Both these approaches to the enterprise risk management are briefly explained as under :

(1) **Strategies adopted for managing the enterprise risk** : Risk management strategy refers to the deliberate act of the management to reduce the severity of risk. Such risk management strategies are classified as under :

(a) Risk Avoidance strategy

(b) Risk Elimination strategy

(c) Risk Reduction strategy

Each strategy is briefly explained as under :

(i) Risk avoidance strategy :

Under this strategy, the management play safe and keeps away from entering into the risky deals. This is a behaviour pattern of the conservative management. As risk and returns are directly related, they take up less risky projects and are happy with the lower returns. The risks can also be avoided by transfering the risky events to the sub-contractors and keep themselves busy with the safe projects.

(ii) Risk elimination strategy :

One best way to eliminate risk is not to enterprise. If the funds are invested in gilt-edged government securities, it avails returns with zero risk. But, the rate of return tends to be lower.

But if an entrepreneur intends to have higher returns and still he wants to keep away the incidental risks, then following strategic considerations can help him in managing the risk :

(i) To transfer the risk on specialized parties against some costs e.g. premium payments to insurance companies.

(ii) To limit the risk through financial innovations like financial options. Option trading is done in commodities, stock markets, foreign exchange markets and even real estate markets. Under such arrangement, the risk is assumed by an entrepreneur upto his risk perception level.

(iii) Risk-reduction strategy :

One popular way of risk management is to reduce the risk through strategic and intelligent manipulations. Some popular tactics are as under :

(a) To diffuse or to allocate the risk on various parties through joint-ventures or through mutual understanding among the stakeholders. Under such arrangements, the severity of the total risk on one party is reduced through passing a part of it on other parties through negotiations and mutual understanding.

(b) Through combining the counter-cyclical nature of two or more events. This is popularly known as "M-W" strategy where the return on one project highest, then to select another project which will have opposite characteristics as presented by the tails of two letters M and W. The tails of two letters get fllattered, the moment both are combined into one. The individual fluctuations are known as variance from mean value and is described as σ^2 (standard deviation square) while the combined effect of two counter-cyclical variances are measured in a paired manner and is described as covariance or Cov_{AB}. The mathematical explanation of this concept is beyond the scope of this book. Some of the paired combinations of counter-cyclical behaviour are as under :

(a) Combination of peak and slack seasonality.

(b) Combination of boom and depression environment in different products

(c) Global investments with counter-cyclical stock market indexes prevailing simultaneously in different countries.

Classification of risk :

While managing the risk, it is also important to understand the nature and classification of the risk. Two broad classification of the risk are as under :

External sources of risk	Internal sources of risk
External risks is uncontrollable in nature. The business entrepreneur has to adjust with them. Some important external risks are as under : (i) **Political risk** : Stability of party, election manifesto, taxation policy, external affairs etc. (ii) **Economic risk** : Economic growth rate, savings and investments, employment of resources, interest	Internal risk are controllable in nature. Through manipulating various resources tactfully and strategically, an entrepreneur can manage such risk through their decision-making power. Some popular internal risks are as under : (i) **Business risk** : Such risk arises out of creating or acquiring the operating assets and commiting the fixed operating overheads. Such

rate and inflation rate, import and export policy, exchange rate and forex reserves etc.

(iii) Social risk : Demographic set-up, composition of population, literacy level, cultural level, attitude towards the work etc.

(iv) Market structure : Monopoly, competition or imperfect competition.

(v) Investments in research and development, degree of technological advancement etc.

(vi) Development of legal system and financial environment.

(vii) Attitude of various stakeholders like employees, investors, lenders, consumers, tax authorities etc.

asset aquisition business risk can be managed through getting an asset under leasing rather than under ownership basis.

(ii) Financial risk : Financial risk refers to the fixed interest payment commitment on borrowed funds. Out of the total investments needed in a business, if more funds are raised through outside debt rather than owners' equity, the financial risk tends to be higher. In bad years where earnings are poor, still fixed interest payments on debt funds have to be paid.

