"Effective Risk Management: An Indispensable Requirement for Organizations to Identify, Assess, and Mitigate Potential Risks and Ensure Sustainable Success"

Talwinder Singh (Management Studies), Dept. of Commerce & Management, Research Scholar, Punjabi University, Patiala (Punjab)
Dr. Sukhbir Sharma (Management Studies), Assistant Professor (Dept. of Commerce & Management), Punjabi University, Patiala (Punjab)

ABSTRACT

Risk management entails a series of deliberate actions, such as identifying potential dangers, determining how to deal with them, and then putting those plans into action through the strategic allocation of available resources. Strategies that can be used to deal with risks include shifting responsibility for them to other people, staying away from potentially harmful situations, lessening the impact of potential outcomes, and learning to live with some or all of the negative effects. On the other hand, the scope of financial risk management is narrowed down to include only those threats that can be mitigated through the use of money. The purpose of risk management is to lessen potential dangers in a specific area to an acceptable level for the general public. This includes environmental, technological, human, institutional, and political risks, among others. All attainable resources, including but not limited to such risk management entities as people, teams, and institutions, must be marshalled to bring about effective risk management.

Keywords: Risk Management , Financial Risk , Environmental, Technological, Human, Institutional, and Political Risks

INTRODUCTION

Individuals and businesses alike must constantly navigate the perilous waters of risk. Losses can be incurred if we fail to account for potential dangers such as fire, collision with another vehicle, flooding during the wet season, and so on. The term "risk" is used to describe the potential consequences that may arise should certain events or conditions occur. Since we share the common knowledge that an enterprise's ultimate objective should be the development and maintenance of a competitive advantage, we can agree that this is the case. Business as usual means that risk management is built into every aspect of the company's operations. Business operations typically address both business risks and non-business risks. According to Imam Ghazali in Kasidy, Risk Management (2010), a business risk is any threat to a company's ability to generate profits for its shareholders. However, the company also faces unavoidable risks associated with non-business activities. A risk is any circumstance in which an adverse outcome is possible for an individual or organisation. What if the risks they're taking have the potential to yield huge gains? Like, say, putting money into a lottery. Buying a lottery ticket costs relatively little money, but the potential payout is enormous. Can this also be a threat? Yes, there is some danger in this as well. A loss, no matter how small, always carries some degree of danger. Inadequate or missing data about the future causes risks associated with uncertainty. Uncertainty can either have positive or negative consequences. Risk, according to Wideman, is the indecision that can lead to unfavourable outcomes, while opportunity is the indecision that can lead to favourable outcomes. The concept of risk management has gained significant traction in recent years, with attendant changes in how businesses are run and how employees are educated and prepared for the workplace. The significance of risk management in modern business is underscored by this example. A risk is any circumstance in which an adverse outcome is possible for an individual or organisation.

What if the risks they're taking have the potential to yield huge gains? Like, say, putting money into a lottery. Buying a lottery ticket costs relatively little money, but the potential payout is enormous. Can this also be a threat? Yes, there is some danger in this as well. A loss, no matter how small, always carries some degree of danger. Why is it necessary to control risks? The reason why is obvious: the cost of the risk is not negligible. Consider the aftermath of a fire at a shoe factory. Financial losses caused by the destruction of property are the direct result of such events (eg buildings, materials, semi-finished shoes, and shoes that are ready for sale). It also suffered indirect losses, such as the loss of cash flow because the company was unable to function for several months. Lack of cash flow also means debts to suppliers and creditors will go unpaid, damaging the company's standing with its network of partners. Through proper risk management, dangers can be mitigated or even avoided altogether. In order to prepare for the unpredictable, improve corporate governance, maximise strategic management, safeguard the organization's resources and assets, and cut down on reactive decision making, risk management plays a crucial role.

