

Risk Management Analysis on Microsoft Corporation

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Abstract. The process of detecting, assessing, and managing hazards is known as risk management. It involves identifying risks, evaluating risks, and implementing controls to limit risks. Risk management is an integral part of the overall management plan of any firm. The objective of risk management is to reduce the negative impact of risks on an organization's capacity to accomplish its goals. Financial risks, operational risks, strategic risks, and reputational risks can all have an impact on a firm. Financial hazards consist of threats to an organization's financial health, such as credit risk, interest rate risk, and foreign currency risk. Operational hazards include supply chain risk, technology risk, and compliance risk, which are all associated with the operations of a business. Risks associated with an organization's strategy, such as market risk, competitive risk, and regulatory risk, are categorized as strategic risks. Reputational risks include fraud risk, data breach risk, and social media risk, which are all associated with the reputation of a firm. This paper provides a comprehensive analysis on risk management approaches at Microsoft.

Keywords: Microsoft Corporation, External risks, Internal risks.

1. Introduction

According to Drobyazko et al, the process of identifying, evaluating, and mitigating the threats that an organization faces is referred to as risk management [1]. It is a preventative procedure that an organization goes through to lessen the damage that could be caused by potential risks. The importance of risk management can be attributed to a variety of factors. First, the potential dangers that an organization faces can have a significant effect. They can lead to monetary losses, damage to reputation, and even legal liabilities on the part of the affected party [1]. Second, the outcomes of potential dangers are not always predictable, and they can originate from a wide variety of places. Because of this, it is difficult for organizations to anticipate them and take preventative measures. Third, risks can shift over time, which is why it is essential to review and keep risk management plans up to date on a regular basis. Another reason for the significance of risk management is the potential contribution it can make to improvements in decision-making. Organizations can make better-informed decisions about where to allocate resources and how to respond to potential threats if they first identify and assess the risks that they face. In conclusion, risk management is something that can assist organizations in saving money. Organizations have a better chance of avoiding potentially disastrous and expensive situations in the future if they recognize potential threats early on and take steps to mitigate them.

According to Charney et al, the management of risks can be approached from several different angles [2]. Utilizing insurance is a common strategy that people use. This can allow the costs associated with risks to be transferred to an insurance company. Taking precautions against potential dangers or working to reduce their impact is another strategy. This can require taking steps such as enhancing safety processes, beefing up security, and investing in risk-reduction technologies, among other potential actions. As Sozinova et al said, there is a substantial corpus of study on risk management, encompassing a broad range of academic fields such as economics, finance, psychology, and sociology, among others [3]. This research has concentrated on a variety of subjects, including the impact of risk on organizational performance, the role of risk management in organizational decision-making, and the factors that determine the effectiveness of risk management. This research paper will investigate some of the most important factors in greater detail. It will also examine how effective risk management can assist firms in avoiding disasters that are financially detrimental to the business.

As mentioned earlier, risk management is defined as "the process of identifying, assessing, and controlling risks arising from operational activities and ensuring that risks are balanced with the operational benefits in a cost-effective manner," as stated by Teymurlouei and Harris [4]. The objective of risk management strategies is to lessen the adverse effects of potential threats while boosting the likelihood of favorable outcomes. There are a wide variety of strategies that can be used to mitigate risks. Utilizing a risk assessment matrix is the strategy that is used most frequently. The first step in this strategy is to determine what the goals of the company are, followed by an analysis of the likelihood and impact of the risks that are linked with each goal [4]. After that, the organization assigns a priority ranking to each risk and devises strategies to eliminate, reduce, or compensate for each risk. As per Asare et al, the use of a risk registry is another typical method that is utilized in risk management [5]. Taking this method requires first cataloging all of the dangers that the company is exposed to, followed by the formulation of strategies to eliminate, reduce, or at least manage each risk. The fact that risk management is an ongoing process should be regarded as the single most crucial fact to keep in mind regarding it. The management of risks is not something that can be done only once and then put out of one's mind. It is a process that never ends and ought to be reviewed consistently [5].

