COMPETITIVENESS:

Any organization, public or private, large or small, faces internal and external uncertainties that affect its ability to achieve its objectives. The effect of uncertainty on an organization's objectives is "risk." Risk management, commonly known in the business community as enterprise risk management (ERM), can provide for the structured and explicit consideration of all forms of uncertainty in making any decision. The overarching principle of ERM is that it must produce value for the organization. It is the culture, processes and structures that is directed towards taking advantage of potential opportunities while managing potential adverse effects.

Corporations face the task of managing their risk exposures while remaining profitable and competitive at the same time. Managing risks is not a new challenge, yet it may get overlooked due to several reasons. The cha lle nges and de mands of conte mporary markets, customer expectations, regulatory a uthorities, employees and shareholders present organizations with an interesting array of contradictions.

Risk management can enhance the environment for identifying and capitalizing on opportunities to create va lue a nd protect establis hed va lue. Effic ie nt ma nagers who undertake r isk, use a var iety of r isk management solutions that transcends through traditional insurance risk transfer products.

The rapidly changing global economy has created an expanding array of risks to be managed to ensure the viability and success of an enterprise. Historically, the p ractice of risk management has been confined to the traditionally insurable risks such as loss from fire, earthquakes, wind, flood, legal liability and other relatively straightforward potential causes of loss. Solutions involving the purchase of insurance were emphasized, with focus on type of coverage, adequacy of limits and cost of risk transfer. Over the last thirty years, most major corporations have evolved a much more sophisticated view of risk management, encompassing traditional risk management concerns and adding new issues arising from the changing internal and external environments within which they work. Now, it is understood that every aspect of a company's operational and financial activity

contains the potential for risk that can negatively a nd meaningfully affect the success and viability of the organization.

Risk basically refers to the variations in the outcomes that could occur over a specified period in a given situation. If only one outcome is possible, the variation and hence the risk is zero. If many outcomes are possible, the risk is not zero. The greater the variation, the greater the risk.

Risk may also be defined as the possibility that an event will occ ur and adversely affect the achievement of the Company's objectives and goals. A business risk is the threat that an event or action will adversely affect an organization's ability to achieve its business objectives/targets. Business risk arises as much from Risk Management and Internal Control **199** possibility that opportunities will not be realized as much from the fact that certain threats could well materialize and that errors could well be made.

Risks may be broadly classified under the following heads:

(a) ***Industry & Services Risks:***

These risks can be broadly categorized as follows, namely:

® Economic risks such as dependence on one product, one process, one client, one industry, etc. in the short and long term.

® Services risks

® Market structure

® Business dynamics

® Competition risks affecting tariffs prices, costs, revenues and customer preferences

® Customer relations risks

® Reputational risk

(b) Management and Operations Risks:

These risks relate broadly to the company's organisation and management such as planning, monitoring,

and reporting systems in the day to day management process namely:

® Risks to Property

® Clear and well defined work processes

® Changes in Technology/upgradation

® R&D risks

® Agency Network Risks

® Personnel risks such as labour turnover risks involving replacement risks, training risks, cost risks,

skill r isks etc. There are also unrest risks due to strikes and lockouts. These risks affect the

company's business and earnings.

® Enviromental and Pollution Control regulations, etc.

® Locational benefits near metros, railway stations, ports, cities, etc.

(c) Market Risks:

These risks relate to market conditions namely:

® Raw material rates

® Quantities, quality, suppliers, lead time, interest rates risks and forex risks namely, fluctuation risks and interest rate risk in respect of foreign exchange

transactions.

(d) Political Risks:

These risks relate to political uncertainties namely:

® Elections

® War risks

® Country/Area risks

® Insurance risks like fire, strikes, riots and civil commotion, marine risks, cargo risks, etc.

® Fiscal/Monetary Policy Risks including Taxation risks.

(e) Credit Risks:

These risks relate to commercial operations namely:

® Creditworthiness risks

® Risks in settlement of dues by clients

® Provisions for doubtful and bad debts

(f) Liquidity Risks:

These are financial risk factors namely:

® Financial solvency and liquidity risks

® Borrowing limits, delays

® Cash/Reserve management risks

® Tax risks.

(g) Disaster Risks:

These risks relate to disasters from following factors:

® Natural risks like fires, floods, earthquakes, etc.

® Man-made risks arising under the Factories Act, Mines Act, etc.

® Risk of failure of effective Disaster Management plans formulated by the company.

(h) Systems Risks:

These risks relate to the company's systems namely:

® System capacities

® System reliability

® Obsolescence risks

® Data Integrity risks