

D22 Risk management – Solutions

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Risk categories	Description
Economic risks	- Guests consume less
Market risks	- Another country inn opens up nearby
Financial risks	- The rent is increased
Legal risks	- Smoking rules
Technical risks	- Gas stove causes a kitchen fire
Other risks	- Bad weather - Salmonella outbreak - Fraud by the workers

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Risk categories	Description
Economic risks	- In a recession, demand for mortgages shrinks
Market risks	- Banks stop granting loans to each other
Financial risks	- Falling interest rates could lower earnings in margin business - Customers can no longer repay their loans
Legal risks	- Higher capital requirements
Technical risks	- Failure of the IT systems
Other risks	- Employees do not adhere to banking secrecy and disseminate secret data - Reputational damage from accepting untaxed funds

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Individual solution

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- a The rigorous analysis of risks in the context of risk management is primarily conducted for the purpose of securing the existence of the enterprise. Risks should be avoided if possible or at least minimized. When entering a risk situation, risk management should help to minimize as much as possible the negative consequences for the enterprise. Furthermore, risk management aims to ensure future success, reduce risk costs (insurance premiums, costs of loss prevention, etc.), and increase the market value of the enterprise.
- b As risk management should first serve to ensure the survival of an enterprise, this is of central importance. For this reason, risk management should not be regarded as trivial task; instead, it represents an eminently important “leadership exercise” for enterprise management (“an integral part of business management”, “primary responsibility of the leaders of all business units as well as the process and project managers”).

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- a The old school friend quite obviously is pursuing a strategy of risk avoidance: He is trying to eliminate risk by avoiding all activities.
- b The serious preparation for activities that carry certain inherent risks indicates a risk minimization strategy. This is marked in the situation by the following measures:
- By checking the weather, you try to minimize the risk of bad weather from the outset.
 - With your decision, always to use a rope while climbing, you are trying to minimize as much as possible the consequences of a fall.

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The statement describes proven management wisdom. It is advisable for enterprises to cultivate and maintain risk management and apply appropriate safety margins in good economic times. Risk management is an ongoing task. Once an enterprise has fallen into an acute risk situation, it is usually too late for a rescue. Bankruptcy or takeover may be the result (see the grounding of Swissair and the subsequent takeover of Swiss by Lufthansa).