



Rudiments Of Risk Management

G.S. Karthik

Research Scholar, Department of MBA, Loyola Academy, Alwal, Telangana

Corresponding Author- G.S. Karthik

Email: gadalkar.karthik@gmail.com

Abstract

As the technology is increasing more number of companies are establishing themselves in the corporate world, and there are some big corporate, Giants are achieving success in a very short span of time parallelly it is not easy for such companies to patch of success little span of time, they will definitely take risk (financial) in a calculated manner so that they can attain profits and improve their cash flow's increase the wealth of their organization. So ultimately, the risk is an important component in business, as well as for different corporate giants. Risk is the part and parcel of every entity so management of risk is mandatory so that the company does not move into liquidation state. There are various risks by which the companies can get affected like inflation risk, political risk, etc. so the concept of financial risk management has drawn attention in the current era. In this article, we are going to see how to manage risk, and how important risk can be essential to an organization. The data for the analysis is collected from various students, teachers, employees, financial analyst, risk managers.

Keywords: Risk management, Liquidation, Financial risk management, Inflation risk, Cash flow

Introduction

Risk management can be referred to as application of management principles i.e., planning, organising, controlling of risk in the organisation whereas financial risk management can be referred as application of management principles i.e., planning, organising, controlling of risk arising from financial markets in the organisation. Financial risk management is the process to deal with uncertainties resulting from financial markets. There are various strategies involved in risk management like derivatives such as futures, forwards, options and swaps. Risk in finance can be classified into systematic risk and unsystematic risk, systematic risk or uncontrollable by organization where is unsystematic risk, are controllable by the organization. Various types of systematic risk are interest, rate, risk, market risk, inflationary risk, where is unsystematic risk includes liquidity, risk, credit risk, operational risk. All these types of risk are interlinked with each other, which will ultimately affect the organization in a negative manner, so what is management in finance is a core element of the complete finance department, the organization risk management aims at controlling the risk

exposure of a firm. Risk varies from individual to individual and every organization has its own perception and ways to manage the risk episode to be an evolving science while a distinct minority feel that it will disappear or incoming years risk management helps to decide which risk or worth taking, and which should be shunned. Risk management is a very needful function for every organization helps to make jobs safer i.e risk, managers, use data analysis to identify loss and injury, trends and implement strategies to prevent them from reoccurring in the organization with management also reduces unexpected events, helps in decision making and also creates financial benefits by saving time and effort. Risk management protects and add values to the organization and its residual claimants. The risk management process includes five steps, and the first includes the establishment of context which means the risk managers, should identify the particular risk in the organization. In the second step, the identification of the main risk takes place and in the assessment stage the analysis of the risk is taken place, then in the next step potential risk treatment, and finally the review and evaluation of plan takes place.

There are various tools and approaches for risk management, brainstorming, root cause analysis, SWOT analysis, impact matrix, variance & trend analysis and result analysis come under tools of risk management. Hedging, diversification, separation, duplication, loss prevention, and loss reduction are the various approaches for financial risk management. There are two other approaches, which help in measurement and management of risk they are VAR (value at risk) and CAR (cash flow at risk).

Objective Of The Study

- To study various categories of risk and approaches to risk management.
- To evaluate the various categories of risk and approaches to risk management.

Research Methodology

Sources Of Data:

The data has been collected from 2 main sources:

Primary source: The primary data is collected from marketers, entrepreneurs, faculty and students.

Secondary source: The Secondary data has been obtained from blogs, internet websites, articles and research journals, college magazines.

Sample Size: The data was collected from 50 respondents who included employees, students, teachers, financial analyst, risk managers etc..

Analysis & Discussion

Objective: To Study Various Categories Of Risk And Approaches To Risk Management.

To study & understand the various categories of risk management and approaches to risk management a questionnaire with set of 3 questions has been circulated to 50 respondents and various output and results have been obtained pertaining to each and every question.

