
# Chapter 34
# Risk Management

- **Section 34.1 Risk Management for Business**
- **Section 34.2 Handling Business Risks**

# Risk Management for Business

**Key Terms**

**business risk**

**risk management**

**economic risks**

**natural risks**

**human risks**

## Objectives

- Explain the nature and scope of risk management
- Identify the various types of business risks

# Risk Management for Business

Graphic Organizer

Draw a diagram like this one and list the characteristics of entrepreneurship as you review this section.

# What is Risk Management?

**business risk**

The possibility of financial loss.

The possibility of financial loss is what is known as **business risk**.

**risk management**

The systematic process of managing an organization’s risk to achieve objectives in a manner consistent with public interest, human safety, environmental needs, and the law.

# What Is Risk Management?

**Risk management** is the systematic process of managing an organization’s risk to achieve objectives in a manner consistent with:

- Public interest
- Human safety
- Environmental needs
- The law

# Types of Business Risks

Economic, natural, and human risks are among the types of risks a business may experience.

**economic risks**

Risks that result from changes in overall business conditions.

# Economic Risks

**Economic risks** are risks that result from changes in overall business conditions. These can include:

- Level or type of competition
- Changing consumer lifestyles
- Population changes, inflation, and recession

# Natural Risks

**natural risks**

Risks that result from natural occurrences, such as an earthquake or bad weather.

**Natural risks** are caused by natural occurrences, such as hurricanes, droughts, and earthquakes. They can result in property damage or business closures during or after natural disasters. Some risks caused by people are also called natural risks, including power outages, arson, and oil spills.

# Human Risks

**human risks**

Risks that are triggered by errors or omissions as well as the unpredictability of customers or of working environments.

**Human risks** are risks caused by human mistakes or dishonesty, or other risks that can be controlled by humans, including:

- Employee/customer dishonesty
- Inadequate safety programs
- Computer-related crime

## ECONOMIC RISKS

These include overestimating demand for merchandise. This store bought more summer styles than its customers wanted and now has to sell them at prices near cost to make room for the fall lines. Better planning could help manage this risk.



## NATURAL RISKS

These include unexpected weather conditions as well as catastrophes, such as hurricanes. Earthquakes and fires are other natural risks to businesses. Both prevention and risk transfer are important in managing this kind of risk.

## HUMAN RISKS

These include risks related to on-the-job safety as well as employee dishonesty and error. Training in the use of potentially dangerous machinery is an important part of managing safety risks.

## SECTION 34.1 REVIEW

# SECTION 34.1 REVIEW

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# Handling Business Risks

**Key Terms**

**insurance policy**

**extended coverage**

**fidelity bonds**

**performance bonds**

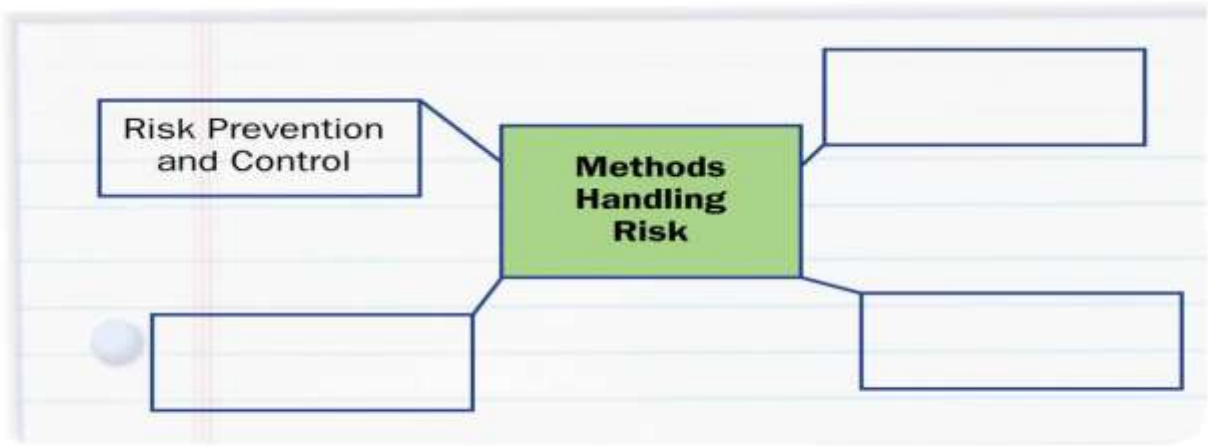
## Objectives

- Explain effective security and safety precautions, policies, and procedures
- Describe the various ways businesses can manage risk
- Explain the concept of insurance

# Handling Business Risks

## Graphic Organizer

Copy this chart. As you review this section, fill in the boxes with the different methods of handling risks.



