

## A

**Incurring risks**

Businesses **take, run, confront** or, more formally, **incur risks** of different kinds. They have to **deal with uncertainty**, not knowing what is going to happen in the future. Experts in **risk analysis** try to **calculate** the **probability**, the **likelihood** or, more informally, the **odds** of different events happening in the future.

Business managers have to think about these kinds of risk for their organization.

- a **economic** – the state of the economy as a whole might affect its performance
- b **financial** – it might suffer from bad business decisions, and/or from unwillingness of investors and lenders to continue funding it
- c **human** – its employees or managers might make a harmful mistake
- d **regulatory** – its activities might be restricted in new ways, or become illegal
- e **environmental** – its activities might damage rivers, the atmosphere etc.
- f **reputational** – its activities or behaviour might be criticized, with its performance suffering

Managers attempt to **reduce** or **mitigate risk**. It can be **minimized**, but never completely **eliminated** – removed.

Risk analysts and others talk about **worst-case scenarios**, the worst possible combination of negative future events.



## B

**Attitudes to risk**

**Attitudes to risk** – how people feel about it – vary widely.

Adrienne is an **entrepreneur**. Entrepreneurs are known for their willingness to take risks – their **risk appetite**. She is a **risk-taker** who has started several businesses – two of them failed but one is very profitable. She tries to analyze the **risk factors** involved in a potential business – the things that will contribute to its success or failure.

Bernardo runs the family business founded by his grandfather. He is more **risk-averse** – he has a **low risk appetite** and is very **cautious**. For example, he tries to limit his **risk exposure** by only trying to enter new markets where he is sure of success. He believes in **risk avoidance**. His **risk strategy** – his plan for dealing with risk – is basically to avoid it as much as possible.



## C

**Insurance**

You can **reduce uncertainty** and **take out insurance** against negative future events. For example, businesses can **insure against risks** such as damage to their property, theft of equipment and goods, **negligence** – actions (or inaction) by employees that harm other people – to maintain **business continuity** and against the cost of **business interruption** (see Unit 21).

The **insurer** will ask what level of **cover** is required – how much the insured business will receive if it **makes a claim**. The insured firm agrees to an **excess** – a particular amount that will be deducted if it makes a claim. In relation to all this information, the insurer issues an **insurance policy**, and tells the business how much it will have to pay monthly or yearly in **insurance premiums** for the particular **insurance cover**.

Insurance companies have risk analysts who calculate the probability of various future events, and how much the company will have to **pay out** if they happen.

**22.1** Match these situations for the different companies below with the types of risk a–f in A opposite.

- 1 The government tells housebuilders that houses will have to be better able to resist fire.
- 2 A retailer sees reports that activity across the economy as a whole might decrease.
- 3 A waste recycling plant fears that poisonous chemicals will leak into nearby rivers.
- 4 A travel company's cruise ship is involved in a collision and lots of people see this on TV.
- 5 A power company finds that workers have been falsifying safety reports.
- 6 Shares in a car company fall when sales of its new models are disappointing.

**22.2** Executives from various companies are talking about their attitudes to risk. Use appropriate forms of combinations containing 'risk' in B opposite to complete what they say.

- 1 We have managers whose job is to find the right combination between activities that are risky, and those that are less risky – they are the ones who work on our company's ...
- 2 When we look to export to new markets, there's always the things that can go wrong – we have to look at all the ...
- 3 We've invested heavily in some politically unstable countries, so we have a certain degree of ... (2 possibilities)
- 4 We put money into what we consider to be the safest activities – you could say that we have a high level of ...
- 5 The economy of our country needs people like this if new companies are going to be started – we need people who are real ...
- 6 We are a solid business growing at 2 per cent a year. We stick to what we know and have a low ...

**22.3** Look at C opposite and put these events into the correct order.

- a Two weeks later, Greta made a claim for €550,000 for compensation to guests for their inconvenience, lost income for cancelled bookings and the cost of new door locks.
- b The insurance company agreed to provide cover of €1 million for this specific risk, and an excess of €25,000. She paid a monthly premium of €500.
- c The claim took the insurance company six months to investigate and then they paid out €500,000 after deducting the excess.
- d She was very glad to have obtained this cover because, one day, computer hackers attacked the hotel's computer system so that guests were unable to lock and unlock their room doors with their key cards – about 20 guests were locked in and another dozen or so were locked out as it was impossible to open the doors manually.
- e When the insurance company paid out, Greta was relieved that she had insured against this worst-case scenario, even if she had not realized exactly what it would consist of!
- f Greta had to call locksmiths to open the doors, and she had to cancel guest reservations for the following week while the locks were changed.
- g A hotel owner in Austria, Greta Schmidt, took out insurance against business interruption, in addition to other more usual forms of insurance against fire, damage to buildings and so on.

### Over to you

If you work, are you a risk-taker, or are you risk-averse? Give examples. If you don't work, think about a job you would like and decide if you would like to be a risk-taker.