Types of risk

Introduction Long ago people viewed " risk" as the inevitability of chance which occurred beyond the control of humans. In today's world the concept of " risk" has turned into riches, as risky ventures have become the norm in the business world. " Risk" therefore applies to decisions that can have a bad or good outcome. The different types of " risk" can include financial, legal, ethical, information technology, or even human resource since it can exist everywhere and at any time in our lives.

When we eat, we encounter the risk of food poisoning, to cross the road we run the risk of being hit by a passing motor car or even when we drive, we can increase the risk of an accident. If no risk is done then, no breakthrough can be expected. Whether it is in your career, financially, or in your business. Once you fail to take a risk then you will suffer the consequences of making significant gains, which means that you run the risk of a possible loss. What is Risk? According to Mortimer (2005 p. 5) " risk" is any uncertainty about a future event which might threaten an organization's ability to accomplish its mission. Which means that it can be the chance of something happening that will have a negative impact on an organization. It is the possibility of suffering a loss that is loss of quality income, loss of profit, loss of success or even loss of life. It means therefore that change involves " risk", but once the set program has been attained or has achieved total success " risk" vanishes.

It is therefore of great importance that the management of risk be well managed. " Risk management" was engineered into dealing with the possibility that some future event might cause harm. It includes strategies and techniques for recognizing and confronting treats of risk and provided an environment for proactive decision making for the proactive decision making, for the purpose of: * “ What can go wrong” * “ What will we do” * “ How will or can it be resolved”. Success in business to a certain degree requires owners or managers to take “ risk”.

Most successful businesses are managed by people who know when or how to push forward and when or how to hold back, when to sell and when to stand firm. According to Yusof (2007) p. 1. “ Risk is an undeniable reality of doing business today, whether globally or locally. Although failure is in a way linked to “ risk”, the successful business person should not fear “ risk” but strives to understand it, to manage it, or even try to take advantage of it. In that way the business person would be able to calculate the risk before taking it.

Unfortunately the world of business now is exposed to more risk, such as high interest rate, inflation, recession, high exchange rates, even political and cultural risk to name a few. Therefore it takes a great deal of expertise to effectively manage risk in business. Financial Risk Financial Risk is associated with the use of debt financing by firms or companies, since the presence of debt involves legal and mandatory obligations to make specified payments at specified time period. There is a risk that the earnings of the firm may not be sufficient to meet these obligations towards the creditors.

In case of the shareholders, the financial risks occur because it is not only the mandatory nature of debt obligations but also the property of ‘ prior payments’ of these obligations. In short, the use of debt by the firm causes variability of return for both creditors and shareholders. Financial risk is usually measured by the debt/equity ratio of the firm: the higher the ratio, the greater the variability of the return and the higher the financial risk. Financial risk also involves liquidity risk, maturity risk, interest rate risk and inflation risk.

Liquidity refers to situations wherein it may not be possible to dispose or sell the assets or it maybe possible to sell only at great inconvenience of cost in terms of money and time. The greater the uncertainty about true elements, price concession, and transaction cost; the greater the liquidity risk. Liquidity Risk has a different connotation from the point of view of banks and financial institutions. In this context liquidity risk refers to their inability to meet the liability towards depositors when they want to withdraw their deposits.

Maturity risks arise when the term of maturity of the security happens to be longer. Since foreseeing, forecasting and envisioning the environment, conditions and situations become more and more difficult as we go more and more into the future. The longer term investment involves risk, the longer the term of maturity the greater the risk. Interest Rates Risks are the variability in the returns on security due to changes in the level of the market interest rates, or it is the loss of principal of a fixed term security due to an increase in the general level of interest rates.

When interest rates raise the value or market price of the security drops or vice versa. The degree of interest rate is directly related to the length of time to maturity of the security. If the term to maturity is long then the market value of the security may fluctuate widely. Inflation Risk is the risk that the real return on security may be less than the nominal return. In case of fixed income security, since payments in term foreign dollars are fixed. The value of the payments in real term declines as the level of commodity prices increases.

