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EXPLORING FINANCIAL RISK MANAGEMENT STRATEGIES

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ABSTRACT

Financial risks are a major concern for companies, governments, and other organisations that operate in a volatile and uncertain financial climate. Organizations can reduce the likelihood and effects of such dangers and can better manage their financial performance and stability by recognising and evaluating potential risks, as well as by putting their efforts in effective risk management strategies. The goal of financial risk management is to identify, control, and reduce exposure to a variety of hazards associated with using financial services. The main aim is to study the various types of financial risk which occur in the environment and the effective ways to manage the financial risks.

Keywords: Financial risk, Investment, Financial risk management, Strategy

INTRODUCTION

Every company faces the possibility of risk, but how they manage it or deal with it is essential for avoiding actual revenue leakage. A company entails numerous risks.But when it comes to business operations, financial risk has the biggest influence. Cash flows are most affected by financial threats.Financial risks are dangerous or threats that may have an impact on the stability or performance of a company, Government, or other organization's finance. These risks may be caused by a variety of factors, such as market alterations, prevailing economic circumstances, or Governmental changes.According to Dun and Bradstreet, financial risk is one of the different kinds of investment risk and refers to the possibility that a company's cash flows won't be sufficient to cover its debts and other financial obligations. Therefore, the degree of financial risk is more closely related to the amount of debt a business takes on to fund its operations than it is to the operations of the business itself. A company is more likely to default on its financial responsibilities the more debt it owes. Therefore, increasing debt or financial liability also raises a company's degree of financial risk.

STATEMENT OF THE PROBLEM

Risks can come from many different sources, and their effects can be extremely unpredictable and challenging to measure. Financial risks can be hard to anticipate and predict is one of the main difficulties in managing them. Managing financial risk is a difficult and complex task that calls for coordinating the knowledge and resources of many different stakeholders, including finance experts, risk managers, and outside advisers. Hence, an exploratory study has been identified and the researcher has formulated the research problem as "Financial Risk Management- An Overview".

OBJECTIVES OF THE STUDY

Following are the objectives of selecting the topic:

1. To know the various types of financial risk in the business.
2. To ascertain the importance of financial risk management.
3. To study the financial risk management strategies.

RESEARCH METHODOLOGY

The research design of the study is basically descriptive. The study is based on secondary data. Secondary data was collected from relevant sources, journals, research reports, websites etc. This study is based on earlier research done in this particular aspect.

REVIEW OF LITERATURE

The researcher stated that financial risk may occur at any time. So he suggested to have a effective financial risk management to manage financial risks (W. Ennouri 2013). The researcher investigates the perceived relationship between financial risk management and small business owners' views regarding the financial success of their brand-new businesses in India's service and manufacturing sectors. Their study demonstrates that small company owners' beliefs about the financial performance of their new ventures in India's manufacturing and service industries are favourably influenced by their perceptions of the value of financial risk management. According to their findings, new small business ventures with sufficient internal financing sources perform financially considerably better than new small business ventures without sufficient internal financing sources (Amarjit et. al, 2018). The researcher selected 330 firms to examine the currency risk management practices of select export firms on three dimensions: exposure management, hedging decisions, and derivative decisions. She also examined their risk management policies and practices, her research evaluated their level of knowledge, their needs for and usage of appropriate hedging tools (S. Vasumathy Hariharan 2014).

TYPES OF FINANCIAL RISKS

Financial risks can be categorized in a variety of ways. Some of the most common types are:

- **Market risk**

  Market risk is the sudden shift in the market where a specific company fights. This might have a significant impact on the industry for the company. Being outmaneuvered by market rivals, is another component of market risk. Businesses with extremely low profit margins typically provide an attractive value offering. This aids in their creation of a distinctive position in the market.

- **Credit risk**

  Credit risk is the possibility that a customer or borrower will miss a payment or go into default. When determining the extent of the credit risk associated with borrowed funds, additional variables beyond the loss of principal, such as the loss of interest and rising collection costs, should be taken into consideration.

- **Operational risk:**Every company faces operational risks, which can happen as a result of routine business operations. This part includes disputes, staffing issues,

model risk, fraud risk, and others. This risk refers to a situation where a company's business strategy, expansion, and marketing may be insufficient, inaccurate, or inadequate.

- **Liquidity risk**

Liquidity risk involves funding liquidity and asset liquidity risk. Asset liquidity is essentially a component of how readily a company could convert its assets into future cash flows. Operational funding liquidity, on the other hand, relates to the daily inflow and outflow of cash. When a company lacks the liquid cash it needs to pay its bills or operate as a business, there is typically a significant risk involved. Because of this, measuring and quantifying risk is crucial for a successful company.

FINANCIAL RISK MANAGEMENT

Financial risk management is the process of identifying and managing the financial risks that a company may be exposed to, now or in the future.Since few companies can protect themselves with cotton wool, it is not about eliminating risks. Instead, it is about establishing boundaries. Understanding risk appetite will help them to determine what risks they are willing to take, what risks they prefer to avoid, and how they will create a strategy based on that appetite.However, a firm's financial risk management strategy does not protect it from all potential risks and financial losses. While some dangers are anticipated, others are unpredictable.

BENEFITS OF FINANCIAL RISK MANAGEMENT

- It offers a better grasp of the opportunity for performance measurement and profit sources.
- It assists the company in coordinating and controlling necessary business data and processes.
- Management of financial risk is important to the success of any enterprise. Teams of specialised employees help a business to understand the complex financial market and develop plans to minimise losses and maximise profits.
- Companies can reduce their losses at a crucial time with the help of financial risk management.

FINANCIAL RISK MANAGEMENT STRATEGY

Financial risk management strategy involves identifying, controlling, and minimising losses. Financial planners and large corporations both employ this method to possibly reduce risk. Reducing the level of uncertainty in investment choices is one of financial risk management's key components. It is a plan of action or set of rules developed to deal with various financial risks. Any company or person need strategies to manage the monetary risks that come with operating in the economy and financial system.A company that has a strong financial risk management strategy in place can stay competitive in the market while adhering to its own set of risk and opportunity scenarios.Choosing the best approach for a given risk can be challenging. It all depends on the type of risk and the present risk appetite of the person or organisation. Before choosing the most effective way to manage the risks, risks should be thoroughly understood.

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CONCLUSION

Financial risk is present in every investment made by a company. In reality, risk cannot be separated from income and profit. However, being aware of the financial risks could help investors to choose from a variety of better investment possibilities.Even though, financial risk management strategies are challenging to implement, every company eventually learns to control and be ready for managing their financial risks.

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