

Classification of Risk in a Company

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Abstract: Risk is probability that gain or outcome on investment will defer from what is expected. In financial terms risk is also defined as the chance that gains in an investment's or outcome of the business will differ from an expected outcome or return. This is to say that risk is the possibility that something bad or unpleasant (such as an injury or a loss) will happen.

Risk is uncertainty from expected earnings or outcome which means that risk includes the possibility of losing some or all of an original investment. According to Will Kenton reviewed by Julius Mansa (on July 28, 2020), business risk is the exposure a company or organization face that will lower its profits or lead it to fail.

Risk may apply to situations with property, equipment loss, and human health or even our environment so because of this, it is impossible for a company to completely shelter itself from risk. Therefore, when a company experiences a high degree of risk, the risk may impair with the company/business ability to provide investors and stakeholders with adequate returns.

In today's business, risk takes over most business by impacting either negatively or positively but the good thing is there are ways to mitigate the overall risks associated with operating a business; most companies accomplish this through adopting a risk management strategy.

Keywords: Business, Company, Employer, Employee, Risk, Uncertainty

I. INTRODUCTION

According to APMG International in the write-up Defining Risk (The Risk Management Cycle), an exact definition for risk is hard to find and its measurement is controversial as well. APMG International added that, in literature, the word "risk" is used with many different meanings. The Oxford English Dictionary defines risk as "chance or possibility of danger, loss, injury, etc." Thus, in the context of an infrastructure project, there are also different definitions issued or used by different agencies and institutions.

This is to say that definition of risk has always been characterized with confusion and controversy because most authors view risk according to their field of study, views and perspectives. This is to say that an economist defines risk according to the way he sees it as an economist and so it is with a physiologist, pathologist, sociologist and etc. The author felt the need to have an excellent, outstanding and desirable definition of risk which is better than all others in meaning, quality, and suitability in all aspects of definition. This made the author came up with the definition of risk below.

According to the author, risk is the chance or possibility of something bad or good will happen which can have a negative or positive effect on our property, equipment loss, and human health or even our environment that can expose (someone or something valued) to danger, harm, or loss. (Prof. Umar Lawal Aliyu 2021).

Basically, risk has pros and cons which need to be looked into and that is why most companies employ risk management and take it upon them the need to employ it in order to avoid possible danger, harm, or loss. This is why risk management is important in a company and the reason why most businesses take steps in risk management.

The broad objective of this study is to critically explore and examine what is risk in a company. The webinar will also take an analytical look at the characteristics of risk in a company by specifically:

- Assessing the embedding company risk
- Discussing its classification and
- Provide insights from different varying perspectives the need to proffer risk management in a company

This research study is very significant because it aims to justify the importance studying risk, its contribution to new knowledge and why it is important as follow:

- Provide insights from different varying perspectives the need to proffer risk management in a company
- Knowing risk will help a company/business to identify the potential risks ahead of time.
- It will also make a company react accordingly and minimize or even prevent losses completely.
- Studying risk management provides protection from events that are detrimental to both the company and the environment.
- Identifying risk will help a company define successfully its objectives.
- According to “Father of Risk Management Russell B. Gallagher,” Identifying risk will:
 - (i) Prevent risk
 - (ii) Minimize risk
 - (iii) Completely eliminate risks
 - (iv) It will also prevent loss or bankruptcy

II. LITERATURE REVIEW

2.1 Concept and Principles of Risk

The most famous definition of risk is that provided by Frank Knight (1921), who wrote during a period of active research into the foundations of probability. Contemporaneous research includes John Maynard Keynes (1921), Richard von Mises (1928), and Andrey Kolmogorov (1933).

Simply, risk is possibility something bad may happen. Basically, risk represents the probability of loss or gain which involves uncertainty of something we value: health, wealth, property, environment, business etc.

Risk is uncertainty caused by deviation from the expected either positive or negative and it will be good to note that risk may make or prevent company/business from achieving their objective goals.

2.1.1 Concept of Risk

Concisely, risk is an uncertain event that if it occurs, will have a negative or positive effect. Our environment is full of risk and uncertainty i.e. loss of health, life, property, accident etc. and ideally, no business is without risk but the optimum important thing is how to prevent, minimize or eliminate it completely.

According to “Darwinian Theory of Risk Management Evolution by G. Cardano in the 1560s” they are of the opinion that concept of risk involves the following below:

- Uncertainty: The concept of (fundamental) uncertainty was introduced in economics by Keynes (1921, 1936 and 1937) and Knight (1921). They felt a distinction should be made between risk and uncertainty. Risk is the chance that an investment's actual outcome will differ from the expected outcome, while uncertainty is the lack of certainty about an event. The main difference between risk and uncertainty is that risk is measurable while uncertainty is not measurable or predictable.
- Risk is the possibility either danger, harm, or loss may happen or not
- Risk is uncertainty caused by deviation from the expected either positive or negative.

