

The Optimizing of Risk Management in Preventing Financial Losses and Maintaining Company Stability

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ABSTRACT

Risk management is an important element to maintain the company's financial stability amid increasingly complex business uncertainties. Companies that do not have an effective risk management strategy have the potential to experience significant financial losses and operational disruptions that can hinder business growth. This study aims to analyze how companies implement risk management to protect assets and prevent financial losses. The literature study approach is used in this research to examine various strategies and challenges in the implementation of risk management and its impact on company stability. The results of the study show that the success of risk management is highly dependent on proper risk identification, the use of technology in financial monitoring, and the implementation of mitigation policies that are appropriate to the characteristics of the company. Many companies still face obstacles such as a lack of awareness of the importance of risk management, limited access to accurate data, and unpreparedness to deal with regulatory changes. Companies need to develop a more adaptive and data-driven risk management system in order to anticipate threats that could potentially harm the business. Effective risk management can help companies to increase their resilience to uncertainty and ensure business sustainability. The implications of this study indicate that investment in strengthening risk management strategies is an important step for companies to achieve competitive advantage in the industry.

INTRODUCTION

Companies face various risks that may affect their financial stability in a dynamic and uncertain business environment. These risks can stem from internal factors such as operational errors, inefficiencies in financial management, to external factors such as market fluctuations, regulatory changes, and global economic uncertainty (Hopkin, 2018). Risk management is an essential element for companies to identify, analyze and control potential threats to their business sustainability. Companies can mitigate the negative impact of various uncertainties, optimize resource allocation, and increase competitiveness in an increasingly competitive market with an effective risk management strategy (Sadgrove, 2016; Abdullah et al., 2021).

Many companies experience significant financial losses due to failure to manage risk properly. For example, the financial scandals experienced by major companies such as Enron and Lehman Brothers show how poor oversight of financial risks can lead to bankruptcy (Fraser & Simkins, 2016).

Companies that do not have a strong risk mitigation strategy may have difficulty dealing with market volatility or operational disruptions due to natural disasters or cyber-attacks (Jorion, 2007). It is important for companies to take a proactive approach to risk management to protect their financial assets, increase investor confidence and ensure the long-term sustainability of their business.

Although risk management is considered a crucial element in corporate strategy, many organizations still face challenges to implement an effective approach. One of the main problems is the lack of managerial understanding regarding the identification of risks that are relevant to their company (Aven, 2016). Many companies only apply a reactive approach, where action is taken after the risk has occurred, rather than proactively preventing it in the first place (Bromiley et al., 2015). According to Power (2007), limited historical data and inaccurate prediction models are also obstacles to designing appropriate risk mitigation strategies.

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Another issue that arises is the lack of integration of risk management into the strategic decision-making process. Some companies still see risk management as a stand-alone administrative task, rather than as part of a holistic business strategy (Hillson & Murray-Webster, 2017). As a result, many companies suffer losses due to business decisions that do not properly consider potential risks (Kaplan & Mikes, 2012). An organizational culture that is less supportive of risk transparency and communication is also a factor that hinders the effectiveness of risk management systems in many companies (McShane et al., 2011).

Regulatory challenges and compliance with risk management standards are also major concerns for the company. There is a lack of clarity in many industry sectors in the regulations governing risk management, making it difficult for companies to determine the best practices that should be implemented (Spira & Page, 2003). The cost of implementing a comprehensive risk management system is often considered an additional burden for companies, especially for small and medium-sized businesses that have limited resources (Beasley et al., 2005). This has resulted in many companies ignoring aspects of risk management and eventually experiencing significant financial losses.

Risk management has a very important role in maintaining the financial stability and operational sustainability of the company. Companies face various threats in an increasingly complex and uncertain business era such as economic fluctuations, market uncertainty, and operational risks that can cause large financial losses (Power, 2007). Without an effective risk management system, companies are more vulnerable to market shocks and regulatory changes that can disrupt their business continuity (Aven, 2016). Beasley et al. (2005) emphasized that research on how companies manage risk is urgent, especially to understand the extent to which the strategies implemented can reduce the negative impact on the company's finances.

The urgency of this research is also based on the fact that many companies still do not integrate risk management into their business strategy thoroughly (Kaplan & Mikes, 2012). As a result, decisions often ignore risk factors, increasing the likelihood of unforeseen financial losses (McShane et al., 2011). Companies can mitigate potential threats and improve their competitiveness in an increasingly competitive market by understanding more about how risk management can be effectively implemented (Hillson & Murray-Webster, 2017). This study is of academic importance, and provides practical benefits for businesses to develop strategies for asset protection and corporate financial stability.

