Agricultural Research & Technology
Open Access Journal
ISSN: 2471-6774

Juniper Publishers
key to the Researchers

Review Article
Volume 12 Issue 3 - November 2017
DOI: 10.19080/ARTOAJ.2017.12.555848

Agri Res & Tech: Open Access J
Copyright © All rights are reserved by Sebastian OU

A Review of Risk Management Techniques Growth of the Nigeria Economy

Sebastian OU[1]* and Duru-Uremadu E[2]

[1]*Department of Banking & Finance, Michael Okpara University of Agriculture, Nigeria*

[2]*Department of Educational Management, Michael Okpara University of Agriculture, Nigeria*

Submission: October 25, 2017; **Published:** November 16, 2017

***Corresponding author:** Sebastian OU, Department of Banking & Finance, Michael Okpara University of Agriculture, Nigeria,
Tel: +234-8037876614, Email: sebauremadu@yahoo.com

Abstract

No doubt many Nigerian people do face a lot of risks and uncertainties today. These manifest in form of economic depression HIV/AIDS infections/epidemic and its resultant impact on per capita income, high unemployment rate and insecurity of jobs, lives and property, high inflation rate, corruption and lack of trust in economic and business relationships among Nigerians, just to mention a few. Upon all these, people are daily seeking for a way out of all these or at least to minimize their scourge by way of employing suggested risk management approaches to tackle these problems. This paper therefore employs descriptive statistic and fundamental analysis approach to define and classify risks into five categories; and then discusses four steps to follow in risk management decision making such as: risk discovery and identification, measurement, decision on the alternative methods to adopt to achieve specific objectives and establish means for effective implementation of the decision made.

These are suggestions to be applied by the Nigerian manager at all levels of management and their economic implications for the economy generally. Based on the results from the discussions of the paper, it is recommended for policy adoption and implementation, the followings: (i) proper knowledge of each risk type before its right application, (ii) appropriate application of steps to be followed in risk management to get desired results and (iii) finally, there is urgent need to cultivate awareness of risk management, avoidance and insurance in the mind of Nigerians at all levels of our national life in the 21st century.

Introduction

Risk management is a subject of interest in the contemporary Nigerian investment climate; most especially when the world is currently facing several devastating dangers or risks of extinction or collapse of national economies through dreaded HIV/AIDS infections, stress or high blood pressure (hypertension) leading to stroke attacks; due to uncertainty and job insecurity in the economy. Besides, because of rampant frauds and corrupt practices in our society today, people have virtually lost trust and confidence in the- business and other social relationships. Moreover, there is an ever growing trend of unemployment rate and incessant armed robbery cases, insurgency by the Boko Haram terrorists in the North East collapse of buildings due to faulty construction specifications which have compounded man's living standard in Nigeria [1].

As a matter of fact, there abound in our society today constant fuel scarcity, rising inflation, bank distress or failures, retrenchment of workers, hired assassination bids, suicide attempts and committals, plenty divorce cases, character assassination, ethnicity and aggressive tribalism; instability in the polity, cultism in high schools and universities; vandalisation of petroleum pipe lines in the Niger Delta areas and other places and frequent burning of strategic national monuments and buildings, markets and constant religious, political cum ethnic riots and murders resulting into huge loss of lives and property; countless automobile accidents arising from bad roads and reckless driving; and occupational hazards or accidents, to mention a few.

There are so much insecurity and risks or risk prone areas in our economic and political environment today that hearts of many Nigerians have been failing them and we really need solutions to these traumatic situations. Hence the undisputable need for the knowledge of risk management techniques and application in these times. Next section will state the objectives of the paper. This is followed by discussion on the risk management concept, methodology adopted for the paper; then definitions of risk and uncertainty and reaction to risk. Classification of economic risks and uncertainties were carried out in the next section and then discussed what risk management is and ended up with recommendations and conclusion in the final section.

Aims and objectives of the paper

The aim of this paper therefore is to specifically address the following objectives:

a. Explain what risk management is all about and classify risks and uncertainties.

b. Show how risks could be eliminated or at least minimized in our political, social and economic environments through committed application of basic steps in risk management decision-making and effective use of tools of risk management.

c. Make recommendations on the need for imbibing risk management culture and or techniques that will positively influence the Nigerian policy makers' decisions.

