IMPACT OF RISK MANAGEMENT ON SMALL SCALE BUSINESS PERFORMANCE IN AN ORGANIZATION

(A CASE STUDY OF CHICKEN REPUBLIC EATERY ILORIN, KWARA STATE)

By:

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CERTIFICATION

This project has been read and approved as meeting the requirements for the award of National Diploma (ND) Business Administration and Management, Institute of Finance and Management Studies, Kwara State Polytechnic Ilorin, Kwara State.

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DEDICATION

This project is specially dedicated to Almighty God who crown all human efforts with success and who spared my life throughout this course. I also dedicate this project to my parents.

ACKNOWLEDGEMENTS

My profound gratitude goes to Almighty God, he who made it possible and realistic for me to attain a height in my academic pursuit and career. I give thanks to him who made me withstand the odds of the academic rigors in the process of my study.

I sincerely acknowledge the parental care, love, guidance, and assistance extended to me by my adorable parents. I pray that they shall live long to eat the fruit of their labour (Amen).

My profound gratitude also goes to my project supervisor, **DR. POPOOLA, T. A**, for sparing his precious time in going through this research work and his efforts to make this project successful.

I also appreciate the love given to me by my good friends and well-wishers in school and at home. See you all at the top.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

All human endeavor involves uncertainty and risk is widely agreed that risk is most in the business sector compared to other sectors. Risk is usually defined as an assessment of the possibility of some adverse event occurring and the likely consequence of this event in the function and activities of any business and its service provider. Risk can come from uncertainty in all areas such as nature causes, business failure, attack from adversaries etc. (Hillson 2002)

Any business has exposure to diverse range of risk. This exposure includes legal risk, competitive risk, risk to beneficiaries and risk associated with competitors. Risk management involves adopting and applying a systematic process to identify, analyze, assess, control and monitor risk so that it is reduced and maintained within an acceptable level. Risk management is a business tool and a part of effective management and effective planning process. (Hillson 2002) Risk management is a key part of improving business and services to be a leading business. The aims are to achieve best practice in controlling all risk to which business is exposed. To achieve this aim, risk management standard should be created, maintained and continually improved. This involves risk identification and risk evaluation linked to practical and cost-effective risk control measures.

1.2 Statement of the Problem

The level of uncertainty is high in small scale business. Risk propensity is relatively high as small business attempts to expand and dare risk.
Small business firms are facing problems of hazard prevention in relation to their business operation. The ability of small business to reduce risk of the unpredictable environment is relatively small.

1.3 Research Questions

The following are the questions I intend to investigate:

1. What is the impact of risk management on small business performance?
2. What is the level of uncertainty related to the operation of small-scale business?
3. How does small scale business prevent hazard related to their operation?

1.4 Research Objectives

The objective of this study is to examine the impact of risk management in the development of small-scale business. Other objectives related to this study are:

1. To determine the level of uncertainty in the operation of small-scale business.
2. To verify the effect of risk propensity on the expansion of small business.
3. To assess the level of hazard prevention in small business.

1.5 Research Hypotheses

Ho: There is no relationship between risk management and customer satisfaction.
Ho: Risk propensity has no effect on profitability.
Ho: There is no relationship between hazard prevention and effectiveness.

1.6 Significance of the Study

This study will enable the management of eateries to significantly evaluate the impact of risk management on the business and the challenges associated with effectively managing risk in the business. Also, the finding of the study would enable eateries to service appropriate risk management methodologies that would be important to ensure business effectiveness.

1.7 Scope of the Study

This study focuses on the impact of risk management in small scale business. It is focused on fast food eatery, Chicken Republic Eatery, Ilorin. Because of the short period given for the study, the project will be limited to the risks small businesses are facing in eateries in Ilorin.

1.8 Definition of Terms

- **Risk:** A probability of threat or damage, liability, loss or any other negative occurrence that is caused by internal or external vulnerability and that may be avoided through preemptive action.
- **Risk Management:** The identification, analysis, assessment, control, and avoidance minimization or elimination of unacceptable risk. An organization may use risk assumption, risk avoidance, risk retention, risk transfer or any other strategy (or combination of strategies) in proper management for future events.
- **Small Scale Business:** A non-subsidiary and independent firm which employs less than a given number of employees.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter consists of a review of relevant literature that captures the variables: entrepreneurship development and economic development. It entails the conceptual review, empirical review, and theoretical review. The conceptual review provides clarification and discussions of concepts related to the subject matter such as entrepreneurship, poverty reduction, development, unemployment, employment. The theoretical review provides insights on relevant theories that are related to the subject matter while the empirical review provides detailed information on previous research on the subject matter.

