

RISK TAKING IN BUSINESS

A risk is a situation where one is required to make a choice between two different alternatives which may result into differing rewards for success or penalties for failure.

A risk refers to the possibility of suffering harm/loss/danger.

Every business organisation contains various risk elements when doing the business.

Business risks implies uncertainty in profits or danger of loss and the events that could pose a risk due to some unforeseen events in future, which causes business to fail

TYPES OF RISKS

The different types of risks are classified on the basis of levels and these levels are: low, moderate and high level (risks), they are discussed below

LOW RISKS. These have high potential of success but are associated with low profits. In such a situation, an entrepreneur starts a business that is common to him and hence bearing few or low risks of failure.

MODERATE RISKS. These are ones that can be forecasted, calculated and managed by an entrepreneur, in such a situation there are higher chances of managing and controlling ie ensuring that in case it happens, it does not affect the business. Examples of such risks are: fire, burglary, theft etc.

HIGH RISKS. These are risks that have a high chance of occurrence or happening, and in case they occur, one has less or no control over them. Examples of such risks are, smuggling, dodging government taxes, etc. however, such businesses with high risks tend to fetch higher profits in case they succeed.

Various examples of risks that entrepreneurs encounter in business and they include:

- ✓ Risk of losing market due to changes in customers' tastes, demand and fashions leading to limited customers and closure of the business.
- ✓ Break down of machinery and consequential loss which comes when one does not service machines or if he over used the machines.
- ✓ High staff turnover or loss of key staff members especially if they have unique skills.
- ✓ Fire outbreak due to poor electrical wiring or reluctance leaving candles anywhere which can bring about fire outbreak.
- ✓ Increased competition due to increased number of similar businesses.

- ✓ Loss of money in transit for example when money is being taken to the bank it may be misplaced.
- ✓ Many people steal money from where they work like employees and other community members (theft and burglary)
- ✓ Failure to comply with legislation, regulation and / or standards
- ✓ Bad debts created by customers who may borrow money / goods from business and fail to pay back.
- ✓ Danger or loss of goods in transit. Goods may be damaged in the process of loading and off-loading them.
- ✓ Corruption and embezzlement of funds by the employees for private use.
- ✓ Business failure due to changes in industrial relations, which may lead to strikes
- ✓ Outbreak of diseases affecting farm animals and crops.
- ✓ Risks of being bitten by snakes, dogs, cats and harmful insects like bees, wasps etc
- ✓ Risks due to unfavourable government policies like ban on use of polythene papers.
- ✓ Poor management decisions hence financial mismanagement, human resource mismanagement and misuse of other resources

RISK ASSESSMENT

Is the process of determining whether a particular uncertain circumstance has the potential to threaten your business operation?

Or, this involves determining the potential success (that will arise out of the risk not happening) or potential loss (arising out of the risk happening). Risks can be assessed based on the following factors

- ✓ **Experience and abilities of management:** If the persons involved in managing the business possess the required knowledge, experience and technical abilities, then chances of success are greater and the risk is lower.
- ✓ **Availability of market:** When there is assurance of high and growing market in an area, chances of success are likely to be greater.
- ✓ **Viability of the idea:** Chances of success in the business are greater and the risk is lower if the selected business idea would profitably be done in the selected business area given the available resources.
- ✓ **Flexibility of the business:** If the business can easily be changed in response to changes in consumer's tastes and preferences without causing negative effects, then the chances of success will be greater and risk is lower.
- ✓ **Level of consistency of cash flow:** This considers the ability of the business to generate enough cash to finance the planned business expenditures. If the business has enough cash (inflow) to finance the planned business expenditures (cash out flow) for success of any business, the cash inflow should always be greater than the cash out flows

- ✓ **Honesty and reliability of people involved:** If the person the business deals with such as suppliers, reliable, then chances are honest and reliable, then chances of success will be higher and the risk is lower.
- ✓ **Marketing and pricing policies:** Given the prevailing competition, chances of success will be greater and the risk lower if the prices charged and marketing strategies used by the entrepreneur are effective and competitive.

RISK MANGEMENT

Managing of risks refer to the activity that involves controlling risks to ensure that they do not happen and if they happen , they do not lead to severe losses to the entrepreneur's business. There are mainly two methods that an entrepreneur can employ to manage business risks

MINIMIZING RISKS

In order for an entrepreneur to reduce the chances of business risks happening, he can take preventive measures that will minimize them. Such measures include the following

- Maintaining and up grading production technology and products to minimize the challenge of changes in consumers taste, fashion and demand. This will help to ensure that the products are in line with the customer's needs
- Locating reliable sources of raw materials and keeping close contact with suppliers to reduce the challenge of shortage of raw materials
- Maintaining adequate security, guarding and strengthening burglar proofs, security lights etc, which will help to control the risks of theft.
- Maintaining good employee relations at work place for example by improving the welfare facilities of workers to minimize poor industrial relations which can result into strikes at work place
- Improving the quality of products and customer care to reduce the risk of business being out competed. i.e the changes in the degree of competition in the market.
- Extensive training of the entrepreneur and staff on new equipment or procedures to reduce the risk of staff and the entrepreneur him / her self being left behind by technological changes
- Employing experienced personnel to reduce the challenge of faulty managerial decisions regarding the use of capital, machines, raw materials, defective inputs.