When addressing risk management, it is essential to take into account past research conducted on the subject in order to present a perspective that is complete and accurate. The National Institute of Standards and Technology (NIST) conducted a study that found that effective risk management can help organizations reduce the likelihood and impact of potential threats [6]. Additionally, the International Organization for Standardization (ISO) conducted a study that found that risk management can help organizations identify, assess, and manage risks. These two studies are examples of relevant research that were conducted in the past and are still relevant today.

2. Company focus: Microsoft Corporation

Microsoft has a long and successful history of risk management. Since its inception in 1975, the company has consistently maintained its position as a market pioneer in the field of information technology. Since 1986, Microsoft has participated in the public stock market and is currently a component of the Dow Jones Industrial Average. It is one of the most valuable firms in the world according to its market value of nearly \$800 billion, making it one of the most valuable companies overall. Microsoft is in a solid financial position, as evidenced by the fact that the company has more than one hundred billion dollars in cash and investments on its balance sheet. Standard & Poor's has assigned the business their highest possible credit rating of AAA. The areas which Microsoft operates in include the computing industry, the gaming industry, the productivity software industry, and the cloud services industry. Customers come from more than 190 different countries, giving the company a global presence. Over 115,000 people are employed at Microsoft, making it a massive and complicated corporation. The city of Redmond in Washington is home to the company's main office. Microsoft possesses a robust culture of risk management and has built policies and procedures to manage risk throughout the whole corporation. Microsoft has established a Risk Management Committee, which oversees monitoring the various risk management initiatives carried out by the corporation. The Chief Financial Officer serves as the committee's chair, and the committee itself is comprised of the leaders of each business unit. Microsoft offers a comprehensive risk management program that covers all aspects of risk management, including identification, evaluation, mitigation, and monitoring.

The history of risk management at Microsoft includes a dedication to transparency and responsibility, as well as a heavy emphasis on the company's financial exposure to risk [2]. The business has a good track record of financial reporting and a comprehensive internal controls program, all of which contribute to the company's lengthy history of successful risk management. Additionally, Microsoft has been a pioneer in advancing the most effective procedures for corporate governance and disclosure. During the Covid-19 conference, Microsoft's strategy for managing risk proved to be

effective, which contributed to the company's success in warding off a variety of possible dangers, including reputational risk, regulatory risk, and operational risk. Microsoft has also utilized its risk management framework to proactively identify and address new risks that may occur in the future. This was done in order to protect the company's assets.

As the Covid-19 pandemic began to wreak havoc on our society, organizations continued to make sure that they are ready to manage the risk that was caused by the pandemic as well as any potential legal ramifications that may arise [3]. As part of this process, a comprehensive awareness of the legal and regulatory landscape as well as the organization's own risk tolerance was developed. In the midst of the Covid-19 outbreak, Microsoft took a preventative approach to the management of risks. The organization took a variety of precautions to ensure the safety of its workers, customers, and business associates. Additionally, Microsoft was quite explicit about its commitment to complying with all laws and regulations that are now in effect. It was quite intriguing to see how Microsoft planned to handle risk management considering Covid-19. As the pandemic continued, Microsoft's primary concern was making certain that its workers maintained their health and continued to be productive [5]. The organization carried out several guidelines and protocols with the intention of lowering the level of disruption that the pandemic would cause to its personnel. For instance, Microsoft encouraged its employees to perform some of their work from home whenever it was feasible to do so, and the company also offered its workers a number of services to assist them in leading healthier and more productive lives. In addition, Microsoft has put in place several precautions to safeguard its supply chain and guarantee that its goods and services will continue to be accessible to the company's consumers. Microsoft was also collaborating closely with its business partners to ensure that the latter are adequately prepared to deal with any negative effects the pandemic may have on their operations. Microsoft has built a centralized risk management unit that is responsible for monitoring the company's overall risk management program. This function was given the responsibility of managing the company's risk. This position collaborates closely with other business units and functions to ensure that risks are recognized, evaluated, and managed appropriately. The following section in this paper will analyze the external and internal approaches to risk management at Microsoft.

