CHAPTER 12

Risk Management

12.1 Business Risks

12.2 Insure Against Risks

12.3 Other Risks

www.cengage.com/school/entrepreneurship/ideas
Scott Alterman started making money at an early age. In high school, he had a lawn mowing business and a car detailing business, and he collected and sold baseball cards. After college, Scott joined his brother, Greg, who was running Gagwear, a small company in Atlanta that served the corporate market with customized apparel. The Alterman brothers began manufacturing edgier and higher-quality apparel than what was typically offered in their target market. They started with caps that included their own label with a phone number on them. They took a risk by importing thousands of caps before they had sold one. Their customers took notice. Ironically, they had many inquiries from competitors wanting to buy the blank hats, so they decided to start a “blanks” division. This was the beginning of Alternative Apparel, the wholesale division. Scott concentrated his efforts on Gagwear while Greg developed Alternative Apparel.

Gagwear’s customer base was small- to medium-sized corporate customers. Scott wanted to grow Gagwear by calling on retailers and larger customers but needed to continue to serve the current customer base. So another company, The Icebox, a full-service advertising-specialty company serving small- to medium-sized companies, was born. The Alterman brothers brought in a partner, Jordy Gamson, to run The Icebox. Later, Scott and Jordy decided to merge Gagwear and The Icebox divisions and operate both under The Icebox name. Greg is now running Alternative Apparel while Scott and Jordy run The Icebox.

Meanwhile, Alternative Apparel had begun to experience serious growth. The decision was made to completely separate Alternative Apparel and The Icebox to let them grow properly. The businesses quit sharing employees, and each got financing to evolve on its own.

The growth of The Icebox did not come without risks. With a $2 million note for his new building along with a $1.2 million line of credit, Scott realized the financial risk he faced. He also knew he would face risk every time he extended credit to a customer. Scott wanted to be customer-friendly by extending credit to customers most other businesses would consider too risky. On the other hand, after The Icebox became a separate company, Scott was able to eliminate some of the risks associated with the production side of his business. Rather than incur the financial risks of buying and repairing equipment and hiring production employees, The Icebox decided to use contract companies for screenprinting and embroidery.

1. What unmet need did the Alterman brothers uncover?
2. How does Scott take a risk by extending credit to customers?
3. Why is contracted work less risky for The Icebox?
“Kristin,” Ty asked his partner, “what do you think would happen to our web hosting business if our computers or computer data were stolen or hacked into?”

“Wow, Ty, we’ve never really thought about that. We just come in every day and do our work. We do back up our work periodically, but we just put the CDs in our file cabinet.”

“I know,” Ty responded, “I started thinking about it after I read about a business that had all of its computers stolen one night. And I realized we have no emergency plan in place.”

“We sure don’t, but I bet we will have something figured out by tomorrow!” Kristin said.

Work as a Team What risks do you think Ty and Kristin would face if all their computers were destroyed or computer data were compromised? What steps do you think they should take to be prepared in case this would happen?

Dealing with Business Risks
As an independent businessperson, you will face many risks. Risk is the possibility of some kind of loss. Risks can be categorized as human risk, natural risk, and economic risk. Risk management is taking action to prevent or reduce the possibility of loss to your business. You can avoid risk, assume risk, or transfer risk.

Identifying Risks
Human risks are those caused by the actions of individuals, such as employees or customers. Examples include shoplifting, employee theft, robbery, credit card fraud, and bounced checks. Natural risks are caused by acts of nature. Examples are storms, fires, floods, and earthquakes. The occurrence of any of these could bring about...
tremendous loss to a business. Economic risks occur because of changes in business conditions.

**Preparing to Face Risks**

As an entrepreneur, you must be prepared to face all kinds of risks. You will need to decide the best strategy for dealing with risks. You may decide to avoid the risk. For example, if you think a product you are developing will not meet market needs, you may decide to avoid financial risks caused by low sales by halting production of the product.

You may decide to assume the risk if you determine the risk is low. If your market research indicates the product you are developing will be successful with your target market, you will most likely produce and sell the product even though there is still a chance of lower sales than expected.

Transferring the risk is another option. You will be able to protect yourself against the financial losses from some risks by purchasing insurance. Insurance transfers the risk of financial loss to the insurance company.

You never know when a disaster may strike, but you should have a plan of action in place when it does. When Hurricane Katrina struck New Orleans in 2005, many business owners were not prepared for the loss of property and income that occurred. You need to have a plan in place so that if something does happen, you can recover and restart business operations quickly. To prepare for risks, you should do the following:

1. Determine what can go wrong.
2. Develop a plan.
3. Communicate your plan.

**DETERMINE WHAT CAN GO WRONG**

As a business owner, the first thing you need to do is conduct a risk assessment. A **risk assessment** involves looking at all aspects of your business and determining the risks you face. During this assessment, you should:

- Learn the risks your business faces.
- Decide how the risks would affect your business.
- Prioritize the risks by the impact they will have on your business.

**DEVELOP A PLAN**

Once you have identified the risks that could affect your business, you should develop a written plan for dealing with them. When developing a risk management plan, you may have to comply with certain laws. For example, OSHA (Occupational Safety and Health Administration) requires businesses to have an evacuation plan for emergencies. There are many good sources available to help you establish an effective risk management plan. If you are developing an emergency action plan, the National Safety Council, a nongovernmental organization that promotes safety, is a good source. It recommends that the following items be included in your emergency action plan.

- Chain-of-command information, including names and job titles of the people responsible for making decisions, monitoring response actions, and recovering back-to-normal operations.
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• The names of individuals responsible for assessing the degree of risk to life and property and who should be notified for different types of emergencies
• Preferred method for reporting fires and other emergencies
• Specific instructions for shutting down equipment and other business activities and procedures for employees who must shut down equipment before they evacuate the facility
• Facility evacuation procedures, including maps showing the best and alternate exit routes
• Specific training for those who are responsible for responding to emergencies

Be sure to have a recovery plan in place if you suffer a setback. A recovery plan will enable you to get back to business as quickly as possible. If you suffer a loss due to a fire, have a plan for temporarily relocating, getting replacement equipment, and retrieving lost data. If one of your suppliers is out of stock of a component needed in the production of your product, have another supplier lined up. A recovery plan will help you continue to meet your customers’ needs.

Review your risk management plan periodically. As your business develops and grows, risks facing your business may change. Revise your risk management plan to accommodate your changing needs.

