EFFECTIVE RISKS MANAGEMENT AS A CHALLENGE FOR MANAGERS IN THE NIGERIAN BUSINESS ENVIRONMENT: A CASE STUDY OF PORT HARCOURT, RIVERS STATE

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ABSTRACT

Risk is at the centre of life itself and as a result many people from different walks of life are concerned about it. Engineers, accountants, lawyers, doctors, teachers, bankers, entrepreneurs and many others have interest in the concept of risk. Effective management of risk is necessary for business success. The study examined effective management of risk in the Nigerian business environment as a challenge faced by managers. 80 respondents which includeD risk managers and staff of the risk management department of selected organizations in Port Harcourt were chosen for this study. The major research instruments were questionnaire and personal interview; while the data collected were analyzed using frequency distribution tables and simple percentage. The results indicated among others that there is significant relationship between effective management of risks and the investments. To this end, the study recommends identification, risk evaluation, measurement and control as a necessary step for effective risks management.

INTRODUCTION

Risk as we know is incidental to life. It is an everyday phenomenon to every person, business or organization and the Nigerian business environment is not an exception. Generally, risk has to do with the uncertainty of losing or not gaining something of value. Risk occurs because of the variation in outcomes of results. Uncertainty and unpredictability characterize risks. All these are what individuals face in their daily endeavours. For all of us the risk that we might be involved in one event or another is always present, for instance, it may be a car accident, house burglary or fire destruction, and other such happenings.

Businesses similarly are confronted with risks, factories may be destroyed by fire, and valuable stocks could be stolen or distroyed during the incident. Behind all these events a great deal of anxiety and grief lies in risky activities one may venture into as can be imagined for those closely involved. It is impossible for any individual or enterprise to operate in a risk free environment. Life itself is a risk. Specifically, this study focuses on the business environment as where person, enterprise or company undertakings engage in the production, distribution and marketing of goods and services. Risks in the business environment arise from the uncertainty of the future and the imperfection of human knowledge (Ebenezer, 2004).

Thus, this study is therefore, aimed at carrying out an empirical study on managing risks in the Nigerian business environment as the challenge faced by managers with a view to identifying factors affecting effective risks management and strategies for effective risks management in the Nigerian business environment.

However, this study is guided by the following research questions:

i. Does effective management of risks in Nigerian business environment have any significant relationship with business success?

ii. Does effective management of risks in Nigerian business environment have any significant relationship with encouraging investors?

In order to achieve the objectives of this study, the following hypotheses were formulated in null forms to tentatively address the research questions.

Ho_1: Effective management of risks in Nigerian business environment has no significant relationship with business success.

Ho_2: Effective management of risks in Nigerian business environment has no significant relationship with encouraging investors.

RISKS AND RISKS MANAGEMENT

Risk according to Isenmila (2005) is the chance of loss. This definition is restricted to the ideas of uncertainty and loss. It avoids such situation where the likelihood of loss exists and also those situations which will definitely happen. This sense of uncertainty surrounds everything we do in life, thus everything an individual engages himself is in an uncertain environment. Therefore, there has to be an effective means of managing such situation.

Isimoya (2002) sees risk management as the planning, arranging and controlling of activities and resources in order to minimize the impact of uncertain events. This definition in practice refers to the overall corporate or personal approach to problems posted by risks which they are exposed to so as to reduce the economic effects (fluctuation and reduction in the assets of the firm) whenever the risk materializes. Shiro (2004) defines risk as the variability that likely to be associated with future returns from a project. Risk is a situation where the future outcomes may be assessed with some degree of confidence, probably based on the acknowledgement of the past or existing events (Ezike, 2003). Risks may be managed using a number of approaches such as avoidance, retention, transfer and capital budgeting (project evaluation). In the risks avoidance approach, the business owners or management may decide to avoid risks by not venturing into activity or developing certain project of known and predictable risks.

The retention of risks method contributes positively to business development and growth. As many public company would want to sell their shares to many shareholders in order to spread exposure to loss, from few owners to thousand of shareholders so as to avoid a total loss thus give rise to business expansion. Other precautions that may be taken also are using fire-resistance building materials, teaching the workers safe-working procedures, close-circuit TV monitoring the

customers to discourage shoplifting and providing safety clothing to minimise accidents (Eke, 2002). Also, risks may be transferred to an insurance company by obtaining an insurance policy and paying a fee known as the premium. By the insurance policy, the insurance company undertakes to pay the insured business up to the maximum amount agreed upon by both parties if the loss occurs. This method is called risks transfer. The business may obtain insurance cover for damage of property, legal liability, loss of earnings and fraud. Such cover gives the management of the business the peace of mind, some degree of freedom and asserts to design and implement new projects. The capital budgeting is the comprehensive method of managing risks in a long-term project. It takes into account the amount of risks and the expected rate of return on investments.

CLASSIFICATION OF RISKS

Risk can be classified into: business risks, financial risks and political risks. Business Risk is variability in earnings before interest and tax (EBIT) associated with a company's normal operations. It is the riskness of the company's operations without regard to how the company is financed. Business risk varies considerably between industries even between companies within the same industry and may alter significantly over time as consumer taste and technology changes. Generally, business risk depends on the state of the economy; government's action, competitor's action, labour relations, fire and accidents (Akinsulire, 2006; Ovwielefuoma, 1993; Isenlima, 2005; and Shiro, 2004). Specifically business risks are influenced by the following factors.

Demand Variability: The more stable the demand for a company's product (other factors remaining the same) the lower its business risk.

Sales Price Variability: A company with relatively stable prices is expected to have lower business risk - all other factors remaining the same.