1. In financial risk management which category of risk is more menacing/dangerous.

RESPONSE	NO. OF RESPONSES	PERCENTAGE
Market risk	20	40%
Inflationary risk	6	12%
Interest rate risk	6	12%
Credit risk	11	22%
Political risk	7	14%
TOTAL	50	100%

Table 1: Showing most dangerous type of risk in financial risk management

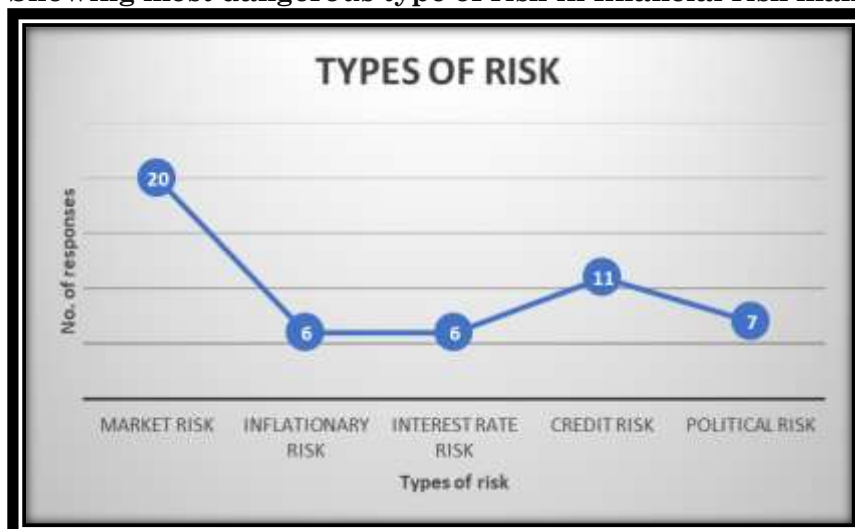


Figure 1: Most dangerous type of risk in financial risk management

Interpretation

From the above table and chart it can be inferred that 40% of the respondents believe that market risk is the most dangerous risk in financial risk management, whereas 12% of the respondents believe that inflation rate is

an interest rate risk is menacing for risk management, 22% of the respondents believe that credit risk is more dangerous and 14% believe that political risk is more dangerous than compared to other categories of risk management.

2. Do you think hedging and diversification are effective approaches for financial risk management

RESPONSE	NO. OF RESPONSES	PERCENTAGE
Highly Agree	12	24%
Agree	20	40%
Neutral	9	18%
Disagree	5	10%
Highly Disagree	4	8%
TOTAL	50	100%

Table 2: Effective approaches for financial risk management



Figure 2: Effective approaches for financial risk management

Interpretation:

From the above table and chart, it can be inferred that 40% of the people agree that hedging and diversification are effective approaches for financial risk management and 24% of the people strongly believe that they are the effective approaches for risk management, whereas 18% of the respondents are having a balanced opinion on hedging and diversification, 10% of the respondents disagree that teaching and diversification are not effective approaches for financial risk management and 8% of the respondents strongly disagree that hatching and diversification are not at all effective approaches for financial risk management.

3. Does inflationary risk increase the rise in credit interest rates (credit risk)

RESPONSE	NO. OF RESPONSES	PERCENTAGE
Strongly Agree	13	26%
Agree	15	30%
Neutral	12	24%
Disagree	5	10%
Strongly Disagree	5	10%
TOTAL	50	100%

Table 3: Showing relationship between Inflationary risk & credit risk

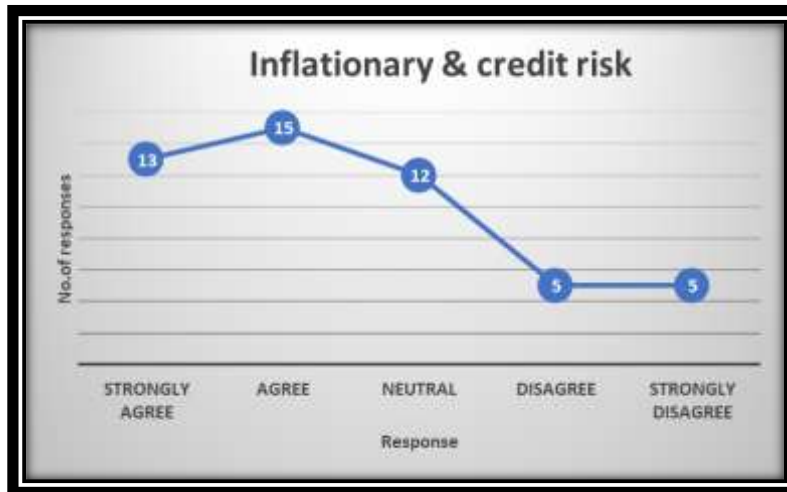


Figure 3: Relationship between Inflationary risk & credit risk

Interpretation:

From the above table and chart, it can be inferred that 30% of the respondents agree to the statement that inflationary risk will increase the credit interest rates which will give rise to credit risk. 26% of the respondents strongly agree that creditors will be evolved by inflationary risk. 24% of the respondents have a balanced opinion that inflation risk and credit risk move parallelly where as 20% of the respondents strongly disagree and disagree that inflationary risk is not responsible for increase in rise of credit interest rates.

