Risk Management in the Distribution of Delicate Product and Business Performance in Rivers State

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Abstract
The basic nature of risk and how a firm reacts to it will determine whether it will enhance business performance survive or not. Risk management itself, is a concept that has been adopted from time unknown and is still evolving. The broad objective of this study is to analyze the effect of risk management in the distribution of delicate products and business performance in Rivers State. The survey design was adopted for the study and the questionnaire was used to source for primary data. The simple random sampling technique was employed to choose 296 entrepreneurs from selected delicate product firms in Rivers State. The simple regression method was used to test the influence of risk management in the distribution of delicate products and business performance in Rivers State. The findings of the study reveal that risk management significantly contribute to business performance in the distribution of delicate products in Rivers State. The study recommends that delicate product firms should pay more attention to risk management and increase investments in that area to ensure its ability to enhance business performance.

Key words: *Business performance, Delicate products, Risk management, Rivers State.*

Introduction

The management of risk is one of the most important issues facing organizations today. Having a process to identify major business risks in place is one of the crucial procedures of running an effective control system in companies. Risk management has always been a focal point for organizations for a successful performance in business (Dima and Orzea, 2014). Risk management affects the decision making process and hence performance as well.
The basic nature of risk and how a firm reacts to it will determine whether it will enhance business performance survive or not. Risk management itself, is a concept that has been adopted from time unknown and is still evolving. Risk management is a concept without a universal definition, having a different approach to risk by scholars. Risk as a situation in which there is the existence of liability to misfortune, or a situation in which there exists a potentiality of deflection from a craved conclusion that is anticipated or cherished for (Gallati 2003). This definition does not look at the fate of the firm within its internal environment. Risk management of a delicate product firm will impact its business performance. There should be the management of risk and returns to enable the investors assess the return linked and anticipated with the risk they are bearing. It is necessary that that firms should administer risks in a strategic manner considering all aspects of risks in a close relationship within a harmonized

etiquette. Risk affects all aspects of business activities and could be regarded not only as a feasible loss but also as a feasible gain.

Some scholarly inquiry into risk management and business performance have emerged. For instance, Zekai, Süleyman and Seda (2017) investigated the effect of financial risk management on firms' value, Yahaya, Lamidi, Kutigi, Umar Mohammed (2015) analyzed risk management and organizational performance in deposit money banks in Nigeria, Soyemi, Ogunleye and Ashogbon (2014) examine risk management practices among deposit money banks in Nigeria with a view to relating these practices to their financial performance in the 2012 financial year, Rufai (2013) investigated the efficacy of credit risk management in Union Bank of Nigeria Plc, Adeusi, Akeke, Adebisi and Oladunjoye (2013) examine the association of risk management practices and bank financial performance in Nigeria, and Nimalathasan and Pratheepkanth (2012) identify the impact of systematic risk management on profitability, during 2007 to 2011.
Interestingly, a look at the cream of literature however, appear to show that no empirical study have investigated the impact of risk management on business performance. This research interest is therefore informed by recognizing the unique nature of risk management as a determiner of business performance. Therefore, our point of departure is to fill this gap by institutionalizing the impact of risk management on business performance in delicate product firms in Rivers State. This is the background that motivated this study.

Literature review and hypothesis

Risk Management

Risk can be divided into different types according to how its realization impacts on a business and its environment. Harland et al. summarizes and combines various authors' work to show different risk types including; Strategic risk, Operations risk, Supply risk, Customer risk, asset impairment risk, Competitive risk, Reputation risk, Financial, Fiscal and Regulatory risk, and Legal risk (Harland, Brenchley & Walker, 2003)
Stulz (1996) associates good risk management practices with the elimination of costly lowertail outcomes by proposing full-cover risk management as compared to selective risk management. The study suggests that prudent risks management is important in reducing the bankruptcy costs. Additionally, there are potential benefits that risk management could also reduce taxes. Several other studies draw the link between good risk management practices with improved financial performances (Smith, 1995; Schroeck, 2002).

Business Performance

Performance is defined as a measure of the ability of a firm to meet the customer requirements through product or service accessibility at the right time, at the right place, at the right price and at the right quantities (Cuthbertson & Piotrowiz, 2011). Performance transcends both functional line and company thresholds (Mugo, 2011). Performance improvement is an unceasing process that needs an analytical performance measurement system. It also needs a machinery to originate steps in order to meet key performance indicators (Cai et al., 2008). For any organization to stay competitive, it needs to acknowledge the central function of measuring performance. Forslund (2007) noted that high performance logistics needs supremacy in the discipline of measurement. The necessity for performance measurement and appraisal in supply chain management is well recognized in literature (Fuerreira & Soutes, 2013); Wisner etal., 2012; Tolba, Seoudi & Meshreki, 2015; Fierro etal., 2015; Cuthbertson & Piotrowicz, 2011; Neely, 1999).
Three basic functions of risk management can be delineated: First, in order to manage risk in delicate product firms, it is significant to access a comprehensive and distinguished picture of all aspects of risk dimensions: the types of risks, when they (potentially) occur and what they

