CHAPTER VI

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

6.1 Introduction

The study aims to identify the Corporate Risk Management practices among different sectors in Tamil Nadu. In order to identify the Risk faced, the tools used to manage these risk and type of Risk Management practices followed Tamil Nadu based companies listed in Bombay Stock Exchange were selected and the formulated objectives were analysed through statistical methods. Based on the analysis the key findings are listed along with the suggestions

6.2 Summary of findings

6.2.1 Basic profile of the respondents (Table 4.1)

- Majority of the respondents (48.9%) has a paid up capital base of ₹ 0-10 crores
- Twenty Five point six percent of the respondent organisations belong to ₹ 10-20 crore paid up capital category.
- In the case of annual turnover, nearly 46% of the respondents have sales turnover of ₹ 0-100 crores.
- Twenty two percent of the respondents have sales of above ₹ 500 crores.
- From the analysis it is found that majority of the respondents belong to 11-20 years of existence.
- It is identified that 47.7% of the respondents belong to manufacturing sector.
• Thirty seven percent of the respondents have employee strength of above 2250.

6.3 Risk faced by the organisation

6.3.1 The mean and standard deviation of likelihood of occurrence of different categories of Risks shows that the Credit Risk has the highest probability of occurrence. It is divulged that the mean value of all Risks falls in the range of 3 and above. Natural Hazard has the lowest mean value among all the categories of Risks (Table 4.2.1)

6.3.2 It is found from the one sample test statistics that the likelihood occurrence of Credit Risk, Financing Risk, Market Risk, Regulatory Risk, Strategic Risk, Reputational Risk, Political Risk, Natural Hazard Risk and Human Capital Risk are statistically significant. The Likelihood Occurrences of Credit Risk, Financing Risk, Market Risk and Regulatory Risk were found to have high probability of Occurrence. Information Technology Risk and Strategic Risk had overall probability means around the scale mean indicating that their Likelihood Occurrence is medium. Reputational Risk, Political Risk, Natural Hazard Risk, Human Capital Risk was found have low probability of Occurrences (Table 4.2.2).

6.3.3 The impact of occurrence of Credit Risk, Financing Risk, Market Risk, Treasury Risk, Reputational Risk, Political Risk, Natural Hazard Risk, and Human Capital Risk is found to be statistically significant. The impact of occurrence of Credit Risk, Financing Risk, Market Risk, and Treasury Risk was found to have high probability of Occurrence. Reputational Risk, Political Risk, Natural Hazard Risk and Human Capital Risk was found to have low impact of occurrence (Table 4.2.4)
6.3.4 The Risk score was calculated with the help of likelihood of occurrence of Risks and Impact of occurrence of Risks. Risk score is the product of LOR (Likelihood Occurrence of Risk) and IOR (Impact of Occurrence of Risk). Risk score was calculated for different categories of Risk with help of the mentioned formula in the analysis chapter. Since the calculated Risks score ranged from 5 to 25, the medium value was identified as 11.27. It is interesting to note that Credit Risk has the highest mean value. The lowest mean value is for Natural Hazard Risk. The one sample t test results revealed that Credit Risk, Financing Risk, Market Risk and Treasury Risk are located in high risk region. Reputational Risk, Political Risk, Natural Hazard Risk and Human Capital Risk were found to be low (Table 4.2.6).

6.3.6 Pearson Correlation was used to test the relationship between the paid up capital and probability means of different Risk categories. Regulatory Risk, Market Risk, Industry Risk were found to be statistically significant (p<0.05) at 5% level of significance, whereas Human Capital Risk and Strategic Risk was found to be statistically significant with (p<0.05) at 1% level of significance. The relationship between Market Risk, Industry Risk and paid up capital found to be negatively correlated. This means, when paid up capital increases, the likelihood of occurrence of market Risk and industry Risk decreases. It may be because the companies responded to this survey have well defined marketing strategies that enables them to reduce the likelihood of occurrence of Risk. Regulatory Risk is positively correlated with paid up capital. When paid up capital increases, Regulatory Risk also increases. The result is logical, because ensuring compliance with statutory and regulatory requirements increases, when company expands (Table 4.3.1)
6.3.7 It is divulged from the analysis that there exists a **positive correlation** between **paid up capital** and **impact of Political Risk and Human capital Risk**. A positive correlation was observed for paid up capital and impact of Political Risk, Human Capital Risk. In other words when paid up increases, the impact of occurrence of both political and human capital Risk increase. A **negative correlation** was identified for **Market Risk**, and the relationship was about 16.3% (Table 4.3.2).