Objective 2: To Evaluate The Various Categories Of Risk And Approaches To Risk Management.

Hypothesis Testing:

As per the data to test the significance Chi-square test was applied

Ho: Hedging and diversification are not effective approaches for financial risk management

H1: Hedging and diversification are effective approaches for financial risk management

Response	O _i	E _i	(O _i -E _i)	(O _i -E _i) ²	(O _i -E _i) ² /E _i
1	12	10	2	4	0.4
2	20	10	10	100	10
3	9	10	-1	1	0.1
4	5	10	-5	25	2.5
5	4	10	-6	36	3.6
TOTAL	50				16.6

Level of Significance (LOS) = 5%

E_i = 50/5 = 10

Calculated value (X² Cal) = 16.6

Degree of freedom (dof) = n-1 = 4

X² Cal for dof = 4 at 5% LOS = 9.4

Result: Calculated value is greater than tabulated value, Reject Ho and Accept H1

Decision: Hedging and diversification are effective approaches for financial risk management.

Ho: Inflationary risk increases credit interest rates (Credit risk)

H1: Inflationary risk does not increase credit interest rates (Credit risk)

Response	O _i	E _i	(O _i -E _i)	(O _i -E _i) ²	(O _i -E _i) ² /E _i
1	13	10	3	9	0.9
2	15	10	5	25	2.5
3	12	10	2	4	0.4
4	5	10	-5	25	2.5
5	5	10	-5	25	2.5
TOTAL	50				8.8

Level of Significance (LOS) = 5%

Ei = 50/5 = 10

Calculated value (X^2 Cal) = 8.8

Degree of freedom (dof) = n-1 = 4

X^2 Cal for dof = 4 at 5% LOS = 9.4

Result: Tabulated value is greater than calculated value, Reject H1 and Accept Ho

Decision: Inflationary risk increases credit interest rates (Credit risk).

Findings:

- From table no. 2 it can be inferred that 40% of the people agree that hedging and diversification are effective approaches for financial risk management and after testing of hypothesis using chi-square test, we can come to a decision that Hedging and diversification are effective approaches for financial risk management.
- From table no.3 it can be inferred that 30% of the respondents agree to the statement that inflationary risk will increase the credit interest rates which will give rise to credit risk & 26% of the respondents strongly agree that creditors will be evolved by inflationary risk and after hypothesis testing using chi-square test, we can come to a decision that Inflationary risk increases credit interest rates (Credit risk).

Conclusion

From the above research paper, we can conclude that financial risk management is an important function in every organization risk management is a concept that will affect each and every business function, and is interlinked with all the operations of the business. And after the statistical analysis, we are observe that hedging and

diversification are the effective approaches to minimize risk in financial aspects, because they will help to avoid the risk rather than completely eliminating it so it becomes easier for the organizations to handle a risk, and we also observed that inflation will increase the credit risk in the economy, because as a price of a product goes up, the consumers have to pay more for the product, which implies they may borrow from Bank as a loan, with the credit interest rate will be higher when compared to pre-inflation. In the economy. Henceforth financial risk management, the very broad concept, and an evolving science, which can be improved more accurately in the coming generations, with the implementation of artificial intelligence and various other techniques might come into practice after the adoption of AI and risk management concept.

References

1. **Book:** Paul Hopkins 2010. Fundamentals of risk management, Gee Street, London, UK
2. **Website:** Research at <https://www.investopedia.com/ask/answers/062415/what-are-major-categories-financial-risk-company.asp>
3. **Website:** Research at <https://money.stackexchange.com/questions/27409/what-is-the-difference-between-hedging-and-diversification-how-does-each-reduce>