

Risk Management – A Crucial Factor for Manufacturing Industries

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ABSTRACT

In this fast-growing world manufacturing industries are already dumped with number of internal and external environment that hinders its smooth working. Apart from various internal and external factors there are other factors that have emerged up in small pace of time. These factors are real challenge for all those manufacturing industries which are striving to survive in this competitive era. Manufacturing industries has to deal with tactics and strategies to manage all these forms of risk. Thus, risk management becomes a key role of any manufacturing unit taking these into consideration we have brought into the limelight the real factors that have emerged up recently, and has forced manufacturing industries to cope up with these factors. The paper discusses about detailed analysis of various factors and its counter effect on manufacturing unit. The paper also draws attention on how manufacturing industries can cope up with surrounding changes through risk management.

1. Introduction

Accelerating speed of technological advancement possess risk not only to professionals but also to various manufacturing industries. Risk management has emerged as one of the vital factors in organizing business these days, the reason is various dynamics of risk that are coming up daily. Confronting these risks and managing them is a challenge for manufacturing unit. Risk are of different types and many of them are entwined together. Risk is considered to be an integral part of any business organization the reason is that - Business with more risk appetite will have more growth and opportunities awaiting. Identifying, analyzing, scrutinizing, prioritizing and managing risk is gaining importance as its facilities building up competitive strength of business units to adopt ever changing business environment. Risk management is featured by motive and competitive strength that any manufacturing industries carries for today and in future.

Risk management is implied as continuous practices in manufacturing units to keep a track record of basic internal and external risk along with various live wired risk that continuously faced by the manufacturing units. Basically, all the manufacturing units tries to build up and follow the basic framework of risk management which is laid down by Hopkins which includes- Risk Strategy, Risk Architecture and Risk Protocol. Thus, risk management helps manufacturing industries by aiming to build up structure for an organization where it can identify factors that hinders its working and can independently manage risk.

Matrix of Risk Management Faced by Manufacturing Units/ Industry at Large.

Manufacturing units continuously work to excel in achieving competitive advantage. The aim is to maximize return on investment. With these motives every manufacturing industry has to face various ups and downs in terms of changing technology, product acceptance, consumer taste and preference and much more. Manufacturing industries now a

day's spend huge on research and development so that all the factors influencing its smooth working can be easily traced and can be managed. The work of risk management comes into highlights when various factors become loophole in the progress of an industry come forward. So risk management is an important function for any, industry because with the tool called risk management the risk that may be caused due to upcoming factors can be minimized or eliminate. There are number of factor that falls under risk management category which activates industries to adopt risk management as a shield for growth. Few of the factors are discussed below:

- 1. Supply Chain:** This chain is the basic link for the survival of any industry. Supply chain management is root to tree concept, because it encompasses of tracking in availability of raw material, work in progress, stock of finished goods, logistics and distribution. Supply chain is the link between all the people associated with a manufacturing unit. In the current scenario supply chain management is very crucial to manage because of difficulty in maintaining relationships, global exposure, cyber theft and various pandemic that are coming up. All these hinder the flow of goods both in and out. Thus Manufacturer is led towards losses not only of goods but may also have devastating impact on the goodwill of the unit. The units which imply its risk management tactics at correct time to control and aptly formulate things accordingly then it can mitigate its loss.
- 2. Product Revoked:** In this era of competition surviving in the market with a particular product is difficult. Constant Research and development is carried to develop a new product or to re launch the same product with innovations. For any manufacturing it's not simple to just bring in new product in the market because there lies the fear of recall of a product. Risk management facilitates the unit in setting up the standard error where if any consequence prevail and the product is revoked then immediate action can be taken. Thus building up risk management model helps unit to identify correct time and situation to launch or

re-launch its product in the market so that risk is minimized.

3. **Manufacturer-Consumer Based Models:** With trending e-business it is important for any manufacturing unit to build up a model which not only consists of dealers and distribution partners but involves direct dealing with consumers. Going and serving consumer directly leads to dual benefit to an industry i.e. it increases profit by eliminating middleman and can know preference of consumer immediately and can change accordingly. On the other hand this model can bring in high risk to the manufacturing unit because it leads to being transparent in all the activities that are carried out by the unit, along with that it also deteriorate the relationship with the middlemen. Thus proper risk analysis is needed to be done before constructing and implementing MCB model.
4. **Intellectual Property Rights:** It includes patents, copyrights and trademark, ample of business hose spend billions of rupees to secure their product or process from speculative activities. But manufacturing units have to involve huge to avoid these risk. Thus risk management in these area is useful only if there is long period of success.
5. **Unavailability of Skill Labor:** India the country of youth- but still it is difficult to find labor in the manufacturing industry. This is due to basic reason that one who is well educated cannot survive in the market with the amount of salary being paid to them and secondly major of skilled youth are draining themselves out in foreign countries. Here risk can be managed if manufacturing unit thinks actively. Talent hunting and succession planning proves to be the

best tool for manufacturing industry these days. It facilities them with the availability of labor along with development of labor already working in their units.

6. **Tax and Tariff Barriers:** The tax implication in our country has changed drastically. Implementation of GST has vivid effect on various manufacturing units. Introduction of various slabs of tax payment depending upon the material used and finished product developed has caused chaotic circumstances in manufacturing industry. Moreover employing Make in India concept has given peak to tariffs levied on good imported from various foreign countries. Managing this risk is boosting up the cost area of the manufacturing units. In order to save tax units hunt for supplier from tax free zone which in turn harms the existing relation with suppliers, affecting this part of business leads to worries regarding entire supply chain management. Thus this risk has disrupted the manufacturing units in ample of ways.