The risk management concept

The quest for security is the eternal concern of man. The history of civilizations reveals how individuals, groups, and even nations have expended their resources and energies toward the satisfaction of an insatiable appetite for security. Besides history discloses how time after time such plans temporarily succeeded but eventually went awry. The pursuit of security is an important part of the total pursuit of knowledge and truth, the main preoccupation of all man's intellectual efforts [2]. In western civilizations the philosophy of government has been to create a society in which the individual has comparative freedom and at the same time greater responsibility in making economic decisions and finding his own economic security. Within this system profits and losses become the acid test of an individual's or a firm's performance. In the Nigerian society, the expectations should not be different. Yet developing economies are still struggling to achieve this economic security [3]. Therefore the business manager must constantly search for ways to improve economic decisions. All available resources, both physical and human must be directed toward isolating the key variables that affect the attainment of the present and future goals of the firm. Cause-and-effect relationships must be ferreted out of the maze of interactivity confronting management, both within and outside the firm. The problem is not new; it is merely a part of a much older and larger problem. Throughout history man has devoted his energies and resources to improving his decisions or predictions of the future. The prophet, philosopher, and "scientists" of early civilization used rather crude research tools and frequently relied on limited observations for establishing rules or principles to guide future acts. These are, of course, risk management techniques on their own merits.

However, modern scientists and business persons have deduced from general principles what would happen in a particular case; they have also used induction to generalize on the basis of experimental evidence. Those who make decisions in the field of business management have not been limited to anyone of those methods of problem solving, over the years they have employed, to some degree, all these methods as well as others: (1) intuitive (2) deductive (3) activist (for example, planning) and (5) imaginary. Experts still disagree about the best method to employ in a given set of circumstance [2].

A family, like a business must plan for its future and manage its affairs in such a way as to avoid severe economic losses. The breadwinner, the homemaker, and the children in, say, American economic system, are entitled to spend and invest their resources with considerable freedom as compared with the limitation of individuals in other societies (Nigeria inclusive), but at the same time they are perhaps subject to greater responsibility and to many important economic risks incurred on their changing environment. What America is to the whole world today is presumably what Nigeria is to other African nations, by way of comparison.

Methodology

We used descriptive statistic and fundamental analysis approach to define and classify economic risks and uncertainties into five broad categories of poverty, liability or personnel risks; physical, social, or market risks; pure and speculative risks; static or dynamic risks and fundamental or particular risks. Data used in the paper were sourced mainly from secondary sources such as textbooks and journal articles. Paper equally made use of University of Abuja Library and other library sources like the Central Bank of Nigeria (CBN), Nigerian Deposit Insurance (NDIC), and NICON Insurance, all in Abuja, to gather data for its analysis.

Definitions of risk and uncertainty and reaction to risk

Defining risk is not an easy task, as it is evidenced by the numerous definitions, which have been offered by many scholars over the years. Risk is defined as (1) the subject of insurance or (2) the chance of loss (The Dictionary of Insurance Terms, 1994). According to most insurance textbooks, risk is uncertainty with respect to financial loss. Consequently, any definition in this paper is bound to be somewhat arbitrary.

Risk and uncertainty

Risk will be defined in this paper as objective doubt concerning the outcome in a given situation. It is the doubt a person would have concerning the future outcome even if he knew all the possible outcomes and their probability or chance of occurrence. Specifically, the doubt concerning the outcome which remains in spite of a person's knowledge of the possible losses and their probabilities is his risk. Uncertainty, on the other hand, is subjective doubt concerning the outcomes during a given period. In other words, uncertainty is the doubt, which exists whether or not one knows all the possible outcomes and the probability of their occurrence. Risk is the same for all persons under a given set of circumstances; uncertainty varies among persons and depends on the information at their disposal and their ability to use this information to estimate the risk. If the estimate is perfect, uncertainty equals risk.

