# HOW CORPORATES MUST ABSORB MARKET SHOCKS

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**Category:** Opinion

Businesses face drastic changes in the landscape of risks as the world changes fundamentally. A list of examples such as 1987 Black Monday, 1997–1998 Asian-Russian crisis, 2001 dotcom bubble, 2002 SARS epidemic, 2008 financial crisis and 2011 European sovereign debt crisis have seen severe consequences for the financial sector. Each crisis has its own unique origin in terms of impacting the society. (ESCWA, n.d.) Market shock is defined as, "A disruption of market equilibrium (that is, a market adjustment) caused by a change in a demand determinant (and a shift of the demand curve) or a change in a supply determinant (and a shift of the supply curve).

(Monasterolo et al., 2021) In recent times we see the long-lasting effects of the COVID-19 pandemic on many lives and livelihoods where millions have lost their jobs and incomes in many countries have sharply declined. The experiences faced in the covid-19 brought to our notice that the consequences of a pandemic cannot be covered by the private insurance market (GDV 2020b). This has raised the possibility of establishing public-private partnerships to mitigate the financial effect of future pandemics.

Any uncertainty linked with investment decisions refers to market risk. There is a need to see risks through an intersectional view of problems as the world is interconnected than ever before. To navigate an unpredictable future in which change comes quickly, organisations need dynamic and flexible risk management.

A dynamic risk management process has three core components: identifying potential risks and weaknesses in controls, determining the appetite for risk, and selecting the appropriate risk management approach (McKinsey & Company, 2020).

Companies need to identify changes in existing threats and also to be on the lookout for new threats. They will need to identify and prioritise risks in a hyperdynamic manner to keep up with the changing environment.

A systematic way of which risks to take and avoid must be adopted by companies. Many of them today view their appetite for risk purely in financial terms. This can lead to falling in simultaneous traps of being rigid and irresponsible. Companies will have to determine their appetite for risk based on values, strategies, capabilities, and the competitive environment at any given time.

Companies also need to decide on the approach adopted for risk-management. Many of them today use linear, committee-based governance processes to make risk-taking decisions, which slows their ability to react rapidly. /slowing their ability to act.

However, To avoid, control, or accept each risk, organisations will require to make risk-taking decisions speedily and flexibly including planning and executing immediate and prolonged responses. Identifying these response strategies that have both worked well in the past as well as those that have not can be determined by the active participation of leaders across a company.

Dynamic and integrated risk management is a necessity in today's uncertain times. Especially after the Covid-19 pandemic which made companies rethink their model approaches. The ability to identify risk, determine appetite and decide the approach to work towards it is growing ever more critical.

(Mckinsey & Company, 2020) Few actions organisations can adopt to establishing risk management effectively:

- Reset aspiration for risk management:

Companies must elevate risk management from prevention to value creation. This requires setting clear goals, such as ensuring that efforts are focused on the most important risks, providing clarity about risk levels and risk appetite in a way that allows for effective business decisions.

- Establish agile risk-management practices:

The demand for more agile risk management is increasing as the rise of an uncertain risk environment. Firms will be required to assess and find people with the right skills and knowledge in real time, bringing together cross-functional teams and leading them to make rapid decisions in innovating and managing risk.

- Harness the power of data and analytics:

With the digitalization of data, companies can improve their risk management. Human errors can be reduced with the help of automation technologies that can digitise transaction workflows end to end.

- Develop risk talent for the future:

Risk managers will be required to develop new capabilities and expand domain knowledge to meet the demands of the future risks. As their firm navigates the risk landscape, risk professionals may provide improved monitoring and effective challenge while also functioning as effective counsellors and partners.

- Fortify risk culture:

The mindsets and behavioural standards that determine how a company identifies and manages risk are referred to as risk culture. Risk culture is extremely crucial in times of high uncertainty, such as the ones we're experiencing now because of the COVID-19 epidemic. Risk culture is extremely crucial in times of high uncertainty, such as the ones we're experiencing now because of the COVID-19 epidemic.

There are rapid changes as well as rising uncertainties in the world. As the expectations of the society, governments, shareholders, customers and employees are increasing while the companies face rising risk levels. There is a dire need for companies to rethink their risk management to be ready for any predicted market shocks.

**Authored by**: This article has been written by Joshal Rodrigues as part of the internship assignment

**Disclaimer**: Views expressed are the authors own.

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