

Jaipur Engineering College & Research Centre

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Disaster Management

Unit-V

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RISK IDENTIFICATION

Risks can be identified in the following categories:

1. **Business Risks:** These are strategic risks that may threaten the existence or the smooth running of the business in the future.
2. **Operational Risks:** These are risks encountered in the day-to-day running of the business and are mainly mitigated by putting strong business processes with internal controls in place. These risks are function-wise.
3. **Financial Risks:** The finance function including borrowing, Forex management and hedging, etc. is centralized for the company and hence these risks are for the central finance department.
4. **IT Risks:** Risk of disruption in business due to failure of Information technology for the company as a whole.
5. **Legal Risks:** The legal risks for the company as a whole but the mitigation procedures are fairly decentralized depending on the compliance requirements.

RISK ANALYSIS INITIATIVES

There is always a Residual Risk attached to the business. A Textile business needs to therefore implement a continuous monitoring mechanism to deal with risks on an on-going basis.

Details of various Initiatives towards achieving this objective are provided below:

- ❑ **Strategic Planning:** Senior management must meet periodically for a detailed strategic and operational review of business segment, taking into account existing and prospective business environment.
- ❑ **Communication & Reporting:** Members of the core management team must review the implementation of these strategies, and also ensure that adequate attempts are made to mitigate the risks perceived.
- ✓ The Actual performance via Budgets are reviewed by the management on a Quarterly basis and should also be presented at Board meetings. The monthly and quarterly MIS should be designed to ensure timely dissemination of information and risks of non-achievement of business objectives to key management.

RISK ANALYSIS INITIATIVES

□ Operational Initiatives for Managing Risks

- ✓ **Policies & Procedures:** In order to strengthen internal controls over business processes, and thereby reduce the risks of manual intervention and error, the company should document important policies and procedures and circulate across the organization.
- ✓ **Example:** Approval Limits (Authorisation matrix document specifying the financial powers for every nature of expenses and every executive)
- ✓ **Foreign Exchange Risk Management Policy (FERM):** Budgets and operating plan for every business and every cost centre (specifying both Revenues and Capex)

RISK ANALYSIS INITIATIVES

❑ Manuals for Policies and Procedures for

- ✓ Capital Expenditure
- ✓ Purchasing
- ✓ Travel Policy
- ✓ Accounting Policies and Procedures
- ✓ Bill Passing Manuals
- ✓ Retail Shops Manual

❑ Audits & Reviews

- ✓ **Internal Audits:** A firm of Chartered Accountants, whose appointment is approved by the audit committee, should conduct regular internal audit reviews. The observations and recommendations should be reviewed and discussed with top management and the implementation status should be reviewed regularly.

BUSINESS RISKS: DIFFERENT AREAS

CATEGORY-A

PRODUCT, MARKET AND CUSTOMER RELATED

I. (a)

- ❑ **Area:** Availability of Raw Materials at competitive prices
- ❑ **Risks :** Volatility in Input Prices
- ❑ **Risk Description:** Increase in prices of Essential Materials (Cotton, Wool, Polyester, Acrylic, etc.)
- ❑ **Mitigating Controls /Procedures**
 - ✓ The Company should cover its Raw Material (RM) requirements for a defined period.
 - ✓ This ensures availability as well as price competitiveness of the materials.

BUSINESS RISKS: DIFFERENT AREAS

I. (b)

❑ **Risks:** Constraints in Availability of Raw Materials

❑ **Risk Description**

- ✓ Fluctuation in prices, non-availability due to various reasons.
- ✓ RM required to be imported, may adversely impacted due to decline in bilateral relations, war, trade embargo, etc.
- ✓ Raw materials may not be available in a timely manner.

❑ **Mitigating Controls /Procedures**

- ✓ The management should continuously monitors events affecting raw material availability and suppliers.
- ✓ The division constantly explores alternatives for the existing supplier.
- ✓ The division also looks at captive processing units to lower dependence on suppliers.

BUSINESS RISKS: DIFFERENT AREAS

II. (a)

- ❑ **Area:** Product Portfolio
- ❑ **Risks:** Changes in Demand or Market-Trends
- ❑ **Risk Description:** Primary markets may no longer accept the existing products due to new fashion trends, low economy, changing age group of major consumers etc. Changes in demand patterns reduce the demand for the company's existing products. Also changes in preferences may affect sale of particular category of products and hence affect profitability (e.g. Shift from woollen to PV & acrylic products, 100% cotton to PVC, 100% Polyester etc. affects margins).
- ❑ **Mitigating Controls /Procedures**
 - ✓ The Company must monitors the changes in the industry and customer preferences through market surveys, particularly in the end application population for any indicators that could change or affect demands of the company's product.

