Risk Management

Introduction

Today, advanced technology plays a vital role in the field of textile industry. Any manufacturing unit employees five M's that is Men, Machine, Material, Management and of course Money. To get organizational success, managers need to focus on synchronizing all these factors and developing synergies with in and outside organizational operation. In short, many textile companies are leveraging the technological power to adding value to their business.

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The Twentieth Century gave us an abundance of "miracle" in the Global Apparel and Textile Industries. Textile scientists did not just imitate the products of nature, but improved on them. The success was derived through the imaginative and innovative use of low cost based feed stocks and efficient manufacturing process to achieve consumer driven functional characteristics of comfort and aesthetics. In the past decade, the textile industry has undergone enormous changes. Both China and India has emerged as global economic powerhouses in the field of Apparel & Textile Industry after the quota elimination. The concept of disruptive innovation is a route of future growth and success. The future product and process discoveries will be built upon multi-disciplinary technology platforms. The borders between material, biological and information science erode and become seamless, the areas where they interact or overlap will catalyze the re-conceptualization of tomorrow's textiles with disruptive technologies as the hallmark. World has converted as a small village & no country can be unaffected with the ups & down of each other.

While the open global market has created the tremendous opportunities for entire world, it has also increased the higher risk factors for the business due to dependency on each other.

To avoid any unpleasant surprises, The Company must lay down risk assessment minimization procedures. These procedures must be periodically reviewed to ensure that executive management controls risks through means of a properly defined framework.

This document provides an insight into the risk management framework for a Textile Company.

Risk Identification & Mitigation

Risks can be identified in the following categories:

1. **Business Risks**: These are strategic risks that may threaten the existence or the smooth running of the business in the future.

2. **Operational Risks**: These are risks encountered in the day-to-day running of the business and are mainly mitigated by putting strong business processes with internal controls in place. These risks are function-wise.

3. **Financial Risks**: The finance function including borrowing, forex management and hedging, etc is centralized for the company and hence these risks are for the central finance department.

4. **IT Risks**: Risk of disruption in business due to failure of Information technology for the company as a whole.

5. **Legal Risks**: The legal risks for the company as a whole but the mitigation procedures are fairly decentralized depending on the compliance requirements.

Risk Management

There is always a residual risk attached to the business. A Textile business needs to therefore implement a continuous monitoring mechanism to deal with risks on an ongoing basis.

Details of various initiatives towards achieving this objective are provided below:-

Strategic Planning

Senior management must meet periodically for a detailed strategic and operational review of business segment, taking into account existing and prospective business environment.

Communication & Reporting

Members of the core management team must review the implementation of these strategies, and also ensure that adequate attempts are made to mitigate the risks perceived.

Actual performance vis-à-vis budgets are reviewed by the management on a quarterly basis and should also be presented at Board meetings. The monthly and quarterly MIS should be designed to ensure timely dissemination of information and risks of non-achievement of business objectives to key management.

Operational Initiatives for Managing risks

Policies & Procedures: In order to strengthen internal controls over business processes, and thereby reduce the risks of manual intervention and error, the company should document important policies and procedures and circulate across the organization. A few such examples are provided below:

Approval Limits (Authorisation matrix document specifying the financial powers for every nature of expenses and every executive)

Foreign Exchange Risk Management Policy (FERM)

Budgets and operating plan for every business and every cost centre (specifying both revenues and capex)

Policies and procedures manuals for

- Capital expenditure
- Purchasing
- Travel policy
- Accounting policies and procedures
- Bill passing manuals
- Retail shops manual

Audits & Reviews

Internal audits: A firm of Chartered Accountants, whose appointment is approved by the audit committee, should conduct regular internal audit reviews. The observations and recommendations should be reviewed and discussed with top management and the implementation status should be reviewed regularly.

These observations may be presented every quarter to the Audit committee. The AC should also be reviewed by the management on the observations and recommendations made by the auditors.

Different Areas of Business Risks

I. (a)

Area: Availability of raw materials at competitive prices

Risks : Volatility in input prices.

Risk Description: Increase in prices of essential materials (Cotton ,wool, polyester, acrylic etc.)

Mitigating Controls / Procedures: The Company should cover its RM requirements for a defined period. This ensures availability as well as price competitiveness of the materials.

I. (b)

Risks: Constraints in availability of raw materials.

Risk Description: Fluctuation in prices, non availability due to various reasons. RM required to be imported, may adversely impacted due to decline in bilateral relations, war, trade embargo, etc.,

Raw materials may not be available in a timely manner.