**COMMUNICATE YOUR PLAN** Let your managers and employees know about your plan for handling risks. To ensure your plan is carried out properly, assign activities and responsibilities to the appropriate people. For example, to protect against the risk of a faulty product, assign the production manager the task of checking the quality of the finished product. If you plan to run an advertisement for an upcoming sale, make sure someone is responsible for placing the ad in the appropriate media at the appropriate time to avoid the risk of lost sales. If you want to protect your computer system from the risks of viruses and computer hackers, you can work with a computer security expert.

To address the risks related to emergencies, provide training for all employees to show them what to do in the event of any type of emergency. Work with your managers and employees to be sure all risks are addressed.

**CHECKPOINT**

What should you do to prepare for business risks?
Types of Theft

One of the biggest risks that businesses face is theft. Shoplifters and employees may steal your merchandise. Burglars may break into your business and steal your equipment. Customers may use stolen credit cards or write checks when they don’t have money in their account. Once you have identified the theft risks you face, you can determine what security precautions you need to take.

Shoplifting

Shoplifting is the act of knowingly taking items from a business without paying. Customers shoplift millions of dollars in merchandise every year. The problem exists in virtually every type of retail business.

If you own a retail business, you will have to take steps to prevent or reduce shoplifting. Some of the things you can do include the following:

- Instruct your employees to watch for customers who appear suspicious.
- Hire security guards or off-duty police officers to patrol your store.
- Post signs indicating that you prosecute shoplifters.
- Ask incoming customers to leave their bags behind the counter.
- Install electronic devices, such as mounted video cameras, electronic merchandise tags, and point-of-exit sensors, to detect shoplifters.

Employee Theft

Most employees are hard working and honest, but there are a few who will take things from your business, such as office supplies, equipment, merchandise, and even money. These employees can negatively impact your business financially.

As an entrepreneur, you need to be aware of the possibility of employee theft. You need to take steps to prevent the problem from occurring. You also need to know how to detect the problem and to handle it once it is detected.

Some businesses, such as restaurants and retail stores, are more vulnerable to employee theft than others. If you own such a business, you may need to adopt the following procedures:

1. Prevent dishonest employees from joining your company. Screen job applicants very carefully. Consider using a company that specializes in verifying job applicants’ educational backgrounds and searching their criminal records, driver’s license reports, civil court records, and credit reports.

2. Install surveillance systems. Often the mere knowledge that they are being watched will deter potential shoplifters.

Shoplifters can be male or female, any race or color, children or senior citizens. Anyone who deliberately takes merchandise from a store without paying for it is a shoplifter, no matter the value of the item taken. The Kansas Bureau of Investigation has created a pamphlet that discusses the various types of shoplifters and how retailers can identify them. Access www.cengage.com/school/entrepreneurship/ideas and click on the link for Chapter 12. Read more about shoplifters. What are the six types of shoplifter? Which do you think is the hardest for retailers to spot? What are some of the signs to look for when trying to spot shoplifters?
filmed by a video camera deters employees from stealing.

3. Establish a tough company policy regarding employee theft. Your company policy should detail the consequences of employee theft. Make sure that all employees are aware of the policy.

4. Be on the lookout. Watch for cash discrepancies, missing merchandise or supplies, vehicles parked close to loading areas, and other signs that something may be wrong. Keep an eye on employees who seem to work at odd hours, perform their jobs poorly, or complain unreasonably. Make inquiries if an employee has an unexplained close relationship with a supplier or customer or has a personal lifestyle that seems inconsistent with his or her salary.

Robbery
Almost all businesses are vulnerable to robberies. You can choose what is considered a safe area of town to locate your business to guard against being robbed. You can also install dead-bolt locks and burglary alarms. To limit losses in the event of a robbery, many businesses keep a minimal amount of cash in the cash register. Once more than a certain amount is received, the cash is transferred to a safe. Some businesses also use surveillance cameras, which deter prospective robbers from entering the business in the first place. Be aware that you may be robbed regardless of the number of preventative measures you take. It is simply a risk of being open for business.

Credit Card Fraud
Business owners lose millions of dollars every year because of stolen credit cards. If a purchase is made on a stolen credit card, a business may not be able to collect the money. To prevent stolen credit cards from being used to purchase goods, you can install an electronic credit authorization. This machine checks to see if a credit card is valid. If the card has been reported stolen or if the cardholder has exceeded the credit limit, authorization will not be granted.

Bounced Checks
A bounced check is a check that the bank returns to the payee (the person or business to
whom the check is made payable) because the check writer’s checking account has insufficient funds to cover the amount. Bounced checks are also called bad checks. Preventing losses from bad checks is difficult. To minimize losses, you can establish a policy of accepting checks drawn on in-state banks only. You can also charge a fee if a customer writes a bad check to your business. Asking for identification, such as a driver’s license, can help you track down a person who writes you a bad check so that you can collect the money due. If bad checks are a serious problem in your area, you may decide not to accept checks at all.

CHECKPOINT

How can you protect your business from theft?

12.1 ASSESSMENT

THINK ABOUT IT

1. What are the categories of business risk? Provide three examples of each.
2. What are some steps that you can take to minimize employee theft?
3. You own a pizza shop. You suspect that one of your delivery people is charging customers more than what they actually owe and keeping the difference. How would you handle this situation?

MAKE ACADEMIC CONNECTIONS

4. MATH At closing, the Old World Café’s cash register receipts totaled $884. The cash in the register equaled $534, and the credit card slips equaled $237. How much of the proceeds are not accounted for? What might explain the difference?
5. COMMUNICATION Think about your school as if it were a business. How can your school identify and deal with the risks it faces? Access www.cengage.com/school/entrepreneurship/ideas. Click on Activities and open the file Risk Management Plan. Print a copy and complete the activity. Share your plan with the class.

Teamwork

Last year, the holiday season profits at Ray’s Sporting Goods were reduced significantly because of shoplifting. Form teams and brainstorm ways to approach the problem this year. Put together a proposal containing your recommendations for Ray. Share your recommendations with the rest of the class.
Carlos thought he had found the perfect location for his new restaurant. He wanted to have a large outdoor patio with a great view, and this location had exactly what he wanted. The patio looked out over a river, and there were many beautiful shade trees. Carlos decided to talk to the owner of the previous restaurant that had occupied the site. He told Carlos that his restaurant had flourished until the river flooded and caused extensive water damage. The owner made the repairs but was never able to recover financially, so he went out of business. This concerned Carlos and made him wonder if this was really the ideal spot.