The purpose of this study is to analyze the role of risk management to prevent financial losses and protect company assets. This research seeks to understand how the implementation of risk management strategies can help companies identify, evaluate and manage potential risks that may impact their financial stability. This research will provide insight into the effectiveness of the policies implemented by understanding the mechanisms used by companies in risk mitigation to deal with uncertainty in the business environment.

This research aims to explore the challenges companies face in implementing risk management and how it affects business sustainability. Factors such as market uncertainty, regulatory changes, and limited resources are often obstacles to effective risk management implementation. This research will review these barriers and provide a more comprehensive understanding of the importance of adaptive and sustainable risk mitigation strategies to maintain company competitiveness.

RESEARCH METHOD

This research uses a literature study approach to analyze the role of risk management to prevent corporate financial losses. Literature study is a research method that examines various scientific sources such as academic journals, reference books, and industry reports to understand the concepts, strategies, and challenges in implementing risk management. According to Creswell (2014), literature review allows researchers to identify previous research trends as well as knowledge gaps that can still be further explored. The research will focus on risk management theories as well as best practice implementation in various industry sectors.

The data sources in this study were obtained from various relevant literature, including previous research on the effectiveness of risk management strategies to maintain the company's financial stability. According to Fraser and Simkins (2016), effective risk management must include identification, measurement, and mitigation of risks that can disrupt business operations. This research will compare the various approaches that companies have implemented to respond to financial risks and evaluate the effectiveness of the strategies used to prevent financial losses.

The analysis in this study was conducted by examining trends and patterns in various published studies. The research can provide insights into how companies can effectively integrate risk management into their business strategies. According to Hopkin (2018), a proactive approach to risk management can help companies reduce the potential negative impact of external factors such as market volatility and

regulatory changes. This research will also evaluate how companies can improve their preparedness to deal with uncertainty through the implementation of comprehensive risk mitigation strategies.

RESULT AND DISCUSSION

The Role of Risk Management to Prevent Financial Losses and Protect Company Assets

Risk management plays a crucial role in ensuring a company's financial stability and protecting its assets from various threats that can disrupt business operations. Financial risks can appear in various forms, such as market fluctuations, changes in economic policy, and uncertainty in investment. According to Brigham and Ehrhardt (2017), companies that do not implement a good risk management strategy have the potential to experience large losses due to unpreparedness to face external challenges. Companies that proactively manage risk are better able to identify opportunities and strengthen their competitive position (Beasley et al., 2007). With the right risk mitigation strategy, companies can be better prepared to face market challenges, minimize the negative impact of uncertainty, and maintain business continuity and growth in the long term. Risk management is an important element to maintain business continuity and increase the company's resilience to various potentially harmful factors.

One of the main steps in risk management is the identification of risks that can affect the financial stability of the company. According to Lam (2017), companies must have a monitoring system that can detect potential risks early so that mitigation can be carried out before the risk develops into a bigger problem. Financial risks such as currency volatility, volatile interest rates, and bad debts are threats that need to be managed with appropriate mitigation strategies. Proper identification allows companies to prepare preventive measures to reduce the possibility of adverse impacts on the company's finances.

The Companies also need to analyze and evaluate the risks that have been identified to ensure that the risk management strategies implemented are in accordance with the priorities and needs of the company. According to Chapman (2019), effective risk analysis can help companies to measure the level of impact of each type of risk and determine priorities in managing these risks. Quantitative and qualitative approaches to risk analysis can provide more comprehensive insights into the strategies that should be implemented to reduce the impact of financial losses. A proper evaluation also allows companies to optimally allocate resources to protect their assets.

The next step is the implementation of risk mitigation strategies that aim to reduce the negative impact of the risks that have been identified and evaluated. These strategies can include investment diversification, the establishment of reserve funds, as well as the implementation of stricter financial policies. According to Fraser and Simkins (2016), investment portfolio diversification is an effective strategy to reduce a company's exposure to certain financial risks. Investing in different sectors or financial instruments can minimize potential losses arising from market fluctuations or changes in economic policy that affect only one type of investment. This diversification helps the company to maintain balance and protect the company's overall finances. Companies can also adopt specially designed insurance systems to protect their assets from unforeseen risks.

It is important for risk managers to continuously monitor and review the strategies that have been implemented to protect the company's assets. Hopkin (2018) emphasizes that risk management is a one-time process, and is an ongoing effort that must be continuously adjusted to changing market and regulatory conditions. Without proper monitoring, companies risk missing opportunities to anticipate and respond to new emerging risks. Companies are often faced with various challenges and uncertainties, such as regulatory changes, market fluctuations, technological advances, and changes in consumer behavior. A rigid and unresponsive risk management system can be a barrier for companies to survive and thrive. Without the flexibility to adjust to changing conditions, companies may lose the ability to respond to crises quickly and efficiently. Continuous monitoring of risk management is crucial to maintaining the company's competitiveness and resilience in the long-term.