According to International Organization for Standardization (ISO), risk is NOT hazardous until it has certain degree of vulnerability to human beings or its environment.

2.1.2 Principles of Risk

There are many principles but we shall discuss the most important among all of the principles which are the 10 P's approach of risk and the Fundamental Theorem by U.S. Department of Defence. In all cases they are all concerned with how to best manage risk.

- **The 10 P's Principles:** The 10 P's approach considers the positives and negatives of each situation, assessing both the short and the long term risk. The 10Ps to note in carrying and making a business successful includes:- Planning; Product; Process; Premises; Purchasing/Procurement; People; Procedures; Prevention and Protection; Policy and Performance.
- **The Fundamental Theorem Principles:** The Fundamental Theorem is of the opinion of the following below:
 - (i) Accept risk when benefits outweigh cost
 - (ii) Accept no unnecessary risk
 - (iii) Anticipate and manage risk by planning
 - (iv) Make risk decisions in the right time at the right level

It will be good to note that both the two theories the 10 P's approach of risk and the Fundamental Theorem of risk are all concerned with how to manage risk.

2.2 Classification of Risk

According to Hillson, 2004, classifications of risk is very important and below are some reasons for classifying risk:

- Classification of risk helps protect financial soundness of a business
- Classification of risk helps enhancing fairness in a company/business
- Classification of risk helps in minimising loss
- Classification of risk helps in maximising profit
- Classification of risk helps company/business achieve its objective goals

Furthermore, risks are classified into the following below:

- **Pure Risk:** This involves only a chance of loss (harm is the only outcome of the event). Example; Sickness, death etc.
- **Speculative Risk;** This is a situation where there is a chance of loss or possibility of gain or break even. Example; Gambling etc.
- **Fundamental Risk:** Affects society as a whole. Example; Earthquake, Hurricane etc.
- **Peculiar Risks:** This happens due to decisions and actions of man. Example; decision to build house, buy car etc.

2.3 Classification of Risk in a Company

Major characteristic of all companies and businesses is presence of risk and uncertainty.

The risk typically facing a company can be categorized into:

- i). Things you can control such as health, outcome that can be manipulated, strategy etc.

ii). Things you cannot control or beyond your control such as government measures, climate and global economy.

Thus, since risk generally surrounds all company and we shall attempt to classify all company risk below:

- Climate Risk: refers to the potential negative impacts of Climate Change on our lives, livelihoods, health status, environmental etc.
- Competitive Risk : is the risk associated with competition in companies on the market
- Compliance Risk: involves identifying, assessing, and monitoring the risks to your enterprise's compliance with regulations and industry standards
- Credit Risk: is the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations
- Economic Risk: refers to the likelihood that macroeconomic conditions may affect an investment inside or outside the country
- Exchange Rate Risk: exchange rate risk, which is referred to as foreign exchange or forex risk by others is the risk of financial impact due to exchange rate fluctuations.
- Financial Risks: risk is the possibility of losing money on an investment or business venture
- Inflation Risk: which is sometimes referred to as purchasing power risk is how the prices of goods and services increase as a result of rise or fall in purchasing power.
- Innovation Risk: is when a business records failures as it tries many things to see what works
- Interest Rate Risk: is the potential for investment losses that result from a change in interest rates
- Legal Risk: risk of court action occurring whether inside or outside the country
- Liquidity Risk: refers to how a company faces inability to meet its obligations
- Operational Risk: is the risk of loss resulting from ineffective or failed internal processes, people, systems, or external events that can disrupt the flow of business operations
- Political Risk: the risk to business interests resulting from political instability or change
- Process Risk: risk is a loss in income as a result of ineffective or inefficient processes
- Program Risk: is a potential outcome that causes a program to fail to meet a goal
- Project Risk: is an uncertain event that may or may not occur during a project
- Quality Risk: is referred to as the potential for losses as a result of quality that fails to meet your quality goals in your business

- **Recession Risk:** when the economy is in a recession, financial risks increase, including the risk of default, business failure, and bankruptcy
- **Reputational Risk:** This is a risk a business or company faces as a result of losing its public image or reputation from one circumstances or another. Reputational risk is a threat or danger to the good name or standing of a business or entity
- **Resource Risk:** is the chance that you will fail to meet a goal due to a lack of resources
- **Seasonal Risk:** Seasonal risk is a term that's applied to a business that produces a high concentration of its revenue in a certain season whether in spring, autumn, winter and summer
- **Strategic Risk:** refers to the internal and external events that may make it difficult, or even impossible, for an organisation to achieve their objectives and strategic goals
- **Taxation Risk:** risk is the chance that tax rules may change resulting in losses due to higher than expected taxes

