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Risk Management in Business

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Abstract: **Risk management is an activity which integrates recognition of risk, risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources. Some traditional risk managements are focused on risks stemming from physical or legal causes (e.g. natural disasters or fires, accidents, death). Financial risk management, on the other hand, focuses on risks that can be managed using traded financial instruments. Objective of risk management is to reduce different risks related to a pre-selected domain to an acceptable. It may refer to numerous types of threats caused by environment, technology, humans, organizations and politics. The paper describes the different steps in the risk management process which methods are used in the different steps, and provides some examples for risk and safety management.**

Keywords: **Risk Management, Risk Management Process, Internet Age, Finance risk.**

1. INTRODUCTION

Risk is unavoidable and present in every human situation. It is present in daily lives, public and private sector organizations. Depending on the context (insurance, stakeholder, technical causes), there are many accepted definitions of risk in use. The common concept in all definitions is uncertainty of outcomes. Where they differ is in how they characterize outcomes. Some describe risk as having only adverse consequences, while others are neutral. One description of risk is the following: risk refers to the uncertainty that surrounds future events and outcomes. It is the expression of the likelihood and impact of an event with the potential to influence the achievement of an organization's objectives.

In the world of finance, risk management refers to the practice of identifying potential risks in advance, analyzing them and taking precautionary steps to reduce/curb the risk.

When an entity makes an investment decision, it exposes itself to a number of financial risks. The quantum of such risks depends on the type of financial instrument. These financial risks might be in the form of high inflation, volatility in capital markets, recession, bankruptcy, etc.

So, in order to minimize and control the exposure of investment to such risks, fund managers and investors practice risk management. Different levels of risk come attached with different categories of asset classes.

2. THE IMPORTANCE OF RISK MANAGEMENT IN BUSINESS

One term that has become synonymous with doing business in any industry is risk management. It’s really not enough to just open our doors and start operations without thinking ahead. Elements of risk are everywhere and when they are identified before they become an issue, it’s far easier to come up with viable solutions. Keep reading to learn more about this critical business topic.

What is Risk Management? Basically, risk management refers to identifying, assessing and taking economic control of various business risks. Risk management uses a variety of different tools to provide realistic solutions, and employees from several different levels of an organization may be involved. Some risks are easy to predict, while others are completely unpredictable and beyond anyone’s control.

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Why is Risk Management Becoming More Important? The practice of risk intelligence and risk management is becoming more of an Customers are more issue and more important in many industries because: Insurance coverage The public is more critical prone to litigation Legislation is more strict and extensive isn't as comprehensive Management is more cautious after learning from past mistakes

Key Risks All Businesses Face All businesses face risks that are unique to them and risks that are the same. Here are five that all businesses must deal with:

1) Development risk

2) Manufacturing and operations risk

3) Sales and marketing risk

4) Profit and loss risk

5) Future growth risk

3. QUALITIES OF A GOOD RISK MANAGEMENT PROGRAM

Every good risk management program has similar traits and qualities. Here are five that all good programs share:

1) The program is inclusive - it doesn't rely on just one person or group inside the business to succeed.
2) Approved by senior management - the active support of senior management will improve the likelihood of success.
3) Transparency - a risk management program works best when then the goals, process and results are shared with stakeholders.
4) Proactive - the program should include processes that take advantage of opportunities presented by variable risk.
5) Complete - A good system addresses how risk affects the company as a whole, it doesn't just identify which ones are a threat.

4. CHALLENGES ABOUND

Whatever the potential benefits of a strong risk management program, many organizations see plenty of challenges to implementing one. The biggest risk management challenge is as expected, will be obtaining adequate resources, namely, time, budget and people. New risks will be introduced through the development of new products, the introduction of new technology, and changes attributable to merger and acquisition activity. When leadership does not embrace a culture of risk management, risk improvement initiatives can be doomed from the outset.

Companies need to make sure they develop risk management programs that work. Besides addressing both variable and downside risks on an enterprise wide basis, programs are needed that should incorporate systems and processes for preventing, not just insuring against common risk factors. Insuring against the downside impact of risk factors should be a company's last and not first line of defence.

5. STEPS IN THE RISK MANAGEMENT PROCESS

According to C. Arthur Williams Jr. and Richard M. Hein's in their book Risk Management and Insurance, the risk management process typically includes six steps. These steps are:

1. determining the objectives of the organization,

2. identifying exposures to loss,

3. measuring those same exposures,

4. selecting alternatives,

5. implementing a solution, and

6. Monitoring the results.

The primary objective of an organization, growth, for example will determine its strategy for managing various risks. Identification and measurement of risks are relatively straightforward concepts. An Earthquake may be identified as a potential exposure to loss, for example, but if the exposed facility is in New York the probability of an earthquake is slight and it will have a low priority as a risk to be managed.

Businesses have several alternatives for the management of risk, including avoiding, assuming, reducing, or transferring the risks. Avoiding risks, or loss prevention, involves taking steps to prevent a loss from occurring, via such methods as employee safety training. As another example, a pharmaceutical company may decide not to market a drug because of the potential liability.

6. RISK MANAGEMENT IN THE INTERNET AGE

Small businesses encounter a number of risks when they use the Internet to establish and maintain relationships with their customers or suppliers. Increased reliance on the Internet demands that small business owners decide how much risk to accept and implement security systems to manage the risk associated with online business activities. "The advent of the Internet has provided for a totally changed communications landscape.

Conducting business online exposes a company to a wide range of potential risks, including liability due to infringement on copyrights, patents, or trademarks, charges of defamation due to statements made on a Web site or via e mail, charges of invasion of privacy due to unauthorized use of personal information or excessive monitoring of employee communications, liability for harassment due to employee behaviour online, and legal issues due to accidental noncompliance with foreign laws.

7. CONCLUSION

Risk management is, at present, implemented in many large as well as small and medium sized industries. Another typical weakness is a missing system for controlling and following up on the results of the risk analysis that has been performed. However, not only industries but also governmental organizations, research institutes and hospitals are now introducing risk management to some extent. The importance of risk management in projects can hardly be overstated. Awareness of risk has increased as we currently live in a less stable economic and political environment.

In pursuing this goal, companies, now more than ever, would do well to begin by identifying their top drivers, then pinpointing the top threats to those revenue drivers, and distinguishing between those that are predominantly downside risks and those that are predominantly variable risks.

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