

The economic risks essay



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Bate proposes a wide range of risk appetite concepts as the perfect remedy for the many risks that businesses find themselves especially during tough economic times. According to Bates, the businesses survive better when they lay down the proper strategies about how they wish to operate within the existing risks. Siemens Company would be well advised if it attempted this strategy as the best way to wade through the rapid changes in the area of technological advancements. For instance, it may allocate a specific amount of funds to be used in upgrading the company's technology. This should however take into consideration the overall impact that this may have on the company's operations. As such, it would have to act quite wisely so that the amount allocated does not put a strain on the company (Hamel & Prahalad, 1994).

It has so happened in the past that Siemens has hurriedly introduced products in the market that turned out to be of the low quality. As such, it would not have had much negative impact on the reputation of the company had they label them "trial products". This would make the prospective buyers have no much expectation in as far as the quality is concerned. However, this must be followed with an equal reduction in the prices of the products. Thus, when the customers find that the particular product does not meet their expectations of quality, they would not feel cheated considering that they spent less in acquiring them. Besides, a degree of honesty will still be retained by the company due to the fact that they labeled the product as "trial products" (Clark, Manes, Antoun, Sahakian & Robbins, 2003).

The extreme losses that are resulted from products that are easily rendered obsolete can be quite well adjusted for. For instance, Siemens could have its

products less rigidly manufactured in that it can be possible to upgrade the product in case a new technology arrives in the market. As such, the product that becomes obsolete with time forms the subject of improvement in the next phase of production. Although this is not quite very easy because the next developments in the world of technology are always hard to predict, Siemens can employ a small group of specialists to estimate the possible trends. This may not always be accurate, but may nonetheless work sometimes because experts can have a clue on what could happen next. There is no doubt that it may cost a fortune to hire trusted experts to help predict these trends. However, the venture is worth it, as it can allow the company keep its operations as well as tolerate the risks that may arise from their operations (Drake, 1985).

Mergers and trade alliances have their own risks considering that they usually involve different people with different beliefs concerning business operations. However, that should not prevent Siemens from entering into these kinds of alliances. For instance, the chances that its partner may betray them by stealing its technology and then quitting the partnership are very real. Thus Siemens would therefore act swiftly to seal these loopholes by properly aligning the modules of their joint operations both in the joint research and production of their goods. For instance, by stating the dire legal implication in case of a betrayal may severely restrain the partner from pursuing a betrayal even if he or she wanted to do so. In some instances, it may be hard to seal all the loopholes of betrayal. In such a case, it would be quite befitting to wisely choose a partner that is quite honest in its dealings

or one that has not been engaged in prior legal tussles on issues to do with integrity and honesty (Metzner-Szigeth, 2009).

The risks related to operations could be quite devastating at times. These could be about the acquiring tenders or just penalties resulting from the breach of contracts. The rapidly changing technology and the hard economic times may render a company unable to complete a project for which it has been awarded a contract. This may be due to the fact that the company does not have the technical knowledge to adjust the project to the changes that have occurred in the market during the period from the start of the project. As such, Siemens should be ready right from the beginning to forfeit such projects, as well as bear the contractual penalties that may come with such an action. For instance, they could either get their funds ready to take the project to completion before any significant changes have occurred in the world of technology or purposely take the project slowly with the intention of not completing it altogether. Although this portrays some degree of dishonesty, it could just be sufficient to keep Siemens relevant in the market till things get back to normal. After all, breach of contracts is not alien to the business world so long as one is able to explain themselves properly (Clark, Manes, Antoun, Sahakian & Robbins, 2003).

The company could adequately manage to wade through political risks that would come its way by establishing a clear strategy of winning the support of the political class. For instance, politicians are known to organize events for purposes of getting publicity. As such, Siemens would greatly benefit by establishing a fund that serves this purpose. Alternatively, they may partner with a media house so that they can provide a great amount of the media

coverage to the predominant political class. However, this has the other risk of rubbing its minor political players the wrong and eventually facing its wrath. In light of this, Siemens would be certain to keep its political operations as low as possible so that it does not end it into a greater trouble. Yet still, this has to be properly budgeted for so that it does not cut into the cost of operations or exert any financial strains in the budget of the company (Metzner-Szigeth, 2009).

