

Managing business risks



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Types of business risks

Business risks are of a diverse nature and arise due to innumerable factors. These risks may be broadly classified into two types, depending upon their place of origin.

- Internal Risks are those risks which arise from the events taking place within the business enterprise. Such risks arise during the ordinary course of a business. These risks can be forecasted and the probability of their occurrence can be determined. Hence, they can be controlled by the entrepreneur to an appreciable extent.

The various internal factors giving rise to such risks are:-

- **Human factors** are an important cause of internal risks. They may result from strikes and lock-outs by trade unions; negligence and dishonesty of an employee; accidents or deaths in the industry; incompetence of the manager or other important people in the organisation, etc. Also, failure of suppliers to supply the materials or goods on time or default in payment by debtors may adversely affect the business enterprise.
- **Technological factors** are the unforeseen changes in the techniques of production or distribution. They may result in technological obsolescence and other business risks. For example, if there is some technological advancement which results in products of higher quality, then a firm which is using the traditional technique of production might face the risk of losing the market for its inferior quality product.
- **Physical factors** are the factors which result in loss or damage to the property of the firm. They include the failure of machinery and equipment used in business; fire or theft in the industry; damages in transit of goods, etc. It also includes losses to the firm arising from the compensation paid by the firm to the third parties on account of intentional or unintentional damages caused to them.
- External risks are those risks which arise due to the events occurring outside the business organisation. Such events are generally beyond the control of an entrepreneur. Hence, the resulting risks cannot be forecasted and the probability of their occurrence cannot be determined with accuracy.

The various external factors which may give rise to such risks are:

- **Economic factors** are the most important causes of external risks. They result from the changes in the prevailing market conditions. They may be in the form of changes in demand for

the product, price fluctuations, changes in tastes and preferences of the consumers and changes in income, output or trade cycles. The conditions like increased competition for the product, inflationary tendency in the economy, rising unemployment as well as the fluctuations in world economy may also adversely affect the business enterprise. Such risks which are caused by changes in the economy are known as 'dynamic risks'. These risks are generally less predictable because they do not appear at regular intervals. Also, such risks may not necessarily result in losses to the firm because they may also contain an element of gain for the firm. For instance, due to market fluctuations, a well known product of a firm may either lose its demand or may occupy a larger market share.

- **Natural factors** are the unforeseen natural calamities over which an entrepreneur has very little or no control. They result from events like earthquake, flood, famine, cyclone, lightning, tornado, etc. Such events may cause loss of life and property to the firm or they may spoil its goods. For example, Gujarat earthquake caused irreparable damage not only to the business enterprises but also adversely affected the whole economy of the State.
- **Political factors** have an important influence on the functioning of a business, both in the long and short term. They result from political changes in a country like fall or change in the Government, communal violence or riots in the country, civil war as well as hostilities with the neighbouring countries. Besides, changes in Government policies and regulations may also affect the profitability and position of a enterprise. For instance, changes in industrial policy and Trade policy annual announcement of the budget amendments to various legislations, etc. may enhance or reduce the profits of a business enterprise.

Thus, business risk takes a variety of forms. In order to face such risks successfully, every businessman should understand the nature and causes of these risks as well as the various measures which must be taken in order to minimise them.

Methods of handling business risks

Risks in any business are inevitable and they cannot be eliminated completely. But an entrepreneur can control and minimise their negative consequences by adopting a suitable risk management strategy. The various methods that may be used for handling business risks are as follows:

