# The Impact of Risk Management on Organizational Efficiency in Plateau State Inland Revenue Service

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***Abstract***
*This research study examined the Impact of Risk Management on Organization Efficiency as its being operated in Plateau State Inland Revenue Service. The objectives of the study was to find out the kinds of Risk threatening the operation of government agencies as in the case of Plateau State Inland Revenue Service, and how risk are identified, measured or evaluated and how they are being handled and transferred to the insurance companies. The survey research design was adopted and instrument of data collection is questionnaires and personal interview which formed the source of primary data, while materials from various published financial statement of PSILS, journals, textbooks formed the secondary data. The method of analysis is the use of tables, percentages and chi-square. The major findings of the is that the management of risk in an organization is not the responsibility of a single individual and in order to enhance an organization effectiveness, the introduction of risk management must be incorporated into the policy statement of the organization and should be adequately supported by the top management. Based on these findings, it was recommended that the Plateau State Internal Revenue Service should put resources together to establish a multi-parent captive insurance company for greater risk bearing capacity and wider spread of risk.*

## INTRODUCTION

Risk management is an activity within project management that is gaining importance because businesses are moving towards globalization and because of the increasing competition (Ahmed et al., 2007). The risk management process consists of a series of steps, which are establishing the context, identifying, analyzing, assessing, treating, monitoring and communicating risks, which allow continuous improvement of decision-making (Standards Australia, 1999). Boehm W. B. (1991) summarized in his study that software projects disasters and related problems could be eliminated if proper identification and resolving process for these risks could be done properly.

By implementing risk, management organization can reduce unexpected & costly surprises and effective allocation of resources could be more effective. It improves communication and provides senior management aconcise summary of threats, which can be faced by the organization, thus ultimately helping them in better decision making. Throughout the world, administration of risk is something that is more often linked to the building of bridges, mechanical, engineering, and in the disaster management context. Until now, Pakistan has the same situation and management of risk is generally practiced in banking industry as per the guidelines givenby Deposit Money banks in Nigeria.

Furthermore, a lot of attention has been given to disaster risk management after the incident of October 2006. The project based organizations or other business organizations are not really taking steps to implement risk management. This study has been completed in the context of Pakistani software development industry to study the extent of their risk management practices and to analyze whether these practices are a source of solving problem or are they creating further problems for the organizations. It will also highlight whether the risk management practices are having an effect on the organizational performance.

This is the age of experts. The amount of human knowledge has become accumulated at such a rate that greater specialization has become both a necessity and the pride of the experts. This pride has all too often led to the specialist erecting a fence around his own small property in the world of ideas; but fences that are too high to let neighbor see, it can also have the disadvantage of being too high for the householder to see what his neighbors' are doing.

There comes a point, therefore, when it becomes an essential for someone to take a wider view and to point out that all these carefully separated properties are in fact` part of a single community. "Risk Management" is the result of our such wider view developed by some foreseeing insurance, who took the necessary step back from their particular specialization to realize that their work and that of many others, insecurity, fire prevention, health and safety and work, economics law, management and a wider range of discipline, all had something in common. Each was concerned to a greater or lesser extent with risk and identifying it, evaluating it, minimizing it, or dealing with its consequences.

Risk management, therefore sought from the start to bring together again an essentially simple concept which had become complicated out of all recognition by its fragmentation into separate discipline, the practitioners of which each had a few interlocking parts of the jigsaw and believed they had the whole picture.

Intellectual exclusiveness had played its part in this fragmentation, but to a large extent it was implicit in the development of human society. For primitive man, there was a clear link between the correct appraisal and treatment of the risks that threatened him and his survival. Broadly speaking, this awareness of the balances between risk and security in all he did was apparent to the individual until comparatively recent times. Industrialization, the division of labour and the advance of science and technology have however made it increasingly difficult to identify the risk threatening his personal safety or his economic well-being. Risk management as an integrated procedure still much more often talked about the practiced, but there are encouraging signs that co-operation is replacing competition between some at least of those responsible for the practical implementation of various aspects of risk treatment. Similarly, in the financial sphere, there is growing recognition that conventional insurance is not the only, nor always the most appropriate way of providing for loss.