2.2 Conceptual Framework

There are many definitions of risk that vary by different application domains. In economic theory, risk refers to situations where the decision maker can assign probabilities to different possible outcomes. Similarly, in decision theory, risk is the fact that the decision is made under the conditions of known probability over the state of nature. In management, there is no consistent definition for risk (Ward and Chapman, 2003; Perm Nova et al., 2008). In the management body of knowledge (Project Management Institute, 2004), risk is considered as "an uncertain event or condition that, if it occurs, has a positive (opportunity) or negative (threat) impact on project objectives."

However, many practitioners and researchers in management still consider risk to be more related to adverse effects on organization performance (Williams, 1995; Bochum and Demarco, 1997; Smith and Merritt, 2002; Ward and Chapman, 2003). From this perspective, risk management seems to be about identifying and managing threats to the business.

Furthermore, in the literature of risk management, uncertainty is defined as the unpredictability of the environment change, and the ability to predict the consequence of a response choice (Milligram, 1987; Scottie and Boucicault, 2008). Risk is often defined as undesired project outcomes, exposure to uncertainty (Smith, 1999; Browning et al., 2002; Smith and Merritt, 2002; Keizer, 2005). This research follows the definition that is mostly used in the literature of risk management and defines risk as an event having a negative impact on organization outcomes.

Managing uncertainty to enhance organization success rates has been studied for many years (Loch et al., 2006). Risk management is one of the approaches that have been widely applied in practice (Williams, 1995; Smith, 1999; Keizer et al., 2007; O'Connor et al., 2008). Smith (1999) describes principles and guidelines for effective risk management, emphasizing the importance of active risk management for accelerating organization activities and improving their success rates.

Raz et al. (2002) performed an empirical study and reported that risk management practice is more applicable for higher-risk projects and appears to be related to organization success. Salomo et al. (2007) investigated the effects of business planning and control on the performance of new product development projects and found that project risk planning and goal stability throughout the development process enhance performance significantly.

O'Connor et al. (2008) defined three learning-oriented risk management practices, including option mentality, use of strategy, and found that using the first two practices had a significant positive effect on the success of radical innovation projects. Mu et al. (2009) conducted an empirical study and showed that risk management strategies targeting technological, organizational, and marketing risk factors influence the performance of new product development.

Several researchers have developed risk management methodologies to improve success rates in organization activities. Browning et al. (2002) proposed a risk value methodology that quantifies technical performance risks to identify, assess, monitor, and control the identified risks throughout the organization. Keizer et al. (2002) presented a case study of the risk diagnosing methodology (RDM) developed by Philips Electronics Co. to identify and evaluate technological, organizational, and business risks in product innovation. Keizer et al. (2005) proposed a risk reference framework for diagnosing risk in technological breakthrough projects and concluded that the success of breakthrough organization goals could be improved through formal risk assessment.

Gidel et al. (2005) developed a decision-making framework for risk management from the cognitive scientist viewpoint. Ogawa and Piller (2006) suggested integrating customers into the innovation process and proposed a new market research concept called "collective customer commitment" to reduce the risk of unmet customer needs. In addition, several studies have been published on determinants of new product success and failure (Cooper et al., 2004). The key success factors identified in these studies can be used for identifying potential risks.

Some studies have developed portfolio/pipeline management approaches to select appropriate projects for increasing success rates of product launches and to capture business opportunities and maintain constant revenue for the company (Blau et al., 2000, 2004; Ragapaskse et al., 2005).

There is a lack of research on providing an integrated framework that links operational risk management with corporate strategies and provides a systematic approach for risk identification, assessment, response planning, and control of uncertainty.

According to Harland et al. (2006), uncertainty ever or condition has negative or positive effects on one or more business or organization objectives. The latter means that taking a calculated risk may bring competitive advantage for a good. There is a certain degree of risk for an organization to be successful.

Customer Satisfaction: According to Grönroos (2001), customer-perceived service quality has two dimensions: the functional dimension (process) and the technical dimension (outcome).

Risk Propensity: The concept of risk propensity has important implications for the theoretical modeling of risk behavior and for practical insights into the motives underlying individual-level choices about engaging in risky behavior. It can significantly contribute to risk management programs.

