Macro Environment Risk Assessment

Meaning of Environmental Risk Assessment

There are a range of environmental risks that arise from industrial activities and society in general. These risks must be viewed in the context of the natural ecological changes that occur in the environments and the natural variability of ecosystems.

Businesses need to constantly manage risk from a variety of sources, including financial, technical and safety. The treatment of environmental risk is a more recent activity attracting increasingly greater attention from regulatory agencies, industry and the general public.

In conducting environmental risk assessment it is essential to correctly formulate the risk assessment problem; to identify the sources and characteristics of risk, the potentially vulnerable aspects of the surrounding environment, and the criteria that will be used to rank significance of effects on the environment.

Meaning of Macro Risk

Macro risk is a type of political risk that can impact all businesses operating within a nation. Macro risk can be political in nature or it can be caused by macroeconomic factors or events outside of the country's ruling government's control. Common examples of macro risk include changes in monetary policy, shifts in the regulatory or tax regime, and political or civil unrest.

Macro risk affects all asset classes that are exposed to a particular country or region. For example, imagine a country that has elected a government with a platform that is against foreign influence and interference. Any company that engages in foreign direct investment or has operations within the country would be facing tremendous macro risk because the government has the potential to expropriate any and all foreign operations, regardless of industry. There are many organizations that provide reports and information on the degree of macro risk that a country may possess. Furthermore, companies have the opportunity to purchase political risk insurance from a variety of organizations to mitigate potential losses.

Macro versus Micro Risk Management

Global economic trends once concerned only multinational companies. With today’s intertwined economies, however, seemingly small events in another country can affect your business. You must simultaneously manage the risks -- politics, new competitors, cheaper products and shifts in customer’s tastes -- in your neighborhood, region or even your industry.

Macro Risk and Commodities

If you depend on products or raw materials that come from foreign markets, you run the risk of running out of inventory if a shipper fails to deliver or if a company loses its capacity to stop and sell the materials you need. To manage such a risk, have multiple vendors in multiple countries. Even if some vendors charge more than others, you can maintain a steady supply. Make sure you know where your products or supplies come from; even if they’re shipped to you by a multinational company based in the United States, that company could experience disruptions from its foreign suppliers.

Micro Risk and Commodities

Ultimately, all deliveries are local. No matter how far products travel, you receive your delivery from a local provider, meaning you run a risk of missing shipments if your local delivery service fails or is mismanaged. You can manage this risk by having a backup delivery service on call to pick up any shipments that haven’t reached your door.

Macro Risk and Lending

Your ability to borrow money depends to some extent on the worldwide interest rate and lending environment. Because even small U.S. banks lend to foreign banks, interest rates are sensitive to world conditions. At the same time, if American banks are concerned about foreign defaults on loans, they may be increasingly conservative when it comes to making loans to businesses like yours. You can manage this risk by having backup plans for raising money. For example, if you can’t get a bank loan, consider selling bonds to raise capital, selling excess inventory at a discount and negotiating with vendors for extended credit.

Micro Risk and Lending

Much of your ability to borrow depends on your relationship with your local bank. Although the bank may have broad policies, individual loan officers have some leeway in approving loans. In addition, you can explore loan options through the U.S. Small Business Administration.

Macro Risk and New Markets

If you sell products to foreign markets, having new outlets can boost your bottom line. However, you run several risks. A market can dry up quickly if animosity develops between a foreign country and the U.S. In addition, some countries run the risk of having their industries and markets nationalized, meaning the government decides what gets bought and sold there. One of your protections in this risk is keeping the percentage of your revenues from any given country fairly small. You can spread the risk by doing business in several countries at once.

Micro Risk and New Markets

A growing business continually seeks out new local markets. This can involve a demographic that hasn't been reached before in regions and neighborhoods the business has yet to explore. One of the primary risks of any market is saturation. You can mitigate this risk by developing new marketing strategies for new targets and by introducing new products.