The new understanding that risk does not respect administrative demarcation lines has necessarily created new techniques. There is little that is new about the contents of most of these techniques for in many cases, they have long been used by one or other of the various specialists in the fragmented work of risk treatment. The novelty lies in their application to the field of risk as a whole and in the combination of different measures drawn from disciplines which in the past have had little to do with each other.

Since every individual, householder, association, company government department and local authority is exposed to a wider range of risks. It is inevitable, by the nature of probability, that bodily injury, property damaged or financial loss will occur sooner or later. The degree of severity will vary according to circumstances but that some form of loss will occur is beyond doubt CIMA, RISK MANAGEMENT, LONDON.

The risk management is provides the necessary mechanism. "Risk management is therefore, a specialist management technique, evolved mainly in the U.S.A. to enable organization to combat ever-increasing exposures resulting from development such as automation, computation, and concentration of values and the use of increasingly sophisticated and complex products".

Risk management is not synonymous with insurance nor does it embrace the management of all risks to which a business is exposed.

Risk management is therefore, relevant to a wide spectrum of industry from major groups to modest undertakings to companies which operate worldwide and those confined to the developed countries; to organization involved with significant risk-generating activities externals to their own premises and those confining their activities largely to their own premises; and to enterprises manufacturing highly toxic or products as well as those producing innocuous or simply selling services.

## STATEMENT OF PROBLEM

The contribution with which Plateau State Internal Revenue Service made toward the progress and the development of Nigerian economy cannot be overemphasized. This is the reason, it is highly imperative to delve into the process and procedure by which the plateau state inland revenue service manage the risks that is peculiar to their agency and to suggest, if any, other way of improvement in a cost effective manner.

However, the mistake that is often made in most of the organization which often culminated into various problems is that:

Despite the significant role of plateau state Inland Revenue service, they are largely affected by lack of decision on whether the risk can be managed effectively in an organization and is the insurance companies, the only panacea to all the problem of risk that occurred in an organization

Also on how the risk can be effectiveness be enhanced with effectively management of risk only and the responsibility of a single individual in an organization

The management in general runs needless risks which could be economically handled by insurance often without the impact increase in total premium cost

Thus, all these risks are found in most organizations and on the long term affects job performance and efficiency in the work place. It is as a result of these challenges that this research is being carried out in order to find a way of minimizing the risk involved.

## OBJECTIVES OF STUDY

The objective of this study is to find out the impact of risk management on organization in order to enhance their efficiency, with a particular reference to Plateau State Internal Revenue Service Jos, Nigeria.

The study is designed:

**i)** To determine the degree to which risk can be managed effectively in order an organization.

**ii)** To identifying the risk, analyze them and suggest ways and technique to be applied or take into consideration in managing the risk in a cost effective manner.

**iii)** To examine the consequence effect of risk on organizational performance and job efficacy.

**iv)** To make recommendation for further improvement in the area of effective management of risk that would reduce the degree of catastrophe in an organization.

## STATEMENT OF HYPOTHESIS

Hypotheses are statements about the possible solutions to the problems under investigation. They are statements of probabilities which explains the possibility that an event may occur or not which make about the likely solutions to the problem.

For the purpose of guidance in order to enhance this study, the following hypothesis would be used.

**$H_1$:** There is no significant relationship between risk management and organizational efficiency.

**$H_2$:** There is no significant relationship between awareness and the extent to which risk management can affect the economic activity of the industries.

**$H_3$:** There is no significant relationship between risk management evasions and the lost incurred in business.

**$H_4$:** There is no significant relationship between the use of risk management and uninsurable properties.

## CONCEPTUAL REVIEW ON RISK

Risk can be defined as estimating the extent to which the actual outcome of an investment decision may vary from the returns or the expected. Risk is applied to a situation where there are several possible outcomes and on the basis of relevant experience.