BUSINESS RISKS: DIFFERENT AREAS

- ✓ The company may encounter the risk of shift to ready-mades by two prong method of supplying to institutional ready-made manufacturers as well as the company may itself have a presence in the ready-made garments industry.
- ✓ The company must host dealer meets and increase interactions with agents to gauge customer trends.
- ✓ Data captured by the POS of retail stores should be collected and analyzed regularly to determine customer buying trends.
- ✓ Company must focus its research & development on a continuous basis on top most priority.

BUSINESS RISKS: DIFFERENT AREAS

II. (b)

- ❑ **Area:** Product Portfolio
- ❑ **Risks:** Product Concentration or Dependence
- ❑ **Risk Description:** A certain product range dominates the company's product range. Significant revenues or profits of the company flow from these products and hence any adverse impact on the sale of few products could impact the business severely.
- ❑ **Mitigating Controls /Procedures**
 - ✓ The Company should monitor the demand forecasts and threats to these products closely.
 - ✓ New technological developments in the product area (like new fibre & finish & fashion developments) are also closely watched and the company aims to be the leader in adopting changes to product range.
 - ✓ The company should also continuously undertake new product development initiatives or spin offs from existing products that will reduce the dependency on a small number of products.

BUSINESS RISKS: DIFFERENT AREAS

III. (a)

- ❑ **Area:** Customer
- ❑ **Risks:** Credit Risks
- ❑ **Risk Description:** Risk of Customers not meeting payment obligations.
- ❑ **Mitigating Controls/Procedures**
 - ✓ Strong credit control and monitoring mechanisms must be in place to restrict undue exposures.
 - ✓ The credit policy includes other mitigating actions like making agents responsible for collections (Del-Credit Agents) and accepting deposits from customers.
 - ✓ Further receivables position is reviewed and closely monitored in every weekly/monthly managements meeting.

BUSINESS RISKS: DIFFERENT AREAS

III. (b)

- ❑ **Area:** Customer
- ❑ **Risks:** Customer Concentration
- ❑ **Risk Description:** Few customers should not be accounted for bulk of the sales or profits, to avoid over dependency on a small customer base. These customers could dictate terms or loss of a single customer may adversely affect the business.
- ❑ **Mitigating Controls /Procedures**
 - ✓ The Company should continuously appoint new Dealers and franchise shops which achieve the dual purpose of increasing the reach as well as broadening the customer base to reduce customer concentration.
 - ✓ Also the activities of the large customers should be closely watched and due to the long association with such customers, the management perceives the risk to be low.

BUSINESS RISKS: DIFFERENT AREAS

IV.

- ❑ **Area:** Competition
- ❑ **Risks:** Loss of Market Share
- ❑ **Risk Description:** Loss of market share to competitors.
- ❑ **Mitigating Controls / Procedures**
 - ✓ The company should focus to increase the domestic market as well as export market share. Marketing strategies should be continuously aimed towards improving market share by meeting existing and emerging customer demands, provide incentives to customers (rewards, loyalty programme). Competition moves should be tracked closely for any major developments. The current distribution network should be strengthened.
 - ✓ The company should also expand into retailing Continuous improvement programmes should be initiated to ensure that high product quality standards are maintained. The focus should be on brand building & its recognition.

BUSINESS RISKS: DIFFERENT AREAS

V.

❑ **Area:** Technology

❑ **Risks:** The present technologies or manufacturing processes may become obsolete.

❑ **Risk Description**

✓ Alternate manufacturing processes available to manufacture products at lower costs.

✓ Up-gradation of manufacturing facilities in time.

✓ Inadequate resources for product development and research in emerging technologies.

❑ **Mitigating Controls /Procedures**

✓ A company should consciously upgrade its manufacturing facilities to adopt the latest technologies.

✓ It should also take steps to retain or reduce costs of production by initiatives which may include shifting the manufacturing location to lower costs area.

BUSINESS RISKS: DIFFERENT AREAS

- ✓ There should be ongoing efforts for development and research of new products and new technologies.
- ✓ On the selling front as well, the company should adopt the new channels of promotions and selling to the extent feasible (e-commerce, use of internet as a selling medium).

BUSINESS RISKS: DIFFERENT AREAS

VI. (a)

- ❑ **Area:** Economy & Market Risks
- ❑ **Risks:** Slow Economic Growth/Recession
- ❑ **Risk Description:** Reduction in Buying Power of the End-Customer-Base.
- ❑ **Mitigating Controls/Procedures**
 - ✓ The Company should track economic and buying trends and accordingly changes product mix to suit current market demands (producing lower value fabric during recession and finer fabrics during growth times).