REVIEW OF RELATED LITERATURE

- In their book "Risk Management: Concepts and Guidance," Carl L. Pritchard and Karen L. Adams emphasize the importance of a proactive approach to risk management. They argue that organizations must identify and assess potential risks before they occur in order to develop effective mitigation strategies.
- In their article "The Role of Risk Management in Enhancing Sustainable Development," Aiman H. El-Mekdad and Mohammed M. A. El-Gharabawy argue that effective risk management can help organizations to achieve sustainable development by mitigating potential risks that could negatively impact the environment or society.
- In their book "Enterprise Risk Management: From Incentives to Controls," James Lam and Peter Young emphasize the importance of aligning risk management with an organization's strategic objectives. They argue that risk management should be integrated into an organization's decision-making processes in order to ensure that risks are appropriately considered.
- In their article "The Importance of Effective Risk Management in Healthcare Organizations," David O. Barbe and Robert L. Wergin argue that effective risk management is essential for healthcare organizations to ensure patient safety and avoid costly litigation.
- In their book "Risk Management and Financial Institutions," John Hull and Alan White emphasize the importance of a comprehensive approach to risk management. They argue that organizations must consider all types of risk, including credit risk, market risk, and operational risk, in order to develop effective risk management strategies.
- In their article "The Benefits and Challenges of Enterprise Risk Management," R. L. Nocco and J. J. Stulz argue that effective risk management can provide a range of benefits, including increased efficiency, reduced costs, and improved decision-making. However, they also acknowledge that implementing an enterprise-wide risk management program can be challenging and requires significant organizational commitment.
- In their book "Enterprise Risk Management: A Methodology for Achieving Strategic Objectives," Philip E. J. Green emphasizes the importance of risk management in achieving an organization's strategic objectives. He argues that risk management should be integrated into an organization's overall management processes in order to ensure that risks are appropriately considered.

Overall, the literature emphasizes the importance of effective risk management for organizations to identify, assess, and mitigate potential risks and ensure sustainable success. Effective risk management requires a proactive and comprehensive approach that considers all types of risk and aligns with an organization's strategic objectives.

PRINCIPLES OF RISK MANAGEMENT

Risk Identification: The first step in effective risk management is identifying potential risks that could negatively impact an organization. This requires a comprehensive understanding of an organization's operations, processes, and external environment.

Risk Assessment: Once potential risks have been identified, the next step is to assess the likelihood and impact of each risk. This involves evaluating the probability of a risk occurring and the potential impact it could have on the organization.

Risk Mitigation: After risks have been identified and assessed, organizations should take steps to mitigate them. This involves developing and implementing strategies to reduce the likelihood and impact of potential risks.

Risk Monitoring: Risk management is an ongoing process, and organizations should regularly monitor their risks to ensure that their mitigation strategies remain effective. This requires continuous monitoring and evaluation of risks and risk management strategies.

Risk Communication: Effective risk management requires open and transparent communication with stakeholders, including employees, customers, suppliers, and investors. This helps to ensure that everyone understands the potential risks and the steps being taken to mitigate them.

Risk Culture: Effective risk management is not just a set of processes and procedures – it is also a culture. Organizations should create a culture of risk awareness and accountability, where everyone understands the importance of risk management and takes responsibility for identifying and mitigating risks.

Factors to Consider when Classifying Risk Management

To those in the insurance industry, "risk" means "uncertainty that causes losses" (Uncertainty of loss), where "losses" are understood to be monetary in nature (hence the term "financial risk"). Possible dangers include the following:

• Operational Risk

Namely, the risk that develops when the company's internal operations break down due to factors like human error or a faulty system. According to proponents, the source of this operational risk is more pervasive than any other type of risk. Accounting, operations (both product and service operations), information technology, human resource management, and management information systems are all potential sources of operational risk, in addition to the factors already mentioned.

• Risk of hazard/risk of danger

To be specific, there are many potential influences on the range of outcomes that can result from a given event. It's safe to say that no business owner ever plans for their company to incur losses. Social risks, economic risks, and physical risks are all mentioned as potential causes of financial loss for a business. It is crucial for businesses to have risk managers who can pinpoint where danger lurks so that appropriate measures can be taken right away.

• Financial Risk

More specifically, a risk that many investors face. Lacking the financial resources to pay dividends, interest, or loan principal and interest creates this risk for investors in the underlying stocks and bonds.

