Business Studies
Revision

Pack 2 - Risk and Uncertainty cont

Unquantifiable risk
A risk that is totally unexpected / unknown. As these risks cannot be predicted they are difficult to plan for.

E.g.
- Adverse effects on the company's image if a product is not successful
- Environmental - natural disasters
- Political and economic instability (foreign markets)

A contingency plan can be used to manage the unquantifiable elements of risk; in this case a plan of action is put into place that comes into play when the business suffers major disruption to its normal working practices for whatever reason. The contingency plan will provide a strategy for continuing production, sales and other important business functions.

Risks and decision making
- Decision businesses face will come with an inevitability of risk.
- If it is a high risk decision, managers may want to reduce the risk or at least take steps to reduce the risk by gathering data on which they can base decisions.
- If it is a low risk decision they may be more incline to trust instinct. This links with the type of decision being made.
- With a small tactical decision you may want to rely on what you have always done; with a major strategic decision you may want to be more scientific because much may be unfamiliar.

Methods of risk management
Risk assessments (commonly used in terms of H&S) & **Risk registers**
- Helps identify risks and considers how to reduce them
- Ensures policies & procedures are put in place
- Reduces the risk of H&S accidents

Careful strategic planning
- The more planing & research goes into a major decision, the more the risk is reduced.
- Could save vast sums on pursuing poor decisions (opportunity cost)

Contingency planning
- Allows a plan to be put into place should the risks occur
- May gain a competitive advantage if the firm can recover quicker than competition
- Allows for damage limitation

HR management policies
- Can reduce the likelihood of industrial disputes
- Can reduce labour turnover

Sound financial controls
- The better the financial management, the lower the risk of a financial crisis

Internal & External Risk management
- Prepared to deal with the risk occurring and take action quicker

Risk management

Benefits	**Drawbacks**
Able to respond quickly and therefore reduce the damage (this may gain competitive advantage)	Financial cost of creating contingency plans and risk management strategies
The negative impact caused by the risk should be reduced if a well-considered response can be implemented quickly	Management time use din identifying risks and formulating plans
A firm who considers the risks associated with its strategic decision making is more likely to be preempt risks and thus be able to respond	Opportunity cost of wasted time and resources if it turns out not to be needed