MANAGEMENT OF RISK AND UNCERTAINTY IN SMALL BUSINESS ORGANISATIONS IN ADAMAWA STATE, NIGERIA.

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ABSTRACT

Small Business organizations are essential for the growth and development of the economy of Adamawa State. However, Small business would contribute immensely towards such development when there is proper and well developed risk management system. This study thus investigates the how small businesses manages risk and uncertainties in Adamawa State, Nigeria. Small businesses face risk in the course of their operations, this could be Hazard, strategic, operational and financial risks that requires objective and sound risk management efforts. The study was carried out by means of questionnaire survey of which primary data was collected from 200 firms situated in various local government area of the state. Descriptive statistics of mean and standard deviation and correlation analysis and ANOVA was used in the data analysis. The result revealed that hazard and strategic risk dominated in small business firms but they don't have a well-developed and consistent system to manage this risk. One can say that's why the mean age of the sampled business firms in the state stood very low, most of them has collapsed due to their inability to plan for risk and integrates it into their formal business plan this is due to some extent the knowledge and experience of the business owner/manager. It was recommended that small business owners and managers should and must inculcate risk planning into their formal business plan and this will in turn leads to identification of risk early enough, proper evaluation and suggest the right method to reduce such risk to the barest minimum. Also there is the need of formal sensitization about risk management, to act as a medium for more education about management of risk to business owners/Managers.

KEYWORDS: Small Businesses, risk planning, risk management, hazard risk, risk identification.

1. INTRODUCTION

In reality, there is risk or uncertainty involved in all business decisions especially capital investment decision, because net benefits from a project/venture would occur in the future and that this may be subjected to unknown chance effects. Estimates of future revenue of projects are based on market size, market selling prices, payment of wages/salaries by the government and security or peace of the state in which the business is situated. None of these attributes are known with certainty, although they may be estimated as likely to fall within a range of values.

Risk is clearly an important concept in business enterprises management. Risk assessment and management are increasing recognized as part of business practice, with an expectation that the assessment and management of risk will form part of everyday business operation. Business practice exists within an economic, a political and a legal context which is dominated by the risk agenda (Holloway, 1998) and the consequences of risk for both business enterprises managers and business owners are often significant. Since these consequences are having significant impact on the business operation and bottom-line results, larger corporations have integrated management of risk and uncertainty into their business practice, but small business haven't paid much attention to these, largely due to their size of their businesses.

Small Businesses in Adamawa State has played a very important role in economic growth and development by creating new employment, development of the state, entrepreneurs and social development. The Organization for Economic Co-operation and Development OECD (2016), supported that small business represents the backbone of any economy, and it reported that Small businesses accounts for 95% of Firms and represents 75% of new jobs creation in the private sector. However, no thorough investigation has yet been focused in managing risk and uncertainty in Small Business in the State. In light of this, this empirical investigation was conducted.

Objectives of the Study

i. To find out the manner in which Small Businesses currently approach risk management
ii. To identify areas of risks that are of paramount importance to Small Business operations and bottom-line results
iii. To identify the attitudes small business owners/managers have towards risk.

2. LITERATURE REVIEW

Concept of Risk Management

The roots of risk management can be found in the insurance sector in the 1960s. The acquisition of insurance makes it possible to secure business against systematic risks, (Pradana, 2012). Despite this only Large Corporation has made use of insurance firms in securing their business against risk and uncertainty. Risk management is the human activity which integrates recognition of risk, risk assessment, developing strategies to manage it and mitigation of risk using management resources. The strategies include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk, (Ezigbo, 2011). It also allows risk management to create immediate value from the identification and reduction of risks that reduce productivity or that has bearings on such firm profitability. It is generally agreed that risk management process includes four interrelated steps including identification of risk, quantification and evaluation of risk, management and control of risks and continued reporting on the development of risks (Vaughan and Vaughan, 2001)

Nature of Risk and Uncertainties

Risk is the variability that is likely to be associated with future returns from a business project. Risk and uncertainty are often used interchangeably. Risk is a situation where the future outcome is unknown but the likelihood of various possible future outcomes may be assessed with some degree of confidence, probably based on the knowledge of the past or existing events (Stone, 1992). Uncertainty is a situation where the future outcome cannot be predicted with any degree of confidence from a knowledge of the past or existing events, hence no probability estimates are available (Asselt, 2000). Risk association with capital investment analysis become possible future events that cannot be anticipated and thus, cash flow segment cannot be correctly forecasted. The problem of risk is acute with capital budgeting because of the time scale involved.

In general, risky or uncertain projects are those whose future returns on the project are likely to be variable – the greater the variability, the risk. According to Halloway, (1997), there are three stages of the overall appraisal and decision process in which risk and uncertainty merit special attention.

i. The risk and uncertainty associated with the individual project/venture.
ii. The effect on the overall risk and uncertainty of the firm when the project being considered is combined with the rest of the firm's operations – the portfolio effect.
iii. The decision maker's attitude to risk and its effect on the final decision.

