



A STUDY ON RISK MANAGEMENT

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ABSTRACT

Risk Management is used to select a Risk of new product development projects to achieve the following goals:

- Maximize the profitability or value of the Risk
- Provide balance
- Support the strategy of the enterprise

Risk Management is the responsibility of the senior management team of an organization or business unit. This team, which might be called the Product Committee, meets regularly to manage the product pipeline and make decisions about the product Risk. Often, this is the same group that conducts the stage-gate reviews in the organization.

A logical starting point is to create a product strategy - markets, customers, products, strategy approach, competitive emphasis, etc. The second step is to understand the budget or resources available to balance the Risk against. Third, each project must be assessed for profitability (rewards), investment requirements (resources), risks, and other appropriate factors.

The weighting of the goals in making decisions about products varies from company. But organizations must balance these goals: risk vs. profitability, new products vs. improvements, strategy fit vs. reward, market vs. product line,

long-term vs. short-term. Several types of techniques have been used to support the Risk management process:

- Heuristic models
- Scoring techniques
- Visual or mapping techniques

The earliest Risk Management techniques optimized projects' profitability or financial returns using heuristic or mathematical models. However, this approach paid little attention to balance or aligning the Risk to the organization's strategy. Scoring techniques weight and score criteria to take into account investment requirements, profitability, risk and strategic alignment. The shortcoming with this approach can be an over emphasis on financial measures and an inability to optimize the mix of projects.

I. INTRODUCTION

The Risk Management to Business Success

Risk management is an important part of planning for businesses. The process of risk management is designed to reduce or eliminate the risk of certain kinds of events happening or having an impact on the business.

Definition of Risk Management

Risk management is a process for identifying, assessing, and prioritizing risks of different kinds.



Once the risks are identified, the risk manager will create a plan to minimize or eliminate the impact of negative events. A variety of strategies is available, depending on the type of risk and the type of business. There are a number of risk management standards, including those developed by the Project Management Institute, the International Organization for Standardization (ISO), the National Institute of Science and Technology, and actuarial societies.

Types of Risk

There are many different types of risk that risk management plans can mitigate. Common risks include things like accidents in the workplace or fires, tornadoes, earthquakes, and other natural disasters. It can also include legal risks like fraud, theft, and sexual harassment lawsuits. Risks can also relate to business practices, uncertainty in financial markets, failures in projects, credit risks, or the security and storage of data and records.

Goals of Risk Management

The idea behind using risk management practices is to protect businesses from being vulnerable. Many business risk management plans may focus on keeping the company viable and reducing financial risks. However, risk management is also designed to protect the employees, customers, and general public from negative events like fires or acts of terrorism that may affect them. Risk management practices are also about preserving the physical facilities, data, records, and physical assets a company owns or uses.

Process for Identifying and Managing Risk

While a variety of different strategies can mitigate or eliminate risk, the process for identifying and managing the risk is fairly

standard and consists of five basic steps. First, threats or risks are identified. Second, the vulnerability of key assets like information to the identified threats is assessed. Next, the risk manager must determine the expected consequences of specific threats to assets. The last two steps in the process are to figure out ways to reduce risks and then prioritize the risk management procedures based on their importance.

Strategies for Managing Risk

There are as many different types of strategies for managing risk as there are types of risks. These break down into four main categories. Risk can be managed by accepting the consequences of a risk and budgeting for it. Another strategy is to transfer the risk to another party by insuring against a particular, like fire or a slip-and-fall accident. Closing down a particular high-risk area of a business can avoid risk. Finally, the manager can reduce the risk's negative effects, for instance, by installing sprinklers for fires or instituting a back-up plan for data.

Having a risk management plan is an important part of maintaining a successful and responsible company. Every company should have one. It will help to protect people as well as physical and financial assets.

NEED & IMPORTANCE OF STUDY

Portfolio management or investment helps investors in effective and efficient management of their investment to achieve this goal. The rapid growth of capital markets in India has opened up new investment avenues for investors.

The stock markets have become attractive investment options for the common man. But the need is to be able to effectively and efficiently



manage investments in order to keep maximum returns with minimum risk.

Hence this study on **RISK MANAGEMENT**” to examine the role process and merits of effective investment management and decision.

SCOPE OF STUDY:

This study covers the Markowitz model. The study covers the calculation of correlations between the different securities in order to find out at what percentage funds should be invested among the companies in the portfolio. Also the study includes the calculation of individual Standard Deviation of securities and ends at the calculation of weights of individual securities involved in the portfolio. These percentages help in allocating the funds available for investment based on risky portfolios.

OBJECTIVES:

- ❖ To study the investment decision process.
- ❖ To analysis the risk return characteristics of sample scripts.
- ❖ Ascertain Risk Management.
- ❖ To construct an effective portfolio which offers the maximum return for minimum risk

II. METHODOLOGY:

Primary source

Information gathered from interacting with employees in the organization. And the data from the textbooks and other magazines.

Secondary source

Daily prices of scripts from news papers

SCOPE

- ❖ Duration Period 2 months
- ❖ Sample size : 5 years
- ❖ To ascertain risk, return and weights.

LIMITATION:

1. Only two samples have been selected for constructing a portfolio.
2. Share prices of scripts of 5 years period was taken.

