accepted risks. It's about planning for a risk and taking the necessary steps to avoid it, such as doing a new product testing on a smaller scale to test its costs and performance in order to avoid the

risk of final product failure.

For example: You identified that there is a performance risk with your sales team's poor dynamics, and it can highly impact the overall sales, then the action required here is to work with your team to avoid this risk by implementing a team building program.

The Share Strategy:

One of the viable strategies that your SME might find useful is to mitigate a risk through transferring or sharing it with another party. But it's only applicable if it's accepted by all parties involved. Those parties can be a supplier, another team within the enterprise, a partner SME or a joint initiative.

For example: You want to mitigate the risk of product defects that can be caused by issues with the materials purchased from an outside supplier, then the action here is to negotiate an agreement with your supplier stating that costs associated with product defects will be fully or partially covered by the supplier.

The Control Strategy:

This strategy works by taking actions to reduce or eliminate the impacts of risks you have already accepted.

One effective way to control the impact of risks is doing experiments that help you observe where problems occur and then rule out high-risk activities on a small scale. There are two types of actions to take before you proceed to a larger scale:

1. Preventive: taking actions to prevent a high-risk situation from happening. Such as training your team on health and safety, cyber security and remote work when there's a risk of a complete lockdown due to COVID-19.
2. Detective: taking actions to identify what could go wrong during a certain process, then set up a plan to immediately fix those issues when they occur. This can include reducing costs when you fail to make profits or launching a new marketing campaign when you lose some of your customers.

Monitor:

The final step of the risk management process involves keeping an eye for any changes in the market, the work environment, the economy or the political situation that might affect the nature or impact of the risks.

Any changes can mean that your current mitigation plan is not effective anymore and needs to be adapted accordingly.

Constant monitoring will also help you update the priority of each risk, and to be informed in case new risks have emerged or existing ones have gone away.

Use this example of a risk tracker to monitor each risk, its level and its mitigation plan, make sure you keep it updated:

In charge of monitoring	Category	Risk	Possible impacts	Probability	Risk Level	Risk Value (probability x cost)	Mitigation Plan	Post mitigation risk level
Amal	Technology	More customers to rely on online purchasing. Soon we won't be able to satisfy our customers' needs	We lose our customers base to competitors using online platforms	MEDIUM	HIGH	70% x \$100,000 = \$70,000	Start exploring options to provide our products online. Set up a plan for effective and fast delivery system	LOW
Ali	Supply chain	Suppliers in Baghdad stop selling due to government shut down	We don't find new suppliers before our inventory is empty We find other suppliers but with higher prices which will increase our costs	HIGH	HIGH		Reach out to different suppliers in different areas and negotiate prices for future deals. Communicate with our current suppliers to negotiate alternatives	LOW

Respond Effectively to COVID-19:

We are all hoping that the coronavirus will just disappear in thin air and we will go back to normal life, but unfortunately, scientists have told us that it's not going anywhere at least in the near future.

And since the risk of a more significant and wide-spread impact of COVID-19 remains, you should ensure that you have the ability to react and respond effectively to protect your team and your business.

As the pandemic continues to evolve, all businesses have already had their shares of impacts that hit their work pretty hard and led some of them to close or bankrupt. After recovering from these impacts, it's time to shift your focus and efforts to return to work, and to make the needed changes to do so.

You need to begin shifting from mobilizing now, to stabilizing and strategizing for what's next. Here's how:



Respond to the now:

This is where you respond to what happened and still happening. First, you need to focus with your team on these areas:

People: Impose measures necessary to keep your workforce protected as it's the most important asset for your business.

Look for creative ways to support your team's well-being and be productive, whether they're working remotely or not. Provide your team with the resources needed to maintain the continuity of work, assess the costs of those resources and make decisions to reallocate or cut costs with the willingness to keep them employed. The most important thing to focus on here is to communicate effectively and to lead with care and empathy so that everyone in your enterprise feels supported.

Business Model: You need to focus on adapting your business model and strategy as you move from reacting to mitigating the impact of the pandemic.