WAYS OF MAINTAINING SECURITY IN THE BUSINESS

- ✓ Checking thoroughly all vehicles, motor cycles and persons entering or leaving the business at the entrance.
- ✓ Installing security lights and switching on them at night.
- ✓ Ensuring that all vehicles, motor cycles, persons and their properties are registered on arrival at the main gate.
- ✓ Having in place a well maintained fence and monitoring it at all times.

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- ✓ Installing security monitoring equipment like CCTV cameras, alarm systems, bomb detectors etc
- ✓ Employing well-armed and well trained security workers and giving them clear instructions relating to security.
- ✓ Sensitising workers frequently on appropriate measures aimed at ensuring security.
- ✓ Electrifying the wall fence of the business.
- ✓ Placing warning notices relating to security at different points within business and outside the premises.
- ✓ Restricting permission to enter the business to business customers, workers and other permitted business parties.
- ✓ Installing fire extinguishers at the business work place.
- ✓ Ensuring that all workers wear business uniforms that have name and number tags on them at all times during working time.
- ✓ Having watch dogs to maintain security at the business premises.
- ✓ Ensuring close supervision of all workers while carrying out their duties to minimise theft.
- ✓ Prosecuting trespassers in the business premises.
- ✓ Safely locking all business movable assets like cash, work equipment, computers etc
- ✓ Specifying the time beyond which no visitor, unauthorized staff, vehicles and motor cycles should be allowed in business premises.

WAYS OF ENSURING SAFETY /MINIMISING LOSS OF BUSINESS FUNDS/CASH

- ✓ Ensuring proper documentation of all cash received and paid out.
- ✓ Banking daily cash received from sales and from other sources daily or regularly.
- ✓ Keeping the remaining cash at the business premises safely locked up in the money safes and also locking the doors to the cash safe rooms.
- ✓ Ensuring that only authorised business workers like the accountants receive cash receipts and recording of all cash received in the cash receipts and other relevant books.
- ✓ Ensuring that all cash expenditures are requested for through the heads of department and then approved by an authorized business official.
- ✓ Prohibiting any cash drawings from the business but if allowed then restricting the amount and charging interest on the amount withdrawn.
- ✓ Ensuring timely collection of debts within one month or as soon as they are incurred so as to avoid losing money due to bad debts.
- ✓ Buying business items from a nearby reliable and cheap supplier in order to minimize high expenditure due to high transport costs.
- ✓ Obtaining the bank statement of the business on a daily basis on working days and ensuring that the accountants reconcile these statements with the cash book of the business.
- ✓ Employing certified auditors to check the accounts records for error and fraud

Question:

You are involved in a business that is dealing in producing and exporting of meat products and it has come to your notice that there is increasing losses in the business:

(a) Develop security guidelines to be observed by all workers in your enterprise.

(b) Develop safety guidelines to be followed by drivers of the enterprise vehicles.

NB: When providing guidelines, one should maintain, or use simple tense or use the word shall.

SUPER QUALITY SNACKS**P.O. Box 78 KAMPALA****SECURITY GUIDELINES**

1. All workers shall be trained on how to use fire extinguishers.
2. Every visitor shall be thoroughly checked at the entry by the company security personnel.
3. All workers shall arrive at 8.00 a.m. and departure is at 5:p.m. every day.
4. No worker shall be allowed to carry his or her bag beyond rest room etc.
5. All workers` activities shall be assigned by the supervisor and every worker is to report to his/her supervisor.
6. Workers shall be trained and retrained on security guidelines such as use of protective gears.
7. All workers shall wear business uniform that have their names and work title.

SUPER QUALITY SNACKS**P.O. Box 78 KAMPALA****SAFETY GUIDELINES FOR DRIVERS**

1. No company driver shall be allowed to drive company car under the influence of alcohol.
2. No driver shall be allowed to use a company car unless authorized by the person in charge of transport.
3. No driver shall be allowed to drive over the recommended speed limits.
4. Every driver shall be encouraged to use the seat belts whenever he/she is driving.
5. Before the company van is on the road, it shall first be serviced.
6. All company vehicles shall always be inspected from time to time to ensure that they are in good condition.
7. Every driver shall observe the road signs and instruction, whenever he/she is driving.