Inflation risk is also known as purchasing power risk as there is always a chance that the purchasing power of invested money will decline, or that the real return will decline due to inflation. Legal Risk Most legal risk arise from the possibility that a counterparty is not legally permitted or able to enter into a transaction. Legal risk is the risk that legal actions will impair the value of investment or it may be a risk from uncertainty due to legal actions or uncertainty in the applicability or interpretation of contracts, laws or regulations.

This can cause a particular problem for companies who choose to transact business with other overseas businesses. Not only are they exposed to uncertainty relating to the laws of multiple jurisdictions, but they also face uncertainty as to which jurisdiction will have authority over any particular legal issue. This risk can be reduced by the company hiring experience corporate lawyers. Ethical Risk Ethical risks concern the impact that the business has on shareholders at the local, national and global levels.

In some cases these risks can influence the organization’s intangible assets such as the human capital, the business reputation and its clientele. Some of the factors impinging ethical risks are: * The establishment of codes of conduct * Adherence to the code * Programme to improve performance * Good internal communication * Clearly defined mechanisms to encourage employees to respect possible violation. As the evolution of new devices in the field of information technology there is also an increased tendency for hackers to try to infiltrate company’s network.

The company can also face risk associated with theft or release of personal data such as employees’ social security numbers and bank account numbers. A part of this risk can be reduced by installing firewall software and additional access codes. Human Resource Risk Another type of risk is human resource, this is most important within the company as companies demand skilled labours to work with the job market. Companies suffer or run the risk of hiring workers who are paid as qualified and skilled workers, when they are not.

Other risks would include labour fluctuation and also a rise in the labour cost, which may result in strikes and lock-outs by trade unions and negligence. Companies can reduce the risk by providing incentives to the workers and also offer educational grants for workers to upgrade their careers. Political Risk Finally, the political risk can be describes as the type of risk has to do with the political decision making process within the environment for business. The lack of transparency and accountability in a political system whereby decisions which impact businesses can change dramatically due to political or social instability.

The immediate resignation of the Prime Minister of Jamaica- Hon. Bruce Golding is an ideal example of political risk. Safety Risk When running a small company, every move a business owner or employee makes is a source of risk. In any case where high risk is involved, it's prudent to consult a lawyer or other professional who can advise you on how to protect your business. If an owner runs a factory or other job site that requires workers to use machinery, equipment or vehicles in the course of business, workplace safety is a matter of utmost importance and a key source of risk.

For this reason, they must follow guidelines set by Safety & Health Administration. In addition to workplace safety concerns involving physical injury, health issues also pose a risk to some businesses, particularly medical offices and hospitals. Employees must observe strict rule and regulation to protect the public and themselves from health-related threats. Conflicts between employees are also a main source of risk for small businesses that employ workers. Risks include claims of discrimination (including sex, race, age and discrimination based on disabilities) and harassment from other employees.

These issues could lead to expensive lawsuits for the business. The company must comply with rules set by government agencies like the Ministry of Labour and ensure that it follows proper procedures in all instances and with any situation involving these issues. Sources of Risk For companies that serve certain types of goods to the public, like food and skincare products, product quality is a major concern and a high source of business risk. Some products have the potential of harming the consumer if the company doesn't take proper steps to meet quality standards.

Negligence involving the products of these items could lead to legal issues and damage the company's reputation Bibliography Al, M. A. (2004). Hanbook of Management 3rd Edition. London : Pearson Education . Bhole, L. (2004). Financial Institutions and Markets 4th Edition. New Delhi, India : Tata McCraw Hill. Mortimer, D. , S. Mortimer (2005) Quality and Risk Management. Cambridge University Press, London, England Yusof, Y. (2007). Managing Financial Risk. United Kingdom: Author House .