

Risk management and insurance

Business, Management



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Involved

The Risk Management Department of the Fama's French Bakery company has been established only recently and needs to be operating effectively and efficiently to ensure increased and sustainable growth and profit for the company. Risk management is vital to any type of businesses and is actually a process which helps in the identification of different kinds of losses that the business firms are exposed to. Risk management helps in addressing all those exposures through the application of proper risk management techniques (Rejda, 2011, p. 42). With the acceptance of the new contract the company is observed to be exposed to different kinds of risks that might end up as losses for the company if they are not taken into account properly. Firstly the company needs to identify all its risk avenues. Then it needs to look into various aspects of combating those issues and needs to decide what to insure, what to retain, loss control and financing required by the company and find ways to reduce internal risks of the company. Loss control is the key, since it helps in the significant reduction of unforeseen losses faced by the company (State of Maine: Risk Management Division, 2005). The company is exposed to different kinds of risks of losses which are discussed below: First of all the company is exposed to losses from damages to the various kinds of properties owned by the firm. The company owns two production facilities at two different locations, the company trucks used for the transportation purposes, and other properties related to the business. Any kind of damages to these properties might result in losses for the company. Another type of loss exposure of the company is its exposure

to the losses due to outsourcing. Any kind of problems or issues associated with the outsourced company, Scholes Muffins, Inc. might result in losses for the company. The company is exposed to financial loss in the form of liquidated damages associated with the default in fulfillment of the conditions of the new contract taken up by the company. The company is also exposed to the risk of losses due to some of the partners or owners leaving the company who holds all the responsibility of the management of the company. The company involves workforce in its production process. Hence it is exposed to the risk of loss due to any kind of mishaps concerned with its workforce as well. Lastly, the company is also exposed to the losses that it might have to incur in cases of any unexpected events like natural disasters causing damages to the company buildings and establishments.

Risk Management An effective risk management strategy needs to be employed by the company to address all the different kinds of risk exposures that have been identified as mentioned above. Analysis of all the identified loss exposures requires estimation and measurement of the frequency of occurrence of such losses and the severity of those losses. This would help in prioritizing the different kinds of loss exposures and thereby formulating an effective risk management plan for the company. The company needs to implement appropriate risk control and financing techniques for treating all its risk exposures. All the loss exposures that have been identified could be controlled through either avoidance of such loss exposures or by preventing or reducing the occurrence of such loss exposures. Like the loss of property can be prevented by buying insurance for it. Loss exposure due to outsourcing can be avoided through the production of muffins by the

company itself. The loss exposure due to partners leaving the company could be prevented by motivating the partners and increasing their moral. Next regarding losses due to issues related with the workforce of the company could be prevented through proper maintenance of the workplace and removing any existing hazardous working conditions in the production units. Recommendations It is recommended that the company should look into all the owned properties to find out whether anything is insured or not. All the properties must be insured to prevent property losses. Next, the company should give the highest priority towards its loss exposure to liquidated damages related to the new contract and take all necessary steps towards the fulfillment of the conditions of the contract. Further it is suggested that the company could easily retain the losses due to increased compensation when required. Lastly, the company should avoid the loss exposure of setting up a new production facility at Ohio and should opt for the expansion of its existing production lines to cater to the increased demand because of the new contract accepted. References Rejda, G. E. (2011). Principles of Risk Management and Insurance. (10th Ed.). New Delhi: Pearson Education. State of Maine: Risk Management Division. (2005). Loss Control and Safety. Retrieved from <http://www.maine.gov/bgs/riskmanage/losscontrol/index.htm>.