**Work as a Team** What do you think Carlos should do? If he decides to locate here, what can he do to protect his investment?

**Classification of Risk**
As a business owner, you are at risk from more than just criminal activity. A fire could destroy your building. An accident could injure an employee. A broken water pipe could ruin your inventory. One precaution you can take to protect against financial loss is to purchase insurance. A payment made to an insurance company to cover the cost of insurance is a **premium**. It is the price paid to cover a specified risk for a specific period of time.

Business owners face many types of risk. The classifications of risk are based on the result of the risk, controllability of the risk, and insurability of the risk.

**Result of the Risk**
A **pure risk** presents the chance of loss but no opportunity for gain. If you have a vehicle that is used in your business, every
time it goes out on the road there is the risk of an accident. If there is an accident, a loss will likely be suffered. However, if an accident is avoided, there is no opportunity for gain.

A speculative risk offers you the chance to gain as well as lose from the event or activity. Investing in the stock market is a good example of a speculative risk. When you invest money, you have the chance to make money if the stock price rises. However, if the stock price falls, you risk the chance of losing money.

**Controllability of the Risk**

A controllable risk is one that can be reduced or possibly even avoided by actions you take. Installing a security system in your business could lessen the risk of your business being robbed.

An uncontrollable risk is one on which actions have no effect. The weather cannot be controlled, but it can have a tremendous effect on some businesses. If a hurricane hits a resort town, a dramatic decrease in business and loss of profit will result. But if the weather is sunny and warm, tourism will flourish and business owners may make a profit.

**Insurability of the Risk**

A risk is an insurable risk if it is a pure risk faced by a large number of people and the amount of the loss can be predicted. Buildings that house businesses are susceptible to fire. Nearly all businesses face this risk, and past statistics can help insurance companies predict the amount of loss and percentage of businesses that will suffer fire losses annually. Insurance companies can sell fire insurance to help cover losses. The premiums of all those insured are pooled and used to help those who incur losses.

If there is a risk that a loss will occur and the amount of the loss cannot be predicted, the risk is uninsured. An insurance company would have no way of determining the premiums to charge or the amount of funds to pool to cover unpredictable losses. A business may move to a new location, and customers may not follow. The loss of income that could result cannot be predicted and, thus, is not insurable.

According to the Bureau of Economic Crisis (BEA), the overall economic impact of Hurricane Katrina was estimated to be about $150 billion, which was the most costly natural disaster in United States history.
What is the difference between a pure risk and a speculative risk?

Uninsurable Risks
Sometimes things happen in the business world that are not covered by insurance, which can be very costly to a business. Insurance does not cover risks that cannot be reasonably predicted or for which the financial loss to the business cannot be calculated. These risks are tied to economic conditions, consumer demand, competitors’ actions, technology changes, local factors, and business operations.

Economic Conditions
Managers must constantly study economic conditions. Changes in economic conditions can result from an increase or decrease in competition, shifts in population, inflation or recession, and government regulations. World events can also result in economic changes. The terrorist acts of September 11, 2001 caused a dramatic downturn in the U.S. economy, resulting in major cutbacks and layoffs by businesses. This decreased the amount of disposable income for many Americans, which resulted in losses for many entrepreneurs. When the economy takes a downward turn, a business must respond quickly by cutting production and expenses.

Consumer Demand
Businesses produce products and services that they think consumers want to buy. Business owners must research consumer needs and wants. If they can predict a change in demand, they may be able to profit by producing and selling a new product or service. However, if consumer demands change suddenly, the company may end up with products in its inventory that it cannot sell.

Competitors’ Actions
Business is competitive. As a business owner, you must be aware of your competitors and their actions. A major advertising campaign or a drop in price by your competitors may result in a change in your volume of sales. You must be ready to respond to actions by your competitors to minimize the risk to your business.

Technology Changes
Changes in technology bring about changes in business. As a business owner, you need to stay up to date on technology trends. Evaluate new
technology and see if it can help your business. Updates to technology can be a major expense but can alternatively provide efficiencies and help you serve customers better. If customers view your business as outdated, you may lose customer loyalty and sales to your competition.

**Local Factors**
Businesses can suffer due to activities that occur in their local community. If there is an increase in local taxes or a change in local business regulations, it can affect your business. If a local government makes improvements to the infrastructure, such as road or utility improvement, it can help your business in the long term. In the short term, it may result in a loss of business because ongoing construction could cause customers to detour around your business.

**Business Operations**
The management of a business contributes directly to the success or failure of the business. A business that is poorly managed can have high employee turnover, poor customer service, higher expenses, and other problems. Poorly trained employees can also cause operational problems. Managers and employees must work together to ensure the success of the business.

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**CHECKPOINT**

**Why are some risks uninsurable?**

**Types of Insurance**
Purchasing insurance is one of the best ways you can prepare for the unexpected. There are many options for insurance. You will have to examine the risks you identify and their potential impact on your business to determine if you need to insure against the risk.

**Business Insurance**
Insurance companies selling business insurance offer policies that combine protection from all major property and liability risks in one package. These coverages are also sold separately. Package policies are created for businesses that generally face the same kind and degree of risk. Large companies might purchase a commercial package policy or customize their policies to meet the special risks they face. Many small and mid-sized businesses purchase a package known as a business owner’s policy (BOP), which typically includes the following:

- **Property insurance** This type of insurance provides coverage for damage to buildings and the contents inside the buildings, such as furniture, fixtures, equipment, and merchandise owned by the business.
- **Business interruption insurance**  This type of insurance covers the loss of income resulting from a fire or other catastrophe that disrupts the operation of the business. It can also cover the extra expense of operating out of a temporary location.

- **Liability protection**  This type of insurance covers your company’s legal responsibility for the harm it may cause to others as a result of what you and your employees do or fail to do in your business operations. Harm may involve bodily injury or property damage due to defective products, faulty installations, and errors in services provided.

  BOPs do not cover auto insurance, workers’ compensation, or health and disability insurance. They also do not cover professional liability, which involves claims of negligent actions by business professionals such as doctors. You will need separate insurance policies to cover these items.

**Life Insurance**

Life insurance is paid in the event of the death of the insured. It is intended to provide financial support for families should the income earner die. A business owner may buy life insurance so that his or her heirs have enough money to continue the business.

**Other Kinds of Insurance**

Other types of insurance that you may want to purchase include flood, crime, and renter’s insurance. Flood protection is not standard with property insurance, so you may have to purchase it separately. Crime insurance protects against losses resulting from crime, such as robbery, computer fraud, or employee theft. Renter’s insurance covers the contents owned by the renter inside the leased space. The actual owner of the building would purchase insurance for the building. Depending on your business and its location, you may or may not decide to purchase these additional kinds of protection.