3. Microsoft's risk management analysis

Microsoft's risk management strategy is centered on the process of identifying, evaluating, and managing potential threats to the company's business operations, financial performance, and reputation. These threats could have an effect on any of these areas. The organization maintains a specialized risk management team that is accountable for locating, evaluating, and managing risks that are present across all of the company's business units and functions. Microsoft has developed a risk management framework that provides guidance on how risks should be managed and outlines the company's approach to risk management. This framework also provides an overview of the company. A risk management process, as well as a risk appetite statement and risk tolerances, are all included in the framework. In addition, Microsoft has an enterprise risk management policy in place, which offers direction for the manner in which the company handles the management of enterprise-wide risks. The risk management strategy that Microsoft has implemented has, for the most part, been successful in identifying and controlling the risks that could have an influence on the company's business operations, financial performance, and reputation. Despite this, there have been a few occasions in which the organization was not able to successfully manage the risks that it faced. For instance, the European Commission levied a fine of one hundred million dollars against Microsoft in 2014 for failing to comply with antitrust regulations imposed by the European Union. In addition, the United States Department of Justice levied a fine of \$26 million on the business in 2016 for breaking the Foreign Corrupt Practices Act (FCPA) [1].

In addition, Microsoft has a comprehensive crisis management plan that accounts for a wide array of potential risks and contains many scenarios [7]. The company has a robust culture of safety and security, and it has also implemented policies and processes that can assist in the promotion of a safe

and secure working environment. In a nutshell, Microsoft employs an all-encompassing strategy for risk management, which was developed with the intention of shielding the company's employees, assets, reputation, and clientele from harm. The following are the four primary components that make up the company's risk management strategy:

(1) Identifying hazards Microsoft employs a number of different strategies in order to identify risks, some of which include performing frequent risk assessments, keeping an eye on global trends, and soliciting feedback from employees.

(2) Conducting a risk assessment After a risk has been identified, Microsoft conducts a risk assessment to determine both its potential impact and the likelihood that it will occur.

(3) Developing plans to respond to risks Microsoft prepares plans to respond to risks, including plans to mitigate risks and plans for potential contingencies.

(4) Continuously monitoring risks and performing periodic reviews of risk management strategy Microsoft does continuous monitoring of hazards and performs periodic reviews of its risk management strategy.

Based on this strategic framework, Microsoft is guaranteed to be aware of all existing and potential risks, vulnerabilities, and threats to internal and external entities. It comprises risk management procedures created to recognize, assess, and eliminate risks before they affect the organization's operations. Such risks, as identified in this section, include financials, foreign exchange rates, investment, and marketing risks which all have the potential to affect the economic stability of the organization.

3.1. External risks

As an international company, Microsoft is exposed to this risk due to its operations internationally; therefore, any fluctuation in the exchange rates affects its economics. For this reason, the company has an internal accounting system that tracks intrinsic conversion rates and spot foreign exchange rates, providing a current and potential picture of the future market. Additionally, if applicable, the company has resorted to using hedges, such as principal currencies like the Japanese yen, Canadian dollar, and British pound.

In the financial markets, interest rate risk is the risk of experiencing adverse effects on the value of an asset or liability resulting from changes in interest rates. The company manages this by diversifying its fixed-income portfolio by including securities, maturities, credit sectors primarily investment-grade, as they ensure a global income index correlation in terms of its economic returns in addition to a relation with domestic income index. Microsoft manages the securities in relation to specific local and international indices and anticipates that the economic risk and return will follow these indices. The extent to which future changes in Microsoft's investment performance may have an impact on equity holders' overall net worth and claims on the company is its equity risk.

3.2. Internal risks

In terms of operational risk, Microsoft has a comprehensive operational risk management strategy in place. All the company's business units report their operational risks to a single risk management function, which is responsible for discovering, evaluating, and managing such risks. Microsoft has put into place an extensive collection of policies and processes in order to reduce the company's exposure to operational risks [4]. The organization makes use of a sophisticated system of checks and balances, as well as an effective internal control environment, in order to guarantee that risks are effectively handled. Besides, Microsoft has implemented an effective strategy for the management of credit risk. The corporation has established a centralized credit risk management department, which is in charge of finding, evaluating, and managing credit risks across all of the company's business units [8]. Microsoft has implemented a thorough system of policies and processes to reduce the company's exposure to credit risks. The organization makes use of a sophisticated system of checks and balances, as well as an effective internal control environment, in order to guarantee that risks are effectively handled.

