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Risk Management : A Crucial Aspect of Modern Business

ORIGINAL ARTICLE

Author
Dr. Arunesh Kumar Gupta
Asst. Professor (Commerce)
Vivekanand College
Raipur, Chhattisgarh, INDIA

Abstract

In present age all organization are facing different kind of risks. Risk is an important part of any organization whether it is Government or private organization. Without taking risk no organization can get success in their business. More Risk More Success, No/More Risk No Success. Risk management is a modren trend in India. This paper shows the meaning, types and benifits of Risk Management, it also shows that how an organization can implement Risk management step by step. Overall objective of this paper is to tell about risk management because without managing the risk an organization can never run and stand in this present competitive business environment.

Key Words

Risk Management, Credit Risk, Hedging Risk, Business.

Introduction

It is said that "No Risk No Gain" it means if we want to earn profit we must have to take risk. An enterprise never get success without taking risk. it is also said that more risk profit and less risk less profit. Today's business environment is very ancertain. In today's business, Risk management is an essential aspect of any organization strategies. The moment money passes from one hand to another hand the Risk Starts. Hence risk is inevitable and so risk management has become a prime concern for every business in this global competitive business world. Risk management is the process of identifying, assessing and controlling legal, financial, strategic and security risks to an organization's capital and earnings.

Risk Management help an organization to achieve profitability target and prevent loss. It is also ensures effective reporting and complacence with laws and help to avoid damage to the organization reputation and related consequences.

Review of Literature

S**hukla Ajay and KukrejaMegha (2014**), "A study of Risk management in finance sector" the study says that for any business to grow and stay in the market management style is a key and Risk management basically the management style of managing the risks.

AvenTerjen (2016), "Risk assessment and Risk management review of recent advances on their foundation" paper shows that risk management is established as a scientific field and provide important contribution in supporting decision making in practice.

GhaziahLouai and Chebana Nadia (2021), "The effectiveness of risk management system and firm performance in the europeon content" Paper shows that the effectiveness of the risk management and control system implemented by a firm plays and important role because they ensure the effective management of the firm.

FerreriaPriscila and ChiarVerbano (2021), "Successful implementation of project risk management in small and medium enterprises a cross case study" conclusion of this paper says that risk management can influence the development and sustainability of small and medium enterprises Projects and consequently the economic growth of many countrie's economies.

ShakatrehMamoun, Mohammeal A. and Mohamed Ibrahim (2023), "Reviewing the framework of Risk Management : Policy and hedging." findings of this paper from studies in that risk management is essential for any type of organization or individual firm faces various of risks. These risks can handle with the help management.

Objective of the Study

1. To know about the Risk management.
2. How Risk Management is important in present business environment.
3. To know the Risk Management application in any organization.

Research Methodology

This Paper is completely based on secondary data, which are collected from various books and websites.

Hypothesis

$\mathbf{H_1}$ Risk management plays an important role in any organization whether it is Government or private.

$\mathbf{H_2}$ Risk management is an essential aspect for operation of organization.

$\mathbf{H_3}$ Without Risk management an organization can not compete with their competitor in present era.

Type of Risks in Organization

1. **Financial Risk –** Financial Risk is a crucial risk in any organization whether it is Government or private organization. financial risk includes risk related to currency fluctuation credit defaults, Interest rates etc. Generally financial risk arises due to instability in financial market. The causes of instability in financial market may be create by movement in stock price currencies and interest rates.
2. **Market Risk -**Market risk is also known as diversifying risk. It is owing to day by day fluctuationin price of stock. This risk can not be avoided. It is mainly stock and options. This risk arises when the value of an investment will increase or decrease due to change in market factor.
3. **Credit Risk –** Credit risk is the probability of a financial loss resulting from a borrower's failure to repay a loan. If one fails to fulfill their obligation towards their counterpartner then credit risk arises.
4. **Liquidity Risk –** Liquidity Risk arises at of an inability to execute transaction. Liquidity risk can be classified into asset Liquidity risk and funding Liquidity Risk. Asset Liquidity risk arises either due to insufficient buyer or insufficient sellers against sell orders and buys orders respectively.
5. **Operational Risk –** This type of risk is broadly associated to the organization management like planning, monitoring and reporting system in the day to day management process.
6. **Legal Risk**– Legal Risk is a part of financial risk. Legal risk arises at of legal constraints such as lawsuits. Whenever organization faces any financial losses out of legal proceeding, it is a legal risk.
7. **Disaster Risk –** These risks related to disaster whether natural or man-made. Natural disaster includes fires, floods, earthquakes etc. on the other hand man-made disasters arise owing to the accidents under the factories act, mines act etc.