III. RISK RETURN ANALYSIS:

All investment has some risk. Investment in shares of companies has its own risk or uncertainty; these risks arise out of variability of yields and uncertainty of appreciation or depreciation of share prices, losses of liquidity etc

The risk over time can be represented by the variance of the returns. While the return over time is capital appreciation plus payout, divided by the purchase price of the share.



Normally, the higher the risk that the investor takes, the higher is the return. There is, however, a risk less return on capital of about 12% which is the bank, rate charged by the R.B.I or long term, yielded on government securities at around 13% to 14%. This risk less return refers to



lack of variability of return and no uncertainty in the repayment or capital. But other risks such as loss of liquidity due to parting with money etc., may however remain, but are rewarded by the total return on the capital. Risk-return is subject to variation and the objectives of the portfolio manager are to reduce that variability and thus reduce the risky by choosing an appropriate portfolio.

Traditional approach advocates that one security holds the better, it is according to the modern approach diversification should not be quantity that should be related to the quality of scripts which leads to quality of portfolio.

Experience has shown that beyond the certain securities by adding more securities expensive.

Risk management is the identification, assessment, and prioritization of risks (defined in ISO 31000 as the effect of uncertainty on objectives, whether positive or negative) followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities. Risks can come from uncertainty in financial markets, project failures (at any phase in design, development, production, or sustainment life-cycles), legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attack from an adversary, or events of uncertain or unpredictable root-cause. Several risk management standards have been developed including the Project Management Institute, the National Institute of Science and Technology, actuarial societies, and ISO standards. Methods, definitions and goals vary widely according to whether the risk management method is in the context of project management, security, engineering, industrial processes,

financial portfolios, actuarial assessments, or public health and safety.

The strategies to manage risk typically include transferring the risk to another party, avoiding the risk, reducing the negative effect or probability of the risk, or even accepting some or all of the potential or actual consequences of a particular risk.

Certain aspects of many of the risk management standards have come under criticism for having no measurable improvement on risk, whether the confidence in estimates and decisions seem to increase.

Principles of risk management

The International Organization for Standardization (ISO) identifies the following principles of risk management:

Risk management should:

- create value - resources expended to mitigate risk should generally exceed the consequence of inaction, or (as in value engineering), the gain should exceed the pain
- be an integral part of organizational processes
- be part of decision making
- explicitly address uncertainty and assumptions
- be systematic and structured
- be based on the best available information
- be tailorable
- take into account human factors
- be transparent and inclusive
- be dynamic, iterative and responsive to change



- be capable of continual improvement and enhancement
- be continually or periodically re-assessed.

Risk Options

Risk mitigation measures are usually formulated according to one or more of the following major risk options, which are:

1. Design a new business process with adequate built-in risk control and containment measures from the start.
2. Periodically re-assess risks that are accepted in ongoing processes as a normal feature of business operations and modify mitigation measures.
3. Transfer risks to an external agency (e.g. an insurance company)
4. Avoid risks altogether (e.g. by closing down a particular high-risk business area)

Later research has shown that the financial benefits of risk management are less dependent on the formula used but are more dependent on the frequency and how risk assessment is performed.

In business it is imperative to be able to present the findings of risk assessments in financial, market, or schedule terms. Robert Courtney Jr. (IBM, 1970) proposed a formula for presenting risks in financial terms. The Courtney formula was accepted as the official risk analysis method for the US governmental agencies. The formula proposes calculation of ALE (annualised loss expectancy) and compares the expected loss value to the security control implementation costs (cost-benefit analysis).

Risk management activities as applied to project management

In project management, risk management includes the following activities:

- Planning how risk will be managed in the particular project. Plans should include risk management tasks, responsibilities, activities and budget.
- Assigning a risk officer - a team member other than a project manager who is responsible for foreseeing potential project problems. Typical characteristic of risk officer is a healthy skepticism.
- Maintaining live project risk database. Each risk should have the following attributes: opening date, title, short description, probability and importance. Optionally a risk may have an assigned person responsible for its resolution and a date by which the risk must be resolved.
- Creating anonymous risk reporting channel. Each team member should have the possibility to report risks that he/she foresees in the project.
- Preparing mitigation plans for risks that are chosen to be mitigated. The purpose of the mitigation plan is to describe how this particular risk will be handled – what, when, by who and how will it be done to avoid it or minimize consequences if it becomes a liability.
- Summarizing planned and faced risks, effectiveness of mitigation activities, and effort spent for the risk management.

SUGGESTIONS

- Investor would be able to achieve when the returns of shares and debentures Resultant portfolio would be known as



diversified portfolio. Thus portfolio construction would address itself to three major via. Selectivity, timing and diversification.

- In case of portfolio management, negatively correlated assets are most profitable. Correlation between the BAJAJ are negatively correlated which means both the combinations of portfolios are at good position to gain in future.
- Investors may invest their money for long run, as both the combinations are most suitable portfolios. A rational investor would constantly examine his chosen portfolio both for average return and risk.

IV. CONCLUSIONS FOR CORRELATION

In case of perfectly correlated securities or stocks, the risk can be reduced to a minimum point.

In case of negatively correlative securities the risk can be reduced to a zero.(which is company's risk) but the market risk prevails the same for the security or stock in the portfolio.

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