Risk product development decisions, assessment of investment

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Risk management is an essential aspect of modern business aimed at ensuring the profitability of diverse ventures for the business owners. In this report the discussion presented will focus risk avoidance strategies that can be used in the management of companies, avoidance of risks associated with securities regulations, avoidance of risks associated with accountant liability and avoidance of agency associated risk. According to Oren, Risk Avoidance involves setting of margins and thresholds that are used to avoid unacceptable risk where acceptability limits are typically established by experts (2001).

In the management of companies risk avoidance may be as a result of poor decision making. For managers interested in mitigating risks one approach could be the use of decision analysis tools (Oren, 2001). These tools will provide several scenarios taking into consideration objective and subjective information as well as the decision maker’s preference.

The tool can then be used to identify the best alternative. It has been reported that the approach has been successfully implemented in various decision making contexts such as product development decisions, assessment of investment options, etc. Another approach that can be used by management with a view to Risk Avoidance is to enlist the services of regulatory bodies. BGP technology is a biotechnology company and as such the products produced pose some degree of risk to the public. Regulatory bodies such as the Food and Drug Administration (FDA) perform a set of expert designed tests that are highly reputable (Oren, 2001). The FDA approval seal on the company products is one essential component that management can use to avoid legal risks associated with products. Upon approval of a product in case of any complaints about the drug the company can share the blame with the FDA. The environmental protection Agency (EPA) can also be called upon by management to carry out inspection on facilities and provide certification on emission levels and toxic waste management (Oren, 2001).

With regards to regulation of securities the management of the company can avoid risk by implementing strategies such as hedging. Hedging is a strategy that avoids risk by spreading the risk or financial consequence associated with a particular risk (Oren, 2001). In this approach the management will make an investment portfolio that selects companies whose trading outcomes are correlated so as to reduce the overall variability. An area of risk avoidance that has been the cause of much debate in recent years is the degree of liability a company should commit to in the case of a company agent. In the scandals that saw companies such as Enron fall, investors lost huge sums owing to the poor decisions by the auditors and the company directors. Following such losses constructs such as proportionate liability have been established to avoid risks associated with company agents (Faure, 2009).

As a result of such actions it has been observed that many firms have stopped provision of audit services within high risk business categories (Linville, 2002). This scenario has led to a situation where on very knowledgeable and well capitalized firms are ready to risk undertaking audit activities. These new regulations have further raised the costs associated with auditing. One advantage of such measures is that they have led to a decline in litigation against firms with deeper pockets that were typically the target of litigation in earlier times (Faure, 2009). This is possibly through the increased motivation by agents to fully comply with industry regulations thus leaving very little room for error. Nevertheless despite the disadvantage of increased cost the proportionate liability regulation has helped in regulating industry players with regards to compliance. For successful implementation of the proportionate liability entity the various agencies associated with a business entity must be properly classified.

An agent is a vehicle that can be used to perform a specific function on behalf of the business entity. Categories that typically are categorized as agents include legal services, accounting services, trading companies, etc (Peterson, 2007). In light of current legislation in the SEC, agents and principals are required to comply with specific regulations in a view to protection of client interests. It has been established that for the agency to perform their duties well adequate incentives must be offered to ensure that the agent does not under perform (Peterson, 2007).

This suggests that to avoid risk selection of agents should be done with care and results from the regulatory bodies within those industries used to confirm performance criteria. In addition to hedging with regards to investment on the stock market another possible solution that could be used in the avoidance of risk by BGP technology is making improvements in the Business Process Management (BPM) cycle. BPM is an essential aspect that can be used to improve the competitive advantage by ensuring the smooth flow of all business processes. A biotechnology company such as BGP is likely to be involved in manufacturing. Through appropriate analysis of the supply chain adjustments can be made to ensure product prices are maintained and profitability is sustained (Muehlen & Ho, 2006). An example of improvement of the business processes in this case could involve the use of hedging in the supply chain.

It is likely that the cost of raw materials fluctuates and affects the cost of the finished products. Just as in agriculture a hedge fund can be established using a suitable price for raw material (Oren, 2001). This fund thus acts as a buffer protecting the company from changes in prices. This can ensure that the company can withstand the risk associated with increases in cost of raw material. Though the material provided in this report is not conclusive, it attempts to highlight various risk avoidance schemes.

These schemes are among several risk avoidance schemes that can be used in addressing issues related to management, securities, accountant liability and agency associated suits.

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