Differences between business risk and financial risk

The main differences between these two are given below:

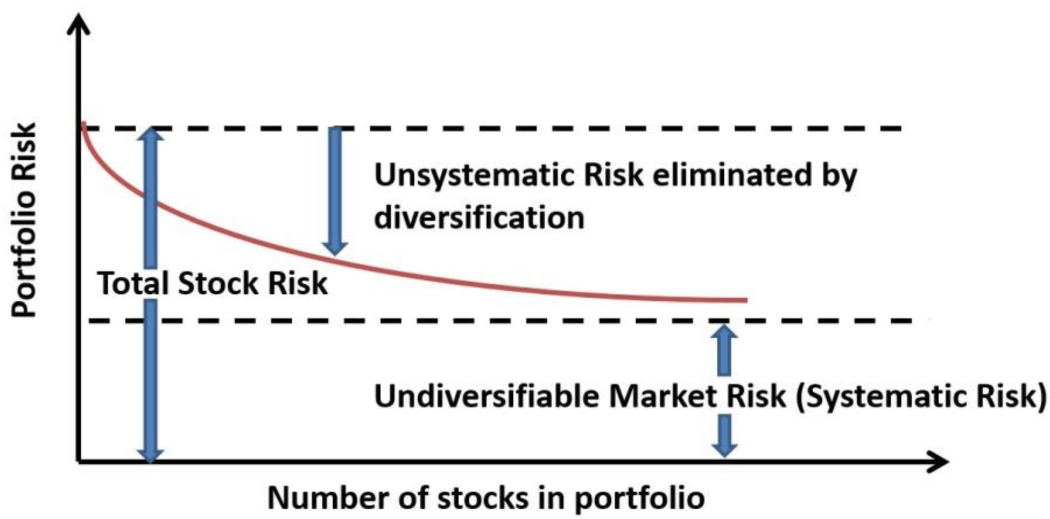
Topic of Difference	Business risk	Financial risk
Definition	Business risk refers to the relative variability in the firm's operating profit or earnings before interest and taxes.	Financial risk is the uncertainty arising due to the use of debt finance in the capital structure of the company.
Avoidable	Business risk cannot be avoided.	Financial risk can be ignored.
Connected with	Business risk is linked with the economic environment of business.	Conversely, financial risk associated with the use of debt financing.
Evaluation	Business Risk can be evaluated by fluctuations in Earnings before Interest and Tax.	On the other hand, Financial Risk can be checked with the help of leverage multiplier and Debt to Asset Ratio.
Measurement	It is measured by operating leverage.	It is measured by financial leverage.
Basis	It depends on investment policy, sales and other internal factors.	It depends on capital structure.
Arises	It arises from the operating environment of the company.	It arises from the financial pattern of the company.
Scope	The scope of business risk is wide.	It is a part of business risk.

Distinguish between Systematic Risk and Unsystematic Risk

The major differences between the Systematic Risk and Unsystematic Risk can be summarized below:

Systematic Risk	Unsystematic Risk
Systematic risk is a part of total market risk which arises due to external factors like economic factors, political factors and sociological factors.	Unsystematic risk refers to the part of risk which is associated and arises due to the internal factors within the company.
It is uncontrollable	It is controllable.

Systematic risk arises due to macroeconomic factors such as variability of inflation, change in interest rate and change in money etc.	The unsystematic risk arises due to the company specific factors such as wrong strategic planning, labor unrest, shortage of working capital and technological obsolescence.
Systematic risk is measured by bets (β)	Unsystematic risk is measured by error term epsilon (ε)
It cannot be diversified.	It can be eliminated through portfolio diversification.
It is related to market-wide factors.	It is related to business specific factors.
The equation of systematic risk is = β_m	Unsystematic risk is = 1 - systematic risk



Here in this graph we can see that systematic risk is fixed in nature, that's why we work on with unsystematic risk to eliminate it or keep it at a lower level. If it is possible then total risk of the investment will be reduced.