A flexible risk management system means that companies should be able to adapt their approaches and strategies to identify, analyze and manage risks. This includes the ability to change risk management policies and procedures according to changing situations. For example, if companies face new risks due to the emergence of disruptive technologies, they should be able to quickly evaluate the impact of such technologies and adapt their strategies to mitigate the risks that may arise. Companies must be proactive to monitor and respond to changes in the business environment. This means reacting to existing risks, and being able to anticipate new risks that may arise. Companies can conduct regular market analysis, gather feedback from customers, and monitor industry trends to identify potential risks before they become bigger problems.

With a flexible and adaptive risk management system, companies can be better prepared to deal with uncertainties and changes that occur. This allows them to make better and faster decisions, and reduce the negative impact of risks they may face. Companies that are able to adapt well to changes in the business environment tend to have a competitive advantage, as they can capitalize on new opportunities and manage risks more effectively. Having a flexible and adaptive risk management system in a dynamic business environment is essential to protect the company from potential losses, and to ensure the company's long-term viability and growth.

The role of regulation and compliance with risk management standards is critical to maintaining the stability and integrity of the financial sector. According to Sadgrove (2016), strict regulation in the financial sector can help companies to adopt better risk management practices. This not only helps companies to survive in uncertain conditions, but also ensures that they can deal with them in a structured and systematic way. Compliance with regulations can also improve the company's financial transparency and strengthen the trust of investors and other stakeholders. Regulation and compliance with risk management standards serve as a strong foundation in creating a safer and more trusted business ecosystem.

The role of risk management to prevent financial losses and protect the company's assets is critical to maintaining long-term financial stability. Risk management serves as a tool to identify and mitigate potential losses, and as a proactive strategy that enables companies to respond quickly to changing market conditions and emerging challenges. The risk management process begins with risk identification, where companies must systematically identify the different types of risks that could affect their operations and financial performance, including market risk, credit risk, operational risk, and reputational risk. Once risks are identified, in-depth analysis is required to understand the impact and probability of occurrence of those risks. The company can formulate an effective mitigation strategy, which includes measures to reduce the likelihood of the risk occurring or minimize its impact if the risk occurs.

Continuous monitoring of the risks identified and the mitigation strategies implemented is essential to ensure that the company remains adaptive and responsive to changes in the business environment. External factors such as regulatory changes, economic fluctuations, and technological developments can affect the company's performance, a comprehensive risk management system is a must.

Companies can reduce potential losses and increase their resilience to evolving economic challenges by having an integrated system. Effective risk management can provide a competitive advantage, as companies that are able to manage risk well tend to be more stable and can make better strategic decisions. Every company needs to invest resources in the development and implementation of a comprehensive risk management system in order to survive and thrive amid increasingly complex business competition. Companies are protecting their assets and finances, and positioning themselves to seize new opportunities in a challenging market.

Challenges in Implementing Risk Management Strategies and their Impact on Business Sustainability and Financial Decision Making

Implementing an effective risk management strategy is a challenge for many companies, especially in the midst of increasingly complex market dynamics. Companies must be able to identify and manage risks that may arise, both from external factors such as global economic conditions, as well as internal factors related to the company's own operations. One of the main challenges is the global economic uncertainty that can affect the financial stability of the company. According to Damodaran (2016), high economic volatility, including exchange rate fluctuations and monetary policy changes, can make it difficult to accurately identify risks. The company's inability to anticipate these economic changes can result in errors in resource allocation and suboptimal investment decisions. Companies need to develop a more responsive and adaptive risk management system.

The lack of risk awareness and culture within the company is also an obstacle to the implementation of effective risk management. According to Fraser and Simkins (2016), many organizations still see risk management as the responsibility of certain departments only, without the full involvement of all lines of management. This view leads to the separation of the risk management function from day-to-day operations, so that the risks faced by the company are not managed in a comprehensive and integrated manner. Without active involvement from all parties, risks are often only recognized and managed at a certain level, potentially leaving gaps that can be exploited by external and internal threats. Risks are not managed comprehensively can affect the company is more vulnerable to threats that can disrupt business operations and sustainability. Building risk awareness throughout the organization and creating a culture that supports risk management is key to mitigating the impact of threats on business operations and sustainability.

Another challenge is the limited data and information that can be relied upon in the decision-making process. Chapman (2019) states that companies often face difficulties in accessing accurate and up-to-date risk data, especially in relation to external factors such as regulatory changes or geopolitical threats. The lack of valid data can hinder the risk analysis process, resulting in inappropriate decisions and potentially increasing exposure to losses. Without the right data, companies cannot conduct a thorough risk analysis.