- An entrepreneur can avoid some of the risks by analysing the potential results (losses or gains) of the activity that gives rise to those risks. The risk is worth taking if the outcome ultimately benefits the firm. Otherwise, such an action should be avoided as far as possible. The risk may be avoided by substituting the risky process with a relatively safer alternative.
- If the entrepreneur cannot avoid the risk, he should try to control and minimise the losses arising from the risk. This can be done through efficient planning and proper risk management techniques. The main techniques that can be employed by a firm are as follows:
 - Many business risks arise due to errors in planning. Thus scientific forecasting and marketing research of future economic conditions can help the management to make appropriate plans for the enterprise in advance. This will make them aware of likely opportunities and threats to the business environment in future. Accordingly, the entrepreneur can make required changes in its products, prices of the products, its distribution channels and sales promotion techniques.
 - A firm can reduce the losses arising from technological obsolescence through continuous technological research and development in the organisation. Thus, it can develop new and remunerative products before the present products become obsolete.
 - Credit screening and control through careful screening of the customers; prompt collection of the outstanding debts and tight inventory control will also help the firm to reduce the amount of risks.
 - Various safety programmes like:
 - Fire fighting equipment and sprinkler system will help in preventing the losses caused by fire
 - Burglar alarms, night watchman, and safety vaults will help in reducing thefts, burglary, etc
 - Cold storage or refrigeration will help in preservation of perishable products of the firm and thus reduce the damages caused to the products
 - Special packing will help in reducing any spoilage, breakage or leakage of the goods in transit or storage
 - Proper pest control methods will also help in reducing the damages caused to the products
 - Safe work environment including adequate lighting, covering of damaged floors as well as proper medical care facilities will help in reducing the number of accidents in the factory.
 - Risk of competition can be reduced through collective action by the competing firms which may agree to restrict output, allocate markets or charge uniform prices.
- Proper Government action through appropriate policies and regulations can also help in stabilising the economic environment and thus reducing the business risks.
- An entrepreneur must assume the possibility of certain risks which are inherent in any form of business organisation. Such risks can be handled through proper planning and adopting two possible strategies. These are:-
 - Shifting the risks to the people who are skilled in managing them and are willing to bear them. The risks may be transferred or shifted through:-
 - **Hedging:** It is a method of risk transfer accomplished by buying and selling for future delivery. It is a form of forward trading to minimise losses due to changes in prices. Under it, the possibility of loss which occurs because of price fluctuations, is shifted during the time gap between purchase and sale of a commodity. It involves entering simultaneously into two contracts of an opposite though corresponding nature, one in the spot or cash market and the other in the future market. The purpose of hedging is to protect the trade profit from adverse fluctuations in commodity prices.
 - **Underwriting:** A public company issuing shares and debentures may face the risk of loss due to the failure to sell the entire issue of securities. Such risk can be shifted to an underwriter which is the financial intermediary between the company issuing securities and the ultimate investors. It provides several benefits to a company:-
 - It relieves the company of the risk and uncertainty of marketing the securities.
 - Underwriters have an intimate and specialised knowledge of the capital market. They offer valuable advice to the issuing company in the preparation of the prospectus, time of floatation and the price of securities, etc. They also provide publicity service to the companies which have entered into underwriting agreements with them.
 - It helps in financing of new enterprises and in the expansion of the existing projects.
 - It builds up investors' confidence in the issue of securities. The association of well-known underwriters lends prestige to the company and the investors feel that the issue is sound enough for profitable investment. Also, the securities underwritten by reputed underwriters receives better response from the public.

- The issuing company is assured of the availability of funds. Important projects are not delayed for want of funds.
- It facilitates the geographical dispersal of securities because generally, the underwriters maintain contacts with investors throughout the country.

For more details visit our Section on 'Underwriting'

- **Subcontracting:-** is an inter-firm relationship, where a small firm may produce different components, intermediate inputs and final output or it may provide various assembling activities, etc for the parent firm. Such small firms are generally known as the subcontractors. The need for subcontracting arises when a firm undertakes a business which extends over a long period of time or which requires the specialised services of several experts. In such a situation, the firm may face risks resulting from rise in prices of materials, labour or other imports. Such risks may be shifted to other firms through subcontracting. For instance, a building construction firm may engage subcontractors for timbers, glasses, electric wiring, plumbing, cement, etc.
- Sharing the risks with other people so as to minimise the burden on the firm. Generally pooling of the investment of a large number of persons into the organisations helps in spreading the risks over a large number of shareholders. However, insurance is the most important and prevalent device for risk sharing.

'Insurance' may be defined as a contract in writing under which one party agrees to indemnify the other party against a loss or damage suffered by it on account of an uncertain future, in return for a consideration called 'premium'. The person/business who gets its life/property insured is called 'Insured/Assured'. The agency which helps in entering into an insurance arrangement is called 'Insurer' or 'Insurance company'. The agreement or contract which is put in writing, is called a 'policy'. An insurance policy provides the following benefits to a business concern:

- **Protection:** it provides protection against risk of loss and a sense of security to the businessmen.
- **Diffusion of risks:** as the burden of loss is spread over a large number of people.
- **Credit standing:** of the firm is enhanced as the businessman can easily transfer some of his risks to an insurance company.
- **Continuity and certainty of business:** if all the risks were to be borne by the businessmen themselves, the business operations would have been uncertain and halting in character.
- **Better utilisation of the capital of the firms:** as the Insurance companies take over the risk, it enables the business firm to invest and optimally utilise its capital.