Reaction to risk

The reaction of a firm, family, nation or other individuals or group to risk depends on uncertainty, not risk; it also depends

How to cite this article: Sebastian OU, Duru U E. A Review of Risk Management Techniques Growth of the Nigeria Economy. Agri Res & Tech: Open Access J. 2017; 12(3): 555848. DOI: 10.19080/ARTOAJ.2017.12.555848.

on other factors such as the ability of the persons facing the potential loss to bear possible reverses.

Classification of Economic Risks and Uncertainties

Uremadu [3], classified economic risks and uncertainties in several ways according to their cause, their economic effect, or some other dimension. Five important methods classify risk according to whether they are:

a. Property, liability or personnel risks.

b. Physical, social, or market risks.

c. Pure and speculative risks.

d. Static or dynamic risks and

e. Fundamental or particular risks.

Property liability and personnel risks

The first method classified risks according to the type of potential losses.

a. Property risk exist when property in which the firm or family has a financial interest, other than a liability interest, may be damaged, destroyed, reduced in value, or lost. For example, property risk exists when a building may be destroyed by fire or when value of a business may be reduced by a change in government purchase of its product.

b. Liability risk exists when the firm or family will be held legally responsible for property or personnel losses suffered by others. For example, the owner of an automobile for injuries suffered by a pedestrian or a business may have to pay the medical expenses of an injured workman.

c. Personnel risk exists when the firm or family may suffer a loss to their persons. For example, the family may fear the possible unemployment of the breadwinner, or a firm may fear the death of a key engineer or salesman.

Physical, social and economic risks

The second method classifies risk according to the cause or origin of the loss. In his classic book on all forms of risk bearing, Hardy [4], has described five types of risks classified according to their origin.

a. Risk of destruction of property through the physical hazards of nature, such as storms, a flood, or a fire.

b. Uncertainties in the .production process; such as variations in the strength of materials or the effectiveness of labour.

c. Social risks caused by deviations of individuals conduct from what is expected such as theft, of negligence, and by the impossibility of predicting the behaviour of social groups, such as strikes, riots, wars, and tax reforms.

d. Risks caused by the failure or -inability," of individual to use knowledge, which is accessible to them or their competitors, such as failure to use market research information-.

e. Market risks, such as price reductions between the dates of purchase and sale of commodities.

Pure and speculative risks

Mowbray & Blanchard [5] is responsible for the classification of risks as pure or speculative. A pure risk exists when there is a chance of loss but no chance of gain. For example, the owner of an automobile faces the risk of collusion the owner naturally does not gain. On the other hand, a speculative risk exists when there is a chance of gain as well as a chance of loss. For instance, expansion of an existing plant involves a chance of loss and a chance of gain. Pure risks are always distasteful, but speculative risks possess some attractive features.

Static and dynamic risks

Willet [6] divided risks into static risks and dynamic risks. Static risks are "connected with losses caused by the irregular action of the forces of nature or the mistakes and misdeeds of human beings". They would be present in an unchanging economy. Contrariwise, dynamic risks are associated with changes, especially changes in human wants and improvements in machinery and organization. Static losses usually result in a loss to society, dynamic losses generally do not. A static loss usually affects directly a few individuals at most, while dynamic losses have more widespread effects.

Fundamental and particular risks

Kulp [7] has distinguished between fundamental risks and particular risks. According to him, fundamental risks are group risks, impersonal in origin and effect, and at least for the individual, unpreventable; whereas particular risks are personal in origin and are readily controlled. Examples of fundamental risks are those associated with uncertainties, inaccuracies, and disharmonies in the economic system; risks associated with major social and political changes, and risks associated with extraordinary natural disturbances such as droughts and tornadoes. Examples of particular risks are the risks of death or disability from non-occupational causes, the risk of property losses by such perils as fire, explosion, theft, and vandalism, and the risk of legal liability for personal injury or property damage to others. Particular risks are always pure risks, whereas fundamental risks induce pure and speculative risks.

What is Risk Management?

At this juncture, we shall consider what risk management entails in a modern economic system. The element of risk pervades all levels of management decisions in a firm or a family. In a firm, therefore, the function of risk management describes properly the functions of all business managers. In this broad perspective, risk management may be defined as the minimization of the adverse effects of risk at minimum cost through its identification, measurement and control [2].

