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Editor In chief – Assistant professor Dr. Taru Mishra

Publisher & Founder – Vaibhav Sangam Mishra

Frequency – Quarterly (4 Issue Per year)

Risk Management as A Mandatory Policy Under Company's Act

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ABSTRACT :

In today's era of the market where there are numerous companies have been established, and the prime motive which these companies are having i.e. (Profit Maximization), companies are always looking for opportunities that act as a platform to let them show their creativity and skills. But the company as we know is nothing without its stakeholders as the stakeholders are the ones who show their faith and belief in the company for their growth and betterment. Therefore, each company if it wants to achieve the results effectively, must watch its step toward its stakeholders. As the opportunities in the market are endless, the risks attached to them are also endless. The company may have to pay the cost in the future if anything goes parallel with its objectives. On the other hand, if the stakeholders are not satisfied with the results of the company, the goodwill of the company may get affected in the market. Therefore, every company must ensure to establish a committee that evaluates the risk and takes the initiatives towards the same in order to avoid certain risks, which is also known as (Risk Management Committee), and the theories they apply are known as (Risk Management).

Concept of Risk Management:

Prior to the company's Act 2013, Risk management was not mandatory. But the increasing numbers of cases make the lawmakers make this concept mandatory to comply with under the new Company's Act 2013. From the time of the enforcement of the new company's act, it is the duty of every company to ensure that the provisions of Risk management are compiled accordingly.

Risk Management Committee:

The committee is usually composed by or under the discretion of the Board. This committee generally engaged with the task of analyzing and taking corrective measures to ensure the factors regarding risk elements. The board in compliance with the rules and regulations in

pursuance of the Company's Act establishes this committee to ensure the betterment of the organization.

There are certain activities and functions which are discharged by this committee such as:

- To make time-to-time coordination with Audit Committee in reference to creating a link between the external and internal audit and Risk management committee.
- Shall make the Committee report from time to time as informed to Board.
- Shall verify the performance of the Risk Management Committee on regular basis.

Composition of Risk Management Committee:

The Committee is been created and appointed under the control of the Board of the company, on the recommendation of Nominating Committee, and consists the members of no fewer than three.[1]

Meetings and Quorum:

The committee shall meet at least four times a year. Two members, being independent directors present shall form the quorum for the meeting of the committee.

***The firm name PPB in one of its surveys defines Organizational Risk as* :**

["Organizations face internal and external actors and influences that make it uncertain whether, when, and the extent to which they will achieve or exceed their objectives. The effect this uncertainty has on the organization's objectives is the risk''][2]

Risk Management acts as a process to identify and analyze the risk at the earliest possible opportunity. This tool enables the company to eliminate the risks that the company finds that might cause effect on the company's critical and valuable objectives.[3] There are multiple consequences that the organization might face if did not comply with Risk management which can be *(Dissatisfaction with Stakeholders, Damaged goodwill and reputation, and lack of innovation in the company)*.

- Let us take an example of a very famous brand - the mobile company ***(Blackberry)*** was one of the topmost and the leading company during early 2000. But later, the company

[1] https://www.alithya.com/hubfs/audit-and-risk-management-committee-charter.pdf
[2] CarrersinAudit.com, The importance of Risk management in an organisation (15 August, 2013) https://www.careersinaudit.com/article/the-importance-of-risk-management-in-an-organisation/
[3] Lena Eisenstein, Goal of Risk management in today's organization (25 October, 2019) https://www.boardeffect.com/blog/what-goal-risk-management-todays-organizations/

was missing opportunities regarding the new technologies in the market. As a result, the Android and Apple smartphones captured the market with their innovations and smart works. And the market value of Blackberry, as a result, falls by a big margin.

- Another example takes ***(Nokia).*** In the era of 1999-2000, it was the leader in terms of mobile companies. Soon, the demand for the internet was started growing day by day. Therefore, other companies started to come up with techniques that focused more on data concepts instead of voice communication. But Nokia was not in the mood to make drastic changes in its user experience. This caused Nokia to have an operating system malfunction with a bad user experience that just did not go well according to the trend of the market.[4]

Therefore, to overcome these problems a company must establish the hypothesis of Risk Management. The process through which the risk is evaluated:

- **Identify the Risk:**

The risk first must identify by its nature. Like what is the nature of risk (Legal risk, Market risk, Environmental risk, etc.)

- **Analyze the Risk:**

The risk should be analyzed by its scope and applicability, how much and where the risk affects the working or the results in the company.

- **Status of the Risk:**

The rank of the risk must be observed. How far the risk is big or how much or on what scale it affects the company?

- **Initiative towards the Risk:**

Whatever the risk is there, needs to be dealt with urgently. The higher the risk is the more immediate intervention requires for it.

The compliance requirement for Risk Management:

- **[Section 134]**

The *board of directors'* report must include a statement indicating the development and implementation of a risk management policy for the company including the identification of elements of risk, if any, which in the opinion of the board may threaten the existence of the company.

[4] Katrlna Aaslald, Examples of corporations who failed to innovate (02 July, 2019) https://www.valuer.ai/blog/50-examples-of-corporations-that-failed-to-innovate-and-missed-their-chance

- **[Section 177(4)]**

Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include, —

(vii) evaluation of internal financial controls and **risk management systems.**

- **[Schedule IV]**

Code of Independent Directors: Role and Functions

Satisfy themselves with the integrity of financial information, and that financial controls and the system of Risk Management are robust and defensible.

- **[Clause 49 under the Listing Agreement]**

Clause (49) of the Listing Agreement explains the guidelines by the SEBI for the listing companies under the disclosure of Bords:

Risk Management: The company shall lay down the procedure to inform Board Members about Risk Assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that the executive management controls risk through means of a properly defined framework.[5]

A company, therefore, always has to keep in mind a general principle, that any of its objectives, or even success is determined and can be achieved only through the number of people involved in it, who have invested their time, efforts, and money in that particular company. Therefore, it is the primary and precious duty of the company to avoid any of that practices the outcome of which claims to be prejudices of the interest of the members and stakeholders. A stakeholder, member, or any other person who had some direct or indirect relatable interest in the company if investing a numerous amount of his money, tends to expect a good return in the future from the company. ***'But the greater the task, the greater the risk involved in it.***

CONCLUSION :

Therefore, in today's times, if the company wants to avoid these risks or any inconveniences, the company must seek the principles of Risk Management. The organization must pay attention to all the sources which cause bad effects on the organization. As there are various

[5] Tulasi S Sastri, Risk management under company's Act, 2013 (05 August, 2015) (https://www.caclubindia.com/articles/risk-management-under-the-companies-act-2013-24636.asp)

internal as well as external sources that need to be eliminated before any impact it makes for which the company needs to suffer.

The theme of Risk management also enhances and promotes the principles of Corporate Governance. Corporate governance broadens the division of responsibility within the organization for risk management and sets out the means with which, at each level, risk management will be implemented. Risk Management also plays a vital role in reliability when it comes to the interests of the stakeholders because the Board has to disclose the part of Risk management performance and its implications within the organization every year, and the Board report every year tends to be inspected by Members in the General Meeting every year, which assures them that the Company has been able to eliminate the risk as far as possible which creates trust in the Members of the company.

The entire goal of risk management is to ensure that the company takes only those risks that will help achieve its primary objectives while keeping all other risks under control.[6] Risk is uncertain it cannot be predicted before it comes. But one must observe and analyze so that if they are not able to eliminate it, at least it can be minimized or reduced. So, for that, the company must establish a committee for the same.

[6] https://www.careersinaudit.com/article/the-importance-of-risk-management-in-an-organisation/