



Risk management: An essential component of contemporary business

Dr. Balbhadra Prasad Dewangan¹, Dr. Pushpa Dewangan²

¹ Principal & Head, Department of Economics, Ashoka College, Sarangarh, Chhattisgarh, India

² Principal & Head, Department of Economics, K.P. College Bandhapali, Sarangarh, Chhattisgarh, India

Abstract

Every firm faces a variety of dangers in the modern day. Risk is a crucial component of every business, be it governmental or private company. No company can succeed in its business if it doesn't take risks. More risk equals more success, and vice versa. In India, risk management is a contemporary trend. This essay explains risk management's definition, kinds, and advantages. It also demonstrates how a company may gradually adopt risk management. This paper's main goal is to discuss risk management as, in the current competitive business climate, a company cannot function and survive without risk management.

Keywords: Risk management, profitability, uncertainty risk management, financial risk, market risk

Introduction

The adage "No Risk No Gain" implies that we must take risks if we hope to make money. An company cannot succeed if it does not take risks. It's also claimed that higher risk equals profit, whereas lower risk equals less profit. The business climate of today is quite uncertain. Risk management is a crucial component of every organization's strategy in the modern corporate world. The risk begins as soon as money moves from one hand to another. Because risk is unavoidable, risk management has emerged as a top priority for all companies in this fiercely competitive global marketplace. The process of detecting, evaluating, and controlling legal, financial, strategic, and security threats to an organization's capital and profits is known as risk management.

An organization may avoid loss and reach its profitability goals with the use of risk management. Additionally, it guarantees efficient reporting, compliance with legal requirements, and aids in preventing harm to the organization's reputation and associated repercussions.

Literature review

Shukla Ajay and Kukreja Megha (2014): According to the research "A study of risk management in finance sector," risk management is essentially the management style of controlling the risks, and it is essential for every firm to expand and remain competitive.

AvenTerjen (2016): The paper "Risk assessment and risk management review of recent advances on their foundation" demonstrates that risk management is a recognized scientific discipline that makes a significant contribution to practical decision-making.

GhaziahLouai and Chebana Nadia (2021): "The performance of firms in Europe and the efficacy of risk management systems" The paper demonstrates that a firm's risk management and control system efficacy is crucial as it guarantees the firm's efficient management.

Ferreria Priscila and Chiar Verbano (2021): "A cross-case study on the effective application of project risk management in small and medium-sized businesses" According to the paper's conclusion, risk management may have an impact on the growth and sustainability of small and medium-sized business projects, which in turn can have an impact on the economic expansion of many nations.

Shakatreh Mamoun, Mohammeal A. and Mohamed Ibrahim (2023): "Examining the Risk Management Framework: Policy and Hedging." According to the research presented in this paper, risk management is critical for every kind of organization or individual business that encounters a variety of dangers. The aid management can control these risks.

Objective of the Study

1. To be familiar with risk management.
2. The significance of risk management in the current corporate climate.
3. To understand how risk management is used in every given firm.

Research Methodology

All of the secondary data included in this paper was gathered from different books and websites.

Hypothesis

H₁ Whether a company is private or government-owned, risk management is crucial.

H₂ Risk management is crucial to an organization's ability to function.

H₃ In the modern day, a business cannot compete with its rivals without risk management.

Risk Types in Organizations

1. **Financial Risk:** Whether a company is commercial or government-run, financial risk is a critical issue. Financial risk include risk associated with interest rates, currency fluctuations, and credit defaults, among other things. Financial market volatility is typically the cause of financial risk. Changes in interest rates, stock prices, and currencies can all contribute to financial market volatility.
2. **Market Risk:** Diversifying risk is another name for market risk. It is caused by the daily fluctuations in stock prices. There is no way to prevent this danger. It mostly consists of stocks and options. This risk emerges when a change in a market element causes the value of an investment to grow or fall.
3. **Credit Risk:** The likelihood of a financial loss as a result of a borrower's inability to repay a loan is known as credit risk. Credit risk occurs when one does not meet their obligations to their counterparty.
4. **Liquidity Risk:** The failure to complete a transaction results in liquidity risk. There are two types of liquidity risk: financing liquidity risk and asset liquidity risk. Insufficient buyers or sellers against buy and sell orders, respectively, might result in asset liquidity risk.
5. **Operational Risk:** This kind of risk is commonly linked to organizational management, such as the planning, monitoring, and reporting systems used in daily operations.
6. **Legal Risk:** A subset of financial risk is legal risk. Legal restrictions like litigation give rise to legal risk. There is a legal risk if a company suffers any monetary damages as a result of legal action.
7. **Disaster Risk:** Natural or man-made disasters are associated with these hazards. Earthquakes, floods, and flames are examples of natural disasters. On the other hand, mishaps covered by the Mines Act, the Factory Act, and other laws result in man-made disasters.
8. **Political Risk:** War risks, electoral risks, national risk, fiscal policy risks, monetary policy risks, and other political uncertainties are all considered political risks. These dangers are out of a company's control.