Risk occurs where it is not known what the future outcome will be, but where the various possible outcomes can be expected with some degree of confidence from knowledge of past or existing event

In the ordinary sense, the risk is the outcome of an action taken or not taken, in a particular situation which may result in loss or gain. It is termed as a chance or loss or exposure to danger, arising out of internal or external factors that can be minimized through preventive measures

Risk as a socio-economic phenomenon means different things to different individual in different circumstance. This is the reason why there is confusion in the literatures to what constitute the essential characteristic of risk situation. Man, in his quest for improved standard of living, involves himself in various endeavors and professions amongst which are:

1. **Merchandizing**:
   a) Local Training;
   b) International Trading
2. **Manufacturing:**
   a) Finished goods for local use;
   b) Production of raw materials for others;
   c) Finished good for exports
3. **Explorations**:
   a) Solid materials
   b) Petroleum and
   c) Gas
4. **Professionalism:**
   a) Services like legal, accounting, banking, education
5. **Recreation:**
   a) Village or town meetings, social clubs
6. **Defense:**

Armed forces, Police, etc.

As fortunes abound in every human endeavor mentioned above and others, not mentioned so are misfortunes could be encountered when involve in any of them. Some of the misfortunes are avoidable while others are not. Those that could not be avoided could be dealt with in some other ways with the overall aim of minimizing the inherent misfortunes.

Everyman tends to be prudent in the way he lives his life and so will rather engage in an endeavor which is void of misfortune but his inability to know with certainty what the future holds in every situation makes a man what he is, finite!. No one knows what next second of an hour will be. There is uncertainty for second of an hour that is before us.

A quick survey of some of the definitions usually encounters in prominent textbook will clarify what risk is. The misfortunes, which are inherent in man's endeavors, constitute the risk he is exposed to. However, risk is defined in multi-ways, but here will adopt some: Willet et al (1951), state that "The Objectivity uncertainty as to the occurrence of an undesired event".

Arthur and Hein (1956) state that "Risk is the variation in the outcome that could occur over a specified period in a given situation".

David B. Houston et al (1964) state that "Risk is a concept indicating variability of possible outcomes, it may be studied from either the individual or probably insurer's point of view. Risk in an individual context is probably best analyzed in terms of modern decision making theory within this theory, risk may be defined as the standard deviation of the monetary outcomes of an action. To the insurer, risk is a function of distribution and the number of exposures unit and may be defined by the standard error of the mean of the premium distribution. It would not be justified if we talk of risk in isolation without referring it to the business life.

Business inevitably involved financial risk; many of which cannot be neutralized by insurance. The man who opens a tobacco shop in the high street faces a host of uninsurable and unpredictable risks. The neighboring works from which he hopes to attract most of his customers may close down. His coming may coincide with an anti-smoking designed to reduce consumption through the country by a third. The adjourning site may be developed as a supermarket containing a highly competitive tobacco department which hope to capture the whole of the high street trade.

None of this can be covered by insurance, trade may be hit by a recession, a fashion change may make a stock unsaleable, an invention can condemn expensive machinery to obsolescence, a new traffic plan can denude a street pedestrian and put a shop out of business. Insurance cannot help in any of these contingencies.

It is not a surprises in these circumstance when business man plan ahead, more often than not the last thing consider is insurance. Only when the contracts have been signed, the new factory built the warehouse adapted to automation or the burglary protection system installed, does it occur to many business people that insurance should now be arranged and the insurance company told what has been done. By that time, it becomes too late for the work to be carried out as underwriters would have liked, with the probable result that the insurance premium will greatly exceed the amount charged if the insurance company had been put in the picture from the beginning.

Although, the term "Risk Management has been enjoying a vogue in the last few years and it has becomes fashionable in business circle to consider appointing a risk manager, or calling in a risk management consultant, there is yet no real agreement as to what exactly is risk management. It has difference meanings to different people.

W.L. Catch Pole et al (Business Guide to Insurance) quotes with approval the statement of the joint authors of one of the few comprehensive texts in this field that: "The term risk management has not been in use long enough to have an established definitions, but history today has brought some wide definitions of risk management".

Risk management is concerned with the conservation of a firms assets and earning power against risk of accident loss. The duties of the executive or outside professional consulting firm charged with this function encompasses seeking out potential loss producing hazards and their elimination or avoidance, and the scientific prevention of loss that could result from non-removable or non-avoidable hazards. To the extent that the proper use of insurance to transfer non-available risk to a professional risk carrier i.e. (the insurance company) is one method (among several) of treating firm exposures to risk insurance management also fails within the scope of risk management.

