

Dependency Can Be a Big Risk

► A checklist for the assessment of a company's exposure to risks and vulnerability from the point of view of dependency. When a company operates in a dependent way, it has "all its eggs in one basket".

How to identify dependency?

Evaluate your company's dependency by going through the series of questions below. Tick each question according to the situation in your company.

Dependency	Yes	No	Possible consequences
1. Are the important decisions in the company made by only one person?	<input type="checkbox"/>	<input type="checkbox"/>	<i>If this person is lost, decision making in the company will be paralysed.</i>
2. Does the largest customer account for more than 30% of the company's turnover?	<input type="checkbox"/>	<input type="checkbox"/>	<i>The loss of the largest customer is enough in itself to cause a large dent in the company's revenue.</i>
3. Does a key employee possess knowledge or skills that no one else has?	<input type="checkbox"/>	<input type="checkbox"/>	<i>If this person is lost, one of the company's activities is paralysed.</i>
4. Is the proportion of borrowed capital more than 50% of the company's entire capital?	<input type="checkbox"/>	<input type="checkbox"/>	<i>The company's ability to tolerate risk is weak e.g. the company is sensitive to fluctuations in interest rates.</i>
5. Is information that is important to the company stored in one place only?	<input type="checkbox"/>	<input type="checkbox"/>	<i>Information damage or theft can paralyse the company's operation, at least temporarily.</i>
6. Are the company's operations dominated by one product or service?	<input type="checkbox"/>	<input type="checkbox"/>	<i>When demand for the main product goes down, the company becomes more vulnerable.</i>
7. Are most products or services acquired from one supplier or subcontractor?	<input type="checkbox"/>	<input type="checkbox"/>	<i>The company is dependent on the supplier/subcontractor and its risks.</i>
8. Is the main part of the raw material acquired from one supplier?	<input type="checkbox"/>	<input type="checkbox"/>	<i>The company is dependent on the supplier and its risks.</i>
9. Are all stocks in the same premises?	<input type="checkbox"/>	<input type="checkbox"/>	<i>The company could lose its whole stock in one go.</i>
10. Does the company have only one distribution channel?	<input type="checkbox"/>	<input type="checkbox"/>	<i>If problems arise, making a decision about a new distribution channel takes time and causes extra costs.</i>



11. Are the company's exports concentrated in one country?	<input type="checkbox"/>	<input type="checkbox"/>	<i>Vulnerability increases e.g. if the export country becomes politically or economically unstable your market may be adversely affected.</i>
12. Is production mainly centred on only one machine?	<input type="checkbox"/>	<input type="checkbox"/>	<i>The loss of a key machine or a long-term machine failure causes interruption in production.</i>
13. Does the company employ many persons of the same age?	<input type="checkbox"/>	<input type="checkbox"/>	<i>All employees retire at the same time.</i>
14. How else does the company operate in a dependent way? Describe the situation in your own words.	<input type="checkbox"/>	<input type="checkbox"/>	<hr/> <hr/> <hr/>
	Yes	No	
Number of answers	_____	_____	

Interpretation of the result

The answers you have given to the checklist questions will help you to evaluate the nature of your company's dependency. The more "Yes" answers on the sheet, the more attention you should pay to preventing dependency. A "Yes" answer represents exposure to risks in a certain area, although the relative weight of the answers is not necessarily the same. However, each "Yes" answer indicates the possibility of a threat. This is why the conditions behind each "Yes" answer, and their effects, should be carefully examined.

What to do?

Eliminating dependency can be difficult or sometimes even impossible. You should consider how your company can reduce the risks caused by dependency. These risks can often be shared by using traditional risk management methods. Apply old, proven methods and brainstorm new ones that may be suitable to the needs of your own company.

Here are some tips:

- Plan how to share know-how and develop expertise!
- Decide whether the customer base could be changed or broadened.
- Even a good product ages. A successful company stays up to date by developing new products.
- Effective backup systems always improve a company's risk management!
- Risk can be transferred e.g. using agreements or insurance. Risks related to subcontracting can be controlled with terms of agreement.

See also: Agreements and Liabilities (work card)

Remember that risk management decisions are always case specific!