**CHECKPOINT**

**What types of insurance can you purchase for your business?**

**Buy Insurance**

Buying insurance can be complicated. Is it possible to have too much or too little insurance? A good insurance agent can help you make decisions about insurance coverage.

**Choose an Insurance Agent**

Insurance is sold by agents. An agent can be independent and represent many different insurance companies or work for a single insurance company. Before selecting an insurance provider, talk to an agent who represents more than one insurer or ask representatives of several different companies to talk with you about their policies.
The market for insurance is competitive, so many agents will be eager to sell you insurance. To get the best price, contact a few agents and compare prices and policies. Then consider how you feel about the agents. Remember that the person who sells you the policy will be involved in processing your claim should you ever need to collect on your policy. It is therefore important to choose someone whom you trust. You may already have an agent you trust with your car insurance or other types of insurance. That agent can be a good starting point in your research.

**Determine How Much Coverage You Need**

To determine the kinds and amounts of coverage you need, start by making a list of the property you own. Include equipment, inventory, vehicles, and other significant assets, and put a value next to each. Then think about the kinds of risk you would like to insure against. If, for example, your business is located near a river, you may want to purchase flood insurance. If you live in a low-crime area, you may decide against insurance that covers break-ins. Understand, however, the implications of not having insurance if something should happen.

The next step is determining how much coverage you need. Be sure you have enough insurance to cover any and all debts you may have incurred while starting your business. Li-Li Tang, owner of Computer Systems, has a $50,000 bank loan on her business as well as two small loans.

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**GOODBYE, GORGEOUS!**

Edie opened her beauty salon “Hello, Gorgeous!” by taking out a $40,000 loan to help pay for the renovations and equipment she needed. She had two hair stylists working in the salon as contract employees. They paid her monthly rent to use space in the salon. The combined rent they were paying helped cover about 50 percent of the monthly operating expenses.

Edie took out a business owner’s insurance policy for $20,000 worth of coverage. Edie was making enough money to pay her monthly expenses, but not enough to save at this point. After six months of being in business, there was a fire in the salon. Hello, Gorgeous! was completely destroyed. The cause of the fire was a curling iron that Edie left on over the weekend.

Edie still owed over $35,000 on the business loan she obtained. Her contracted employees immediately moved to another salon. Suddenly, Edie was all alone without any income or savings and not enough insurance to cover her loan. She was forced to close Hello, Gorgeous! and take a job working at another salon to pay off her debt.

**THINK CRITICALLY**

1. Do you think Edie was prepared to deal with business risks?
2. What mistake did Edie make when purchasing insurance?

Don’t trim costs by buying less insurance coverage than you need.
for $5,000 each. She wants to get at least $60,000 worth of property insurance to cover these outstanding debts in the event of a problem.

Insurance agents earn commissions on the amount of coverage they sell. To make sure you need all the coverage your agent suggests, talk to other business owners in your area or counselors from SCORE or the SBA.

**CHECKPOINT**

**How can you determine how much insurance you need?**

**12.2 ASSESSMENT**

**THINK ABOUT IT**

1. What factors must be considered when classifying risks?
2. Provide three examples of risks that are uninsurable.
3. Tim Stanton has just opened a surf shop on the beach in South Florida. He has purchased property insurance to cover possible losses against his building, fixtures, equipment, merchandise, and other assets. Against what additional risks should he consider insuring his business?
4. What factors should you consider when choosing an insurance agent?

**MAKE ACADEMIC CONNECTIONS**

5. **MATH** You have taken out a loan for $50,000 to start your business. As a condition of the loan, your bank requires you to carry property insurance for at least the amount of the loan. Your property is valued at a total of $100,000. Your agent recommends you carry property insurance covering at least 80 percent of your property’s value. If annual insurance premiums are $15 per $1,000 of coverage, how much will you pay for insurance to satisfy your bank loan requirement? How much will you pay if you follow your agent’s recommendation?

6. **COMMUNICATION** You have just opened an insurance agency that specializes in insuring businesses. Write a sales letter to prospective customers introducing yourself and your services.

**Teamwork**

Choose a partner. One partner should assume the role of an entrepreneur who just took out a loan to open a roller skating rink. The other should play the role of an insurance agent who must educate the new owner about the types of insurance available. Working together, use the Internet and other resources to research information about the types of insurance a skating rink should carry. Then role-play the conversation between the insurance agent and the business owner.
Dale realized that there were many risks he would face as the business owner of a new sporting goods store. He called his friend Monica for some advice. Monica had been in business for almost two years and had gained valuable business experience.

“Dale, it’s good that you came to me,” Monica replied. “I’ve got lots of information for you. I know you have learned about insurable and uninsurable risks, but there are some hidden risks you might not think about. I thought I could increase sales and provide customers a convenient service by offering them a store credit account, but you wouldn’t believe how many people never paid the first bill! Then my maintenance employee fell off a ladder while painting. He had to spend two weeks in the hospital. I could go on and on.”

“Yes, Monica, I think you have given me plenty to think about. There are many more risks to consider than I was aware of!” Dale replied.

**Work as a Team**

What do you think Dale can learn from Monica’s experiences? What can Dale do to minimize the risks Monica mentioned?

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**Risks of Credit**

As a business begins operation, there will be costs that will be too expensive for the entrepreneur to pay all at once. Credit makes it possible for the entrepreneur to make these costly purchases. The business owner will also have to make decisions about extending credit to customers. When a business extends credit to customers, it is entering into a voluntarily created debtor-creditor relationship. For example, when a person purchases an appliance and finances the cost, the business and purchaser now have a debtor-creditor...
relationship. Examples of voluntarily created debtor-creditor relationships include loans of all types, credit lines, and the use of credit cards. Involuntarily created debtor-creditor relationships also exist. For example, if the delivery driver of a small business is at fault in a traffic accident and injures someone, the business can be required to compensate the injured person. These types of risks can be minimized through insurance, however.

Debtor-creditor relationships that involve extending credit can help increase a business’s sales. However, a business will need to decide if extending credit will result in an overall increase in income. Although credit is useful to a business when buying or selling, there are risks involved. It is important for you as an entrepreneur to understand these risks.

Types of Credit
Credit can be categorized according to whom the credit is offered. Like bank loans, the credit a business offers its customers can be secured or unsecured.