BUSINESS RISKS: DIFFERENT AREAS

VI. (b)

- ❑ **Area:** Economy & Market Risks
- ❑ **Risks:** Inadequate Market Analysis
- ❑ **Risk Description:** Inability to foresee demand patterns
- ❑ **Mitigating Controls/Procedures**
 - ✓ The company should spend significant efforts on demand forecasting.
 - ✓ The company may install common software at all sale point through which information on sales trends is available. This information is used to forecast future demands.
 - ✓ Other means like inputs from market research agencies, media, customer surveys, sales and marketing teams are also to be taken to constantly gauge customer.

BUSINESS RISKS: DIFFERENT AREAS

VI. (c)

- ❑ **Area:** Economy & Market Risks
- ❑ **Risks:** Inadequate Market Analysis
- ❑ **Risk Description:** Inability to price products competitively or profitably.
- ❑ **Mitigating Controls/Procedures**
 - ✓ Regular analysis of the individual components that are built into the product cost and ways to reduce one or many cost components.
 - ✓ Simultaneous market analysis to determine optimum setting price.

BUSINESS RISKS: DIFFERENT AREAS

VII.

- ❑ **Area:** Regulatory Environment
- ❑ **Risks:** Adverse Policy Changes
- ❑ **Risk Description:** Adverse changes in local government policies or regulations leading to adverse impact on business environment.
- ❑ **Mitigating Controls/Procedures**
 - ✓ Government policies are to be closely monitored.
 - ✓ The company should continuously make representations to the authorities through trade associations for changes that would favourably impact the industry and the company.

BUSINESS RISKS: DIFFERENT AREAS

CATEGORY-B

OPERATIONS RELATED

I. (a)

- ❑ **Area:** Human Resources
- ❑ **Risks:** Employee Integrity
- ❑ **Risk Description:** Compromise of employee integrity could lead to frauds or pilferages.
- ❑ **Mitigating Controls /Procedures**
 - ✓ The code of conduct must be communicated and mandated by a company requires high standards of integrity and ethical behaviour.
 - ✓ The screening process for senior management positions also includes a thorough background check to avoid any such issues.
 - ✓ A strong and robust internal control framework ensures transparency and early detection of any deviation.

BUSINESS RISKS: DIFFERENT AREAS

I. (b)

- ❑ **Area:** Human Resources
- ❑ **Risks:** Industrial Relations
- ❑ **Risk Description:** Industrial unrest could lead to strike or disruptions in activities.
- ❑ **Mitigating Controls/Procedures**
 - ✓ There must be regular efforts to maintain cordial relations with the unions & management.
 - ✓ Company should periodically sign a memorandum of settlement with the worker unions.

BUSINESS RISKS: DIFFERENT AREAS

I. (c)

- ❑ **Area:** Human Resources
- ❑ **Risks:** Possible shortage of skilled man-power and risk of high staff turnover.
- ❑ **Risk Description:** Unavailability of new talent or inability to retain existing talent. High staff turnover could affect continuity and growth of the business.
- ❑ **Mitigating Controls /Procedures**
 - ✓ The Company must have good HR strategies to attract and retain talent. Compensation should be among the best in the industry.

BUSINESS RISKS: DIFFERENT AREAS

II. (a)

- ❑ **Area:** Procurement
- ❑ **Risks:** Continuity of Supplies
- ❑ **Risk Description:** Unreliable suppliers or frequent disruption of supplies could pose risk of disruption in operations.
- ❑ **Mitigating Controls /Procedures**
 - ✓ Vendor selection process ensures reliability of suppliers.
 - ✓ There should be continuous exercise to develop alternative vendors for Class B items.
 - ✓ Alternatives should be developed for imported items.

BUSINESS RISKS: DIFFERENT AREAS

II. (b)

- ❑ **Area:** Procurement
- ❑ **Risks:** Continuity of Supplies
- ❑ **Risk Description:** Dependence on single source suppliers or service provider leading to business partner risks.
- ❑ **Mitigating Controls /Procedures**
 - ✓ For key materials, contracts should be in place with the main vendors.
 - ✓ Terms with certain suppliers also include penalties for delays or failure to supply which also acts as a mitigating factor.

BUSINESS RISKS: DIFFERENT AREAS

III. (a)

- ❑ **Area:** Logistics & Supply Chain
- ❑ **Risks:** Non-Optimal Inventories
- ❑ **Risk Description:** Risks of overstocking leading to blockage of working capital and obsolescence of material and risk of understocking leading to loss of sales.
- ❑ **Mitigating Controls /Procedures**
 - ✓ Inventory management controls, supported by IT systems should be in place.
 - ✓ Targets in terms of number of days sales or consumption should be defined for all items.