To avoid the cash flow shortage, Microsoft has implemented a robust approach for the control of its liquidity risk. The company has established a centralized department for the management of liquidity risks, which is responsible for recognizing, evaluating, and managing liquidity issues across all the company's business units [4]. Microsoft has put into place an extensive system of policies and processes to reduce the company's exposure to liquidity issues. The organization makes use of a sophisticated system of checks and balances, as well as an effective internal control environment, in order to guarantee that risks are effectively handled.

3.3. Financial analysis

Microsoft's revenue for the fiscal year 2020/2021 was estimated to be \$168.5 million from its annual report [9]. This is a 13.8% increase over the previous fiscal year. The expenditures amount to \$69.9 million, representing a 13.8% increase over the previous fiscal year. This would result in a net income for Microsoft of \$66.2 million. Microsoft's total liabilities were \$191.7 million as of June 30, 2021. This would be a \$878,400 increase over the prior fiscal year. Microsoft's total equity as of June 30, 2021, was \$141.9 million. This would be a \$236,840 increase from the previous fiscal year. These numbers indicate that Microsoft's revenues, expenses, and equity are all growing. Additionally, Microsoft's net income also continues to grow. This indicates that the company manages its risks well and the stakeholder's equity is increasing in value.

4. Recommendations to Microsoft

The risk management program at Microsoft needs to be strengthened, and this may be done by increasing the company's governance framework, processes, and controls [10]. Additionally, the corporation ought to improve its level of transparency as well as its communication with investors, analysts, and other interested parties. The specific recommendations are as follows:

(1) Governance: The governance system of Microsoft should be improved so that it can better manage risk. The business has to take its risk management program to the next level by formalizing it and delegating responsibility for risk management to a particular person or group. In addition to this, Microsoft needs to create guidelines and protocols for locating, evaluating, and controlling any risks.

(2) Processes: It is important for Microsoft to enhance its procedures for locating, evaluating, and mitigating potential risks. The organization must work on formulating a comprehensive risk management strategy that would contain recommendations for risk identification, risk assessment, and risk management [2]. In addition to this, Microsoft needs to design a procedure for reporting and monitoring risk.

(3) Controls: In order for Microsoft to properly manage risk, the company should strengthen its controls. The organization needs to devise and put into action processes for locating, evaluating, and taking care of potential risks. Additionally, Microsoft needs to set up controls to both prevent and identify any threats.

(4) Transparency and open lines of communication: Microsoft ought to have more openness and communication with its shareholders, analysts, and other stakeholders in the company's operations. Shareholders and analysts need to know the firm's policies and procedures for risk management, and the company needs to disclose them. Additionally, Microsoft needs to develop a protocol for communicating with various stakeholders of potential risks.

5. Conclusion

According to the findings of the research, Microsoft has put into effect a variety of risk management methods as a reaction to the COVID-19 outbreak. These include efforts to protect the health and safety of employees, to maintain the continuity of business operations, and to minimize the impact that the pandemic will have on Microsoft's operations and financial performance. Based

on the findings of the study, Microsoft appears to be using risk management measures that are successful, as the corporation has been able to continue operating normally in spite of the epidemic. As a result of the ongoing development of the pandemic, it is difficult to predict how long these methods will be effective.

The study contains a number of crucial limitations. To begin, it is constructed based on publicly available information from Microsoft, which might not be an accurate reflection of the company's overall risk management efforts. Second, the study does not include a comprehensive analysis of Microsoft's financial outcomes, which would have provided valuable information regarding the efficiency of the company's risk management measures if it had been included. In spite of these limitations, the report does a good job of providing an overview of Microsoft's risk management tactics in response to the COVID-19 outbreak. Future research might build on this work by undertaking a more in-depth examination of Microsoft's financial performance as well as the risk management techniques of other organizations in response to the pandemic. This would be an example of how future research could build on previous work.

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