Mitigating Controls / Procedures:

- The management should continuously monitors events affecting raw material availability and suppliers.
- The division constantly explores alternatives for the existing supplier.
- The division also looks at captive processing units to lower dependence on suppliers.

II. (a)

Area: Product portfolio.

Risks: Changes in demand or market trends

Risk Description: Primary markets may no longer accept the existing products due to new fashion trends, low economy, changing age group of major consumers etc. Changes in demand patterns reduce the demand for the company's existing products. Also changes in preferences may affect sale of particular category of products and hence affect profitability (E.g. Shift from woolen to PV & acrylic products, 100% cotton to P/C, 100% Polyester etc affects margins .

Mitigating Controls / Procedures

- ❖ The company must monitors the changes in the industry and customer preferences through market surveys, particularly in the end application population for any indicators that could change or affect demands of the company's product.
- ❖ The company may encounters the risk of shift to ready-mades by two prong method of supplying to institutional ready-made manufacturers as well as the company may itself has a presence in the ready-made garments industry.
- ❖ The company must host dealer meets and increase interactions with agents to gauge customer trends.
- ❖ Data captured by the POS of retail stores should be collected and analyzed regularly to determine customer buying trends.
- ❖ Company must focus of its research & development on continuous basis on top most priority.

II. (b)

Area: Product portfolio.

Risks: Product concentration or dependence

Risk Description: A certain product range dominates the company's product range. Significant revenues or profits of the company flow from these products and hence any adverse impact on the sale of few products could impact the business severely.

Mitigating Controls / Procedures

The Company should monitor the demand forecasts and threats to these products closely. New technological developments in the product area (like new fibre & finish & fashion developments) are also closely watched and the company aims to be the leader in adopting changes to product range. The company should also continuously undertake new product development initiatives or spirit offs from existing products that will reduce the dependency on a small number of products.

III. (a)

Area: Customer

Risks: Credit Risks

Risk Description: Risk of customers not meeting payment obligations.

Mitigating Controls / Procedures

Strong credit control and monitoring mechanisms must be in place to restrict undue exposures. The credit policy includes other mitigating actions like making agents responsible for collections (del-credit agents) and accepting deposits from customers.

Further receivables position is reviewed and closely monitored in every weekly/ monthly managements meeting.

III. (b)

Area: Customer

Risks: Customer concentration

Risk Description: Few customers should not be accounted for bulk of the sales or profits, to avoid over dependency on a small customer base. These customers could dictate terms or loss of a single customer may adversely affect the business.

Mitigating Controls / Procedures

The company should continuously appoint new Dealers and franchise shops which achieve the dual purpose of increasing the reach as well as broadening the customer base to reduce customer concentration. Also the activities of the large customers should be closely watched and due to the long association with such customers, the management perceives the risk to be low.

IV. (a)

Area: Competition

Risks: Loss of market share

Risk Description: Loss of market share to competitors.

Mitigating Controls / Procedures

The company should focus to increase the domestic market as well as export market share. Marketing strategies should be continuously aimed towards improving market share by meeting existing and emerging customer demands, provide incentives to customers (rewards, loyalty programme). Competition moves should be tracked closely for any major developments.

The current distribution network should be strengthened. The company should also expand into retailing

Continuous improvement programmes should be initiated to ensure that high product quality standards are maintained.

The focus should be on brand building & its recognition.

IV. (b)

Area: Competition

Risks: Global competition.

Risk Description: Availability of foreign substitutes.

V. (a)

Area: Technology

Risks: The present technologies or manufacturing processes may become obsolete.

Risk Description:

- Alternate manufacturing processes available to manufacture products at lower costs.
- Up-gradation of manufacturing facilities in time.
- Inadequate resources for product development and research in emerging technologies.

Mitigating Controls / Procedures

- A company should consciously upgrade its manufacturing facilities to adopt the latest technologies.
- It should also take steps to retain or reduce costs of production by initiatives which may include shifting the manufacturing location to lower costs area.
- There should be ongoing efforts for development and research of new products and new technologies.
- On the selling front as well, the company should adopt the new channels of promotions and selling to the extent feasible (e-commerce, use of internet as a selling medium.

V. (b)

Area: Technology

Risks: Impact of emerging technologies.

Risk Description: Inability to correctly assess impact of new technology on existing business model (e.g. Internet –e Commerce).

VI. (a)

Area: Economy & Market Risks

Risks: Slow economic growth/ recession.

Risk Description: Reduction in buying power of the end customer base.