Consider shifting to digital options

as you move to remote working, fill in the gaps in your IT infrastructure, make sure your team is well trained to work in this new environment, and think of how to make your business model more responsive and considerate to your customers whose needs and expectations might have changed as a result of the pandemic.

Cash Flow and Finance: The economic uncertainty reached a high level during the pandemic, especially when total lockdowns were imposed, and it certainly affected SMEs revenues resulting in less cash flow. For your business to survive, it's very crucial to know how to manage your financial position in the coming weeks and months.

Identify cash generators that can support the continuity of work, assess what you can do to benefit from COVID-19 tax relief regulations by the government if there are any, and think of worst-case scenarios and revise your financial plan based on your findings.

Operations and Supply Chain: Due to interruptions in supply chain by the spread of COVID-19, you need to mitigate the risk of suspending

your business operations.

Find alternative suppliers, substitute materials and distribution channels which can be based on geographic areas where cases of COVID-19 are less or where businesses are less impacted. Adapt your marketing and pricing strategies.

Crisis Management: The pandemic has for sure brought massive and unexpected variables that so many businesses weren't prepared to deal with.

In the immediate wake of this crisis, you and your risk management team need to mobilize your efforts to respond. This will pave the way for your enterprise to transition into what's next. As you bring your people back to work, assess your response efforts, identify areas where you can adapt, and look at shortcomings as opportunities to correct and perform better.

Tax and Trade Market: To make informed decisions that will drive your business forward in this global uncertainty, you need to be aware of the economic, political and social context you work in.

Think of how to stabilize supply chains under the unpredictable revenue and profits in the markets. And then explore if there are any new tax measures in response to the pandemic.

Recover & Stabilize

Before you think about what's next and move forward, you need a plan for your business to survive in the now and recover from the impacts of the past months.

Plan with your team on how to recover while maintaining your business activities. Use the following matrix:

COVID-19 Recovery Matrix

<p>Current Business Model</p> <p>Think of changes to adapt to emerging risks.</p> <p>Build a more resilient business model to ensure continuity of work.</p>	<p>Products/Services</p> <p>Think of how to best use resources to provide products/ services to your customers.</p>	<p>Operations</p> <p>Think if you need to repurpose any of your business operations.</p> <p>Plan for disruptions that might impact your business.</p> <p>Find alternatives for in-person meetings, work travels, etc.</p>
<p>Marketing & Delivery</p> <p>Think of how to best reach your customers while keeping everyone safe.</p> <p>Create new distribution and delivery systems.</p> <p>Consider building an IT infrastructure and shifting to digital marketing and selling tools.</p>	<p>Finance</p> <p>Assess your current models for cashflow, costs, payments, taxes, loans, grants, and partnerships</p> <p>Adapt your models to meet the needed response to the emerging risks.</p>	<p>Communications</p> <p>Communicate with your employees, partners, customers and suppliers.</p> <p>Keep everyone aware and informed of any new decisions, changes or events.</p> <p>Bring your workforce to build a recovery plan together.</p>
<p>Compliance with health measures</p> <p>Stay informed on updates from the health ministry and government.</p> <p>Comply with lockdown and safety measures.</p>	<p>Maintaining quality</p> <p>Ensure you offer your clients the best affordable quality of your product/service.</p> <p>Protect your quality control system from being impacted by the crisis as much as possible.</p> <p>Maintaining quality may guarantee your clients won't look for alternatives.</p>	<p>Supply Chain</p> <p>Find alternative sources of materials - if your supply chain was impacted.</p> <p>Ensure continuity, availability and quality of your supply chain.</p>
<p>Storage</p> <p>Assess your current needs for storage or warehouses.</p> <p>Decide whether you want to commit to long or short term storage.</p> <p>Think of alternatives to reduce costs.</p>	<p>Payment terms</p> <p>Think of payment extension, cancellation or refunds.</p>	<p>Lease contracts</p> <p>Think of renegotiating your lease contract.</p>
<p>Employees</p> <p>Shift to remote working mode</p> <p>Ensure flexibility within the team</p> <p>Reduce working hours if needed</p> <p>Consider long leave, paid sick leave, support</p> <p>Contingency planning for key employees in case of or death</p>	<p>Insurance</p> <p>Consider having unemployment insurance to protect your people, health insurance, life insurance, etc.</p>	<p>Safe Workplace</p> <p>Follow health authorities guidelines.</p> <p>Consider the risk of transmission.</p> <p>Practice hygiene and distancing as much as possible.</p> <p>Limit the number of employees in one space.</p>