TRADE CREDIT When one business allows another business to buy now and pay later, it is offering trade credit. Many purchases a business owner will make from other businesses will be made with trade credit. The negotiated price of products purchased on trade credit will often be higher than the cash price. This is necessary because there is a lapse of time that occurs from when the sale is negotiated to when the products are actually delivered and the supplier is paid. Because of this delay in receiving payment, the supplier charges a higher price. As the business owner, you will need to be sure that you have the money to cover your expenses when they are due in order to protect your credit record.

On March 29, Raul Gomez places an order with Bear Creek Embroidery for three-dozen golf shirts with his company logo embroidered on them. On April 1, Bear Creek Embroidery negotiates the purchase of three-dozen shirts from Alternative Apparel on credit. The shirts are delivered to Bear Creek on April 15. Two weeks later, Bear Creek ships the shirts with the logos to Raul. It takes one week for the shirts to arrive and one week for Raul to process and pay Bear Creek’s invoice.

The trade credit that Alternative Apparel extends to Bear Creek allows 60 days for payment. This enables Bear Creek to receive the shirts, add the logo, ship the shirts, and receive payment from Raul in time to send payment to Alternative Apparel.
CONSUMER CREDIT

When a retail business allows its customers to buy merchandise now and pay for it later, it is offering consumer credit. Consumer credit is offered in two basic forms: loans and credit cards. A loan gives the individual a lump sum of money to spend and pay back over time with interest. If a loan is secured, it is backed by something of value that can be taken and sold if the loan is not repaid. One type of secured loan offered by retail establishments is an installment loan that is paid back with interest in equal monthly amounts over a specified period of time. Many cars and home appliances are financed with installment loans, with the financed item serving as the collateral.

An unsecured loan is granted based on the credit history of the individual. This type of loan is not backed by collateral. Most credit cards are considered unsecured loans. When a business offers its own credit card to customers, it will not receive payment for a month or more after the sale is made. Therefore, the business will need to make other arrangements to ensure it has money to cover expenses associated with the sale of the merchandise. If the customer does not pay, then the business owner can attempt to collect the money or take back the goods that were purchased.

Collection difficulties are one reason a business chooses to accept credit cards that are issued by banks or credit card companies, such as Visa, Discover, or MasterCard. The credit card company will pay the business for the amount of the purchase. The business is charged a fee by the credit card company that is a percentage of total credit sales. The credit card company is then responsible for collecting the amount charged from the customer.

If Raul Gomez offers a credit card to his customers, then Raul is responsible for collecting payment from the customer. However, if the customer pays with a Discover card, Raul gets his money from Discover, and Discover bears the burden of collecting payment from the customer.

Credit Policies

Once an entrepreneur decides to offer credit, policies must be established to help reduce risks. Policies should specify to whom credit will be extended, what products may be purchased on credit, and what the
terms of the credit will be. The terms include the amount of credit, the rate of interest charged, and the length of time before payment is required.

It will be very important for the entrepreneur to determine what type of customer will be approved for credit. Most businesses offering credit cards have customers complete a credit application to determine whether they are creditworthy, or able to pay. Some things to consider in determining who is creditworthy include the following:

- Previous credit history
- Employment record
- Assets owned
- Money available for making payments (checking and savings accounts)
- Financial references

Even though a business is careful about deciding which customers are creditworthy, there is still the risk that some customers will not pay their account balances, resulting in uncollectible accounts. If credit is extended to individuals who are not able to pay, the business loses all the money invested in the product. If the product is recovered, money will still be lost because used merchandise cannot be resold at the original selling price.

Businesses and credit card companies usually charge the customer interest on the balance due to cover the cost of the credit service. When accounts are paid on time, the interest is income for the business. However, uncollectible accounts are an expense to the business and decrease net income. Collection procedures must be established and followed carefully. This will ensure that customers are billed on time. Procedures should state how to handle customers who do not pay on time or do not pay at all.

**Checkpoint**

How can a business owner reduce the risks of offering credit?

**Risks on the Job**

Different occupations have different risks associated with them. Due to the nature of the work that is performed, some workplaces are considered to be dangerous. Some of the most dangerous occupations in America include timber cutters and loggers, commercial pilots, construction and iron workers, trash collectors, farmers and ranchers, roofers, electrical power line installers, and cab drivers. Other occupations, although not classified as dangerous, do have risks associated with them. Individuals who work in hospitals can be exposed to viruses and bacteria that can cause disease or infection. Night clerks can be a target for a robbery. Even using a computer for long stretches of time can cause injury. **Repetitive stress injuries** result from
performing the same activity repeatedly for long periods of time. They can be very painful and cause disabling injuries. With some exceptions, any harm suffered by employees at the workplace is considered to be a work-related injury.

**Federal Employees’ Compensation Act**
The Federal Employees’ Compensation Act (FECA) is a law that provides benefits to employees who have suffered work-related injuries or occupational diseases. These benefits include payment of medical expenses and compensation for lost wages. The FECA also provides for payment of benefits to dependents of employees who die from work-related injuries or diseases.

Employers are required by law to carry insurance to protect against these risks. This insurance is called workers’ compensation. The expense for this insurance is entirely the employer’s responsibility. No part of this insurance expense is paid by an employee.

**Workers’ Compensation**
Workers’ compensation laws vary from state to state but generally provide for the payment of medical bills, a percentage of lost wages, and vocational retraining if an employee is unable to resume his or her former job. Workers’ compensation will also pay a death benefit to compensate survivors if an on-the-job injury results in the death of a worker.

Once employees accept workers’ compensation benefits, they cannot sue their employer unless there is proof that the employer knew about the unsafe condition causing the accident and did not do anything to fix it.

In some states, small businesses are exempt from workers’ compensation requirements, and employees working for them are not covered. Also, business owners, independent contractors, occasional workers, domestic workers in private homes, agricultural workers, and unpaid volunteers are not covered by workers’ compensation in some states.

Employers must notify employees of their right to compensation for work-related injuries and diseases. Employees must also be notified that they cannot be fired for filing a claim and that workers’ compensation premiums cannot be deducted from their pay. Most employers display a poster in the workplace containing this information.

**Coverage Provided** Medical expenses for employees injured on the job should be covered by workers’ compensation. If an employee is out of work for more than a few days, a percentage...
of lost wages may also be covered. Lost wage payments are usually about two-thirds of the employee’s income, not to exceed state limits. If an employee is left permanently disabled from a work-related injury, the employee may be eligible for a lump-sum payment or long-term benefits. This depends on whether the employee can perform other work that pays as well as the former position. If a worker cannot earn as much as before the injury, the worker may be eligible for a long-term payment. If the worker is completely and permanently disabled, the worker may be eligible for social security benefits.