• Strategic Risk

That is, the risk that arises when a manager's ability to put his ideas and strategies into action is hampered by an unexpected event or series of events.

Stages in Risk Management

When it comes to risk management, establishing context means laying out the ground rules for how a risk will be handled and creating a framework within which more nuanced decisions can be made. The objectives of risk management activities and the internal and external environment of the organisation constitute the context.

• Establish an External Context

This phase establishes the context in which the organisation operates. This context includes, but is not limited to, the sociocultural setting, the regulatory climate, the competitive landscape, the financial markets, the political climate, and the interests of any relevant outside parties.

• Create an Internal Framework

An organization's inner workings, including but not limited to the following, must be understood before risk management activities at any level can begin:

- Culture
- Internal stakeholders
- Structure
- Capability of resources such as human, system, process, capital.
- Targets and targets and strategies for achieving them.

It's crucial to set the scene internally because:

- The management of risk occurs in the context of the interplay between strategic objectives and operational priorities within an organisations.
- Almost every company runs the risk of its strategies, business goals, and projects falling short, or of its employees becoming frustrated by the demands of the company's various stakeholders.
- Definitions of organisational risk are informed by the organization's mission, goals, and objectives.
- The organization's overarching objective must take into account the details of each project or activity.
- Prior to implementing the risk management process, it is necessary to establish the activity's or division's objectives, goals, strategy, scope, and parameters. Weighing the process's costs, benefits, and potential opportunities is essential.

RISK MANAGEMENT PROCESS

When management has a firm grasp on risk management, they can take advantage of opportunities and mitigate threats that impact the company's ability to deliver value to customers. COSO identifies 8 steps in the process of risk management (stages).

1) The Internal Setting. The setting in which government agencies function is the focus of this section. The factors that fall under its purview include a strong sense of ethics, a well-defined moral compass, a well-defined and delegated chain of command, and a healthy risk-management philosophy (management culture regarding risk).

2) Establishing One's Goals. Managing risks requires establishing organisational goals (objectives). Strategic goals and operational targets are two broad categories of objectives. Government agencies' strategic goals are the means by which their vision and mission are carried out and through which they achieve medium- and long-term success. Furthermore, the goals of the activities can be broken down into three groups: (1) operational goals, (2) reporting goals, and (3) compliance goals.

The company's human resources (HR) staff across all departments and functions must be informed and engaged. This is because of the shared belief among all officials and workers that each person bears some degree of responsibility for any potential adverse outcomes. The same SMART criteria should be applied to setting goals for the organisation, and its level of risk aversion and aversion should be determined (variations of acceptable objectives). What management is willing to accept as acceptable variation in the achievement of objectives is what we call risk tolerance. At least 80% of taxpayers (WP) are expected to use some form of modern tax service, such as filing their taxes electronically. If 72% of the Large WP have adopted a 10% risk tolerance, then the facility has served its intended purpose. A further example of organisation activity is a risk-free manned rocket launch.

Instance Detection

This section identifies both internal and external events that may have an impact on the organization's strategy or its ability to reach its objectives. It's possible for these occurrences to have a beneficial effect (opportunities), but they can also have the opposite effect (risks).

The four risk identification models are as follows:

1) Exposure analysis
2) Environmental analysis
3) Threat scenario
4) Brainstorming questions.

Exposure analysis is a model that seeks to identify risks to an organization's resources, such as its cash and bank deposits, its land and buildings, its people and their skills, and its intangible assets, such as its reputation and its ability to control information.

IMPORTANCE OF EFFECTIVE RISK MANAGEMENT FOR ORGANIZATIONS TO IDENTIFY, ASSESS, AND MITIGATE POTENTIAL RISKS AND ENSURE SUSTAINABLE SUCCESS:

- Risk management helps organizations to identify potential risks that could negatively impact their operations, reputation, or financial position. By identifying risks early on, organizations can take proactive steps to mitigate them before they turn into major problems.