Mitigate & Strategize COVID-19:

Use the following table to track your mitigation to risks caused by COVID-19:

COVID-19 Mitigation Tool

Focus Area	Risk	Probability	Level	Opportunity	Mitigation Action	Post-Mitigation level
Workforce						
Operations						
Costs						
Revenues						
Development						
IT						

Build Resilience & Sustainability

Once the COVID-19 pandemic is under control, businesses will be aiming to return to normal. As a leader, you should seize this opportunity to build a resilience culture within your business, evaluate your risk management process and adapt it moving forward.

To build a resilience culture, you will need to lay the groundwork as a first step; start with your business model.

Create A Resilient Business Model:

An unreliable and outdated business model can become a big risk to your business in case you failed to adapt it to outside threats. COVID-19 has affected workforce well-being, business continuity, production, supply chains and almost every area within the business, which resulted in emerging needs for resilience business models.

To ensure ongoing business operations during COVID-19

pandemic, here are a few steps you can take to build a strong and resilient business model for you SME:

- 1.** Think of the current business model: brainstorm with your team to answer questions like:
 - Who are our key customers? Where are they?
 - What values do we offer to meet their needs and expectations?
 - What resources do we need to deliver our values?
 - How do we deliver our values?
 - How do we manage our financial models (costs, revenues and losses)?
- 2.** Identify potential disruptions: think about the uncertainties, threats and disruptions that can be caused by COVID-19 and have a variety of impacts on your business operations.
- 3.** Measure the impact: consider how each one of the threats and disruptions would impact your business. Categorize the potential impacts based on area within the business, time frame, cost and scale.
- 4.** Design new changes: Think of what needs to change to address and respond to the potential impacts. Identify and assess potential solutions, while

focusing on IT solutions.

- 5.** If your business depends on clients' physical visit to your store for example, the potential impact on your sales will be high in case the government imposes a lockdown, then you will need to think of changes to the way you sell your products, and assess the idea of relying on e-commerce platforms and safe delivery channels.
- 6.** Implement the changes: use the essential input from the previous steps to make informed decisions and changes to your current business model, make sure your team is involved and aware of those changes, and focus on how to best implement them together.
- 7.** A good example of implementing a change is turning your store into a warehouse and selling products via online platforms, which can be an opportunity to reduce physical interactions because it requires less employees, as well as reducing the costs of storing and moving your products between the store and the warehouse.

Don't miss the lessons we learned from COVID-19

- Experts in the business world are hoping that the pandemic we've all experienced will bring team members from all across an enterprise to think with their leaders about how to survive this crisis together.
- SMEs leaders should realize how important having a strong risk management process is, and that the key to do so is through effective communication and collaboration.
- SMEs leaders should be motivated to shift from a traditional and reactive risk response to a wider and out-of-the-box perspective.
- SMEs leaders should learn from the tragic losses during this period how to build resilience within their enterprises to best withstand and survive such tragedies.
- Despite closing down borders and lockdowns, COVID-19 has brought the world more closely together. You can now have meetings, attend events, webinars and training by the best experts in the world without having to worry about visas and wasted time and costs. Think of all the opportunities you can seize to improve the skill set of your workforce, bring in expertise, exchange experiences and globalize your SME.
- SMEs leaders should work with their teams to learn from the current COVID-19 and build a solid foundation for risk management processes in order to be prepared for the next unknown crisis.

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General contact

SPARK

Haarlemmer Houttuinen 15H

1013 GL Amsterdam

The Netherlands

Email spark@spark-online.org

Phone +31 (0)20 753 0311

Website www.spark.ngo



Ministry of Foreign Affairs of the
Netherlands

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