INJURIES NOT COVERED  Although laws vary from state to state, generally, the following injuries would not be covered by workers’ compensation insurance:

- Injuries individuals afflict on themselves
- Injuries suffered under the influence of alcohol or illegal drugs
- Injuries suffered during a fight that the injured employee started
- Injuries suffered while disobeying orders or violating employer policy
- Injuries suffered while committing a crime
- Injuries suffered while not on the job

FILING A CLAIM  There are certain steps that must be followed in the event of an injury or illness at the workplace. Be sure that you are familiar with these steps so that you know what you and your employee should do in the event of an accident at your business.

1. **The injured employee must notify the employer.** The employer must be notified immediately after the accident. Check your state law to determine the time limit that employees have for reporting an accident or illness.

2. **The employee must follow doctor’s orders.** If the employee does not follow the doctor’s orders, it could be grounds for denying workers’ compensation coverage. The doctor should put any special requirements for the employee in writing. Be sure the employee goes to the doctor that handles the workers’ compensation cases for your business.
3. **The employee must file the claim.** The employer must provide the employee with the proper forms, but it is the employee’s responsibility to file the claim.

**CHECKPOINT**

**What is the purpose of workers’ compensation insurance?**

**Risks in International Business**

When you start working with businesses and customers in other countries, there are risks that you may face. The stability of the economic system in other countries depends on the government’s management of its economy. An unstable government can negatively impact businesses within its borders. It can also lead to difficulties for foreign companies doing business there. The cultural and social environments of these countries will also have a great influence on your international business activities. Doing business in a foreign country can present challenges for several reasons.

1. **You may not speak the language of the countries you are targeting.** If you cannot communicate with buyers or consumers, how can you sell your service or product? Misunderstandings are likely to occur.

2. **You may not be familiar with the laws, customs, and cultures of foreign countries.** In the United States, looking directly at people while speaking to them is a sign of respect. In some other countries, it is a sign of disrespect. If you fail to recognize these
differences, you risk offending those with whom you are trying to do business.

3. **You may have to change your products or services to meet the needs of global trade.** Consumers abroad have different needs and wants than do consumers in the United States. What sells in this country will not necessarily appeal to foreign customers. You will need to consider this when you sell products or services in other countries.

4. **You will have to deal with different currency systems.** The amount of one country’s currency that can be traded for one unit of currency in another country is the exchange rate. These rates change daily depending on the country’s economic and political stability. The value of currency is affected by supply and demand. If a country’s money is believed to have a solid value, people will accept it as payment, and its value will increase. However, if a country is having financial difficulties, its currency will lose value compared to the currency of other countries.

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**MARY J. BLIGE** Having sold over 65 million records worldwide, Mary J. Blige is considered one of the greatest singers of all time. She has received nine Grammy Awards. In addition to her achievements as a singer, she is also making her mark in the business world.

Although her singing career has been extensive and includes albums, tours, and performances, she also has produced and written songs and has worked with artists like Sean “Puffy” Combs, her first manager. She has performed duets with a wide range of musicians including Ludacris (a rapper) and Andrea Bocelli (a classical music artist). In addition to singing, she has acted on the stage, screen, and television as well as in a web cartoon!

Mary was 17 when she recorded a song at a recording booth in the Galleria Mall in White Plains, New York. The recording passed through several hands before it reached the president and CEO of Uptown Records, Andre Harrell. He met with Blige and signed her to the label in 1989. She was the youngest and first female artist of the company.

In 2004, Blige began her own record label, Matriarch Records. In 2010, she launched her first perfume, My Life, on the Home Shopping Network (HSN) and an eyewear line, Melodies. She has had endorsement contracts with Reebok, Air Jordan, and many other businesses. Mary has also established the foundation FFAWN (Foundation for the Advancement of Women Now), which inspires women to reach their individual potential.

**THINK CRITICALLY**

What risks has Mary J. Blige taken to further her career?
5. **Your travel and shipping expenses may be high.** International flights can be very expensive. Sending or receiving packages overseas can also be costly.

**Strategies for Dealing with International Markets**

If you decide to conduct business globally, you should develop a plan that outlines your goals and identifies your risks. Analyze the foreign target market and perform research to learn more about the risks of doing business abroad.

Strategies recommended for dealing with the risks of international business include the following:

1. **Seek government assistance to answer your questions about international business.** Government agencies such as the Small Business Administration and the International Trade Administration can provide counseling, locate buyers overseas, and promote U.S. products and services.

2. **Conduct business in many different countries.** If you are doing business in only one country and something happens in that country, such as political upheaval, you run the risk of losing all sales and profits.

3. **Work with local business partners.** If you partner with a company that is located in the country you are targeting, your company will be better received by locals in that country.

4. **Comply with international labor standards.** Many Americans feel that the United States should require compliance with international labor standards as part of international trade agreements. Americans consider unfair labor practices in other countries morally wrong and believe that low labor standards create unfair competition for U.S. labor. Many also believe that the United States should not allow products to be imported when they have been produced under conditions that violate international labor standards. A strong majority of Americans have indicated they would pay higher prices for products to ensure that the products are not manufactured in substandard conditions.

5. **Employ local management.** If you hire managers from the country you are targeting, they will have a better understanding of the cultural and political scene of the country. They will be able to assist you in any product modifications or changes in business practices you need to make to work with the foreign market. Local management also can assist with labor issues such as how much to
pay employees, whether or not to work with a labor union, how to establish trust with employees, and how to deal with the ethical issues of the country.

6. **Learn about the other country’s culture.** Research the country’s cultural customs and beliefs. Develop cultural sensitivity.

**CHECKPOINT**

**THINK ABOUT IT**

1. What are the risks involved in using and extending credit?
2. Why are some workplace injuries not covered by workers’ compensation insurance?
3. What are some strategies you can use to reduce the risks involved with international business?

**MAKE ACADEMIC CONNECTIONS**

4. **COMMUNICATION** Working with a partner, role-play situations in which voluntary debtor-creditor relationships are created.
5. **MANAGEMENT** You are planning to open a retail store that will sell home appliances and furnishings. Decide what type of consumer credit you will offer and develop a credit policy. Present your decisions to the class.
6. **RESEARCH** Choose three countries with different currency systems. Research online the exchange rate for each country’s currency in relation to the U.S. dollar. Prepare a chart showing how they compare. Research the reasons why the value of the currency is such in relation to the U.S. dollar. Write a summary explaining what factors influence the exchange rates.