Business Risks Small Businesses Faces

Small Firms and large firms runs their operations in the same business environment which of course they are exposed to several types of risks. The Casualty Actuarial Society: (CAS) (2003) lists the four major risks to include Hazard Risk, Financial Risk, Operational Risk and Strategic Risk. **Hazard Risk** includes theft and other crimes, business interruption resulting from the insurgencies, fire and other damages, windstorm and other natural perils (most especially flooding, which is an annual phenomenon in Adamawa state), disease and disability of business owners. **Financial risk** is the risk which is associated with financing, including financial transactions that includes company loans and risk of defaults. Often it is understood to include only downside risk, meaning the potential of financial loss and uncertainty about its extent, (Wikipedia, 2017). According to Tajudeen (2013), financial risk entails price, credit, liquidity, hedging and inflation. In business operation, this risk has to be carefully analyzed to remove or reduce the impact it may have on the results of the business operation and business decision. **Operational risk** arises from a number of situations like product development, product failure, information technology, management fraud, and employees' agitation (Tajudeen, 2013). **Strategic risk** is those that arise from the fundamental decisions that directors take concerning an organization objectives. Essentially strategic risk are the risks of failing to achieve business objectives, (ACCA, 2018). Strategic risks relates to factors like competition, customer preferences, technological innovation and regulatory/political issues, (Tajudeen, 2013).

Small businesses faces numerous risks and the impact of these risk has led to closure of many of these businesses. Simona (2012), concluded, in any economic activity risk and uncertainty are found combined in different proportions, but uncertainty cannot be eliminated completely, no matter how complete the risk management may be. Situations and interdependencies not initially taken into account can occur anytime. Such unforeseen events can cause deviations from the intended outcome of such business. Why can't small businesses manage this risk effectively, when compared to larger firms? Henchel (2008) provides answer to the above question in his study by stating that risk management is a challenge for Small business in contrast to larger firm, due to, they often lack the necessary resources, with regard to human capital, database and specificity of knowledge to perform a standard and structured risk management.

3. METHODOLOGY

The study is an investigation which is empirical nature, it was carried out by collecting the data from 200 Small businesses situated in Adamawa state, Nigeria. The population of the study comprises of all the small businesses domiciled in Adamawa State. 200 of them were randomly selected from 10 local government areas in the state. A self-completion questionnaire was prepared and administered in order to collect the data. Since the fact that the owner is having main responsibility for risk management in the business, the data were collected by directing questionnaires to the owner managers of the selected firms. The study uses mean and standard deviation as well as correlation analysis and ANOVA in the data analysis. All analysis was done with EXCEL and SPSS (20).

4. RESULTS AND DISCUSSION

The study sample was 200 firms, of which 120 of them were in the retail sector and remaining 80 of them were in the service sectors. Most of the firms were located in Urban centres (65%) and the remaining of them were situated in rural areas (35%).The mean time in which the firms has been in operation was 2.3 years (2 years, 3 months and 4 days). The mean number of employees stood at 6.9 employees.

It was generally accepted among the respondents that they do not integrate risk planning into their formal business plans if at all there was a business plan (Mean of 1.3). But once faced by a negative impact of risk especially those who lost a lot during the insurgency, few of them now integrate risk planning into the formal business plan.

The results of ANOVA also show that there is no significant difference either between when a business has never faced the major negative impact of risk in course of its operations ($F = 2.28$, $p = 0.28$) and when a business has once faced the major negative impact of risk in course of its operations ($F = 2.11$, $p = 0.52$) on risk planning. This may be due to the reason stated by Henchel (2008), "they often lack the necessary resources, with regard to human capital, database and specificity of knowledge to perform a standard and structured risk management". Looking at the mean years of operations (2.3 years), it is fair to state that not enough time has been put into the business to get the owner/managers to invest in the development and implementation of an official risk plan and strategy.

TABLE 1: DESCRIPTIVE STATISTICS AND RESULTS OF ANOVA

Variables	**Descriptive**		**ANOVA on** Encountered impact of major risk in course of running the business		**ANOVA on** Never encountered impact of major risk in course of running the business	
	Mean	**SD**	**F value**	**Sig.**	**F value**	**Sig.**
Business age (years)	2.3	1.3				
No of employees	6.9	3.6				
Experience (years)	2.3	1.4				
Risk planning**	1.3	1.1	2.28	0.28	2.11	0.58
Hazard Risks**	4.9	1.7	1.32	0.66	3.41*	0.5
Financial Risks**	1.3	0.2	3.12	0.11	3.22	0.2
Operational risk**	2	1.1	2.89	0.21	3.11	0.3
Strategic risks**	3.6	1.9	6.83*	0.02	4.55*	0.2
Risk identification**	2.3	0.3	1.42	0.35	2.34	0.1
Risk evaluation**	1.2	0.5	3.11	0.23	2.87	0.3
Risk handling*	2.7	1.3	3.82	0.12	1.72	0.22
Risk monitoring and control**	1.3	0.7	1.98	0.44	2.34	0.2
* ANOVA is significant at 0.05 level						
** measured on 1-5 scale						

SPSS OUTPUT

With regards to the types of risk that predominates small scale businesses. The sampled firms shows that, Hazard risk and strategic risks dominated (see Table 1). Most of the business owners and managers unanimously recognize that Adamawa state being in the insurgency ridden region of Nigeria (North East) poses a significant risk to the operation of their business. Local government area like Mubi has experience some form of insurgencies which has led to huge loss of business assets if not the entire business. This has made some businesses to finally close down. Also with regards to hazard risk, flooding also has been experienced by some of the business owners and this has also led to them encountering major loss in their business. Also the sampled firms also indicated that strategic risks only came second to hazard risk, and this risk arises from strategy adopted by competitors, customers' behaviors and other factors emanating from the external environment.