Environmental risks are quite very hard to eliminate considering that anything done within the premises of a manufacturing company has some amount of bearing on the environment. As such, Siemens may choose to engage in publicity issues that depict the company as being very caring for the environment. This could include sponsoring talk shops that have to do with global warming intended to educate the general public. It may not yield much, considering that the company may not have anything to show as an eco-friendly project. However, it will modify the public perception towards the company and its product until things normalize and it is able to do anything meaningful. Besides, Siemens can roll out cost effective programs like tree planting that do not really cost too much, but would still have great benefits on its perception in the market (Hamel & Prahalad, 1994).

The chances that Siemens would find itself in a lawsuit cannot be eliminated. As such, the only remedy would be to adequately prepare for such an eventuality. For instance, a former employee who happens not to be satisfied with the reasons for company's dismissal may choose to seek legal redress in the court of law. This would require that Siemens spends a great deal of funds pursuing legal victory in the courts of law. Besides, law suits could also

be resulted from improper delivery of goods and services, product liability, as well as product defects. These cannot possibly be prevented as they operate outside the powers of the company. After all, the threat of intellectual property theft would be real, considering the cutthroat competition that competing companies are engaged in regards to technological advancements. In light of this reality, the only option would be to strategize on how to counter them both with the right legal team as well as with adequate finances (Clark, Manes, Antoun, Sahakian & Robbins, 2003).

Financial risks are real but no doubt surmountable. These include equity price risks from investments in securities and interest risks that could be resulted from the long term fixed rate debt obligations. As a matter of fact, the company must consider these as part and parcel of its operations and adequately invest towards the elimination of the associated risks. For instance, seeking the services of highly qualified actuarial scientists would not only limit the financial risks that Siemens could get itself into, but would also considerably streamline its financial operations to be in line with expert opinions that it gets from the actuarial scientists. This may be expensive in this era when financial uncertainty rages across the world. The cost of the services of these scientists has certainly gone high due to the high demand in the wake of the global recession. However, it would be appropriate to engage it fully so that the company does not land itself into greater problems from their investments (Metzner-Szigeth, 2009).

The Strategy of Siemens

Strategy as related to business management means the emergent initiatives that general managers pursue on behalf of the stakeholders. These are often meant to enhance the overall performance of the firms in the otherwise crowded market. The general managers are usually faced with the challenge of laying down concrete ideas that would therefore form the mission, vision and objectives of the firm. As such, they have to put in place strategic plans aimed at achieving these objectives and allocating funds appropriately towards these projects. These later form the premise on which the overall performance of the firm is gauged (Kearney, 1992).

Ideally, the strategies of any business must consider the expectations of the stakeholders. As such, the management of Siemens had to tow down the expectations of the shareholders over the revenues it should expect to accrue in its individual accounts. Although this revelation could easily spark a massive walk out of the shareholders, it would not put any undue strain on the management concerning how it manages the firm (Tichy, 1983). For instance, the company would not be afraid to enter into partnerships that are not likely to yield any good results for the fear of being reprimanded by the shareholders. Instead, it would see it as being within the bounds of decisions that are acceptable to the stakeholders in the face of the economic adversities. Indeed, these would only be possible if the stakeholders are made to understand that the business would not be in a position to make any profits, but rather survive the tough times. If properly explained, the shareholders for instance may accept to have their returns ploughed back into the business so as to raise their financial position and indeed the ability of the company to compete favorably in the market (Heskett, 1986).

Business strategies may imply that a company identifies its main competitor in the market and works towards containing its competitiveness if not really outdoing it. As such, it would work in favor of Siemens if its managers chose to adopt only the technology that their competitors seem to be keen on.

Although they may not get the credit of creativity from the general public, it may just suffice them to wade through the economic uncertainties. Besides, they may only choose to roll out environmental programs to the extent that they match those of their competitors. This would give them a level playing ground due to the fact that they would not have to spend large amounts of money on initiating expensive projects thereby giving their competitors a competitive edge against themselves. Besides, Siemens workers would adopt a policy of minimal political participation only to the extent that their competitors do not use it as a competitive tool against them. This would greatly save them the cost of funding huge political activities that would put serious strain on their finances (Camp, 1989).

Conclusion

Striking a balance between the normal business operations and the associated risks is often a real problem to many businesses. This is in recognition that the risks can never really be prevented. In view of this, all efforts should be geared towards limiting them even if that means reducing the overall productivity of the business in the short term. However, it's only appropriate that the management takes the initiative of making the stakeholders understand what they are doing and why they are doing it. This is the type of strategy that Siemens has adopted. Meanwhile, companies should embrace insurance as a constant check against the numerous risks

that may actually bring their businesses down. Indeed, several insurance companies have redrafted their policies to allow for the coverage of the economic risks.