SUPER QUALITY SNACKS**P.O. Box 622 KAMPALA****SAFETY GUIDELINES FOR BUSINESS FUNDS**

- ✓ One shall ensure proper documentation of all cash received and paid out.
- ✓ Banking daily cash received from sales and from other sources shall be made daily or regularly.
- ✓ One shall keep the remaining cash at the business premises safely locked up in the money safes and also locking the doors to the cash safe rooms.
- ✓ Authorised business workers like the accountants shall receive cash receipts and record all cash received in the cash receipts and other relevant books.

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- ✓ One shall ensure that all cash expenditures are requested for through the heads of department and then approved by an authorized business official.
- ✓ There shall be prohibiting of any cash drawings from the business but if allowed then restricting the amount and charging interest on the amount withdrawn.
- ✓ Timely collection of debts shall be ensured within one month or as soon as they are incurred so as to avoid losing money due to bad debts.
- ✓ One shall buy business items from a nearby reliable and cheap supplier in order to minimize high expenditure due to high transport costs.
- ✓ Obtaining the bank statement of the business on a daily basis on working days shall be done to ensure that the accountants reconcile these statements with the cash book of the business.
- ✓ There shall be employing of certified auditors to check the accounts records for error and fraud.

SHIFTING OF RISKS

The entrepreneur can also manage business risks by shifting the burden of bearing the risks to other parties such as insurance companies by obtaining suitable insurance cover/ protection against fire, theft, accidents and other insurable risks

RISK SITUATION

A risk situation occurs when the choice is required between two or more alternative whose potential out comes are not known and must be subjectively evaluated. It involves potential success and potential loss. The greater ie possible loss or gain the greater the risk involved

Risk takers make decisions in conditions of uncertainty and they balance potential success against potential loss

Choosing a risk alternative depends on:

- How attractive the alternative is
- The extent to which the risk taker is prepared to accept the potential loss
- The relative probabilities of success and failure

Procedure for analyzing a risk situation

1. Assessing the risk: This is a situation where an entrepreneur is able to establish whether there is a potential risk or not in choosing a particular alternative or cause of action.
2. Determining the goals and objectives: The entrepreneur goals and objectives for risk taking must be consistent with the business interest in terms of risk management.
3. Surveying on various alternatives available. A survey is carried out to each alternative thought of and details should provide for each alternatives so that costs involved can be assessed in terms of the financial implication of the alternative to taken

4. Gathering information and weighing the alternatives: the information gathered is used to assess the various alternatives in terms of future demand, Competitive reactions and the effects of those reactions calculated.
5. Minimizing the risk. This is the step that involves realistic assessment of how best to minimize the risks while maximizing the benefits using one or more of the strategies such as using creativity ,entrepreneur`s ability among others.
6. Planning and implementing the best alternatives, once an alternative is selected, a plan is made for the implementation of the alternative this include preparing a timetable, defining clear goals and objectives and feedback plans etc so that changes can be made where possible.

NB. Be a calculated risk taker. Remember that in business, as in life, there is no clear way of avoiding risk taking

TYPES OF RISK TAKERS

- 1) **LOW RISK TAKERS.** These are needed at a worker level (lower level) so that they can do the routine things and being organizational stability.
- 2) **MODERATE RISK TAKERS.** These are managers at the middle management level. They are considered as risk takers because they need some freedom to be innovative and make minor modification in procedures and functions.
- 3) **HIGH RISK TAKERS.** These are creative and innovative entrepreneurs, willingness to accept change, try various alternatives and develop innovations for products and services in new areas of business.

Term to be used

- ✓ Risk avoidance. These are measures that can help to prevent the risk from occurring e.g a driver should not drink and drive
- ✓ Risk reduction. This is taking measures to minimize the likely loss or chances of the risk happening e.g putting in place fire extinguishers, having a stand by generator.
- ✓ Risk anticipation. This is forecasting the likely risk that could happen in the business e.g putting in place burglar proofs, employing a security guard, regular servicing of machines etc
- ✓ Risk transfer. This is when the burden of taking responsibility of a risk is shifted to another party e.g taking an insurance policy against , fire, accidents, theft etc

Sample questions

Question 1

- a) Explain the factors determining risk assessment.*
- b) What are Various examples of risks that entrepreneurs encounter in business*
- c) Suggest the ways through which risks can be reduced.*

Question 2

- a) Define the term risk.*
- b) Distinguish between risk transfer and risk reduction*
- c) Explain different types of business risks.*
- d) Explain the procedures followed when analyzing risk situation.*