# Ways of Handling Business Risks

There are four basic ways that businesses can handle risks:

- Risk prevention and control
- Risk transfer
- Risk retention
- Risk avoidance

# Risk Prevention and Control

Many common types of risk can be controlled and minimized by:

- Screening and training employees.
- Providing safe working conditions.
- Preventing external theft, such as shoplifting.
- Deterring employee theft.

# Risk Transfer

Some business risks can be handled by transferring the risk of loss to another business or party by:

- Purchasing insurance
- Establishing warranty periods
- Contractual risk transfer

**insurance policy**

A contract between a business and an insurance company to cover a specific business risk.

# Risk Transfer

An **insurance policy** is a contract between a business and an insurance company to cover a specific business risk. Property insurance usually includes:

- Replacement cost coverage
- Business interruption to cover lost income


# Risk Transfer

Insurance policies transfer risk from the business owner to an insurance company. How much you pay depends on how high the risk of loss appears to the insurer.

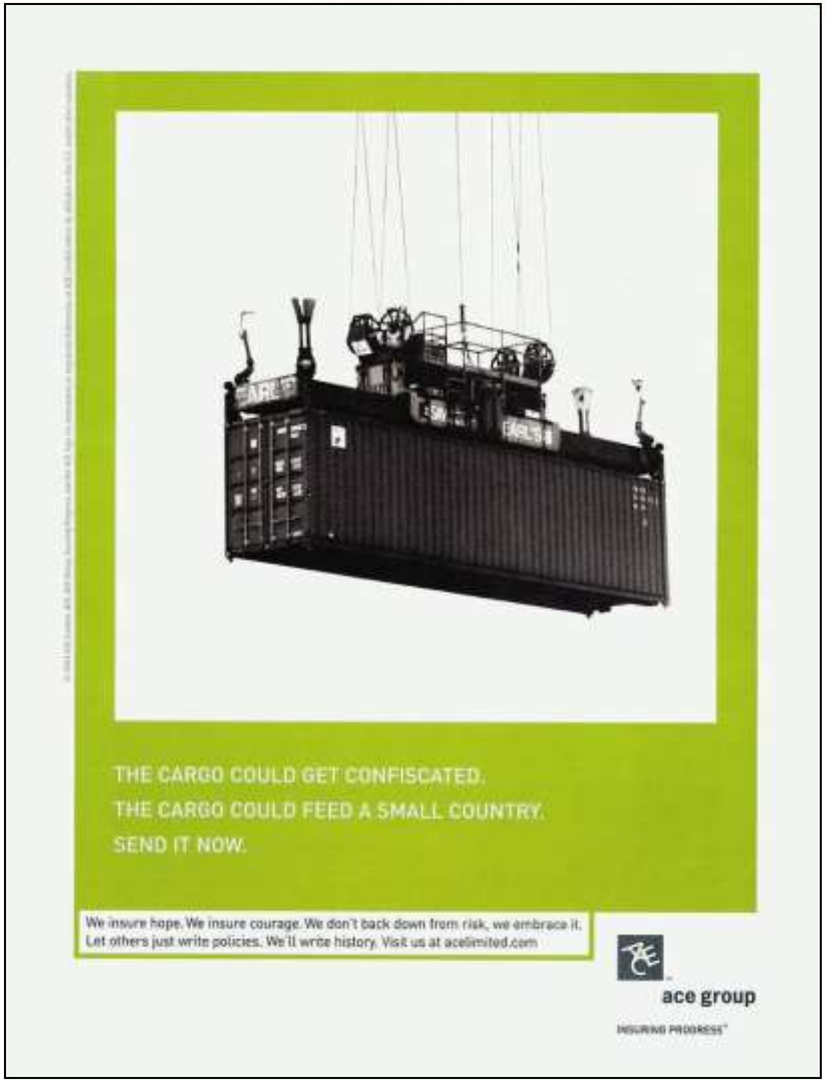
**extended coverage**

An endorsement that provides protection against types of loss that may not be covered under a basic property insurance policy.

# Risk Transfer

**Extended coverage** endorsements provide protection against types of loss that may not be covered under a basic property insurance policy.

# Risk Transfer




There are different kinds of insurance for different kinds of risks.

# Risk Transfer

Liability insurance protects a business against damages for which it may be held legally liable, such as injury to a customer or damage to property of others.

# Risk Transfer

**fidelity bonds**

A type of insurance that protects a business from employee dishonesty.

**performance bonds**

A type of insurance that provides financial protection for losses that might occur when a construction project is not finished due to the contractor's impaired financial condition; also known as surety bonds.