Mitigating Controls/Procedures: The Company should track economic and buying trends and accordingly changes product mix to suit current market demands (producing lower value fabric during recession and finer fabrics during growth times).

VI. (b)

Area: Economy & Market Risks

Risks: Inadequate market analysis.

Risk Description: Inability to foresee demand patterns.

Mitigating Controls/Procedures:

- The company should spend significant efforts on demand forecasting.

- The company may install common software at all sale point through which information on sales trends is available. This information is used to forecast future demands.
- Other means like inputs from market research agencies, media, customer surveys, sales and marketing teams are also to be taken to constantly gauge customer.

VI. (c)
Area: Economy & Market Risks

Risks: Inadequate market analysis.

Risk Description: Inability to price products competitively or profitably.

Mitigating Controls/Procedures: Regular analysis of the individual components that are built into the product cost and ways to reduce one or many cost components. Simultaneous market analysis to determine optimum setting price.

VII.
Area: Regulatory Environment

Risks: Adverse policy changes.

Risk Description: Adverse changes in local government policies or regulations leading to adverse impact on business environment.

Mitigating Controls / Procedures: Government policies are to be closely monitored. The company should continuously make representations to the authorities through trade associations for changes that would favorably impact the industry and the company.

Operational Risks
I. (a)
Area: Human Resources

Risks: Employee Integrity

Risk Description: Compromise of employee integrity could lead to frauds or pilferages.

Mitigating Controls / Procedures
The code of conduct must be communicated and mandated by a company requires high standards of integrity and ethical behavior. The screening process for senior management positions also includes a thorough background check to avoid any such issues.

A strong and robust internal control framework ensures transparency and early detection of any deviation.

I. (b)
Area: Human Resources

Risks: Industrial relations

Risk Description: Industrial unrest could lead to strike or disruptions in activities.

Mitigating Controls / Procedures
There must be regular efforts to maintain cordial relations with the unions & management. Company should periodically sign a memorandum of settlement with the worker unions.

I. (c)
Area: Human Resources

Risks: Possible shortage of skilled man-power and risk of high staff turnover.

Risk Description: Unavailability of new talent or inability to retain existing talent. High staff turnover could affect continuity and growth of the business.

Mitigating Controls / Procedures
The company must have good HR strategies to attract and retain talent.

Compensation should be among the best in the industry.

II. (a)
Area: Procurement

Risks: Continuity of supplies.

Risk Description: unreliable suppliers or frequent disruption of supplies could pose risk of disruption in operations.

Mitigating Controls / Procedures
- ❖ Vendor selection process ensures reliability of suppliers.
- ❖ There should be continuous exercise to develop alternative vendors for Class B items. Alternatives should be developed for imported items.

II. (b)
Area: Procurement

Risks: Continuity of supplies.

Risk Description: Dependence on single source suppliers or service provider leading to business partner risks.

Mitigating Controls / Procedures
- ❖ For key materials, contracts should be in place with the main vendors.
- ❖ Terms with certain suppliers also include penalties for delays or failure to supply which also acts as a mitigating factor.

III. (a)
Area: Logistics & Supply chain

Risks: Non-optimal inventories.

Risk Description: Risks of overstocking leading to blockage of working capital and obsolescence of material and risk of under-stocking leading to loss of sales.

Mitigating Controls / Procedures
- ❖ Inventory management controls, supported by IT systems should be in place.
- ❖ Targets in terms of number of days sales or consumption should be defined for all items.

III. (b)
Area: Logistics & Supply chain

Risks: Late delivery of finished goods.

Risk Description: Company's inabilities to deliver on time meet peak season demands or delivery commitments.

Mitigating Controls/Procedures: Inventories at all levels should be monitored, regularly, reported and discussed in monthly management meetings.

IV. (a)
Area: Production

Risks: Risk of rejections

Risk Description: High rejection rates for finished goods could result in business and reputation loss.

Mitigating Controls / Procedures
- ❖ All the divisions of the company follow very stringent quality assurance & inspection norms. The product must be finally inspected & confirmed for its quality before dispatch to customer.
- ❖ Company must recognize quality of its product as its strategic strength and should have controls in manufacturing processes to ensure the continuity of this factor.

IV. (b)
Area: Production

Risks: Disruptions in resource supply

Risk Description: Inadequate resources for manufacturing like power, water, fuel, etc.

Mitigating Controls / Procedures

- ❖ A company plants should be setup considering availability of resources as a key criteria. The continuity of these resources should be monitored regularly.
- ❖ A special arrangement may be made to ensure availability of these resources in an uninterrupted manner (like special water pipelines, captive power plants etc).