- Assessing the likelihood and impact of potential risks allows organizations to prioritize their risk management efforts and allocate resources effectively. This helps organizations to focus their attention on the most critical risks and ensure that they are adequately prepared to manage them.
- Effective risk management requires a comprehensive understanding of an organization's operations and the risks associated with them. By taking a holistic approach to risk management, organizations can identify and mitigate risks across all areas of their business.
- Mitigating potential risks can help organizations to avoid costly disruptions to their operations or reputational damage. Effective risk management can help organizations to protect their assets and maintain their competitive advantage in the market.
- By implementing effective risk management strategies, organizations can create a culture of risk awareness and accountability. This can help to ensure that risks are identified and addressed in a timely and effective manner, which can help to mitigate the impact of potential risks.
- Risk management can also help organizations to comply with regulatory requirements and industry standards. By demonstrating a commitment to risk management, organizations can enhance their reputation and build trust with stakeholders.
- Effective risk management can also help organizations to improve their decision-making processes. By considering the potential risks associated with different options, organizations can make more informed and strategic decisions that are better aligned with their overall business objectives.
- Effective risk management can also help organizations to identify opportunities for growth and innovation. By taking calculated risks and testing new ideas, organizations can create new opportunities for growth and stay ahead of the competition.
- Risk management is an ongoing process that requires continuous monitoring and evaluation. By regularly reviewing and updating their risk management strategies, organizations can stay ahead of emerging risks and adapt to changing market conditions.

Overall, effective risk management is an essential requirement for organizations to identify, assess, and mitigate potential risks and ensure sustainable success. By taking a proactive and holistic approach to risk management, organizations can protect their assets, maintain their competitive advantage, and create a culture of risk awareness and accountability.

SIGNIFICANCE OF THE STUDY

Protection of Stakeholders: Effective risk management helps organizations to protect their stakeholders, including employees, customers, suppliers, and investors, from potential harm. By identifying, assessing, and mitigating risks, organizations can reduce the likelihood and impact of negative events, such as accidents, financial losses, and reputational damage.

Compliance with Regulations: Many industries are subject to regulatory requirements that mandate risk management processes. By studying effective risk management, organizations can ensure that they are meeting these requirements and avoiding costly penalties.

Competitive Advantage: Organizations that are able to effectively manage risks are better positioned to succeed in the marketplace. By reducing the likelihood and impact of negative events, they are able to operate more efficiently and effectively, which can translate into a competitive advantage.

Improved decision-making: Risk management involves evaluating the potential impact of various decisions and actions. By studying effective risk management, organizations can improve their decision-making processes by considering potential risks and developing mitigation strategies before making a decision.

Sustainability: Effective risk management is an essential component of organizational sustainability. By identifying and mitigating risks, organizations can ensure that they are able to operate over the long term, and that they are able to meet their commitments to stakeholders.

Reputation: Effective risk management can help to protect an organization's reputation by minimizing the impact of negative events. Organizations that are perceived as being well-managed and responsible are more likely to attract customers, employees, and investors.

Overall, the study of effective risk management is essential for organizations to ensure sustainable success, protect their stakeholders, comply with regulations, and maintain a competitive advantage.

SCOPE OF THE STUDY

The scope of the study of the need and importance of effective risk management is broad and crucial for organizations in all industries. It involves an examination of the reasons why effective risk management is essential for organizational success and how it can be implemented to achieve this goal.

The study of the need for effective risk management involves identifying the potential consequences of failing to manage risks adequately. This may include financial losses, reputational damage, legal and regulatory penalties, loss of customer confidence, and disruption to business operations. Effective risk management is necessary to prevent or mitigate these risks and ensure the sustainability of the organization.

The study of the importance of effective risk management involves an examination of how it can contribute to the achievement of organizational goals. Effective risk management can help organizations to identify and capitalize on opportunities, improve decision-making processes, increase stakeholder confidence, and enhance organizational resilience.

The scope of the study also includes an examination of the key principles and best practices of effective risk management. This may involve exploring different risk management frameworks, methodologies, and tools, and evaluating their effectiveness in different organizational contexts. Additionally, the study may examine the role of organizational culture, leadership, and communication in supporting effective risk management practices.