**RISK MANAGEMENT PROCESS**

Risk management can be defined as the planning, arranging and controlling of activities and resources in order to minimize the impact of uncertain events. It involves the identification, evaluation and control of risk.Businesss are used to dealing with speculative forms of risk, but it is only over the past few decades that they have moved to a managerial response to pure risk Together these 5 risk management process steps combine to deliver a simple and effective risk management process.

**Step 1:** Identify the Risk. You and your team uncover, recognize and describe risks that might affect your project or its outcomes. There are a number of techniques you can use to find project risks. During this step you start to prepare your Project Risk Register.

**Step 2**: Analyze the risk. Once risks are identified you determine the likelihood and consequence of each risk. You develop an understanding of the nature of the risk and its potential to affect project goals and objectives. This information is also input to your Project Risk Register.

**Step 3:** Evaluate or Rank the Risk. You evaluate or rank the risk by determining the risk magnitude, which is the combination of likelihood and consequence. You make decisions about whether the risk is acceptable or whether it is serious enough to warrant treatment. These risk rankings are also added to your Project Risk Register.

**Step 4**: Treat the Risk. This is also referred to as Risk Response Planning. During this step you assess your highest ranked risks and set out a plan to treat or modify these risks to achieve acceptable risk levels. How can you minimize the probability of the negative risks as well as enhancing the opportunities? You create risk mitigation strategies, preventive plans and contingency plans in this step. And you add the risk treatment measures for the highest ranking or most serious risks to your Project Risk Register.

**Step 5:** Monitor and Review the risk. This is the step where you take your Project Risk Register and use it to monitor, track and review risks.

**FOUR TECHNIQUES OF RISK MANAGEMENT**

Comprehensive business risk management is a multi-stage process that will vary depending on the needs and requirements of each individual enterprise.

The first stage is to determine exactly what the risks facing your business are, in order to assess the likely and potential impact of each incident occurring.

Once this process has been completed, you can get down to evaluating the technique which will best suit your business and maximize your risk management moving forward.

Here are the four key potential risk treatments to consider.

**Avoidance**

Obviously one of the easiest ways to mitigate risk is to put a stop to any activities that might put your business in jeopardy.

However it's important to remember that with nothing ventured comes nothing gained, and therefore this is often not a realistic option for many businesses.

**Reduction**

The second risk management technique is reduction - essentially, taking the steps required to minimize the potential that an incident will occur.

Risk reduction strategies need to be weighed up in terms of their potential return on investment. If the cost of risk reduction outweighs the potential cost of an incident occurring, you will need to decide whether it is really worthwhile.

**Transfer**

One of the best methods of risk management is transferring that risk to another party. An example of this would be purchasing comprehensive business insurance.

Risk transfer is a realistic approach to risk management as it accepts that sometimes incidents do occur, yet ensures that your business will be prepared to cope with the impact of that eventuality.

**Acceptance**

Finally, risk acceptance involves 'taking it on the chin', so to speak, and weathering the impact of an event. This option is often chosen by those who consider the cost of risk transfer or reduction to be excessive or unnecessary.

**Methodology**

The survey research design was adopted and instrument of data collection is questionnaires and personal interview which formed the source of primary data, while materials from various published financial statement of PSILS, journals, textbooks formed the secondary data. The method of analysis is the use of tables, percentages and chi-square. Plateau State Internal Revenue Service (PSIRS) Jos has a total population 324 staff including casual and temporary staff. For the purpose of this research, a sample size of one hundred and sixty (160) respondents representing 60% of the entire population due to its large size shall be selected at random from the entire population to serve as a representative fraction or sample size for this study.

**Discussion of Findings**

1. **That There Is No Significant Relationship between Risk Management and Level of Risk Premium Cost**, however risk management has no strong positive influence on the choice of a management. The findings also support a research conducted by Chartered Institute of Management (1984), that management prepares the ground before a risk. From the result obtained from the field, it should be noted that premium is not the only single variable influencing that can undermine reduce the power of risk. It is sometime possible to reduce the risk through constant check.