mean for which actors. Secondly, on the basis of this identification, risk management regards the definition of action to minimize the tendency of the risk to occur along the entire delicate product cycle. Third, risk management must fashion strategies to alleviate the outcome of risks once they occur and seek to apportion the share of burden for the various participants involved. The main concern of risk management in firms is to maintain and enhance profitability.

Risk Management and Business Performance

The relationship between risk management and performance has attracted the focus of practitioners and academics for a long time, especially because the association between risk and value is not verified in imperfect markets (Modigliani & Miller, 1958). In the meantime, internal control and risk management systems diffused among firms to reduce risks and improve performance (Woods, 2009). Initially, risk management conserved a silo-based approach on financial risks only, but sustained the confines of managing one risk at a time whilst risks are interrelated (Grace, Leverty, Phillips, & Shimpi, 2015; Power, 2009). In general, empirical evidence suggests that risk management increases the likelihood of business performance.

Previous empirical studies on risk management and business performance

Zekai, Süleyman and Seda (2017) investigated the effect of financial risk management on firms' value, with the aim of detecting both the effect of derivatives in the financial risk management proves and financial risk management determinants through panel data analysis technique and panel logistic regression model. 248 observations of 31 companies listed in the BIST from 2008 to 2015 are analyzed. The study revealed that the financial risk management has no effect on the firm value. Besides, according to the research, determinants of Financial Risk Management detected are as fallows; the variables of financial leverage, exchange rate risk, firm size and geographical diversity.

Yahaya, Lamidi, Kutigi, Umar Mohammed (2015) analyzed risk management and organizational performance in deposit money banks in Nigeria. The study variables are standard deviation of return on assets, standard deviation of return on revenue, current ratio, quick ratio, equity over total assets, equity over loan ratio, debt over equity and debt over total assets. Five hypotheses are tested and the study demonstrated that organizational performance is positively affected by the risk management mechanisms of the bank and its liquidity policies. However, the relationship between financial leverage, size and age of the bank and financial performance is negative. The study concludes that risk and liquidity management policies are important to high financial performance. However, banks should put in place sound risk management mechanisms and policies to guide their operations. Also, banks should adhere strictly to sound liquidity management practices to guide against lack of liquidity. They should utilize earnings rather than seeking for external financing. Finally, banks should reduce their level of noncurrent assets and invest more in current assets in order to earn more profits from operations.

Soyemi, Ogunleye and Ashogbon (2014) ascertained risk management practices among deposit money banks in Nigeria with a view to relating these practices to their financial performance in the 2012 financial year. The study employed secondary data collected through content analysis of the selected banks' annual reports and accounts, and subsequently analyzed using descriptive statistics, OLS regression to measure significant influence between bank risk management practices and their financial performance. The findings reveal that the explanatory variables significantly influence financial performance.

Adeusi, Akeke, Adebisi and Oladunjoye (2013) investigated the association of risk management practices and bank financial performance in Nigeria. Secondary data sourced was based on a 4 year progressive annual reports and financial statements of 10 banks and a panel data estimation technique adopted. The result implies an inverse relationship between financial performance of banks and doubtful loans, and capital asset ratio was found to be positive and significant.

Fredrick (2013) analyses the impact of credit risk management on the financial performance of commercial banks and attempted to establish if there exists any relationship between the credit risk management determinants by use of CAMEL indicators and financial performance of commercial banks in Kenya. A causal research design was undertaken in this study and this was facilitated by the use of secondary data which was obtained from the Central Bank of Kenya publications on banking sector survey. The study used multiple regression analysis in the analysis of data and the findings have been presented in the form of tables and regression equations. The study found that there is a strong impact between the CAMEL components on the financial performance of commercial banks. The study also established that capital adequacy, asset quality, management efficiency and liquidity have weak relationship with financial performance (ROE) whereas earnings had a strong influence

Furthermore, Rufai (2013) assesses the efficacy of credit risk management on banks performance. He examines the effects credit risk has on the profitability of the bank. The study examines the relationship with financial performance. Secondary sources of data were used for the study. Time series and trend analysis are used for the analysis. Correlation coefficient and regression analysis were used in testing the hypotheses. The study demonstrates that credit risk affects the performance of Union Bank of Nigeria Plc and that to maintain high interest income; attention needs to be given to credit risk management especially concerning the lending philosophy of the bank

Nimalathasan and Pratheepkanth (2012) examined the impact of systematic risk management on profitability from 2007 to 2011.The study employed the degree of financial leverage (DFL) and degree of operating leverage (DOL) as independent variables and profitability (net profit, return on capital employed (ROCE) and return on equity (ROE)] as the dependent variables. Sample selection was based on convenience sampling techniques method. The study used both secondary data. Operational hypotheses were formulated, results revealed that systematic risk management has a positive association (r= 0.755).