2.4 Pros of Taking Risk in a Company

- Fear of failure gets obliterated once you embrace a risk-taking culture
- In “fight or flight” situations you can really define your true objectives
- It boost your employees’ self-confidence
- It inspires creative thinking
- It will give your staff confidence not to be afraid to keep on moving
- Leads to more reward and Possibility of making more gain when risk is taking
- More Knowledge from your new experience and you will learn something new.
- More Knowledge is gotten in taking risk
- Risk makes you learn new skills
- Risk makes you to evolve already existing habits
- Risk opens up new possibilities
- Teaches great lessons and adds more Experience
- The team learns to trust each other when nothing else is left to do

2.5 Cons of Taking Risk in a Company

- You are bound to dislike your experience
- You will feel embarrassed
- Basically risk is associated to resulting to injury, harm or loss may occur

2.6 Steps in Risk Management

- **Identify risk:** determining the risk that will cause harm

- Analyse risk: identifying threats, and estimating the likelihood of those threats being realized
- Evaluating the risk: making a decision about its severity and ways to manage it
- Risk response planning: developing options and determining actions to enhance opportunities and reduce threats
- Monitor and review the risk: risk management process with regular checking or surveillance

2.7 Risk Management in a Company

“Risk management is an integrated process of delineating specific areas of risk, developing a comprehensive plan, integrating the plan, and conducting the on-going evaluation.”-Dr. P.K. Gupta

Risk management is identifying, assessing and controlling threats to a company capital and earnings in order to avoid injury, harm, loss or even bankruptcy. It will be good to note that business encounter many risks that can affect their survival and growth; this is why it is important to employ risk management framework in companies.

Running a business comes with many types of risk that can effect or destroy a business. Risk Management focuses on managing risk in a company and risk management also empowers a company with the necessary tools that can identify and deal with potential risks

Concisely, risk Management ensures that risks are dealt with systemically.

2.8 Importance of Risk Classification in a Company

- Protection of company's financial soundness
- Enhances fairness in taking a business decision
- It is vital and mandatory in the world of banking, finance, lending, and insurance
- Facilitates fair play in company program, operation and coverage
- Hazard avoidance and reduction as a result of classifying the risk
- Economic incentive requires risk classification system to be efficient
- Classifying risk paves way for ideal benchmarking
- Creates a safe and secure work environment for all staff and customers
- Increases the stability of business operations while also decreasing legal liability
- Provides protection from events that are detrimental to both the company and the environment
- Protects all involved people and assets from potential harm
- Helps with preparation of how to guide against uncertainties
- Risk classification reduces or completely eliminates risk

III. METHODOLOGY

3.1 Research Design

This research work is specifically designed to study Classification Of Risk In A Company by using ordinary simple method and approach.

Firstly, data were collected through questionnaires distributed to staff of Amuram Investment Nigeria Limited at random.

In addition, data were also collected through secondary sources of data collection which was obtained from textbooks and previous write-ups on the study, as well as journals and on the internet.

3.2 Method of Data Collection

The researcher tried to exploit all possible avenues for a fairly accurate data to be collected in order get the best reliable and accurate data in the course of this research study. Concisely, the researcher employed both primary and secondary sources of data collection.

IV. DATA ANALYSIS

4.1 Data Analysis

First of all, data's were collected through the use of internet, published papers, journal articles, books etc.

Secondly, in order to make the research more viable, the researcher again used questionnaire as another method of collection of data. A total of 30 copies of questionnaires were distributed to staff of Amuram Investment Nigeria Limited at random and 25 were collected back fully filled without any hitch.

4.1.1 Interpretation of Data

This section provided clear analysis and interpretation of all data collected through questionnaire given to the employees of Amuram Investment Nigeria Limited Kaduna.

The respondent's response is presented in the form of a Table by using the simple percentage method.

4.2 Data Presentation

Table 4.1: Is It Important To Classify Risk In a Company – Questionnaire Response By Staff Of Amuram Investment Nigeria Limited Kaduna

Decision	No. of respondents	Perc enta ge (%)
Yes	20	80%
No	5	20%
Total	25	100 %

Source: Questionnaire Administered October 2021

Table 4.2: Is It Important To Manage Risk In a Company – Questionnaire Response By Staff Of Amuram Investment Nigeria Limited Kaduna

Decision	No. of respondents	Percentage (%)
Yes	25	100%
No	0	0%
Total	25	100%

Source: Questionnaire Administered October 2021

4.3 Testing Hypothesis

The two (2) Tables above 4.1 and 4.2 shows that:

1). It Important to Classify Risk in a Company With 80% favourable and 20% unfavourable

2). It Important to Manage Risk in a Company With 100% favourable and 0% unfavourable

Therefore, we shall accept the following hypothesis below:

Ho1b: Classification of risk is important to a company (+) Accepted

Ho2b: Risk management is important to a company (+) Accepted

V. CONCLUSION

Risk is pervasive and is present in all kinds and phases of business. Therefore, risk management MUST be made to be an integral part of all business architecture because management of risk.

It is in the light of above that businesses cannot do without risk classification and management because it creates a safe and secure work environment by increasing the stability of business operations and decreasing legal liability.

Overall, risk management provides protection from events that are detrimental to both the company and the environment.

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