(iii) Input related risk : All inputs like raw materials and utilities like power, are not freely and sufficiently available. Sometimes a business unit is constrained by non-availability of some critical inputs.

(G) STRENGTH, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS :

For the successful operations of a business unit, an entrepreneur has to manage the resources in a strategic manner. One such popular strategic management is considered as a four-variable analysis known as SWOT analysis. The relationship of such four factors are as under :

(i) Strengths (ii) Weaknesses	They are based on **internal environment.** They are **controllable** in nature. The business unit can **manipulate** the resources to their advantage.
(iii) Opportunities (iv) Threats	They are based on **external environment**. They are **uncontrollable** in nature. The business unit has to **adjust** to them.

They are also classified as under with positive and negative effects on the business:

(i) Strengths (ii) Opportunities	They have **positive effects** on the business. They improve the **profitability** and opens the doors for **business growth.**
(iii) Weaknesses (iv) Threats	They have **negative effects** on the business. They drag the business on the road of **failure** and make the **business survival** difficult.

Some important considerations of the SWOT analysis are classified as under :

Strengths	Weaknesses	Opportunities	Threats
(i) Core-competence (ii) Monopoly position (iii) Good profit margin (iv) Good liquidity (v) Good R & D (Research and Development) (vi) Efficient, loyal and committed manpower. (vii) Good process and operations control. (viii) Amicable relationship between management and labour. (ix) Efficient marketing channel.	(i) High investments in machines and poor capacity utilization. (ii) Inefficient production system causing breakdowns, rejects and customer dissatisfaction. (iii) Unsatisfied workers with low morale of employees. (iv) Industrial disputes (v) Old machines and industrial accidents. (vi) Obsolate technology (vii) High cost of production.	(i) Favourable economic environment like high economic growth rate, low interest rate, low inflation, good exports, higher savings rate, favourable monsoon etc. (ii) Favourable social environment, like high demand, co-operative approach of society, warm welcome of company products and services etc. (iii) Favourable political environment like stable government, advantageous policies,	(i) Frequent natural calamities like flood, fire, earthquake etc. (ii) Unstable political environment. (iii) Possibility of external invasion or internal riots. (iv) Strong hold of trade unions and industrial disputes. (v) Easy entry of competitors. (vi) Fast changing technology. (vii) quick change in customs and fashions.

(x) High degree of customer satisfaction. (xi) Good brand image and brand loyal customers.	(viii) Poor acceptance of products (ix) High overheads. (x) High debt funds.	lesser regulation, high degree of industrial promotion, lower tax rate etc. (iv) Favourable technological environment like quick adoption of technology, cost reduction, quality improvement etc. (v) Favourable capital market for fund raising. (vi) Global co-operation and collaboration. (vii) Visionary management and efficient and effective executives. (viii) Availability of low cost inputs like raw materials, electricity, transportation, labour etc. (ix) Assured supply of inputs.	

SWOT Analysis of Some Indian Companies :

(A) Tata Iron and Steel Company Limited (TISCO) :

Strengths	Weaknesses	Opportunities	Threats
(i) Adoption of latesttechnology and state of art. (ii) Large scale production capacity and high degree of capacity utilization. (iii) Good brand image of 'TATA' family and marke taccep-tance of products. (iv) Locational advantage at Jamshedpur for iron ore and steel. (v) High quality products. (vi) Wide range of products. (vii) Visionary management which earned "Corporate Governnance" award.	(i) High transportation costs of bringing raw materials and dispatching finished goods. (ii) SAIL (Steel Authority of India Limited), a government company, with deep and wide net-working a greatest competitor. (iii) Strong hold of trade union.	(i) Engaged in basic steel products needed for economic growth. (ii) Good political relations and favourable policies. (iii) High infra-structure and housing needs improving demand. (iv) Good standing in international market due to competitive price and product-quality. (v) Entry barrier due to huge project cost.	(i) Raw materials like coal and iron ore is a natural scarce resource. (ii) After 1991 liberalization threat of imports and foreign dumpting. (iii) Possibility of competition due to foreign collaboration and Foreign Direct Investment (FDI).