

CORPORATE RISK MANAGEMENT AND AFFECT OF THE FINANCIAL MARKET

L.NAGAMANI

ABSTRACT:

Corporate risk refers to the liabilities and dangers that a corporation faces. Risk management is a set of procedures that minimizes risks and costs for businesses. The job of a corporate risk management department is to identify potential sources of trouble, analyse them, and take the necessary steps to prevent losses.

The term "risk management" once only applied to physical threats like theft, fire, employee injuries and car accidents. By the end of the 20th century, the term came to apply also to financial risks like interest rates, exchange rates, and e-Commerce. These financial risks are the most applicable type to corporations. Risk management encompasses the identification, analysis, and response to risk factors that form part of the life of a business. Effective risk management means attempting to control, as much as possible, future outcomes by acting proactively rather than reactively. Therefore, effective risk management offers the potential to reduce both the possibility of a risk occurring and its potential impact.

INTRODUCTION:

Risk management structures are tailored to do more than just point out existing risks. A good risk management structure should also calculate the uncertainties and predict their influence on a business. Consequently, the result is a choice between accepting risks or rejecting them. Acceptance or rejection of risks is dependent on the tolerance levels that a business has already defined for itself.

If a business sets up risk management as a disciplined and continuous process for the purpose of identifying and resolving risks, then the risk management structures can be used to support other risk mitigation systems. They include planning, organization, cost control, and budgeting. In such a case, the business will not usually experience many surprises, because the focus is on proactive risk management. Risk management is an important process because it empowers a business with the necessary tools so that it can adequately identify and deal with potential risks. Once a risk has been identified, it is then easy to mitigate it. In addition, risk management provides a business with a basis upon which it can undertake sound decision-making.

For a business, assessment and management of risks is the best way to prepare for eventualities that may come in the way of progress and growth. When a business evaluates its plan for handling potential threats and then develops structures to address them, it improves its odds of becoming a successful entity.

In addition, progressive risk management ensures risks of a high priority are dealt with as aggressively as possible. Moreover, the management will have the necessary information that they can use to make informed decisions and ensure that the business remains profitable.

OBJECTIVES:

Identifies And Evaluates Risk

Risk management identifies and analysis various risk associated with business. It identifies risk at early stages and takes all necessary steps to avoid their harmful effects. Information from past is analysed to recognise all possible future unfortunate events. Risk management properly evaluates risk originated in business and develops a proper understanding regarding its real causes. This all help in taking all measures in mitigating the effects of these risks.

Reduce And Eliminate Harmful Threats

Harmful risks and threat are part of every business organisation. They have negative effect on productivity and profitability of business. Risk management techniques helps in avoiding and reducing the effect of these threats to business. Risk manager formulates strategic plans for each department and monitors their performance from time to time.

These perform series of workshop in organisation to develop proper understanding regarding risk causes and how to overcome them among all employees. Managers guide them in avoiding the identified faults and reduces these harmful threats.

Supports Efficient Use Of Resources

Risk management aims at efficient utilisation of all resources. Fuller utilisation leads to better productivity and increased profits. Risk management techniques support strategic planning for better results. It sets plans for functioning of business and ensures that all activities are going on their planned track. Certain targets are set for each division within organisations and perform routine check-ups from time to time. If any deviations arise, it takes all possible steps.

Better Communication Of Risk Within Organisation

Risk management develops better communication network between directors, managers and employees. It helps in spreading all information regarding risk easily around the organisation timely. All people are able to interact with each other effectively and discuss about core solution about this risk. This helps in better understanding of several threats and taking timely action against them.

Reassures Stakeholders

Stakeholders are an important part of every business organisation. Business must aim at serving the interest of its stakeholders for their support. Risk management helps in increasing the confidence of stakeholders in business and assures them of non-occurrence of any unfortunate incident.

They feel safe by the implementation of risk management techniques that will timely control and avoid all harmful risk. This leads to better trust among business and its stakeholders

Support Continuity Of Organisation

Risk management has an efficient role in long term growth and survival of the business. Every business faces several risk and unfortunate events during its life cycle. These unfortunates, if not treated timely, will affect the organisation capital and profit or even leads to its termination.

It avoids all these risks by monitoring continuously the operations throughout the life of the project. It reduces anxiety by overcoming all fear of uncertainty and develops a safe working environment within the organisation. This increases the productivity and overall stability of business organisations.

Impact of Financial Risks on Businesses

Credit

Financial risks related to credit usually include the risk that arises from borrowing money. This is one aspect that almost every company goes through, whether to fund new product development or enable the business to grow and expand. Companies must ensure that they can meet the repayment terms because a failure to do so may result in severe penalties and of course, bad credit.

Liquidity

As the name suggests, financial risks that pertain to a cash flow problem are known as liquidity risks. Such risks affect the business's ability to ensure that it has ready cash available for extreme circumstances. This a major concern for seasonal businesses that are subject to regular downturns in trade. Such financial risks can lead to significant problems and may even lead to the closure of an otherwise viable business.

Impact of Financial Risks on Markets

Markets today are volatile, not only due to the technological advances but also due to the financial impact of default and change in market rates. In context to financial risks, default refers to the situation wherein the debt or bond market fails to pay their debt obligations, harming investors. On the other hand, changes in the market rate can push individual stocks into being unprofitable, lowering the return ratio.

Impact of Financial Risks on Government

Financial risks affect not only the business and its environment, but also the government, that too in a significant manner. Suppose the government fails to control its monetary policy and is unable to control inflation as well as defaulting on its bonds or other debt issues. In that case, the entire economy may fall under. Not to mention the debacle it'll lay on the entire world's GDP and the stock market disruption.

Finance professional online courses can help you gain in-depth knowledge into the impact and how to mitigate such risks, but let's put a pin into it for now and focus on how to manage financial risk.

CONCLUSION:

Risk management is an important process that managers should maintain in an organization. It is inevitable to have risks and managers should have better strategies to deal with risks. The long-term survival of an organization depends on the ability to manage risks. The intensifying competition in the global markets has forced managers to focus on maintaining a strong risks management program by establishing values.

Complying with the values and cultural aspects of an organization is important in achieving the goals and objectives of an organization. The culture of an organization determines its success in the market

environment. It is a reflection of the beliefs and attitudes that people have towards the organizational systems.

Culture is developed and shaped by the stakeholders of the organization. Change management is very important to an organization and managers should possess the required skills of carrying out this process. Therefore, risks management is an important activity for organization in the modern market environment and all managers should embrace it for the long-term survival of their businesses.

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