Based on the review of literature, the study formulates the following hypotheses:

H1: Risk management significantly influence business performance in delicate product firms in Rivers State.

Research Methodology

The survey design was adopted in the execution of the study. The survey design was chosen because information will be collected from a group of people under study. So, the design was specified to use questionnaire to source for primary data. The study adopted the simple random sampling technique to choose 296 selected delicate product firms in Rivers State. The simple regression method was used to test the relationship between entrepreneurship orientation and unemployment reduction in Rivers State.

Model specification

The model is specified as follows:

BusPf= f (RM)….equ (i)

BusPf = $\beta o + \beta 1X1 + \mu t$… (ii)

Where:
BusPf – Business Performance
RM – Risk Management

Presentation and analysis of data

Regression Analysis

The regression is between independent and dependent variables: The independent variable is risk management, while the dependent variable is business performance. The test of hypotheses is given below:

Test of Hypothesis

Model 1

Dependent variable: Business Performance

Method: Simple Regression

Table 1: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics R Square Change	F Change	Sig. F Chang.	Dubin Watson
0.861	0.741	0.692	0.60080	0.741	4.375	0.002	1.609

a Predictors (constant), Risk management

Source*: *SPSS 22.0 Window output (based on 2019 field survey data).

The Coefficient of correlation (R) can be considered as a measure of the quality of the prediction of the dependent variable. The value of 0.861 indicates a good level prediction. The Coefficient of determination (R-square) is the proportion of variation in the dependent variable (business performance) that is explained by the independent variables. Hence, 74.1 percent of the variation in business performance can be explained by independent variable in the model. The adjusted R-square is used to test the overestimation of R square. The estimates show an error of 0.060080, which cannot be considered as very large. The Durbin-Watson statistic $d = 1.609$ lies between the two critical values of $1.5 < d < 2.5$, and therefore it can be assumed that there is no first order linear autocorrelation data of multiple linear regression model. Hence, it can be concluded that the overall model is statistically significant, or that the variables have a significant effect on the dependent variable. Risk management do exact significant influence on business performance of delicate product firms in Rivers State, since the sig. (or p-value) is .002 which is below the 0.05 level of significance. Table 2 shows the difference in mean on responses on the variables.

Table 2: One way ANOVA for the difference in mean responses on risk management and business performance (N=296).

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	200568.56652	1	200568.56652	15.15378	.0301
Within Groups	39706.63348	295	13235.54479		
Total	240.2752	296			

a. dependent variable: business performance
b. Predictor: Risk management

Table 2 shows that there is difference in mean responses on risk management and business performance F (dfB, dfw) =F(295,1) =15.15378, $p<0.05$. Significant value is 0.301, r(1,295). This agrees with the regression result in table 1.

Discussion and Conclusions

The study examined the impact of risk management on business performance in Rivers State. The simple regression method was used in analyzing data. The findings of the study reveal that risk management contributes significantly to business performance in Rivers State. The regression analysis showed that risk management has a significant impact on business performance in Rivers State. The regression analysis shows that risk management have a significant impact on business performance in Rivers State at 5% level of significance. The adjusted coefficient of determination (R2) shows that 84.7% variations in business performance are being accounted for by risk management. 84.7% shows a good fit for the model. From the regression result, Durbin Watson (WC) value for the model is 1.195781. This value is closer to zero than two and indicates that that there is perfect positive auto correlation in the model.

The variance inflation factors of the variables are less than 10, implying that, there is no multicollinearity in the explanatory variable.

There is no heteroskedasticity in the model. The study therefore establishes that risk management significantly contributes of business performance in Rivers State. This finding supports that of Yahaya (2015) who reveal that that organizational performance is positively affected by the risk management mechanisms,

Based on the findings, it can be concluded that, risk management is a critical factor that predicts business performance. The study recommends that delicate product firms should pay more attention to risk management and increase investments in that area to ensure its ability to enhance business performance.

Contribution to knowledge

This study serves as a useful research report in Nigeria on the influence of risk management in the distribution of delicate products and business performance. This study contributes to literature and knowledge globally.

Suggestion for further research

Further studies in this area should capture delicate product firms' investments in risk management in recent time and how it affects business performance in Rivers State.

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