Translation tool for patent documents

The World Intellectual Property Organization (WIPO) has developed a ground-breaking new "artificial intelligence"-based translation tool for patent documents, handing innovators around the world the highest-quality service yet available for accessing information on new technologies. WIPO Translate now incorporates cutting-edge neural machine translation technology to render highly technical patent documents into a second language in a style and syntax that more closely mirrors common usage, out-performing other translation tools built on previous technologies.

WIPO has initially "trained" the new technology to translate Chinese, Japanese and Korean patent documents into English. Patent applications in those languages accounted for some 55% of worldwide filings in 2014. Users can already try out the Chinese-English translation facility on the public beta test platform. The high level of accuracy of the Chinese-English translation is the result of the training of the neural machine translation tool, which compared 60 million sentences from Chinese patent documents provided to WIPO's PATENTSCOPE database by the State Intellectual Property Office of the People's Republic of China with their translations as filed at the United States Patent and Trademark Office.

WIPO plans to extend the neural machine translation service to French-language patent applications, with other languages to follow. The PATENTSCOPE database integrates with other translation engines freely available on the internet and continues to use existing statistical-based translation technology for languages where it performs well. WIPO has shared its translation software with other international organizations, including the United Nations conference management service, Food and Agriculture Organization, International Telecommunication Union, International Maritime Organization, World Trade Organization, and The Global Fund to Fight AIDS, Tuberculosis and Malaria.

For more information, contact:

Media Relations Section
 World Intellectual Property Organization (WIPO)
 Tel: (+41 22) - 338 81 61 / 338 72 24
 Fax: (+41 22) - 338 81 40
 Web: <http://www.wipo.int>



Records management

SME Corporation Malaysia

<http://www.smecorp.gov.my>

Records management, or RM, is the practice of maintaining the records of an organization from the time they are created up to their eventual disposal. This may include classifying, storing, securing, and destruction (or in some cases, archival preservation) of records.

A record can be either a tangible object or digital information: for example, birth certificates, medical x-rays, office documents, databases, application data, and e-mail. Records management is primarily concerned with the evidence of an organization's activities, and is usually applied according to the value of the records rather than their physical format.

Definitions of records management: In the past, 'records management' was sometimes used to refer only to the management of records which were no longer in everyday use but still needed to be kept 'semi-current' or 'inactive' records, often stored in basements or offsite. More modern usage tends to refer to the entire 'lifecycle' of records from the point of creation right through until their eventual disposal. The ISO 15489: 2001 standard defines records management as "The field of management responsible for the efficient and systematic control of the creation, receipt, maintenance, use and disposition of records, including the processes for capturing and maintaining evidence of and information about business activities and transactions in the form of records". The ISO defines records as "information created, received, and maintained as evidence and information by an organization or person, in pursuance of legal obligations or in the transaction of business". The International Council on Archives (ICA) Committee on Electronic Records defines a record as "a recorded information produced or received in the initiation, conduct or completion of an institutional or individual activity and that comprises content, context and structure sufficient to provide evidence of the activity." The key word in these definitions is evidence. Put simply, a record can be defined as "evidence of an event".

Practicing records management: A Records Manager is someone who is responsible for records management in an organisation. The practice of records management may involve:

- Planning the information needs of an organization
- Identifying information requiring capture
- Creating, approving, and enforcing policies and practices regarding records, including their organization and disposal

- Developing a records storage plan, which includes the short and long-term housing of physical records and digital information
- Identifying, classifying, and storing records
- Coordinating access to records internally and outside of the organization, balancing the requirements of business confidentiality, data privacy, and public access.
- Executing a retention policy on the disposal of records which are no longer required for operational reasons; according to organizational policies, statutory requirements, and other regulations this may involve either their destruction or permanent preservation in an archive.

Records management principles and automated records management systems aid in the capture, classification, and ongoing management of records throughout their lifecycle. Such a system may be paper based (such as index cards as used in a library), or may be a computer system, such as an electronic records management application.

ISO 15489:2001 states that records management includes:

- setting policies and standards;
- assigning responsibilities and authorities;
- establishing and promulgating procedures and guidelines;
- providing a range of services relating to the management and use of records;
- designing, implementing and administering specialized systems for managing records; and
- integrating records management into business systems and processes.

Managing physical records

Managing physical records involves different disciplines and may draw on a variety of forms of expertise. Records must be identified and authenticated. This is usually a matter of filing and retrieval; in some circumstances, more careful handling is required.