Profitability: Profitability refers to the ability of a business to make a profit and shows how efficiently management can generate profit using available resources. (Harward & Upton, 1989)

Hazard Prevention: A dangerous phenomenon, substance, human activity, or condition that may cause loss of life, injury, health impacts, property damage, loss of livelihoods and services, social and economic disruption, or environmental damage.

Risk Reduction: Describes reducing disaster risk through systematic efforts to analyze and manage the causal factors of disasters.

Effectiveness: The capacity to produce a desired result.

2.3 Theoretical Framework

Stakeholder Theory

Developed originally by Freeman (1984) as a managerial instrument, it has since evolved into a theory of the firm with high explanatory potential. Stakeholder theory focuses explicitly on the equilibrium of stakeholder interests as the main determinant of corporate policy. The most promising contribution to risk management is the extension of implicit contracts theory from employment to other contracts, including sales and financing (Cornell and Shapiro, 1987). In certain industries, particularly high-tech and services, stakeholders can substantially contribute to company value. However, the value of these implicit claims is highly sensitive to expected costs of financial distress and bankruptcy. Since corporate risk management practices lead to a decrease in these expected costs, company value rises (Klimezak, 2005). Therefore, stakeholder theory provides a new insight into possible rationales for risk management. However, it has not yet been tested directly. Investigations of financial distress hypotheses (Smith and Stulz, 1995) provide only indirect evidence (e.g., Judge, 2006). Risk management theory designed the following hypotheses to test for the usefulness of this theory in risk and the resulting potentially high cost of financial distress in IT and service sectors. The second hypothesis also looks at financial distress costs in a general manner: companies with intangible or human assets and growth options are more sensitive to continuity problems. This is essentially the same as hypothesis 1 of financial economics. Finally, smaller firms are more prone to financial problems, which should increase their interest in risk management practices.

Agency Theory

Agency theory extends the analysis of the firm to include separation of ownership and control, and managerial motivation. In the field of corporate risk management, agency issues have been shown to influence managerial attitudes toward risk-taking and hedging (Smith and Stulz, 1985). The theory also explains a possible mismatch of interest between shareholders, management, and debt holders due to asymmetries in earnings distribution, which can result in the firm taking too much risk or not engaging in positive net value projects (Mayers and Smith, 1987). Consequently, agency theory implies that defined hedging policies can have important influence on firm value (Fite and Pfleiderer, 1995). These hypotheses are associated with financing structure and give predictions similar to financial theory. Managerial motivation factors in implementing corporate risk management have been empirically investigated in a few studies with a negative effect (Faff and Nguyen, 2002; Mac Cimon and Wehrong, 1990; Geezy et al., 1997). Notably, positive evidence was found by Tufano (1996) in his analysis of the gold mining industry in the US. Financial policy hypotheses were tested in studies of financial theory since both theories give similar predictions in this respect. All in all, the bulk of empirical evidence seems to be against agency theory. However, it provides strong support for hedging as a response to mismatches between managerial incentives and shareholder interests.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This study examines the impact of risk management on small business. This chapter focuses on the research methodology which comprises the research method, research design, population of study, collection of data, research instrument, validity of research instrument, reliability of research instrument, and ethical considerations.

3.2 Research Design

This study used a cross-sectional design with a retro-prospective approach where the researcher looked at past occurrences to predict the future.

3.3 Population of Study

The population of this study was 20. A total of 20 questionnaires were distributed: 3 to top management and 17 to lower-level workers, making a total of 20. The result of the findings was generalized on the entire population.

3.4 Sample Size/Sampling Technique

Data were obtained from the published financial statements of 10 out of 21 eateries operating in Nigeria as of December 2013. Banks that merged or were acquired during the period covered in the study were excluded, as were those that changed their financial year-end. The selected eateries were the top 10 Nigerian eateries based on credit score ratings by Fitch Ratings and Bankers' Magazine as of January 2013. These eateries with complete data for 2005–2012 were used for the study.

3.5 Method of Data Collection

Multiple sources of data were used including documentation, interviews, participant observation, direct observation, archival records, and physical artifacts. Primary data were collected through questionnaires, and secondary data from journals, books, and internet sources.

3.6 Research Instrument

The questionnaire was divided into two parts:

- Part A: Personal information (nationality, state of origin, local government, age, marital status, education qualifications, and duties)
- Part B: Questions structured by the researcher to elicit information on the research topic.

3.7 Method of Data Analysis

Data from audited financial reports of eateries were presented in tables and charts. The panel data estimation technique was adopted because it handles heterogeneity and offers more degrees of freedom and efficiency.