Resistance to change is also a significant barrier. According to Hopkin (2018), most organizations find it difficult to adopt new risk management strategies due to discomfort with changing existing business processes. Employees and managers often show resistance to changes in the way they work, even though such changes may offer better protection against risks that may arise in the future. This reluctance is often caused by a variety of factors, including uncertainty, fear of the unknown, and comfort with established routines. Many individuals feel safer with proven methods, even though they may no longer be effective for new challenges. Changes often require investment of time and resources for training and customization, which can be perceived as an additional burden. As a result, despite the potential benefits of change, such as increased efficiency and reduced risk, employees and managers may prefer to stick to familiar ways of working, which can ultimately hinder innovation and adaptation of the company to deal with the changing business environment.

The use of digital-based risk management systems also faces various challenges, especially in terms of cost and complexity of implementation. Sadgrove (2016) explains that although technology can help in monitoring and analyzing risks more effectively, not all companies have sufficient budget or expertise to adopt digital-based systems. As a result, many organizations still rely on less efficient manual methods to identify and respond to risks. Reliance on manual processes often results in delays in data collection and analysis, hindering an organization's ability to respond to risks quickly and effectively. Manual methods are also prone to human error, which can lead to inaccurate or incomplete information. This makes it difficult for organizations to get a clear picture of the potential risks they face, as well as reducing their ability to take necessary precautions. Despite the urgent need to improve risk management, many organizations remain stuck in inefficient practices, which can threaten their sustainability and success in a competitive market.

These challenges have a significant impact on business sustainability. If risks are not managed properly, companies can experience financial instability that hinders long-term growth. Without effective risk management, companies may be unprepared for unexpected events such as regulatory changes, market fluctuations, or other external disruptions, which can be financially detrimental to the company and hinder progress. According to Lam (2017), the lack of effective risk management can lead to a loss of trust from investors and other stakeholders, which ultimately impacts the company's business continuity. This can lead to a decrease in share value, a decrease in investment, or even a decision to avoid working with the company, which ultimately threatens business continuity. A well-planned risk mitigation strategy is crucial to maintaining the stability of the company.

Failure to manage risk can lead to non-optimal decisions, which can further harm the company in the long-term. According to Brigham and Ehrhardt (2017), companies that do not have a clear risk management strategy are often trapped in speculative investment decision-making, where they tend to pursue opportunities that appear profitable without considering the potential long-term impact of such decisions. The uncertainty inherent in these investment decisions can expose companies to higher risks, including liquidity risk, market risk and credit risk. For example, in situations where companies invest in untested projects or in complex financial instruments without adequate risk analysis, they may incur significant losses that affect their financial performance, and reputation and stakeholder trust. It is becoming important for companies to realize that decision-making based on comprehensive risk analysis can help them avoid the pitfalls of adverse decisions and ensure that they move towards sustainable business goals.

Companies need to integrate risk management in every aspect of decision-making in order to achieve sustainable business goals. This integration includes the implementation of a systematic risk management framework, which involves the identification, analysis, mitigation and ongoing monitoring of risks. Companies can ensure that every decision taken, whether it is related to investment, expenditure or product development, considers the potential risks that may arise. For example, in the process of making investment decisions, companies should conduct a risk analysis to evaluate the potential returns compared to the risks involved. This includes considering external factors such as market conditions, regulations, and industry trends, as well as internal factors such as financial capacity and available resources.

Companies should also involve various stakeholders in the decision-making process, including finance teams, risk management, and operational departments, to gain a more holistic perspective on the risks faced. The integration of risk management in decision-making will improve the quality of decisions taken, and will strengthen the company's resilience to unexpected changes in the business environment. Companies that are able to manage risk well will be better prepared to face challenges and take advantage of opportunities that arise so as to achieve sustainable growth and increase shareholder value.

CONCLUSION

Risk management plays a crucial role in preventing financial losses and protecting assets from threats that can affect financial stability. In an increasingly complex and uncertain business environment, companies need to identify, analyze and manage risks systematically in order to avoid negative impacts that have the potential to hamper business growth and sustainability. The implementation of risk management strategies does not always run smoothly due to various challenges, such as economic uncertainty, lack of risk awareness culture in the organization, limited accurate data, resistance to change, and constraints in the adoption of supporting technology. If these challenges are not managed well, companies may find it difficult to make strategic financial decisions and face potential business instability in the long-term.

The company needs to strengthen its risk management system with a more structured and data-driven approach. Increased managerial awareness of the importance of risk mitigation should be part of the company's overall strategy. Utilizing technology in risk analysis can improve the effectiveness of financial threat management and provide more accurate information for decision making. Companies also need to adopt flexible policies to adapt to dynamic market and regulatory changes. The Company can better prepare for business uncertainties and ensure stable and profitable long-term growth by implementing comprehensive and sustainable risk management.

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