



A STUDY ON RISK AND RETURN MANAGEMENT

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Abstract

Risk Management is used to select a Risk of new product development projects to achieve the following goals:

- Maximize the profitability or value of the Risk
- Provide balance
- Support the strategy of the enterprise

Risk Management is the responsibility of the senior management team of an organization or business unit. This team, which might be called the Product Committee, meets regularly to manage the product pipeline and make decisions about the product Risk. Often, this is the same group that conducts the stage-gate reviews in the organization.

A logical starting point is to create a product strategy - markets, customers, products, strategy approach, competitive emphasis, etc. The second step is to understand the budget or resources available to balance the Risk against. Third, each project must be assessed for profitability (rewards), investment requirements (resources), risks, and other appropriate factors.

The weighting of the goals in making decisions about products varies from company. But organizations must balance these goals: risk vs. profitability, new products vs. improvements, strategy fit vs. reward, market vs. product line, long-term vs. short-term. Several types of techniques have been used to support the Risk management process:

- Heuristic models
- Scoring techniques
- Visual or mapping techniques

The earliest Risk Management techniques optimized projects' profitability or financial returns using heuristic or mathematical models. However, this approach paid little attention to balance or aligning the Risk to the organization's strategy. Scoring techniques weight and score criteria to take into account investment requirements, profitability, risk and strategic alignment. The shortcoming with this approach can be an over emphasis on financial measures and an inability to optimize the mix of projects.

Key Words: Risk Management, Product Development, Profitability.

Introduction

The Risk Management to Business Success

Risk management is an important part of planning for businesses. The process of risk management is designed to reduce or eliminate the risk of certain kinds of events happening or having an impact on the business.

Definition of Risk Management

Risk management is a process for identifying, assessing, and prioritizing risks of different kinds. Once the risks are identified, the risk manager will create a plan to minimize or eliminate the impact of negative events. A variety of strategies is available, depending on the type of risk and the type of business. There are a number of risk management standards, including those developed by the Project Management Institute, the International Organization for Standardization (ISO), the National Institute of Science and Technology, and actuarial societies.



Types of Risk

There are many different types of risk that risk management plans can mitigate. Common risks include things like accidents in the workplace or fires, tornadoes, earthquakes, and other natural disasters. It can also include legal risks like fraud, theft, and sexual harassment lawsuits. Risks can also relate to business practices, uncertainty in financial markets, failures in projects, credit risks.

Goals of Risk Management

The idea behind using risk management practices is to protect businesses from being vulnerable. Many business risk management plans may focus on keeping the company viable and reducing financial risks. However, risk management is also designed to protect the employees, customers, and general public from negative events like fires or acts of terrorism that may affect them. Risk management practices are also about preserving the physical facilities, data, records, and physical assets a company owns or uses.

Literature Review

A security is a fungible, negotiable instrument representing financial value. Securities are broadly categorized into debt securities (such as banknotes, bonds and debentures) and equity securities, e.g., common stocks; and derivative contracts, such as forwards, futures, options and swaps. The company or other entity issuing the security is called the issuer. A country's regulatory structure determines what qualifies as a security. For example, private investment pools may have some features of securities, but they may not be registered or regulated as such if they meet various restrictions.

Securities may be represented by a certificate or, more typically, "non-certificated", that is in electronic or "book entry" only form. Certificates may be *bearer*, meaning they entitle the holder to rights under the security merely by holding the security, or *registered*, meaning they entitle the holder to rights only if he or she appears on a security register maintained by the issuer or an intermediary. They include shares of corporate stock or mutual funds, bonds issued by corporations or governmental agencies, stock options or other options, limited partnership units, and various other formal investment instruments that are negotiable and fungible. Corporations or governmental agencies, stock options or other options, limited partnership units, and various other formal investment instruments those are negotiable and fungible.