3.8 Historical Background of the Case Study

Chicken Republic is a Nigerian fast-food chain specializing in chicken recipes. Founded in 2004 by Deji Akinyanju in Lagos, it is a subsidiary of Food Concepts Plc. It operates over 70 outlets nationwide, and its menu includes fried chicken, chicken wrap, Chief Burger, Amma Jamma Spaghetti, and Chickwizz.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This section focuses on the presentation, analysis, and interpretation of the data gathered. The data obtained for the study is presented in tables, analyzed, and interpreted using frequencies and percentages. The Statistical Package for Social Science (SPSS) was used to analyze frequencies and test the hypotheses.

4.2 Data Presentation

A total number of 20 questionnaires were distributed. All 20 copies were returned and analyzed.

Questionnaire	**Respondents**	**Percentage (%)**
Returned and useful	20	100
Not Returned	0	0
Total	**20**	**100**

4.3 Data Analysis and Interpretation

4.3.1 Demographic Data

- **Age Range:**
  - 21–30 years: 95%
  - 31–40 years: 5%

Most respondents are between 21–30 years old.

- **Sex:**
    - Female: 55%
    - Male: 45%

Majority of respondents are female.

- **Marital Status:**
    - Single: 65%
    - Engaged: 20%
    - Married: 15%

Most respondents are single.

- **Educational Qualification:**
    - OND: 25%
    - HND: 20%
    - BSc: 50%
    - MSc/MBA/PhD: 5%

Majority of respondents are BSc holders.

4.3.2 Questionnaire Test Results (selected highlights)

- **Risk and Uncertainty affect customer satisfaction:**
    - Strongly Agree/Agree: 65%
    - Undecided: 30%
    - Disagree: 5%

- **Uncertainty and customer complaint:**
    - Strongly Agree/Agree: 60%
    - Undecided: 25%
    - Disagree: 15%
- **Customer satisfaction is high when the environment is predictable:**
    - Strongly Agree/Agree: 85%
- **Uncertainty improves customer patronage in small business:**
    - Agree: 30%
    - Disagree/Strongly Disagree: 45%
    - Undecided: 25%
- **High risk propensity has positive effect on profitability:**
    - Strongly Agree/Agree: 55%
    - Disagree: 30%
- **Hazard prevention enhances effectiveness:**
    - Strongly Agree/Agree: 55%
    - Disagree: 25%
- **Risk reduction affects efficiency:**
    - Strongly Agree/Agree: 35%
    - Disagree: 25%
    - Undecided: 40%

4.4 Test of Hypotheses

Hypothesis 1:

Ho: There is no significant relationship between uncertainty and customer satisfaction.

- Pearson Correlation: 0.814 ($p = 0.000$)

Result: Significant. Null hypothesis rejected.

Hypothesis 2:

Ho: Risk propensity has no effect on profitability.

- $R^2 = 0.441$, $F = 14.215$, $p = 0.001$
- Coefficient: 72.8% effect

Result: Significant. Null hypothesis rejected.

Hypothesis 3:

Ho: There is no relationship between hazard prevention and effectiveness.

- Pearson Correlation: 0.884 ($p = 0.000$)

Result: Significant. Null hypothesis rejected.

Hypothesis 4:

Ho: Risk reduction does not affect efficiency.

- $R^2 = 0.081$, $F = 1.590$, $p = 0.223$

Result: Not significant. Null hypothesis **accepted**.

4.5 Discussion of Findings

The study examined how risk management influences small scale business performance. Key findings:

- Risk management improves customer satisfaction.
- Risk propensity influences profitability.
- Hazard prevention enhances operational effectiveness.
- However, risk reduction does not significantly influence efficiency in this context.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study investigated the impact of risk management on small business performance using Chicken Republic, Ilorin as a case study. Emphasis was placed on variables like uncertainty, effectiveness, efficiency, and risk reduction. Analysis of data revealed significant relationships between most variables, except between risk reduction and efficiency.

5.2 Conclusion

Risk management is an essential tool in business operations. It plays a major role in enhancing customer satisfaction, profitability, and hazard control. The ability to anticipate and mitigate risks is central to the success of small-scale businesses.

5.3 Recommendations

1. Management should invest in robust risk management practices.
2. Small businesses should create structured risk policies and control systems.
3. Future research should focus on similar studies in other business sectors and across wider samples for generalization.

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