



ST. LAWRENCE HIGH SCHOOL

A Jesuit Christian Minority Institution
STUDY MATERIAL-5
CLASS -XI

SUBJECT -BSTD CHAPTER 1-Nature and purpose of Business- Business Risks Date - 26.06.20

Business risk

Business risk price uncertainty in profit has danger of loss that could pose a risk due to some unforeseen events in future, which causes business to fail.

Business risk can be of various types -

1. Speculative risk it arises due to the changes in condition of market.
2. Pure risk which cannot be predicted precisely, it arises due to fire, theft or strike.
3. Internal risk arises due to internal factors of the business like defective raw materials.
4. External risk it arises due to the external factors like changes in government policies changes in tastes etc.
5. Property risk, involves damages of property of the business example damages of plant and machinery building etc.
6. Personal risk pertains to the risk of human life due to poor and unsafe working conditions. People working in mines oil refinery are more prone to such risks.
7. Insurable risk can be insured like damages of property due to fire.
8. Non insurable risk cannot be insured like risk arises due to changes in fashion or government policies.

Business risks are circumstances or factors which can have a negative impact on the operations or profitability of your business. Business risks are generally classified into two major risk factors – internal factors (circumstances or events within your organisation) or external factors (those in the wider business arena)

Internal business risks

Often, businesses can be so focused on negotiating perceived threats in the greater business environment that they fail to identify factors within the company which could threaten its success.

1. Stability

Stability – the ability of a business to manage its finances; meet its debt obligations and return capital to its investors is integral to its success. A business which is financially

stable can grow its profits more easily than one which is not; furthermore, investors, lenders and employees are more willing to engage with and invest in a financially stable company.

In addition, management stability and branding stability contribute to a company's overall impression of being a sound and stable venture

Businesses which are unstable; instability can quickly lead to decreasing profits and, ultimately, bankruptcy.

2. Organisational structure

Organisational structure – how a business is structured can also mitigate or enhance a business's success. It's of paramount importance that a cohesive and efficient structure is established and maintained if a business is to function smoothly and carry out the goals and aims of the company effectively.

When assessing how organisational structure might pose a risk to your business, evaluate its job positions, hierarchy, and lines of communication. Is your organisation's structure ordered and clearly defined and are all job positions working in tandem with one another?

3. Politics and mismanagement

Politics and mismanagement – internal company politics, particularly in family businesses, can be debilitating; causing management and staff alike to focus, not on the market and the job at hand, but on what's happening internally.

Taking your eye off the ball can ultimately open the door to competitors stealing your market share. Mismanagement – including a lack of proper control over finances, production, labour and marketing – results in increased costs for the business, which will affect your business's bottom line.

4. Resources

Resources – having enough financial and human resources is crucial; if your business is lacking in either of these, you will find it difficult to achieve your business goals. Not only does a lack of resources impinge on the nature and scope of the work you are able to take on, but it can also impact significantly on staff morale.

5. Innovation

Innovation – whether it relates to product development, marketing and promotion or staff welfare, innovation is what keeps a business one step ahead of its rivals. A lack of innovation, therefore, can pose a risk to business success as a company becomes staid, stagnant and irrelevant in a changing marketplace.

6. Incentives

Incentives – did you know that incentivising employees could prove to be a business risk, if it's not done correctly, fairly and appropriately? Make sure that you explore the right incentive and reward schemes for your business – for example, will group or individual performance bonuses, production bonuses or non-monetary rewards achieve the best results by reinforcing the behaviour you wish to see in your staff?

External business risks

Risks in the greater business environment include -

1. The economy

The economy– whether it's boom time or bust, how the economy is doing impacts on your business. While you may not have control over the economy at large, understanding what drives it can help you manage threats and maximise opportunities.

2. Political-legal factors

Political-legal factors – changes in government or government policies and legislation can impact on business, which is why business owners need to keep knowledge of latest developments.

3. Technology

Technology– if you wish to remain relevant, make sure that you monitor technological developments in your field and in the wider business sphere.

4. Shareholders

Shareholders – as a business manager, your wanting to invest any profits for future growth may be at odds with company shareholders who wish to take value out of the business in the form of dividends. Their business approach – which may be more focused on personal than business wealth – can be very risky indeed for a business and requires careful yet firm management.

U James Riju