**2. In hypothesis two, the result obtained shows that some insurance have positive attitudes to premium of a company.** This is confirmed from the information obtained from the respondents that some company do not pay their premium before any course of loss. They believe that premium may reduce their total revenue. The result of the finding reflect the work of catchpole (1974) that the failure of business firms to inform their insurers of plans likely to affect the insurance. Although, the term risk management has been enjoying a vogue in the last few years and it has become fashionable in business circles to consider appointing a risk manager or calling in a risk management consultant, there is yet no real agreement as to what exactly is risk management.

**3.The third hypothesis was on the perception of uncertainty and risk on business.** The result obtained from the study indicated that both risk and uncertainty, therefore cannot be entirely eliminated and whenever there is uncertainty there is risk. To try to eliminate risk in business enterprises is futile. Risk is inherent to the commitment of present resources to future expectations. Indeed economic progress can be defined as the ability to take greater risks, the attempt to eliminate risks, even the attempt to minimize them, can only make them irrational and unbearable.

**4. The forth hypothesis finding, shows that there is significant relationship between the use of risk management and insurable properties.** In other words, since the risk management can paid attention and give periodic attention to all the means that can cause risk in the organization, not all the risk can be insure, consequently. If such happen, this can reduce the outcome of their product while it can reduce their total income.
However, not all the risk can be indemnify or can be covered, such as war, riot, etc. This can also reduce or cause great loose for an organization if happen.

## CONCLUSION

In conclusion, it has been demonstrated that risk management entails more than insurance management. Insurance focuses on risk financing while risk management first identifies the risk, measure the frequency and severity of the risk and then employs insurance and other risks financing methods to handle the risks so identified and measured.
What is clear is that the days when an organization and its risks were its own affair are gone. It is a part of the community and the community will increasingly demand a say in how it is managed. The consumer will decide more and more what it is to be produced, society will control ever more rigorously how it shall be managed, the employees will participate more and more in the organization’s management. Risk management then will become more and more obviously a matter of charting a path for an organization which avoids it getting so far out of line with what these various forces requires of it that it incurs crippling penalties, whether in the form of compensation for a legal liability, or of being prevented from operating in some way.
The researcher, therefore, arrived at a conclusion that the management of PSIRS in particular do not run unnecessary risk which could be handled by the insurance economically and in order to enhance an organization effectiveness, the management of risk should not be the responsibility of a single individual in an organization but the responsibility of everyone.

## RECOMMENDATIONS

The researcher, after conducting a thorough research study into the management of risk in the Plateau State Internal Revenue Service, came up with important recommendation which the sincerely hope will be of immense help and assistance to the management in the financial sector organizations most especially the management of Plateau State Internal Revenue Service.
The risk manager assumes an executive and advising role to and in conjunction financial controller, purchasing and supplies, transportation and distribution functionaries and other specialist in the financial sector. For the efficient and effective performance of risk manager, co-operation, motivation and communication should be made essential that is why it is been said that the role of risk management is a staff function.
The risk manager should liaise with the finance and legal managers so as to determine appropriate techniques of risk financing and protection. He must ensure that the cost of pure risk are included in the capital budget decision of the industry and are provided for all contractual documents.

The speculative risk, which is the commercial risks, is the sole responsibility of the entrepreneur. With the introduction of proper risk management, it allows the entrepreneur to concentrate on the commercial aspect of the business with a peace of mind that the pure risk have been adequately handled by risk managers.

When risk management principle and practice are adopted, the amount spent on insurance and the subsequent direct and indirect cost of making claim to reduced. When insurance is the only option left, the risk management will with assistance of the insurance experts determine the type of cover and negotiate the best terms and conditions; appropriate price or premium to be charged.

It has been observed in the course of this research that the recent development in risk retention has been the formation of captive insurance companies in Nigeria are been enough to insure some of their risks themselves and in this way save the element of premium that would otherwise go towards the insurance companies, cost and expenses. A subsidiary should be set up and some risk should be pause to it with the premium paid to the parent company.

One of the important and profitable areas of risk control that has to be looked into is the possibility of the captive transacting insurance for firms other than its parent company and can becomes profit making in the same way as any other subsidiary that the parent company may establish.

It is advisable that the Plateau State Internal Revenue Service Plc, should put resources together to establish a multi-parent captive insurance company for greater risk bearing capacity and wider spread of risk.

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