Process of Risk Management

According to our research, every firm must implement risk management in the modern day. The steps involved in risk management are listed below:

1. **Risk Identification:** Risks can be handled when they have been discovered. The risks connected with the business must be identified as soon as it is defined. This procedure need to be sufficiently thorough and methodical to guarantee that no risk is inadvertently overlooked.
2. **Risk Assessment:** This phase entails assessing each risk's likelihood and possible consequences.
3. **Risk Measurement and Analysis:** The appropriate management and evaluation of the business's risks comes next. Risk management will take into account the likelihood of losses, their influence on the organization's financial situation, and the capacity to forecast losses. The impact of various hazards may be estimated with the use of risk analysis.
4. **Risk Prioritizing:** In this stage, risks are ranked according to their likelihood and possible consequences.
5. **Risk Monitoring:** In this stage, risks are continually monitored, and the risk management plan is updated as necessary.

Techniques for Reducing Risk

Following risk identification, evaluation, prioritization, and monitoring, the following tactics can be used to manage it:

1. **Transfer Risk:** This is a standard procedure to reduce danger. Transferring from one location to another where the agency concerned is better suited to handle it should be attempted as often as is practical and feasible.

2. **Tolerate Risk:** Retaining the risk is the strategy. When a loss occurs, it is accepted. These risks either cannot be covered by insurance or the premiums would be too expensive.
3. **Reduce Risk:** The term "risk reduction" refers to various procedures that are in place and intended to lessen the risk that employees and organizations regularly encounter.
4. **Avoid Risk:** Avoiding the risk is another tactic that completely removes the possibility of suffering a loss as a result of a certain danger. It indicates that no risky ventures are started.
5. **Combine Risk:** Combining risks is preferable when there are several risks. This works best in situations involving financial risk. The risk can be decreased by using a single portfolio rather than having many shares and debentures.
6. **Sharing Risk:** Insuring them against a consideration in another type of risk mitigation approach allows them to share risk.
7. **Hedging Risk:** Financial risks that result in losses arise when money are exposed to changes in pricing, foreign exchange rates, and other factors. Hedging effectively lowers the loss.

Advantages of Risk Control

An company may benefit from excellent risk management in a number of ways, including

1. **Reduce Losses:** Through the identification and mitigation of possible hazards, risk management assists companies in minimizing losses.
2. **Increase Opportunities:** Organizations may take measured risks and seize new possibilities thanks to risk management.
3. **Enhance Reputation:** A company that practices effective risk management is better able to uphold its good name and win over stakeholders.
4. **Enhance Competitive Power:** Additionally, it strengthens the organization's ability to compete when it comes to risk management.
5. **Impress Credit Rating:** A company's credit rating and future financing prospects are enhanced by risk management. This is due to the fact that such a business can readily handle change at all levels.

Conclusion

We may conclude from the aforementioned study that risk management is an essential component of contemporary business and that risk and its management are of enduring significance in the current business period. Businesses that implement risk management policies are more prepared and able to navigate this cutthroat business environment. By putting effective risk management into practice, a business may identify, evaluate, and reduce possible risks, reducing losses and optimizing opportunities. An organization may accomplish its goals, boost its reputation, and make better decisions.

References

- 1 Ghosh PK. Strategic, Planning & Management, Sultan Chand & Sons, New Delhi, 2021.
- 2 Pandey IM. Financial Management, Vikas Publishing House pvt. Ltd, Utterpradesh, 2020.
- 3 Robert T demen. Decision making under uncertainty: A guide to Risk Management, U S Govt. Printing Office 1089 editin, 2019.