Risk management is the identification, assessment, and prioritization of risks (defined in ISO 31000 as the effect of uncertainty on objectives, whether positive or negative) followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities. Risks can come from uncertainty in financial markets, project failures (at any phase in design, development, production, or sustainment life-cycles), legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attack from an adversary, or events of uncertain or unpredictable root-cause. Several risk management standards have been developed including the Project Management Institute, the National Institute of Science and Technology, actuarial societies, and ISO standards. Methods, definitions and goals vary widely according to whether the risk management method is in the context of project management, security, engineering, industrial processes, financial portfolios, actuarial assessments, or public health and safety.

Objective of the study

1. To study the investment decision process.
2. To analysis the risk return characteristics of sample scripts.
3. Ascertain Risk Management.
4. To construct an effective portfolio which offers the maximum return for minimum risk

Research Methodology

Primary source

Information gathered from interacting with employees in the organization.



Secondary source

Daily prices of scripts from news papers

Implementation of Study

For implementing the study, 8 security's or scripts constituting the Sensex market are selected of one month closing share movement price data from Economic Times and financial express on Jan 2012.

In order to know how the risk of the stock or script, we use the formula, which is given below:

Standard deviation = $\sqrt{\text{variance}}$

Variance = $(1/n-1) \sum_{t=1}^n (R-R)^2$

Where $(R-R)^2$ =square of difference between sample and mean. n=number of sample observed.

After that, we need to compare the stocks or scripts of two companies with each other by using the formula or correlation co-efficient as given below.

Co-variance (COVAB) = $1/n \sum_{t=1}^n (RA-RA)(RB-RB)$

Correlation-Coefficient (P AB) = $\frac{(\text{COV AB})}{(\text{Std. A})(\text{Std. B})}$

Where $(RA-RA)(RB-RB)$ = Combined deviations of A&B (Std. A) (Std B) =standard deviation of A&B
 COVAB= covariance between A&B
 n=number of observation

The next step would be the construction of the optimal portfolio on the basis of what percentage of investment should be invested when two securities and stocks are combined i.e. calculation of two assets portfolio weight by using minimum variance equation which is given below.

Data Analysis

Year	Beginning price(Rs)	Ending price(Rs)	Dividend(Rs)
2013-14	141.45	295.45	7.50
2014-15	297.90	371.35	7.50
2015-16	375.00	585.05	8.50
2016-17	587.70	891.5	8.50
2017-18	892.00	1238.7	10.00

Table1.Calculation of Return of Selected Company



Return $\frac{\text{Dividend (Ending Price - Beginning Price)}}{\text{Beginning Price}} * 100$

$$\text{Return(2014)} = \frac{7.50 (295.45 - 141.45)}{141.45} * 100 = 114.17\%$$

$$\text{Return (2015)} = \frac{7.50 + (371.35 - 297.90)}{297.90} * 100 = 7.17\%$$

$$\text{Return (2016)} = \frac{8.50 + (585.05 - 375)}{375} * 100 = 8.28\%$$

$$\text{Return (2017)} = \frac{8.50 + (891.5 - 587.70)}{587.70} * 100 = 53.13\%$$

Findings

1. Quarterly assessment of risk exposure is common among all categories of respondent enterprises. A small number of respondents go for weekly assessment of their risk exposure.
2. Around two third of the respondents assess the impact of fluctuation in the parity value of the currency on their profit margin but, those who assess it, seldom do so.
3. The practice of computation of impact of currency movement on profitability is more among IT category respondents.

Suggestions

- Investor would be able to achieve when the returns of shares and debentures Resultant portfolio would be known as diversified portfolio. Thus portfolio construction would address itself to three major via. Selectivity, timing and diversification.
- In case of portfolio management, negatively correlated assets are most profitable. Correlation between the ITC are negatively correlated which means both the combinations of portfolios are at good position to gain in future.
- Investors may invest their money for long run, as both the combinations are most suitable portfolios. A rational investor would constantly examine his chosen portfolio both for average return and risk.

Conclusions for Correlation

- In case of perfectly correlated securities or stocks, the risk can be reduced to a minimum point.
- In case of negatively correlative securities the risk can be reduced to a zero(which is company's risk) but the market risk prevails the same for the security or stock in the portfolio.

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