Input Price Variability: The more stable the input prices, the lower the level of business risk.

The Extent to which Costs are Fixed (Operating Leverage): If a high percentage of a company's costs are fixed then it is exposed to a relatively high degree of business risk.

Financial Risk is the increased risk of equity holders due to financial gearing (as opposed to operating gearing which is associated with business risk). It does not arise from a company's investment. It is due solely to the capital structure specifically to the level of gearing. When a company introduces fixed interest debt into its capital structure, it increases its financial risk, this is partly because the interest must be paid irrespective of what happens to earnings. If the company is in default it runs the risk of compulsory winding up, this is particularly so where the providers of debt finance have security for their investment in the form of a mortgage over the asset and this is typically the case (Osaze, 1999).

The political risks are purely external speculative risks. The political risk is

usually observed in international transactions, but it covers changes in government or government policies and civil unrests. According to Ebenezer (2004), they also constitute “a factor in domestic operations as the roles of the game are changed”.

METHODOLOGY

A survey approach was used in generating data for the study. This was achieved through the distribution of questionnaire and personal interviews. Information from the questionnaire distributed formed the primary data for the study. The population of this study consists of risks managers and staff of risk departments in risks management organizations in Port Harcourt, Rivers State of Nigeria. The sampling method used to select the risks managers and staff of risk departments out of the population was stratified random sampling technique. With this sampling procedure, every risk managers and staff of risk department in all the organizations have been considered for the study. In all, 80 respondents, were randomly selected from the two strata. A total of eighty copies of questionnaire were distributed. All the questionnaire were returned with adequate information yielding a response rate of one hundred percent. The questions were properly structured to produce a "Yes" or "No" answer. This was done to encourage the respondents to complete the questions quickly without delay. Data were analyzed using tables, percentage and frequency of occurance.

RESULTS AND DISCUSSION

Table 1: Effective management of risks in Nigerian business environment and its significant relationship with business success

Responses	**Frequency of Occurrence**	**Percentage**
Yes	77	96
No	3	4
Total	80	100

Source: Research Data, 2011

Table 2: Effective management of risks in Nigerian business environment and its significant relationships with encouraging investors

Responses	Frequency of Occurrence	Percentage
Yes	78	97.5
No	2	2.45
Total	80	100

Source: Research Data, 2011

A close look at table 1 above shows that majority of the respondents are of the view that effective management of risks in Nigerian business environment has significant relationship with business success, while a neligible number of the respondents is of the view that effective management of risks in Nigerian business environment has no significant relationship with business success. Based on the percentage ratings, it was affirmed that effective management of risks in Nigerian business environment has significant relationship with business success.

Table 2 shows that almost all the respondents agreed that effective management of risks in Nigerian business environment has significant relationship with encouraging investors. Effective management of risks in Nigerian business environment has significant relationship with business success. For instance, exporters of goods to foreign countries take export credit guarantee insurance. This insurance covers an exporter over credits which he grants to foreign importers. Exporters allow their goods to be shipped to foreign importers with the hope that they (the importers) will pay later. In some cases, the importers may not pay. This will put the exporters into great financial embarrassment. For this reason, exporters take insurance to cover the risks in granting credits to their foreign customers. Such insurance cover is known as export credit guarantee insurance. If the importer fails to pay, the insurance company will compensate the exporter for his loss.

CONCLUSION AND RECOMMENDATIONS

Effective management of risks in Nigerian environment has significant relationship with encouraging investors. Businessmen are encouraged to invest their capital into commercial and industrial ventures when there is effective risk management. Effective management of risks ensure that business risks are reduced to the barest minimum. These encourage people to invest. Risks like losses resulting from theft, fire, burglary, accident are real in industry, business and private life. If there were no effective management of risks, entrepreneurs would suffer heavily when these risks occur. This would instil a lot of fear in their minds. They would find it difficult to venture into enterprises that demand heavy capital for fear of losses. Effective risk management by insurance companies provides compensation and such fears are removed and people can plunge into enterprises which demand heavy capital.In the light of the findings of this study, the following are recommended for effective management of risks in Nigerian business environment.

Identification: This is the most difficult function in risk management. It is so because failure to identify all loss exposures will imply that the risk manager will not be able to handle unknown exposure effectively. The methods used for risk identification include loss exposure charts, financial statements analysis, flow charts, systems analysis and personal inspection.

Measurement: Degree of risk can be measured by variation between expected and actual losses. Probability of loss is measured in several ways such as frequency, severity and variation. It is very important for risk managers on the basis of past loss experience of their enterprises to estimate future losses that may be expected. They must also try to predict variation in future losses as to both frequency and severity, in order to help them decide what to do about various exposures.

Risk control and financing: Methods adopted for risk control could be any of the following; risk avoidance, combination, segregation and diversification, loss

prevention and reduction or non-insurance transfers. Risk financing methods include many common and useful techniques of risk retention and risk transfer. Risk retention plans include the following four methods:

Absorption of losses: The enterprise or individual may decide to absorb losses in operating expenses.

Reserve: A reserve may be set up in the books of accounts to take care of small losses.

Deductibles: This is a very large excess. An excess is an amount of each and every claim which is not covered by the insurance policy.

Self insurance: This is feasible where there is sufficient risk spread, with a limited exposure at any one location; funded reserves are established to pay losses. Regular payments are made to the fund and losses charged to it.

Risk administration: Once the choice of risk treatment alternative has been made, and the plan has been put into effect, the risk manager must device a system of implementing and periodically monitoring the details of risk management.

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