6.3.8 It is observed that Market Risk, Regulatory Risk, Strategic Risk, Political and Human capital Risk is significantly related with paid up capital. The r coefficients were negative for Market Risk and Strategic Risk. A **definite positive correlation** was found for **Regulatory Risk and Human capital Risk**. A **low positive correlation** was found for **Political Risk** (Table 4.3.3).

6.3.9 The ANOVA result is highly statistically insignificant for different kinds of Risks, except for credit Risk. **Likelihood occurrence of Credit Risk significantly varies based on the nature of industry.** The mean scores of Credit Risk plotted on a graph revealed that **Construction industry faces high likelihood occurrence of Credit Risk.** Similarly the ANOVA results are highly statistically **significant for impact of occurrence of Credit Risk, Natural Hazard Risk and Human capital Risk.** Therefore the impact of occurrence of Credit Risk, Natural Hazard Risk and Human capital Risks significantly vary based on the nature of industry. The mean plot graph shows that **Impact of Occurrence of Human capital Risk and Natural Hazard Risk is high in Resources Sector.** Finally the risk score means of Credit Risk and Human Capital Risk differs among industrial sectors at the 0.05 level of significance. **Credit Risk** is found to be high in **Construction sector** and
**Human Capital Risk** is high in **Resources Sector** (Table 4.4.1, 4.4.2 & 4.4.3).

6.3.12 It is noticed from the analysis, that Overall Risk score mean value is high for the respondents with employee strength of 1501-2250. The results show a statistical significance for overall Risk score and size of the company in terms of employees (Table 4.4.4.1 & 4.4.4.2)

**6.4 Objectives of Risk Management** (Table 4.8.1)

- The main objective of Risk Management is to protect and enhance the reputation of the organisation. Therefore, it is understood that there is a change in the perspective of Risk Management.

- The least order of priority is to ensure clear reporting and disclosure to investors.

- The traditional role of Risk Management is meeting compliance and loss avoidance (Head 2004). It is understood from the ranking table that loss avoidance and meeting compliance is no more the top priority in the objectives of Risk Management.

- Even though, meeting compliance is not the top priority of the Management, they should never forget to remember that failing to meet the compliances, will damage the reputation of the firm.

- Risk Management is not merely viewed as a tool for loss avoidance; instead, it is used as a tool to protect the image and enhance the reputation of the organisation.
6.5 Tools used to manage and measure Risk.

6.5.1 It is divulged from the analysis, that the tools used to manage foreign exchange Risk based on their paid up capital and sales is found to be statistically insignificant. (Table 4.4.5 & 4.4.6).

6.5.2. The Chi-square test of association revealed that there is no association between the nature of industry and tool used by them to measure Credit Risk. Majority of the respondents in Group I uses Sensitivity analysis to measure Credit Risk. In Group II, most of them uses back testing to measure Credit Risk (Table 4.6.1.1).

6.5.3 It is observed from the analysis that the Majority of the respondents in Group I uses Stress Testing as a tool to measure Market Risk. In Group II, most of them use back testing as a tool to measure Market Risk. The results Chi-square test of association revealed that there is no association between the nature of industry and tool used by them to measure Market Risk (Table 4.6.1.2).