BUSINESS RISKS: DIFFERENT AREAS

III. (b)

- ❑ **Area:** Logistics & Supply Chain
- ❑ **Risks:** Late Delivery of Finished Goods
- ❑ **Risk Description:** Company's inability to deliver on time meet peak season demands or delivery commitments.
- ❑ **Mitigating Controls/Procedures**
 - ✓ Inventories at all levels should be monitored, regularly, reported and discussed in monthly management meetings.

BUSINESS RISKS: DIFFERENT AREAS

IV. (a)

- ❑ **Area:** Production
- ❑ **Risks:** Risk of Rejections
- ❑ **Risk Description:** High rejection rates for finished goods could result in business and reputation loss.
- ❑ **Mitigating Controls /Procedures**
 - ✓ All the divisions of the company follow very stringent quality assurance & inspection norms.
 - ✓ The product must be finally inspected & confirmed for its quality before dispatch to customer.
 - ✓ Company must recognize quality of its product as its strategic strength and should have controls in manufacturing processes to ensure the continuity of this factor.

BUSINESS RISKS: DIFFERENT AREAS

IV. (b)

- ❑ **Area:** Production
- ❑ **Risks:** Disruptions in Resource Supply
- ❑ **Risk Description:** Inadequate resources for manufacturing like power, water, fuel, etc.
- ❑ **Mitigating Controls /Procedures**
 - ✓ A company plants should be setup considering availability of resources as a key criteria. The continuity of these resources should be monitored regularly.
 - ✓ A special arrangement may be made to ensure availability of these resources in an uninterrupted manner (like special water pipelines, captive power plants etc.).

BUSINESS RISKS: DIFFERENT AREAS

IV. (c)

- ❑ **Area:** Production
- ❑ **Risks:** Shop Floor Hazards
- ❑ **Risk Description:** Failure to take adequate safety precautions may lead to accidents in manufacturing facilities.
- ❑ **Mitigating Controls /Procedures**
 - ✓ Safety requirements must be specified at each of the plants.

BUSINESS RISKS: DIFFERENT AREAS

V.

- ❑ **Area:** Sales & Marketing
- ❑ **Risks:** High number of customer claims
- ❑ **Risk Description:** Large number of customer claims for failure in fulfilling commitments or delivering the right product.
- ❑ **Mitigating Controls /Procedures**
 - ✓ Safety requirements have been specified at each POS.

BUSINESS RISKS: DIFFERENT AREAS

VI. (a)

- ❑ **Area:** Commercial
- ❑ **Risks:** Business Partner Risk
- ❑ **Risk Description:** Failure of a business partner/counter party (vendor, service provider, dealer to meet obligations or service levels results in disruptions in business operations).
- ❑ **Mitigating Controls/Procedures**
 - ✓ The Company should deal with required suppliers and service providers.
 - ✓ Contractual safeguards and SLAs should be included in the contracts with each business partner

BUSINESS RISKS: DIFFERENT AREAS

VI. (b)

- ❑ **Area:** Commercial
- ❑ **Risks:** Business Partner Risk
- ❑ **Risk Description:** Dependence on single service provider for services leading to business partner risks.
- ❑ **Mitigating Controls/Procedures**
 - ✓ The company should define selection criteria for service providers. Contracts with service providers should contain penalty clauses in class of unsatisfactory service.
 - ✓ Specific SLAs and penalty clauses should be in place for any key service providers (e.g. maintenance contracts with software vendors for key business systems).

BUSINESS RISKS: DIFFERENT AREAS

VII. (a)

- ❑ **Area:** Other Operational Areas
- ❑ **Risks:** Inadequate Internal Controls
- ❑ **Risk Description:** Inadequate or weak internal controls across functions.
- ❑ **Mitigating Controls/Procedures**
 - ✓ The Company should appoint internal auditors to regularly audit the status of internal controls.
 - ✓ Audit reports and actions on recommendations should be reviewed by the Audit Committee of the Board every month/quarter.

BUSINESS RISKS: DIFFERENT AREAS

VII. (b)

- ❑ **Area:** Other Operational Areas
- ❑ **Risks:** Damages to Property and Assets
- ❑ **Risk Description**
 - ✓ Operations (manufacturing facilities, warehouses, corp. offices, etc) may be adversely impacted due to natural disasters/acts of God.
 - ✓ Damages due to industrial espionage, sabotage, etc.
 - ✓ Damages due to carelessness or lack of safety measures.
- ❑ **Mitigating Controls/Procedures**
 - ✓ The insurance function should be in place to review insurance coverage by each division.
 - ✓ The company must be ensured adequate insurance cover for various hazards including acts of God as well as accidents or sabotage.
 - ✓ Regular training to be provided to workers on safety and precautionary measures.

~~: THANK YOU :~~