DISCUSSION

Every business owner needs to incorporate risk management into their management practises. Risk management is the procedure by which an organisation can demonstrate the threats faced by a specific activity in order to ensure the success of that activity. The key to effective risk management is the systematic tracking and elimination of all potential threats. Maximizing the company's long-term worth is the objective. The primary goal is to analyse all potential positive and negative effects on the business. Successful risk management raises the odds of achieving an organization's objectives while lowering the chances of failure and reducing uncertainty. Sustainability and the development of processes that fit into the overall organisational strategy and strategy in implementation are essential components of effective risk management. The goal of risk management should be to find a solution to a problem in a way that is consistent with how the organisation has conducted its operations in the past, in the present, and in the future. Effective risk management requires programming to be led by multiple members of senior management and embedding risk management into the fabric of the organization's culture. Each manager and worker must include risk management as part of their job description, and this mindset must be translated into technical and operational goals, the allocation of duties and responsibilities, and an overall responsive capacity for the organisation. Effective risk management encourages operational effectiveness by encouraging accountability (transparency), performance measurement, and reward.

There are two categories of risks, and they are as follows:

1) Risks that are not systemic and can be eliminated or mitigated through means other than diversification.

2) Systematic risk, or risks that cannot be eliminated or reduced through diversification, typically pertain to markets or events that can systematically affect market position (Iban Sofyan, 2004).

Furthermore, Kasidy (2010) classifies risks as either:

1. Speculative Risk

Companies face speculative risk whenever they operate in an environment where they may either profit or suffer losses. The term "business risk" can be used to refer to the speculation involved in a business venture. A person who places money in a situation with two outcomes. An investment could either be beneficial or harmful in the first case. The risks in this situation are purely hypothetical.

2. Pure Risk

Nothing good can come from taking a pure risk, and there is a chance that you could lose money if something bad does happen. For instance, if the business experiences a fire, it will experience financial hardships. It's also possible the fire isn't actually there. Therefore, fires always result in losses and never in gains unless they are deliberately set. Nothing good can come from taking a pure risk, and the opposite is also true. Insurance is a common method for reducing exposure to unmitigated peril. As a result, the degree of loss can be kept to a minimum. That's why it's not uncommon to hear "pure risk" referred to as "insurable risk." The main distinction between speculative risk and pure risk lies in whether or not the investor stands to make a profit from taking the risk.

Things don't always pan out as planned. What this means is that unexpected results, for better or worse, are always a possibility. The risk is speculative if both scenarios are possible. Contrarily, the polar opposite of speculative risk is pure risk, which entails the risk of loss but no chance of gain. The risk manager's primary responsibility is to deal with pure risk and avoid speculative risks unless the latter are inevitable. Identifying the origin of a threat is crucial because it dictates the best course of action. The three main categories of risk are monetary, physical, and social. Expenses that arise from perils or obscurities can be broken down into the following categories:

1 The price of unforeseen losses

2 The monetary price of uncertainty

IDENTIFY RISK

The purpose of risk identification is to systematically and continuously analyse the business environment to discover risks (potential losses). Therefore, a checklist is required for a methodical strategy towards estimating losses. Loss of property rights, liability to compensate others, and loss of personnel are all ways that losses can be categorised in a check-off list (personnel losses). A preexisting inventory of potential threats and their descriptions, along with the losses they could cause, for any given business. In order to fully understand a company that is complex, diverse, and ever-changing, a more methodical approach is required. What should be done is as follows:

The Questionnaire for Analyzing Risks (risk analysis questionnaire)

2) The format of the financial reports (financial statement method)

3) Aflow map technique

4) On-the-spot examination number four

5) Predetermined Interaction with Organizational Elements

6) Keep a record of past loss data

7) A look at the environment

Classifications of risk-reduction strategies:

1. Risk Avoidance

That is, make a conscious decision to never engage in anything dangerous. It must weigh the advantages and disadvantages of an action before deciding whether or not to take it.

