



Are we managing Risk ?



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In today's business world, risk management has introduced itself as the most essential part of management activities. We cannot remain untouched by the issue of managing risks. "Risk & Return" is a well accepted principle. "Greater the risk, more the return". But, we should not think about taking more risk for better return; we should think about "Managed Risk" because unmanaged risk never gives better return. In this context, this is my little endeavor to make we all knowledgeable towards risk and risk management. Then we can collectively go ahead with the strategy of risk management.

What is risk?

An organization always functions within an environment of uncertainty to achieve its objectives. The uncertainty prevailing in the environment has the chance of something happening, and that happening may be favorable or unfavorable to the organization. In this situation, risk can be viewed as happening of something in uncertain business environment, which has negative impact upon the objective of an organization.

Risk Universe

Risk universe is the overall uncertain environment of business. The future is uncertain, therefore risk is prevailing everywhere. Especially, in the context of business, we can sort out some items or the risk universe,

which includes the following:

- Commercial Risk
This type of risk arises due to functioning of business. The negative impact of unwise pricing and distribution policy of product on the overall revenue of the organization can be cited as an example of the commercial risk.
- Regulatory risks
Regulatory risks are the risk of unexpected changes in the rules and regulations imposed by the regulatory body which creates problem on compliance. In case of Nepal Telecom, we had faced it in the form of the requirement of paying renewal fees for operating GSM Mobile service.
- Business Environment Risks
These are the risks imposed by market scenario. The loss of market share due to introduction of new competitive forces and the functioning of illegal forces in market are all the example of business environment risk.
- Organization Structure Risks
Risks arising out of the structure of the organization include delay in decision making, delay in implementation of projects, hierarchy ego, wrong placement of personnel etc.



- **Natural disasters**
These are the most uncertain factor and mostly have negative impact on business. Loss of property, infrastructure and problem on proper functioning of system may cause the loss of revenue of any organization.
- **Political and Government Environmental risks**
The uncertain and unstable political and governmental environment hampers the development of economic activities in the country. Ultimately, the industrial and commercial sector always faces the problem.
- **Engineering & Technological Risks**
This can be viewed as the result of implementation of poor engineering concept and use of poor technology. Initial lower cost in these technologies continuously poses problem and quality of products served to the customer is always criticized. The fault in technology may result in the huge loss of revenue.
- **IT Risks**
These are the risk of system security and stability. If an information technology is introduced in the organization but could not be stabilized for proper functioning regularly requires huge operation and maintenance cost. Besides, the risk of system being hacked due to weak security structure can block the smooth operation and loss of important and confidential data and information.
- **Managerial Style & changes therein**
Managerial style also contributes toward the risk in business. Management decisions are generally based on managerial styles. If those decisions are taken or implemented without analysis of facts and figures, the decision may lead to bad consequences. The business may be going on smoothly on the track of a particular managerial style and, if there arises sudden changes that may affect directly the objective of the organization.
- **Strategic Risks**
Business strategies may be related to competitors and planning. Strategies in relation to competition can be categorized in terms of services provided, pricing of products, quality of products served, marketing strategies etc. Besides, planning related strategies are timely introduction of right technology, budgeting etc. Strategies are the tools for achievement of business objectives. Failures in introduction of right strategy in right time have ultimate negative effect on the business objectives.
- **Financial Risks**
Financial management plays most crucial role in business success. Lack of financial analysis in project planning and implementation may lead to wrong decision. We have heard about many organizations's bankruptcy case which is the examples of financial risk. In overall financial system, risk can be identified in the area of automation of financial jobs, liquidity and cash management, debtors' management, inventory management, investment management, capital structure management etc. Besides, these risks can also arise in the form of compliance related risk, e.g. financial regulation, budget standards, Acts (Companies Act, Income Tax Act, VAT Act etc.)
- **Operational Process Risks**
These risks encompass the area relating to customer satisfaction out of quality of product or service provided, value added services etc. Further, these can also be linked with procurement related risk in terms of requirement analysis, vendor failure, opportunity cost etc. Similarly project implementation and system related risk associated with timely completion, effectiveness, utilization, system stability & reliability etc. are also the area covered by this type of risk.



- **Human Behavior Risk**
Human behavior shown or performed by employees of the organization towards outsiders, insiders and overall organization is the factor which can cause negative impact upon the objective of the organization. Fraud, manipulation of cash and documents is the result of human behavior imposing serious risk to the organization.

Enterprise Risk Framework

The enterprise risk can be integrated in three major domains as below:

- **Ownership Risk-**
These are the risks associated with acquiring and disposing of assets. These include external threats to the assets, custodial and security risks of the assets, opportunity loss due to non optimum use of assets and loss on acquisition and disposal.
- **Process Risk-**
Risks associated with putting assets to work to achieve organization objectives are termed as process risks. These include out-dated and poor control mechanism, poor plan forecast, delay in completion of contract, productivity loss due to poor design of process and control systems, and goal conflicts among departments. Last but not the least, Risk of frauds can also be traced under process risk.
- **Behavioral Risk-**
Behavioral risk associates itself with the risk relating to acquisition and disposal of human assets. It includes risk arising of poor management practices, under utilization of human assets, poor leadership, employee law suits, and lack of succession planning or absence of skill inventory.