2. Analysis and Interpretation of Data

To know the level of risk and the techniques of risk management applied in various manufacturing units a very small survey was conducted to analysis the risk that occurs frequently and the methods that are adopted to tackle them. The question also included regarding the accountability and answerability of an individual within the unit. Rank were allocated to various common type of risk that are discussed above to know there occurrence level. Thus the various responses are depicted below graphically.

Fig 1: Ranked the hierarchy of manufacturing units regarding accountability and answerability of risk occurrence being hindrance in working of units.

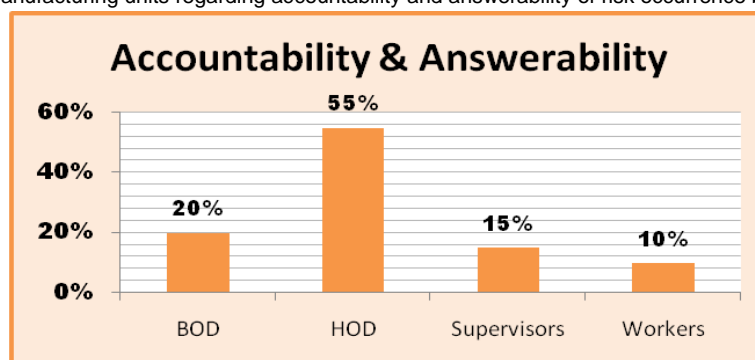


Fig 2: Identifying, Analyzing and managing risk occurrence level.

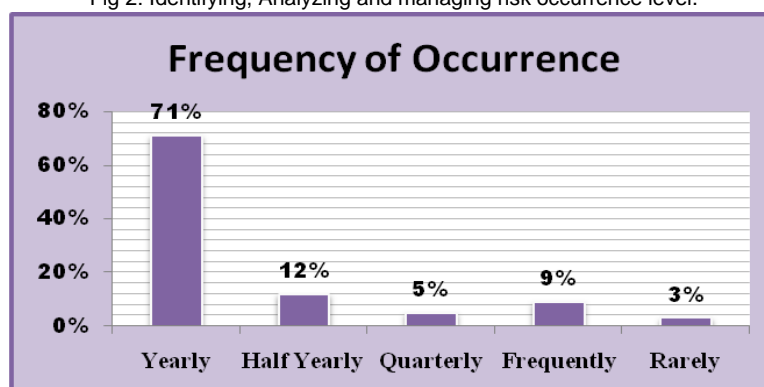
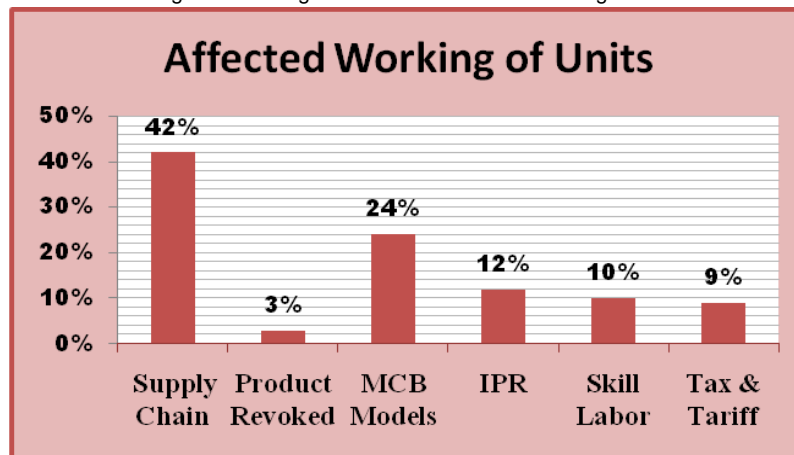


Fig 3: Percentage of risk effected manufacturing units:



3. Interpretation of data

From the above graphical representation of fig 1 we can interpret that basic hierarchy that is followed within manufacturing unit is BOD-HOD-Supervisors-Workers were it was observed that HOD of various department are at high peak regarding accountability of occurrence of any risk. These set of employees are the one who are answerable more regarding the risk that has occurred and affected the business whereas on the other hand worker are least concerned with accountability and answerability.

Fig 2 states that risk and its occurrence is not predictable. Particular type of risk can occur at any point of time within the unit, the major risk matrix discussed above is categorized into five category namely- yearly, half yearly, quarterly, frequently and rarely according to their occurrence level. As per this category responded said that majority of the risk usually occurs with the passage of time i.e. yearly or more. The reason behind these is the continuous research and development undertaken by the industry. Moreover there is very rare occurrence of any risk which is not controllable. These days risk management has evolved as such a concept that facilities in mitigating all the risk and losses.

As per graphical representation in fig 3 reflects various bases that encompasses of risk management matrix along with the percentage of risk or hindrance that it causes in smooth working of various manufacturing units. As observed supply

chain management involves high risk these is because it serves as an important linkage between manufacturing unit and all its process. Apart from these manufacturer consumer models build up these days is also hindering the working of units. Various speculative activities and duplication posses the threat to the manufacturing unit and divert the focus on IPR. The least affecting risk is tax and tariffs because now a days it has become a single window system of payment.

4. Conclusion

Since industrial revolution manufacturing units are facing various challenges and opportunities. To grab these challenges and opportunities manufacturer are continuously carrying out risk assessment. Risk is an integral part of any business, so each industry takes into accounts how well it can identify and manage a particular type of risk. Manufacturing units need to adopt a universal approach for risk and risk assessment. Thus it is important to identify the risk at its initial stages if not then at its extreme stages it becomes difficult for units to mitigate it. Continuous risk management leads to value up gradation and helps in maintaining the stability of the manufacturing units. We can conclude that risk management facilities manufacturing units to strengthen its root of business in this competitive world, along with making it capable enough to incorporate changes fluidly.

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