Identifying records

If an item is presented as a legal record, it needs to be authenticated. Forensic experts may need to examine a document or artifact to determine that it is not a forgery, and that any damage, alteration, or missing content is documented. In extreme cases, items may be subjected to a microscope, x-ray, radiocarbon dating or chemical analysis. This level of authentication is rare, but

requires that special care be taken in the creation and retention of the records of an organization.

Storing record

Records must be stored in such a way that they are accessible and safeguarded against environmental damage. A typical paper document may be stored in a filing cabinet in an office. However, some organisations employ file rooms with specialized environmental controls including temperature and humidity. Vital records may need to be stored in a disaster-resistant safe or vault to protect against fire, flood, earthquakes and conflict. In extreme cases, the item may require both disaster-proofing and public access. Civil engineers may need to be consulted to determine that the file room can effectively withstand the weight of shelves and file cabinets filled with paper; historically, some military vessels were designed to take into account the weight of their operating procedures on paper as part of their ballast equation (modern record-keeping technologies have transferred much of that information to electronic storage). In addition to on-site storage of records, many organizations operate their own off-site records centers or contract with commercial records centers.

Circulating records

Tracking the record while it is away from the normal storage area is referred to as circulation. Often this is handled by simple written recording procedures. However, many modern records environments use a computerized system involving bar code scanners, or radio-frequency identification technology (RFID) to track movement of the records. These can also be used for periodic auditing to identify unauthorized movement of the record.

Disposal of records

Disposal of records does not always mean destruction. It can also include transfer to a historical archive, museum, or private individual. Destruction of records ought to be authorized by law, statute, regulation, or operating procedure, and the records should be disposed of with care to avoid inadvertent disclosure of information. The process needs to be well-documented, starting with a records retention schedule and policies and procedures that have been approved at the highest level. An inventory of the

records disposed of should be maintained, including certification that they have been destroyed. Records should never simply be discarded as refuse. Most organizations use processes including pulverization, paper shredding or incineration.

Commercially available products can manage records through all processes active, inactive, archival, retention scheduling and disposal. Some also utilizes RFID technology for the tracking of the physical file.

Managing electronic records

The general principles of records management apply to records in any format. Digital records (almost always referred to as electronic records) raise specific issues. It is more difficult to ensure that the content, context and structure of records is preserved and protected when the records do not have a physical existence.

Particular concerns exist about the ability to access and read electronic records over time, since the rapid pace of change in technology can make the software used to create the records obsolete, leaving the records unreadable. A considerable amount of research is being undertaken to address this, under the heading of digital preservation. The Public Record Office Victoria (PROV) located in Melbourne, Australia published the Victorian Electronic Records Strategy (VERS) which includes a standard for the preservation, long-term storage and access to permanent electronic records. The VERS standard has been adopted by all Victorian Government departments. A digital archive has been established by PROV to enable the general public to access permanent records.

Electronic tax records

Electronic Tax Records are computer-based/non-paper versions of records required by tax agencies like the Internal Revenue Service. There is substantial confusion about what constitutes acceptable digital records for the IRS, as the concept is relatively new. The subject is discussed in Publication 583 and Bulletin 1997-13, but not in specific detail.

Businesses and individuals wishing to convert their paper records into scanned copies may be at risk if they do so. For example, it is unclear if an IRS auditor would accept a .jpg, .png, or .pdf format scanned copy of a purchase receipt for a deducted expense item.

Market Validated Technologies Directory

The Market Validated Technologies Directory is a compendium of a tedious and comprehensive market validation exercise on selected R&D outputs from seven public universities. The universities are Universiti Sains Malaysia (USM); Universiti Malaya (UM); Universiti Kebangsaan Malaysia (UKM); Universiti Putra Malaysia (UPM); Universiti Teknologi Malaysia (UTM); Universiti Islam Antarabangsa Malaysia (UIAM) and Universiti Teknologi MARA (UiTM). The exercise involved 358 R&D outputs with a two-fold objective: validate market for and marketability of R&D outputs before the products (R&D Outputs) are offered to industry for commercial undertakings. The Market Validation exercise came about as the result of the introduction of Market Validation Fund (MVF) under Budget 2012 initiatives. The Fund's mandate is to "ensure commercial viability of products (R&D outputs) through market validation".

For more information, contact:

MVF Unit
 Malaysian Technology Development Corporation
 Level 8-9, Menara Yayasan Tun Razak
 Jalan Bukit Bintang
 55100 Kuala Lumpur, Malaysia
 Tel: 603 – 2172 6000 / 6117
 Web: <http://www.mtdc.com.my>