6.5.4 The tools used to manage Credit Risk were studied with the help of their rank mean values. Credit agency reports and recommendation was the major tool used by the respondents to manage Credit Risk. Further from the kruskal Wallis test it is observed that the nature of industry does not influence the rank given to the various Risk Management tools. In the case of tools used to manage Operating Risk, majority of the respondents use audit. The result of Kruskal Wallis test reveals that the nature of industry does not influence the ranking given to manage operating Risk (Table 4.7.1.1, Table 4.7.1.2, Table 4.7.2.1 & Table 4.7.2.2).
6.6 Enterprise Risk Management practices

- Ninety three point eight percent (93.8%) of the respondents have documented Risk policy (Table 4.1.2).

- Thirty eight point six percent (38.6%) of the respondents agrees that Board and their Risk Management function are integrated (Table 4.1.3)

- It is noteworthy to point out that only few respondents disagree about their integration with board (Table 4.1.3)

- It is found that majority of the respondents agrees that their Risk Management function is integrated with both functional unit and strategic business units (Table 4.1.3)

- It is inferred from the analysis that majority of the respondents have Risk communication strategy (Table 4.1.4).

- It is noticed that CFO plays a significant role in Risk policy framing (Table 4.1.5)

- The result also shows that both CEO and Board actively involves in framing the Risk policy (Table 4.1.5)

- When it comes to approval of Risk policy, CFO takes the responsibility. Majority of the respondents reported that CFO takes the responsibility to approve the Risk policy (Table 4.1.6)

- It is observed from the analysis that Line Managers take the responsibility to identify the Risk. This proves that firms belief on the ‘silo’ approach to Risk Management (Table 4.1.7)
To communicate the Risk policy, the respondents use multiple methods. They mainly communicate through meetings, conferences, briefings and also they use annual reports (Table 4.1.8).

Majority of the respondents have Risk register database and they record the consequences and likelihood occurrence of the Risks, existing control activities, sources and nature of the Risks (Table 4.1.9 & Table 4.1.10).

Majority of the respondents use KRI to assess the level of Risk and they monitor, review their KRIs every quarter (Table 4.1.11 & Table 4.1.12)

It is divulged from the analysis that Majority of the respondents use computer software to manage the Risk. Majority of the respondents relies upon off the shelf software for their Risk Management activities (Table 4.1.13)

6.6.1 Risk register database will help the company to record the types and sources of Risk it face. This might help the company to reduce the Risk in future. The mean value of overall Risk score for respondents having Risk register database is low, whereas the respondents without Risk register database is high. Further, it is also observed from the Independent t test of equality means, that there is significant difference between the mean values of Overall Risk score and respondents with and without Risk register database (Table 4.5.1).

6.6.5 It is pinpointed that there exists a significant relationship between budgeted expenses for Risk Management activities and size of the company in terms of employees, sales and paid up capital. The Chi-square test also justifies that there is a close relationship between documentation of Risk policy and size of the company in terms of...
employees. While analyzing the relationship between organisation having Risk communication strategy and the basic profile of the respondents, it is divulged from the Chi-square test that there is close relationship between organisation having Risk communication strategy and size of the company in terms of employees, paid up capital. It is found from the Chi-square test that there is significant relationship between Risk register database and size of the company in terms of employees. (Table 4.6.3, Table 4.6.4, Table 4.6.5, Table 4.6.6).

6.7 Factor analysis

Twenty variables were included under Effective Risk Management practices. From the factor analysis, it is identified that the five derived factors collectively explain 54.2% of total variations among all the selected variables. The factors identified from this analysis were Regularity of work, Measuring and developing Risk strategy, Understanding and Linkage with Objectives, Risk Evaluation and monitoring System, Process and Culture (Table 4.9.2).

6.6.8 The verification of the conceptual model in PLS showed that Effective Risk Management Practices linkage to Outcomes of Risk Management and Risk score is not adequately measured by the variables considered. This means the effectively practicing the risk management activities alone is not considered as a serious effect on the outcomes of Risk Management and Risk score. It shows that other possible variables have to be considered for the successful outcomes of Risk Management and Risk score, apart from Effective Risk Management practices. This model tries to understand the influence or importance of ERM on the Outcomes of Risk Management and Risk score, but not for predictions or better fitting the exact models. Therefore the validity of this model is not much demonstrated.
6.8 SUGGESTIONS

6.8.1 The analysis reveals that Human Capital Risk is high in Resources sector. Companies have to start thinking about being more innovative and creative in how they look at acquiring talent. A key person leaving the organisation may be a problem. Meeting employees regularly, listening to the problems will help towards building loyalty. Maintaining a smooth relationship shall ensure employee’s long stay to deliver return. Best HR practices from other sectors should be incorporated.

