

Risk Assessment Isn't Just for Businesses

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Businesses often rely on risk assessment to make decisions. You can apply a similar process to make decisions in your personal life.

People often make decisions without considering the risks and rewards. You might be largely relying on luck to make the best decision. You can do better than that!

Give risk assessment a try!

Try this process to make decisions like a well-run business:

- 1. Identify the decision that needs to be made.** You can't assess the risk and make a good decision if you haven't identified the decision and the desired outcome. What decision needs to be addressed? **What are you trying to accomplish?**
- 2. Gather information.** Now that you know the issue, it's important to learn as much as you need to know to understand your options clearly. This information can come from the internet, friends, experts, or any other source of information you believe to be credible.
- 3. Create a list of possible options and identify your priorities.** Now that you know something, what are your options? Create a list of as many feasible options as possible. Avoid being too quick to discount anything that seems a little odd. You can narrow your list down in the next step.
- 4. Identify the potential gains of each option.** What can you gain from each option? Not every option will necessarily have the same payoff. Go through

your list and **identify the best possible outcome and the expected outcome.**

5. Identify the potential losses / costs of each decision. What is the risk? Is it time? Money? Your pride? Every decision carries at least a tiny amount of risk. What risk does each option present? What is the maximum potential loss? What loss would you actually expect if things did or didn't go your way?

6. Can you mitigate some of the risk? A riskier option might be far more palatable if you could reduce the risk in some way. For example, vacation insurance might make a big trip more of a possibility if you have reason to believe you might have to cancel at the last moment.

7. Compare and contrast. This can be the tricky part. Now, you have to take all of that information and make the best decision. The right answer isn't always clear, but you'll feel good about going with the option that offers the most appealing benefits for what you consider most important and less risk.

Let's look at a quick example:

Suppose your daughter was getting married in the fall, and you have to choose a reception location. There's option A - an indoor venue, and option B - an outdoor venue. There are many things to consider. Option A is more expensive, but you don't have to concern yourself with the weather. Option B costs less and being outside in the fall might be nice. However, there's the possibility there might be a heatwave or rain.

Your daughter would prefer the outdoor option, if the weather was good, but would be furious if the weather didn't cooperate.

Can you mitigate the risk? You might be able to rent a tent to keep on standby in case the weather that day was poor. It might even be possible to find air conditioning units that can be used in a tent. Of course, one of the best ways to mitigate your risk is to make your daughter choose!

In this case, the indoor venue has less risk but less upside. The outdoor venue could be less expensive, potentially provide a better wedding experience or a potentially worse experience. The decision isn't clear, but at least you have a handle on the important issues.

What are your priorities? Is it to have the best possible wedding or to have a wedding without hiccups? If you know your priorities, the answer is clearer.

How do you make decisions? Use the basic model applied by successful businesses. Educate yourself and formulate a variety of options and then determine the risk and reward of each option. The best decision will become clearer after applying this process.

Determine what you have to gain and lose and view that information from your set of priorities.

What do you have to risk by giving this process a try?