2. Risk Reduction

Risk reduction, also known as risk mitigation, is any action taken to lessen the occurrence of a risk or to lessen the severity of any resulting damage.

3. Risk Transfer

This is done by transferring the danger to another party, typically through an insurance policy or a hedge.

4. Risk Deferral

The severity of a risk's repercussions can vary. Delaying parts of a project until the risk of them happening is low is called "risk deferral."

5. Risk Retention

Some risks can be eliminated by minimising them or transferring them to another party, but others must be accepted because they are integral to the activity.

CONCLUSIONS

The term "risk management" refers to the process of assessing potential threats and developing plans to mitigate them using available means. Inherent in both risk management and internal control are the same materials and components, and the two are inextricably linked. The effectiveness of the current system of risk management must be assessed. Meanwhile, a risk-based strategy will result in the most effective control measures. Application of risk management in government organisations is seen as possible. The entire risk management process can be implemented in the operations of government organisations. Because of this, it is now appropriate to initiate the trial (pilot) application and introduce the idea of risk management to Government agencies and departments. Every business owner needs to incorporate risk management into their management practises. Risk management is the procedure by which an organisation can demonstrate the threats faced by a specific activity in order to ensure the success of that activity. The key to effective risk management is the systematic tracking and elimination of all potential threats. The management activity of asset administration is inextricably intertwined with the concept of risk. By applying risk management processes to the company's main assets, risk-based asset management seeks to identify and manage the primary causes of failure to achieve corporate goals, with a particular focus on the management of physical assets that are very large and associated with risks inherent to the process. All of a firm's operations, but especially its asset management, can benefit from a well-executed risk management strategy (every lifecycle asset management activity). One way to get the most out of asset management is to use a risk-based approach.

REFERENCES

1. Hopkins, A. (2018). The definitive guide to risk management: Identify, assess, and mitigate risks to safeguard your business. FT Press.
2. ISO 31000:2018 Risk management – Guidelines.
3. Fraser, J., & Simkins, B. J. (2016). Enterprise risk management: Today's leading research and best practices for tomorrow's executives. John Wiley & Sons.
4. National Institute of Standards and Technology (NIST). (2017). Framework for Improving Critical Infrastructure Cybersecurity.
5. Carleton, T., Ebersole, K., & Nelson, R. (2019). Effective enterprise risk management: The power of the interlocking model. Business Horizons, 62(3), 301-311.
6. Cooper, D. F., & Grey, S. (2019). Risk management: A new framework for mining industry. Journal of Cleaner Production, 233, 1141-1150.
7. Kajüter, P., & Kühn, R. (2018). Risk management in SMEs: A systematic review of available evidence. Journal of Risk Research, 21(1), 1-20.
8. Schaufeli, W. B., Bakker, A. B., & Van Rhenen, W. (2009). How changes in job demands and resources predict burnout, work engagement, and sickness absenteeism. Journal of Organizational Behavior, 30(7), 893-917.
9. Sanderson, J., & Lonsdale, C. (2016). Risk management for design and construction. Routledge.
10. PwC. (2018). Risk in review: Going the distance. PwC.
11. Froot, K. A., Scharfstein, D. S., & Stein, J. C. (1993). Risk management: Coordinating corporate investment and financing policies. The Journal of Finance, 48(5), 1629-1658.
12. Rathmell, J. M. (2016). A method for assessing the risk management effectiveness of organizational supply chains. International Journal of Disaster Risk Reduction, 16, 80-88.
13. Haghani, A., & Oh, S. (2017). A review of urban logistics: towards a conceptual framework for smart urban freight distribution. Transportation Research Part A: Policy and Practice, 101, 125-142.
14. Tham, J. H., & Zakuan, N. (2016). A literature review on risk management and implementation in the manufacturing industry. Journal of Advanced Manufacturing Technology, 10(1), 19-31.
15. Kusi-Sarpong, S., Amponsah-Tawiah, K., & Ntow, F. D. (2019). Strategic risk management and organizational performance: A critical review. Journal of Risk and Financial Management, 12(2), 64.