IV. (c)
Area: Production

Risks: Shop floor hazards

Risk Description: Failure to take adequate safety precautions may lead to accidents in manufacturing facilities.

Mitigating Controls / Procedures
Safety requirements must be specified at each of the plants.

V. (a)
Area: Sales & Marketing

Risks: Incorrect pricing

Risk Description: Over or under pricing the products

V. (b)
Area: Sales & Marketing

Risks: High number of customer claims

Risk Description: Large number of customer claims for failure in fulfilling commitments or delivering the right product.

Mitigating Controls / Procedures: Safety requirements have been specified at each of.

VI. (a)
Area: Commercial

Risks: Loss of benefits

Risk Description: Inability or failure to claim available benefits (e.g. DEPB, EPCG) etc for either lack of knowledge or lack of compliance could lead to financial loss.

VI. (b)
Area: Commercial

Risks: Business partner risk

Risk Description: Failure of a business partner / counter party (vendor, service provider, dealer to meet obligations or service levels results in disruptions in business operations).

Mitigating Controls / Procedures: The Company should deal with required suppliers and service providers. Contractual safeguards and SLAs should be included in the contracts with each business partner.

VI. (c)
Area: Commercial

Risks: Business partner risk

Risk Description: Dependence on single service provider for services leading to business partner risks.

Mitigating Controls/Procedures

- ❖ The company should define selection criteria for service providers. Contracts with service providers should contain penalty clauses in class of unsatisfactory service.
- ❖ Specific SLAs and penalty clauses should be in place for any key service providers (e.g. maintenance contracts with software vendors for key business systems).

VII. (a)
Area: Others operational areas

Risks: Inadequate internal controls

Risk Description: Inadequate or weak internal controls across functions.

Mitigating Controls / Procedures: The Company should appoint internal auditors to regularly audit the status of internal controls. Audit reports and actions on recommendations should be reviewed by the Audit Committee of the Board every month/quarter.

VII. (b)
Area: Others operational areas

Risks: Damages to property and assets.

Risk Description:
- Operations (manufacturing facilities, warehouses, corp. offices, etc) may be adversely impacted due to natural disasters / acts of God.
- Damages due to industrial espionage, sabotage, etc.
- Damages due to carelessness or lack of safety measures.

Mitigating Controls/Procedures

- The insurance function should be inplaced to review insurance coverage by each division. The company must be ensured adequate insurance cover for various hazards including acts of God as well as accidents or sabotage.
- Regular training to be provided to workers on safety and precautionary measures.

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Mr. Arvind Kumar Upadhyay, M. Tech., B. Text, MBA qualified has a very wide knowledge and experience of last 38 years in the Textile Industry. Present Assignment: President - Reid & Taylor, Mysore since 18th March 2014. R&T is a composite plant (Fiber to Finish) manufacturing high value worsted suiting materials.

He is a competent & result oriented Techno commercial Textile executive with over three decades of rich experience & proven track record in the areas of Production Management, Process Engineering, Quality Management, Materials Management, Resource Planning, cost effectiveness, administration, team building skills, setting up project, Brand building & marketing during the career span.

He had Acquired all round professional expertise in handling Composite Textile Mills (Spinning, weaving, Processing & Garments) most efficiently from shop floor to a Business Head during his association with Organizations of high repute in India.

Mr. Upadhyay has worked in various reputed organizations on executive positions. He worked in O.C.M. India Ltd., S. Kumars Nationwide Ltd (SKNL), Dewas, Raymond Ltd. Thane, Ken Knit Group of Industries, Eldoret, Kenya, Bhojsons Industries PLC, Lagos, Nigeria, International Textile Industries, Lagos, Nigeria, British India Corporation, Kanpur etc. Initially he worked with VXL India Ltd. (Digjam), Jamnagar, Rajasthan Spg. & Wvg. Mill, Gulabpura, J.K. Cotton Spg. & Wvg. Mills Co., Kanpur. He successfully worked & achieved the best results by team building & establishing entirely new culture in the organizations.

He has got the opportunity to undertake the professional training for various HRD & Management programme, training for Sulzer Projectile Weaving Machine, and lead assessors' course for ISO-9000., TQM & Kaizen.

Mr. A.K. Upadhyay is actively associated with The Textile Association (India) and various local associations and educational institutes. Under his leadership, he organized various Seminars and Conferences a grand success. He visited various countries of Europe & Africa multiple times for business & as tourist.

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