Differences between avoiding risk and accepting risk

Business

Q: Detail out the differences between avoiding risk and accepting riskThis essay highlights the main differences between avoiding risks and accepting risks by the management board of a given business firm depending on various factors. Business organizations should be aware of the existence of risks and challenges before they undertake a new project. The organizations should ensure that risks are well understood so that they can be managed, mitigated and well planned before the actual execution of the project.

Therefore, such risks and challenges should be managed and controlled through the processes of project planning and project tracking oversight (Bardach, 2000). Risk acceptance and risk avoidance are some of the strategies that can be deployed by the management authorities of the business organization to solve the problem of risks. A risk refers to any factor that has the possibility of causing harm and or loss to a given business organization or a certain project (Nam, 2007). It can also be defined as factors that might limit a business firm or organization from obtaining its objective or its main goals or the factors that have the potential of interfering with the completion or succession of a given project. Risk avoidance refers to the measures and the decisions that business organizations make in order to prevent risks from coming into existence in the first place.

It is one of the techniques and strategies applied by various business firms to minimize the risk of loss to which the project of the organization is exposed to (Mashatan, 2011). It is a negative approach to the processes of managing challenges and risks give the advancement to personal and economic progress which requires the organizations to be risk-takers. The business firms can decide not to engage in or undertake projectiles and activities which they consider to be of high risk or completion. Business firms should only resort to the strategy of risk avoidance where exposure of risk to the project is either catastrophic or cannot be transferred to insurance of firms. This strategy is also undertaken by firms when the risk cannot be reduced greatly, but if it is used extensively by firms who are engaged in the running of given projects, theseorganizations are unlikely to achieve their main goals and objectives. On the other hand, risk acceptance can be defined as the decisions made by business organizations to deal with the challenges and risks that they are exposed to.

The undertaking decisions concerning risks can be voluntary or involuntary, funded or unfunded, intentional or unintentional. The risks and challenges that firms encounter are unlimited and the business organizations can do nothing about them other than to accept them and retain them. Evidently, this is the last resort on risk management strategy by the business organizations if the challenges and risks exposed to the firm cannot be transferred, avoided or reduced (Maggio & Powell, 1991). When firms utilize this strategy to deal with the challenges and risks that face them, some financial amount is provided in advance to cover for the anticipated financial consequences of the risks of the given project. This is usually referre to as self-assurance in the field of risk management.

Risk acceptance is one of the risk management tools, whereas risk avoidance is a risk management tool that falls in the category of risk control. Risk acceptance is possible for the business organizations if their projects are distributed such that the possibility of the risks taking place to all the projects at the same time is minimal or none at all. Q: From my opinion the risk of the project can be eliminated or not if the project is carefully planned. In my opinion which is based on the intensive research, the risks that face the success of a given project cannot be completely eliminated but they can accepted be reduced to manageable quantities or they can be transferred to an insurance organizations depending on its impact (Hogwood & Lewis, 1984). Business organizations should ensure that the mechanisms which are put in place to counter these eventualities and the subsequent losses are minimized.

The management board should implement the established methods and strategies of cutting down the costs resulting from occurrence of the insured risks or challenges. To evaluate and simulate the statement that the risk cannot be eliminated even though the project is carefully planned, I conducted a research on Freelance Roads Network, a company that deals with the constructions of roads within and without the country and these are some of the risks that the company exposed despite the thorough preparation done by the contractors of the company. 1. The staff and EmployeesThe company had planned to recruit the local people on contract basis to work on the construction of the roads in the area. This assumption posed many questions for the company exemplified by the uncertainty of the contractors. For instance, the availability of the local employees was in question and the quality of the labor that the company was going to recruit was not determined.

All these challenges, despite the preparation that was conducted by the management team, would eventually lead to the downfall of the project. Their plan was appealing at the initial stage but when the actual work began, the progress and success of the project was severely affected (Narver & Stanley, 1990). 2. The actual site of the projectThe initial assessment of the site which presented the road construction company proved to be faultless due to the unseen future occurrences. However, when the actual construction of the roads had begun, the company realized the necessity of extra costs to displace the people from their homes which were already built in the area. Other problems such as the terrain of the land meant that the construction company led to the increase in the costs of the project and these extra costs had not been accounted in the initial analysis (Fischhoff, B.

, et, el, 2000). 3. The projected economic growth of the country. The construction had expected that the economic growth of the company would drastically improve in the next few years before the actual construction of the roads began. It implied that the overall cost of construction would decrease to the advantage of the firm. However, this assumption would not be ascertained with accuracy and the economy of the nation performed poorly in the next few years.

Therefore, it meant that the project would no longer be viable and had to be abandoned despite the planning that was carried before. This was evident that avoidance of risk should not have been encouraged in the first place by the contractors of the road construction company. 4. The natural and Climatical conditionsThis involves the natural calamities that are related to the weather conditions and the climate of the country. It includes natural occurrences such as floods due to heavy rains, thunderstorms, and droughts.

The contractors had initially assessed that levels of floods would be manageable and went ahead and start their work. Inadvertently, the construction area was marred with heavy downfall leading the over flooding. The company had to abandon the whole project and the expenses they had already incurredGibson & Greenhalgh, G. et. al, 1995). The resources that they had already used, the equipment and cost of hiring the local employees translated into liability for the firm.

Despite the preparation the company had done, the risk was not fully eliminated. 5. Pilferage and theftThe company had initially planned that all their equipments would be safe and no extra measures were taken in case of any eventualities. However, some of the equipments of the company were stolen owing to the spontaneous chaos that was witnessed in the area. As a result, the company experienced significant losses which proved that all risks cannot be eliminated no matter how well the initial planning was developed (Sjoberg, 2000).

In conclusion based on the above findings from my research, it is evident that there was a progress of the road construction by the Freelance Roads Network. The initial implementation and progress of the project was steady and effective. However, the project faced risks and challenges that were not initially in the plan and these had changed the whole picture and the general direction that the project took. The company incurred significant losses despite the initial analysis they had carried out on the viability of the project.

Companies and other business organizations cannot fully eliminate the problems that arise from risks and challenges that were unforeseen.

Hence, it is necessary for business organizations and other companies to accept the occurrence and the uncertainty of risks and take precautionary measures such as risk acceptance. This will translate the adoption of better methods and will improve the process of dealing with the losses that come with the occurrence of risks to the projects of the firm. It will significantly cut down the overall costs of the firm making the projects worthwhile and profitable in the long run.