**Fidelity bonds** protect a business from employee dishonesty. **Performance bonds** provide financial protection for losses that might occur when a construction project is not finished due to the contractor's impaired financial condition.

# Risk Transfer

Partnerships allow owners to share in business risks, while stockholders share risks in corporations. The corporate form of ownership offers the most protection from losses.

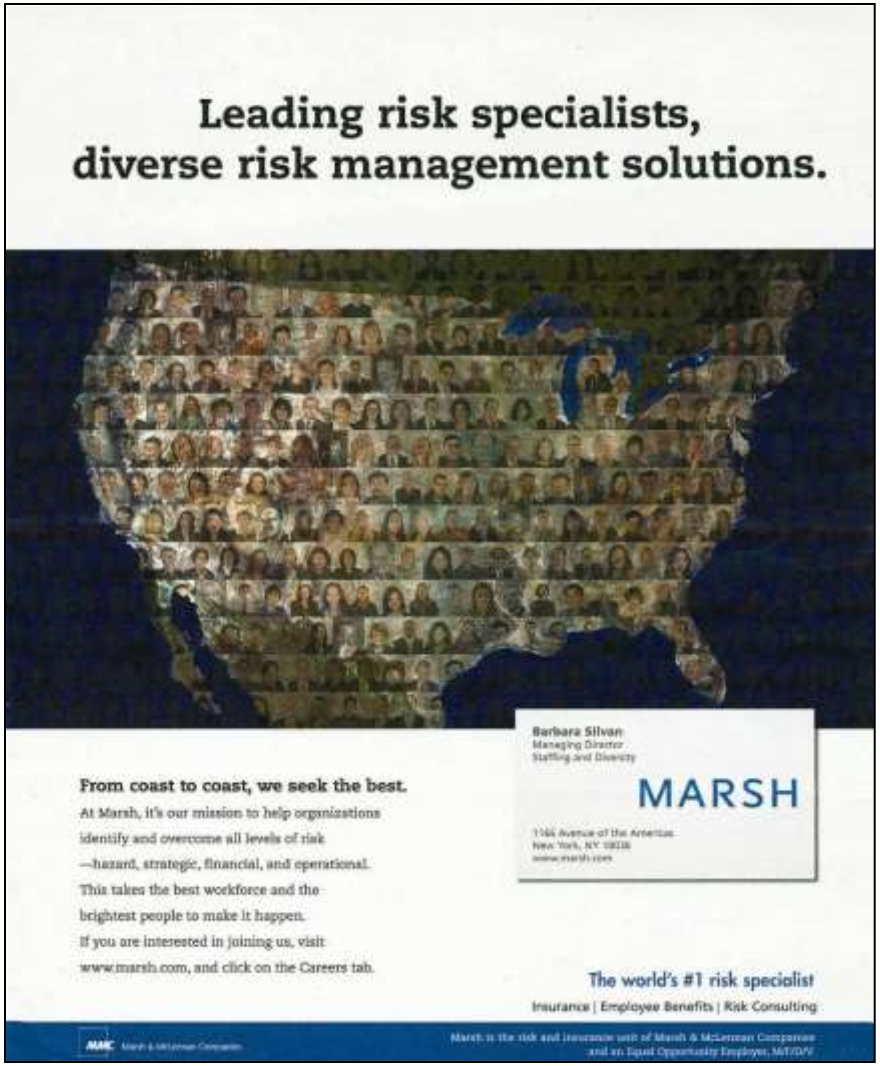
# Risk Retention

When it is impossible to prevent or transfer certain types of risk, companies will retain or assume financial responsibility for the consequences of loss. Businesses also attempt to generate a profit by taking risks.

# Risk Avoidance

Risk avoidance means that a business refuses to engage in a particularly hazardous activity. All business decisions should be made with the consideration of both potential benefits and potential risks.

# Risk Avoidance




Many companies that provide businesses with insurance are also involved in helping them create effective risk management plans.

# SECTION 34.2 REVIEW

# SECTION 34.2 REVIEW

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# FOCUS on KEY POINTS

## Section 34.1

- Business risks are situations that can lead to financial gain, loss, or failure. Risk management is the process of managing risk in an ethical way.
- Business risks fall into three categories: Economic, natural, and human.

continued

# FOCUS on KEY POINTS

## Section 34.2

- There are various ways that businesses can manage risks of financial loss, including loss prevention, control, transfer, retention, and avoidance.
- Insurance is a common way to transfer risks.

This chapter has helped prepare you to meet the following DECA performance indicators:

- Describe the concept of insurance.
- Identify types of business risk.
- Explain routing security precautions.
- Describe the nature and scope of risk management.
- Demonstrate responsible behavior.

# CHAPTER 34 REVIEW

# CHAPTER 34 REVIEW

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