

The 4 Types of Risk Your Company Can Stress Test

Economic turmoil can put stress on every business. Being prepared for the unexpected will help your business weather potential storms. Stress testing your company's financial health is one way to determine how your business will stand up to the unexpected.

There are four types of risk that you can stress test.

1. Operational Risk
2. Financial Risk
3. Compliance Risk
4. Strategic Risk

Operational risks cover the inner workings of your company including people, processes, systems and external event risks such as a natural disaster.

Financial risks refers to your business' ability to manage debt and cover financial obligations. Stock prices, interest rates and economic fluctuations are all examples of financial risks.

Compliance risk occurs when there is a failure to comply with industry laws and regulations, internal policies or best practices.

Strategic risk involves internal and external events that make it difficult for your company to achieve their goals. Typically this refers to how the company responds to changes in consumer preferences and product demands.

Once you have determined your risk factors, you can develop a plan to mitigate those risks. Enlist your management team to gather feedback and suggestions. Risk management is a continuous improvement process. New risks may emerge, old risks may fade away and the best-laid plans may become outdated over time. Meet with your management team at least annually to review copies of your current plan and consider updating it.

Bring in your advisory CPA to help you look at things from a new view. They will offer insights you may not have thought of, and bring some best practices based on their experience working with businesses like yours. A risk management stress test will help you prepare for the unexpected.

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