**Teamwork**

Many employers think workers abuse workers’ compensation insurance. They may hire people to investigate workers who are on medical leave to determine if they are conducting themselves in any way that is not consistent with the injuries they have claimed. Suppose a worker claims he has hurt his back and cannot work. If he is seen lifting heavy objects or climbing a ladder at his home, then the employer may have a case for discontinuing the employee’s workers’ compensation claim. Working with teammates, discuss whether you think it is ethical for employers to spy on employees. What can be done to keep workers from abusing workers’ compensation insurance?
Respect Cultural Diversity

In today’s global economy, you will come in contact with all kinds of people. Many of these people will be from cultures different from your own. You may work with people of different cultures. You may also buy from and sell to people of different cultures. As an entrepreneur, you need to appreciate different cultures for the following reasons:

• You need to be comfortable with your customers. If you are open to other cultures, you can attract more customers.

• People from different cultures may have different needs and wants. Understanding these can help you market your business more effectively.

How can you develop good relationships with everyone you do business with? There are at least five things you can do to enhance these relationships:

1. Avoid stereotyping people. Don’t assume that all people from a particular ethnic or cultural group hold the same values and opinions, behave the same way, or like the same things.

2. Focus on similarities rather than differences. Most people, regardless of their culture, want the same things in life.

3. Learn about different cultures. Learning about a different culture will make you more comfortable around people from that culture. Learn how people in a different culture live and work.

4. Make friends with someone from a different culture. The friendship will help you begin to appreciate other cultures.

5. Try to understand and identify with other people’s feelings. Try to see the world through the eyes of people from different cultures. Try to understand cultural views that are different from your own.

Try It Out

Before conducting business in another country, you will have to answer many questions. Will your product sell well in another country or will you have to make modifications to it? What aspects of the country’s culture could affect your business? What is the value of the foreign currency in relation to the U.S. currency? Access www.cengage.com/school/entrepreneurship/ideas. Click on Activities and open the file Competing in the Global Economy. Print a copy and complete the activity.
12.1 Business Risks
1. To prepare for risks, you should (1) determine what can go wrong, (2) develop a plan, and (3) communicate your plan to employees and first responders.
2. Theft is one of the biggest risks faced by business owners. Types of theft include shoplifting, employee theft, robbery, credit card fraud, and bounced checks. Business owners can take precautions to prevent these risks.

12.2 Insure Against Risks
3. Classifications of risk faced by businesses are based on the result of the risk (pure or speculative), controllability of the risk (controllable or uncontrollable), and the insurability of the risk (insurable or uninsurable).
4. Insurance does not cover risks that cannot be reasonably predicted or risks in which the financial loss cannot be calculated. These risks are tied to economic conditions, consumer demand, competitors’ actions, technology changes, local factors, and business operations.
5. You will have to analyze the risks your business faces to determine the types of insurance you should purchase. A typical business owner’s policy (BOP) covers property damage, business interruption, and liability. Depending on your situation, you may also want to purchase life, flood, crime, or renter’s insurance.
6. Before committing to an insurance purchase, compare prices and policies and seek advice from experienced business owners.

12.3 Other Risks
7. Although useful to you as a business owner and to your customers, credit has risks associated with its use. You must analyze the potential risks of credit to determine if it is wise for you to use and/or extend it.
8. Workers’ compensation insurance covers employees’ medical expenses and lost wages incurred as a result of workplace injuries and occupational illnesses.
9. To reduce international business risks, companies should seek government assistance, conduct business in many countries, involve local business partners, comply with international labor standards, employ local management, and learn about the culture.
VOCABULARY BUILDER
Match each statement with the term that best defines it. Some terms may not be used.
1. The possibility of some kind of loss
2. Taking action to prevent or reduce the possibility of loss to your business
3. Looking at all aspects of your business and determining the risks you face
4. The act of knowingly taking items from a business without paying
5. A payment to cover the cost of insurance
6. A risk that presents the chance of loss but no opportunity for gain
7. A risk on which actions have no effect
8. A pure risk faced by a large number of people and for which the amount of loss can be predicted
9. When one business allows another business to buy now and pay later
10. A law that provides for benefits to employees who have suffered work-related injuries or occupational diseases
11. A risk that can be reduced or possibly even avoided by actions you take
12. A risk that presents the chance to gain as well as lose from an event or activity

REVIEW YOUR KNOWLEDGE
13. True or False  Businesses can avoid all possible risks by purchasing insurance.
14. Conducting a risk assessment involves all of the following actions except
   a. learn the risks your business faces
   b. decide how risks will affect your business
   c. prioritize the risks by the impact they will have on your business
   d. communicate your plan
15. True or False  Credit card fraud is an example of an economic risk.
16. If there is a risk that a loss will occur and the amount of the loss cannot be predicted, the risk is __?__.
17. True or False  A credit card offered by a home furnishings center is an example of an installment loan.
18. Which of the following is not a risk associated with doing business in another country?
   a. language barriers
   b. different laws, customs, and cultures
   c. high travel and shipping costs
   d. all of the above are risks
19. A __?__ plan will enable you to get back to business as quickly as possible after a disaster and help you continue to meet customer needs.
20. Which of the following types of insurance would cover the cost to repair your office building if it were damaged by fire?
   a. property insurance
   b. business interruption insurance
   c. liability protection
   d. life insurance
21. A change in the way websites are accessed that requires new, expensive computer equipment is an example of a risk related to
   a. economic conditions
   b. consumer demand
   c. competitors’ actions
   d. technology changes

22. Which of the following types of insurance would cover losses your business incurred as a result of selling a faulty product that injured someone?
   a. property insurance
   b. business interruption insurance
   c. liability protection
   d. life insurance

23. **True or False** A speculative risk is classified as uninsurable.

24. **True or False** The credit that a retail business extends to customers is called trade credit because they are trading money for goods.

25. **True or False** When you extend credit to a customer, you are guaranteed that you will receive payment for the goods or services sold.

26. **True or False** All injuries that occur at work are covered by workers’ compensation insurance.

27. Which of the following is not a strategy for dealing with a global risk?
   a. conduct business in only one country to minimize the risk
   b. seek government assistance
   c. work with local business partners
   d. employ local management

28. **True or False** If you are leasing a building for your business, you do not need to carry renter’s insurance because the owner of the building is required to carry insurance.