TABLE 2 : RESULTS OF CORRELATION

	I	II	III	IV	V	VI
I Experience	1					
II Risk planning	0.30*	1				
III Risk identification	0.44*	0.66*	1			
IV Risk evaluation	0.21*	0.12*	0.48*	1		
V. Risk handling	0.61*	0.18*	0.21	0.18	1	
VI. Risk monitoring and Control	0.42*	0.45*	0.46*	0.63*	0.17	1

* Correlation is significant at 0.05 level

EXCEL OUTPUT

Risk management is a continuous process by which firm's forecasts and evaluates risks together with the identification of strategies to avoid or minimize their impacts. The results in Table 1 and 2 indicated that all functions in which risk management stands for are in very weak positions. Below average values were obtained, with risk identification having mean of 2.3, risk evaluation 1.2, risk handling 2.7, while risk monitoring and controlling has a mean value of 1.3. The average on a 1-5 scale used for this study stood at 3. Using the ANOVA result in the Table, all functions of risk management are not deviated either on whether the firm has experienced a major loss emanating from risks or not. The results statistically stood same, indicating small business are not fully equipped to develop a risk management practice although they do improvise when they are handling risks they face in their business using informal and unorganized logic.

When it comes to ***Risk identification***, small scale businesses located in Adamawa states are aware of the characteristics of hazard risks, just that they do not realize or see it as risk to their business**,** also the ability to identify risk depends on the knowledge and experience of the business owners as indicated by the correlation results in Table 2. The business owners in his own way try to identify business risks using its limited financial resources necessary for identification techniques.

Risk evaluation results from the both table 1 and 2 indicates that small businesses in Adamawa state rarely analyze and evaluate their business risks, although some of them agrees they consults with some friends and colleagues who have experienced more. The loss counts of their friends who has experienced risks serves as a metrics for them to evaluate such risk. From the correlation results, there is significant impact between risk planning and risk evaluation, since small firms most times don't integrate risk planning into their business, they tend also not to evaluate risk at all.

Risk handling *refers to the process that identifies, evaluates, selects, and implements options in order to set risk at acceptable levels. Well from our survey most small businesses* use at least the simplest and the least cheap risk management instruments such as safety instructions, fire protection and fire extinguishers in the Business place, and some types of insurance. The Correlation results established a positive and significant results between risk planning and risk handling and as well as experienced and knowledge of the business owner and manager. It is right to say that where risk planning exists, then there is an effective strategy to handle such risk impact to the barest minimum but this all boils down to the knowledge and experience of the business owner/manager. Using ***Risk avoidance****, this is a* preventive measure which is rarely used by small businesses in Adamawa State, and to some extent like insurgency or floods, risk can't be avoided. When it comes to ***Risk retention***, Here most of the business owners gives themselves some self-insurance as a form of risk-retention, they say that the business has some savings they have kept in a bank deposits, necessary to rescue their business. This includes in the event of a disaster such as the frequent flood experienced in some parts of the state, fire incidents, insurgencies, paid advert to compete with their rivals and so on. When it comes to ***Risk transfer,*** *the business owners and managers* recognize that insurance as one of the most favorable business risk management instrument that provide the security for the business and its owner.

Table 2 indicates that ***Risk monitoring and control*** has a positive and significant impact with risk planning, identification and evaluation but the result was not significant when measured against risk handling. If small business owner/managers were to plan for risk or integrate risk planning into their business, they would be able to identify area where risk might occur and also be able to manage the extent and impact of such risk. But handling of risk is not something small business could do very well, they perform poorly here, hence the collapse of a lot of small business when they encounter such risk. From table 2 also, the ability to control and monitor risk is relative to the knowledge and experience of the business owner/manager.

5. CONCLUSION AND RECOMMENDATIONS

The survival and performance of small scale business on sound risk management plan. This study attempts to identify the risk management practices of small scale businesses situated in Adamawa State. The findings shows clearly that formally has not integrated risk planning into their business plan and there is no well-developed risk management system. It is stressed that a comprehensive business plan and risk planning system is the requirement for a sound risk management but this are all relative to the intellectual soundness, capability and experience of the owner/manager. The experience and knowledge of the owners plays a very important role in risk management. Therefore, this study stresses the need of business owners and managers to inculcate business plan, risk planning system in their current business operations together with enhancing the owner managers' knowledge and awareness regarding risks management through proper training and development. Also there is the need of formal sensitization about risk management, to act as a medium for more education about management of risk to business owners/Managers.

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