“RISK & RESPONSE”

The whole system of risk management focuses on the risk and the response towards risk. The quantum and quality of return depends upon how business reacts to the associated risk. A premium is

placed for accepting greater risk and therefore market return is made up of risk free rate of return and risk premium. Response towards risk is dependent on organizational risk appetite which is a grey area of Risk Management. The key issues in Risk Response can be highlighted as:

- What is company’s ability and willingness to absorb downside risks?
- Are the risk acceptance levels consistent with the organizational strategy, business objectives and profitability targets?
- What are the targeted areas for risk reduction with corresponding checks and controls?
- What are the possibilities of BUSINESS OBJECTIVES getting LOST AS A CONSEQUENCE OF MANAGEMENT BEING TOO RISK AVERSE?
- What is the impact of accepted risk levels on stakeholders’ interest?

The above issues should be addressed properly for proper response to risk. While managing risks, generally, the following responses are shown towards risk:

- **Share:**
Distribute a portion of risk through a contract with another party, e.g. Insurance.
- **Transfer:**
Distribute all risk through a contract with another party, e.g. Outsourcing.
- **Accept:**
Allow minor risk, if risks are within acceptable norms and when cost of control is higher than potential harm.

Why Manage Risk?

Now, lets think why we are bothering for risk management. Can't we ignore the risk factor? In today's competitive business environment, the answer comes as risk is the outcome of uncertain business environment, that's why it cannot be ignored; it should be managed for yielding better return.

We have to manage risks:



- To make sure nothing goes wrong in the way of achieving business objectives.
- To maximize on potential opportunities, and
- To minimize the adverse effects.

What is Risk Management?

In the foregoing paragraphs, we gained some knowledge relating to risk and the need for risk management. So, at this stage we should understand the meaning of risk management and its importance.

Risk Management is:

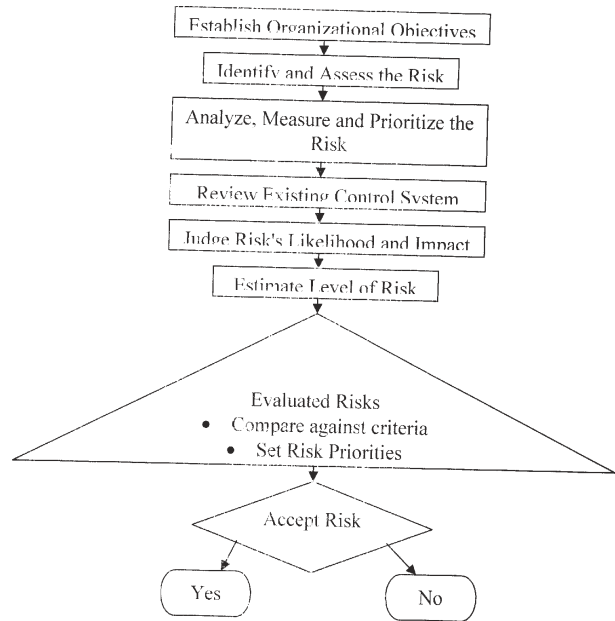
- The culture, process and structure consisting of well-defined steps which, if taken in sequence, support better decision making by contributing a greater insight into risk and their impact.
- The process of identifying and controlling an organization's losses.
- The process of determining What can happen, Why & How?
- A systematic use of available information to determine how often specified events may occur & estimate it's impact.
- Overall process of Risk Analysis & its evaluation. Identifying gaps in performance.

Importance of Corporate Risk Management

The importance and need of better corporate risk management can be highlighted as below:

- It is a scientific way to capture, understand and analyze the Risk Universe of the Company.
- It helps to interlink Risks with Corporate Goals.
- It helps to prioritize RISK AREAS impacting the Organizational Goals.
- It enables to estimate the returns at different levels of Risk Acceptance.
- It enables periodic reviews and communication to Board/ Stakeholders on the Company's Risk Exposure and the techniques adopted to mitigate the accepted risk levels.
- It focuses on strategic importance of bearing the Risks as strategic risks are the realities of the company's survival.

Risk Management Structure



Risk Management Techniques

While managing risks, one should understand the risk characteristics of Risk Universe and should be able to link those risks to strategic objectives. After understanding and linking risks to strategic objectives of business, the following techniques can be used to manage them as per requirement:

1. Assess
We should, first, assess the probability of risk to accomplishment of objectives and our risk tolerance level.
2. Avoid
We can redesign the process to avoid particular risk.
3. Diversify
We can spread the risk on numerous assets or processes to reduce an overall risk of loss or impairment.
4. Control
We can design activities to prevent, detect and contain adverse events or promote positive outcomes.

Lastly, lets collectively think:

- What are the Risks to Nepal Telecom?
- What is the scenario of Risk Universe in Nepal Telecom?
- How can we gain from Managed Risk?, and
- Are we managing Risk? ●