8. **Political Risk** – Political Risks are associated to political uncertainties which may include war risks, election risk, country risk, fiscal policy risks, monetary policy risks etc. These risks are beyond control of a firm.

Process of Risk Management

As we studied that in present period every organization have to adopt risk management. Risk management involves several steps which are given below-

1. **Risk identification -** firstly risks are identified and then they can be managed. As soon as the business is defined the identification of risks associated there with must be done. This process should be quite systematic and comprehensive enough to ensure that no risk is excluded unwittingly.
2. **Risk Assessment -** This step involves evaluating the likelihood and potential impact of each identified risk.
3. **Risk Measurement and Analysis -** The next step is the proper management and analysis of the risks associated with the business. Risk management will consider the probability or chance of the losses the impact of the losses upon the financial affairs of the organization and the ability to predict the losses. Risk analysis helps in estimating the impact of different risks.
4. **Risk Prioritizing -** This step involves prioritizing risks based on their likelihood and potential impact.
5. **Risk Monitoring -** This step involves continuously monitoring risks and updating the risk management plan as needed.

Strategies for Risk mitigation

After identification, assessment, prioritizing and monitoring the risk itcan be managed by following strategies -

1. **Transfer Risk -** This is a normal Practice to mitigate risk . As far as possible and practicable the effort should be taken to transfer from one area to another area where the agency involved is better equipped to take care of it.
2. **Tolerate Risk -** It is a Strategy to retain the risk. It is accepting the loss where it is occur. These risk either cannot be insured or associated Premiums would be infeasible.
3. **Reduce Risk -** Risk Reduction refers to different processes in place that are designed to reduce the risk that organization and worker face on a regular basis.
4. **Avoid Risk -** Another strategy is to avoid the risk this result in complete elimination of exposure to loss due to specific risk. It means no risk projects are undertaken.
5. **Combine Risk -** When more than one risk is there it is better to combine risk. This is mainly suitable in the areas of financial risk. By taking a single portfolio instead of having different shares and debentures, the risk can be reduced.
6. **Sharing Risk -** Sharing risk by insuring them against a consideration in another form of strategy to mitigate risk.
7. **Hedging Risk** - Exposure to funds to fluctuations in foreign exchange rate, prices etc bring about financial risks resulting in losses. Hedging helps in reducing the loss very well.

Benefits of Risk Management

An effective risk management provides several benefits to organization including;

1. **Reduce Losses -** Risk Management helps organizations to minimize losses by identifying and mitigating potential risks.
2. **Increase opportunities -** Risk management enable organizations to take calculated risks and capitalize on new opportunities.

3. **Enhance reputation -** Effective risk management helps organization to maintain positive reputation and build trust for stakeholders.
4. **Enhance competitive power -** it also enhance compititive power of the organization practicing risk management.
5. **Impress Credit rating -** Risk management improves a company's credit rating and ability to rise finance in near future. It is because such a company can manage change easily at all levels.

Conculsion

From the above study in conclusion we can say that risk management in a critical and crucial aspect of modern business, risk and its management are permanent importance in the present business era. The organization practicing risk management policy are better equipped and can better handle in this competitive business world. Risk management enables organization to identity assess and mitigate potential risks minimizing losses and maximizing opportunities by implementing a good risk management. An organization can improve decision - making, enhance their reputation and achieve their objectives.

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