How to cite this article: Sebastian OU, Duru U E. A Review of Risk Management Techniques Growth of the Nigeria Economy. Agri Res & Tech: Open Access J. 2017; 12(3): 555848. DOI: 10.19080/ARTOAJ.2017.12.555848

Risks handled by risk mangers

Defining the types of risks handled by risk managers is not easy task. The risk manger is responsible for most but not all static risks. The prospect of certain losses to the firm's own product as a result of faculty processing by employees is an example of a static risk for which the firm looks to other departments for correction. The risk manger may, on the other hand, be concerned with a few dynamic risks, such as the inability to collect accounts receivable because of a business decline. Besides the risk manager is concerned with most pure risks.

He is not concerned with speculative risks except to the extent that the creation of speculative risks forces him to face certain pure risks; for example, the acquisition of a new plant creates a potential fire loss. On the other hand, some pure risks are ordinarily handled by risk managers, such as the probability that a strike will curtail business operations (though this example is not as apt as it used to be). Strike insurance is now available on a limited scale, and the risk manager may be asked to arrange for this coverage or the possibility that some technological change will put the firm out of business [8].

The four steps in risk management decision making

Most authorities in this field of study agree that decisions in the risk management area should ordinarily be made by following four specific steps because of their tested effectiveness. They include:

A. Procedures and communications should be established throughout the organization to allow for a complete inventory and discovery of the potential (pure) risks that may arise in the activities of the business firm or family. Risk discovery is the first and perhaps the most difficult function that the risk manager or administrator must perform.

B. After identification of risk-s, the next important step is the proper measurement of the losses associated with these risks. This measurement includes a determination of:

i. The probability or chance that the losses will occur

ii. The impact the losses would have on the financial affairs of the firm, should they occur and

iii. The ability to predict the proportion of losses that will actually occur during the budget period.

1. Once the risk is identified and measured, the various alternative solutions or tools of risk combination of tools to be used in attacking the problem. In this respect, the risk administrator must establish the costs of handling his potential losses through alternative methods, including the use of insurance. In selecting the proper tool, the risk manager should consider the present financial position of his firm or family, its overall policy with reference to risk management, and its specific objectives.

2. After deciding among the alternative methods of risk treatment, the risk administrator and perhaps the appropriate management group must establish means for effective implementation of the decisions made. If insurance is to be purchased, shopping the market for adequate and reasonable rate, and the selection of the insurer are part of the implementation process.

Recommendations and Conclusion

In the paper, we have tried to establish the need for risk management in both political and business environment of Nigeria. We equally defined what risk management entails and afterward-classified economic risks and uncertainties. Four steps to be applied in risk management decision taking were also discussed here for your appropriation. Common opinion in Nigeria today revealed that most people do not take serious the issues of risk management despite existence of deluge of risks in our economic system [9,10].

Being so, we recommend that henceforth, Nigerian business managers and administrators alike imbibe the principles and tools of risk management. By so doing we would have minimized most of the risks and uncertainties (costs) that do impact negatively on our return on investment (ROI) be it at private sector or public sector levels. We therefore conclude this paper by saying that there is an urgent need for the culture of risk awareness and elimination in our society. When this is fully entrenched in the minds of the Nigerian people, it will surely have positive implications for our ailing economy in the 2000 [11].

This work is licensed under Creative Commons Attribution 4.0 License
DOI:10.19080/ARTOAJ.2017.12.555848

Your next submission with Juniper Publishers will reach you the below assets

- Quality Editorial service
- Swift Peer Review
- Reprints availability
- E-prints Service
- Manuscript Podcast for convenient understanding
- Global attainment for your research
- Manuscript accessibility in different formats
  (Pdf, E-pub, Full Text, Audio)
- Unceasing customer service

Track the below URL for one-step submission
https://juniperpublishers.com/online-submission.php

How to cite this article: Sebastian OU, Duru U E. A Review of Risk Management Techniques Growth of the Nigeria Economy. Agri Res & Tech: Open Access J. 2017; 12(3): 555848. DOI: 10.19080/ARTOAJ.2017.12.555848.