6.8.2 Not managing Regulatory Risk can cause headache to the company and it will damage the reputation of the firm. Therefore a culture of compliance, improving internal approaches to meet regulatory obligations should be created. Well trained employees to deal with compliance issue will help the companies to reduce Regulatory Risk. The senior managers can be made responsible for monitoring and analyzing the changes in the regulatory environment.

6.8.3 Credit Risk is found to be high in construction sector. Legally sound credit documentation can play a vital role in managing credit Risk. Credit rating will be a useful strategy for companies to mitigate their credit Risk. Risk transfer in form of credit insurance will help the companies to shift their burden.

6.8.4 Since market Risk and paid up capital are correlated, well defined marketing strategies will help the companies to reduce such type of Risk.

6.8.5 It is found that all the staff is not involved in Risk identification. Risk identification is all staff activity.
6.8.6 Risk register database will help the companies to track the Risk it faces. Maintaining Risk register database will help to identify the nature, source, existing controls, consequences and likelihood of occurrence. This paves the way to reduce their Risk in future. It is suggested that companies to maintain Risk register database. Risk Management should be integrated with Board, and all the functions.

6.8.7 During the field work, the respondents shared their views that CFO can be the CRO. This is the reason of appointing CRO is in its infantile stage. Many researchers argue that appointments of CRO apart from the CFO will strength the Risk Management activities. If the Risk responsibility is assigned to a CRO, it will further strength and build confidence in their Risk Management activity.

6.8.8 Exclusive and comprehensive training programs on various aspects of Risk Management should be conducted by the companies. A well written and structured approach to Risk Management will help the companies to achieve their objectives.

6.8.9 Risk Management should be viewed as a separate discipline not only in Companies, but also in academics. Secondary research on Risk Management courses in TamilNadu especially shows that there is no institute to offer courses on Risk Management. Introducing Corporate Risk Management as electives at Post graduate level will generate interest among students in this particular area. They will have sound theoretical base when enter in to this discipline.
6.9 AREAS FOR FURTHER RESEARCH

The present study gave a picture about the influence or importance of Effective Risk Management on the risk score and outcomes. Future research has the scope of purifying the indicators (measurement mechanism) and to include some more relevant variables for better model.

A study on the firm characteristics adopting Enterprise Wide Risk Management practices can be undertaken.

A comparison may also be made between Indian Companies and MNCs. This helps to identify the best Risk Management practices adopted by MNCs.

6.10 CONCLUSION

Risks are inherent in all business transactions. Complexity, uncertainty and change are prevalent within all business and business functions. The changing business environment has to be acknowledged and necessary steps have to be taken. Empirical research towards Risk Management in India is still lacking. Therefore, the present study attempted to resolve the problem, by undertaking a research on Corporate Risk Management Practices in one particular geographical area of India. The study undertaken on Risk Management revealed the important risks faced by the companies in Tamil Nadu. A light was also thrown into the emerging concept of Enterprise Risk Management. The study reveals the practices adopted by the Corporate to manage their risk. The companies should have a holistic and integrated approach in managing their risk.

Traditional approaches to Risk Management are unable to satisfy their clients, shareholder and stakeholder needs in areas of emerging
risks. A change in the perspective of risk management was noted among the Corporates. Risk Management from an integrated framework will allow to identify opportunities for new products, services and operational approaches that are socially and environmentally responsible. It enhances the economic performance and maximizes shareholder value, enabling the organisation to maintain long-term operational success. A continuous learning and revision of Risk Management frameworks and system is more important.