### APPLY WHAT YOU LEARNED

29. You plan to open a horseback riding training center with a horse boarding facility. Make a chart and list the types of risk you will face. Categorize the risks as human, natural, or economic. Classify risks as controllable or uncontrollable and insurable or uninsurable. If the risk is insurable, list the type of insurance that you could purchase to protect against the risk.

30. Make a list of accidents and injuries that workers in a hospital could experience. Write “yes” next to the accidents and injuries that would be covered by workers’ compensation insurance. Write “no” next to those that would not be covered.

31. You own a clothing boutique and have recently expanded into catalog sales. Many of your products will be sold abroad. As your business expands, you will need additional manufacturing sources. You are looking in other countries. Explain the labor issues that will be of concern to you.
MAKE ACADEMIC CONNECTIONS

32. MATH  You are trying to decide whether to purchase security equipment for your business or hire a security guard. You research the cost of the security equipment you will need and find that it will cost $15,000 and has a useful life of 3 years. You have looked into hiring a security guard through an agency and find that it will cost you $50 per hour to hire a guard for 3 hours per day. Calculate and compare the annual cost of each and decide which will be the most cost-effective for your business.

33. COMMUNICATION  Interview a business owner in your community to find out what type of controls the owner has in place for handling cash to minimize losses due to theft. Prepare a presentation and share your findings with the class.

What Would YOU Do?

Your business is growing and you have recently hired five new employees. Your business has been exempt from paying workers’ compensation insurance premiums, but with the addition of new employees, you will no longer be exempt. You do not agree with the workers’ compensation program because of the added expense to your business. You are thinking about not paying the premiums. Would this be fair to your employees? What would happen if one of your employees had a serious injury on the job and you did not have workers’ compensation insurance?

Business Plan Project

This activity will help you continue with the development of a business plan by outlining your risk management strategy.

1. Identify risks faced by your business and establish a plan for dealing with them. Describe how the business will prevent shoplifting, employee theft, robberies, credit card fraud, and bad checks. Research how much it will cost to buy special security equipment or hire a guard. Present your proposal to the class. Prepare to defend your strategies.

2. Contact an insurance agent to obtain information on insuring your business. What types of insurance do you need? How much coverage should you buy?

3. Research workers’ compensation laws for your state. Explain how you will meet your responsibilities under these laws.

4. What are some other cultures you will be exposed to in your business? Research one of these cultures and find out information about the lifestyle and business practices associated with this culture. What cultural issues will affect your business? How will you market your product or service to this and other cultures?
“After returning from the grocery, our neighbor came home to a big mess. The laundry he had tossed into the machine prior to leaving the house had been off-balance. During the spin cycle, the water hose became loose and caused a huge water leak. Although he did his best to dry out the floors, he ultimately had to replace the hardwood flooring in the rooms bordering the laundry room. Fortunately his homeowner’s insurance covered the costs.”

How do individuals and businesses protect their assets from unexpected mishaps that result in financial expenses? How is insurance coverage matched to particular levels of need?

Insurance agents sell and service insurance policies. The agent is an intermediary between the insurance provider and the insurance buyer. Agents are responsible for explaining policies to clients and helping them obtain appropriate coverage for specific situations.

**Employment Outlook**
- Slower than average growth is anticipated.
- As insurance is a basic societal requirement, there will be a steady need for agents.
- Agents who utilize both Internet efficiencies and automated claims processing should be able to expand their client base.

**Job Titles**
- Career Agent
- Financial Services Agent
- Licensed Sales Professional
- Agency Specialist
- Property & Casualty Underwriter
- Strategy Director, Protection Business

**Needed Education/Skills**
- As insurance policies are complex, a Bachelor’s degree with a business or mathematics focus is often required.
- A state license is required to sell insurance.
- Professional certification is available to demonstrate competency in specialized areas.
- Continuing education is often mandatory.

**What's it like to work in Insurance?** Narelle, an independent insurance agent, is comparing automotive insurance policies from a variety of policy providers for her new client—a young driver. As an independent agent, Narelle matches the needs of her clients to the policies that provide the best combination of rates and coverage. Narelle knows that by providing her young client with economical, effective coverage as well as courteous service, she can probably secure him as a new long-term client.

After lunch, Narelle finishes the handouts she is preparing for tomorrow’s lunch seminar at a local Small Business Administration meeting. She is planning to discuss the appropriate types of coverage for each stage of business development. Narelle has learned that participation in professional meetings often results in valuable sales leads. As an independent agent, finding new clients is essential to her ongoing success.

**What about you?** Would you like to help individuals and businesses identify their risks and help them obtain the appropriate insurance coverage to protect their assets?
Lincoln is a national award-winning city that takes great pride in its landscaping. Beautiful Spaces is a landscaping company owned by one of the Lincoln city council members (Chris). Beautiful Spaces has contracted with Lincoln for the past several years to plant, mow, water, and maintain the medians. The company has a $400,000 annual contract for its landscaping services.

Lincoln residents have not been happy with the work performed by Beautiful Spaces. The medians are not maintained, and many projects are incomplete. Beautiful Spaces has blamed its delays on bad weather, a low supply of water, and a shortage of flowering plants.

You are the city manager for Lincoln. You must meet with Chris to let him know that the city will not honor the contract with Beautiful Spaces because the company has not fulfilled its commitment. You must also work out an acceptable financial agreement that takes into account the inadequate and incomplete work. Based on the schedule outlined in the contract, Beautiful Spaces should have completed the project 60 days ago. The contract states that a $100 fine will be charged for each day of incompletion. Beautiful Spaces has been paid $150,000 for completion of one-fourth of the total project. You will meet with Chris to discuss an acceptable agreement for ending the contract and paying the city fines for incomplete work. You have ten minutes to determine your plan of action and ten minutes to explain your plan to the owner of Beautiful Spaces. Chris (the judge) can ask questions about your plan of action following your presentation.

**Performance Indicators**

- Describe legal issues affecting businesses
- Describe the nature of legally binding contracts
- Demonstrate responsible behavior
- Demonstrate honesty and integrity
- Explain business ethics in product/service management

*Go to the DECA website for more detailed information.*

**THINK CRITICALLY**

1. What is the conflict of interest in this case?
2. Why should Beautiful Spaces pay the city of Lincoln?
3. What compromise could the city propose to reduce the fines?
4. How can the city avoid this situation in the future?

[www.deca.org](http://www.deca.org)