Kwame Nkrumah University of Science and Technology, Kumasi

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TOPIC: CONSEQUENCES OF RISK MANAGEMENT ON THE PERFORMANCE OF A COMPANY: THE EVIDENCE OF KUAPA KOKOO LIMITED (KKL)

by

Isaac Yirenkyi Adjei

PG 20103240

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Isaac Yirenkyi Adjei (B.ed Accounting)

PG 20103240

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EXECUTIVE MASTER OF BUSINESS ADMINISTRATION

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DECLARATION

I hereby declare that this submission is my own work towards the CEMBA and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for any other degree of the University, except where due acknowledgement has been made in the text.

Isaac Yirenkyi Adjei (20103240) ……………………………. ……………..

Student Name & ID Signature Date

Certified by:

Mr. Stephen B Alewabah ………………………… ………………..

Supervisor Signature Date

Certified by:

Prof. I K Dontwi …………………………… ………………

Dean (IDL) Signature Date

DEDICATION

I dedicate this work to my parents, children and wife for their unflinching love and support

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ABSTRACT

Risk management is an area of paramount importance to an organization. Because every company is exposed to risks, effective risk management is necessary for the progression of a business entity. In spite of the well structured process in managing risk exposures at Kuapa Kokoo Limited (KKL), the company still faces the problem of embezzlement, stealing, theft, inaccurate and unreliable information provided by officials on the field. The general objective of the study is to review the consequences of risk management on the performance of companies. The specific objectives included: to review the risk management processes, practices and policy of the company; to understand the level of awareness of staff of risk management practices of the company; to review the measures adopted to minimise losses through good risk management processes.

Related literature was reviewed. The study adopted the cross- sectional research design. The study population was staff of KKL. A sample size of thirty three respondents was used for the study. The purposive sampling technique was adopted. Data was collected through interview and questionnaire. The data collected were analyzed using tables and findings were made as a result of that. Some of the findings made included:

The company has clear objectives and these have been communicated so as to provide effective direction to employees on risk management and control issues. The management appropriately evaluates risk when planning for new product or activity.

There exist processes for independent verification of transaction of officers. The Akuafo Cheque System of payment is not used by District officers and Purchasing Clerks as required by government. Farmers prefer payment through the cash system to that of the cheque system and purchasing clerks are forced to pay them by cash because of competition.

Recommendations were also made which included: The government/policy makers should insist that the Akuafo Cheque System of payment should be the only mode of paying farmers and any official of the company who breaches such directives should be severely punished. Officials of the company should not be allowed to transport cash from the urban centres or district capitals to the farmers in villages.

TABLE OF CONTENT

CHAPTER FOUR – DATA ANALYSIS AND DISCUSSION OF RESULTS

CHAPTER FIVE – SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

LIST OF TABLES

CHAPTER ONE

GENERAL INTRODUCTION

1.1 Background of the Study

Risk management is an area of paramount importance to an organization's success (Williams, 2002). Every company is exposed to risks, effective risk management is necessary for the progression of a business entity (Williams, 2002).

According to Sobel (2004), understanding the source of each risk helps to manage the risk at its source instead of its outcome. If the source of a risk is not identified, the risk may not be managed as effectively and efficiently as desired by management.

Current business trends have made it imperative for almost all large organizations to maintain risk management procedures, processes and policies (Namee, 2002). The Ghanaian cocoa industry has evolved from a highly regulated sector into a largely market-driven one. The regulatory and institutional framework has improved considerably yet still the cocoa industry in Ghana is still facing some challenges.

Today, in business worldwide, the risk management function is becoming very important for achieving the objectives of organizations (Eccles R, et al 2001). In recent years, Ghana has recognized the importance of the risk management function, which is why that function has been established in some institutions both private and public. The Ghana cocoa sector is among those institutions that risk management functions to deal with the assessment of control, good governance and risk management. Managing risk is actually managing the organization in planning, organising, directing, and controlling the organization's systems and resources to achieve objectives (Namee, 2005).

The risk management function is an integral part of the corporate governance regime of most public institutions and a number of larger private companies. The primary goal of risk management is to evaluate the institution's internal controls and corporate governance processes and ensure that they are adequate and are functioning correctly. Namee (2005) views the existence of risk management function as essential for all institutions and suggests that where the board of such an institution decides not to implement effective risk management function, full reasons for its decision should be advanced in the institutions Annual Report.

1.2 The Problem Statement

Most cocoa buying companies including Kuapa Kokoo Limited (KKL) have well-structured risk management departments that have the mandate of regulating and managing the various risks the companies encounter in the course of doing business. Some of these risks include: market risk, operational risk, credit risk and funding risk. As a standard practice they maintain written policies and procedures that clearly outline their risk management guidance for their trading activities. These policies identify the risk tolerance of the Board of Directors and clearly delineate lines of authority and responsibility for managing the risks of these activities. Individuals throughout the trading and derivatives areas are made fully aware of all the policies and procedures that relate to their specific duties. The Board of Directors, senior-level management, and members with independent risk management functions also play important roles in the risk management process.

Efficient management of risk in the cocoa industry is crucial for the growth and development of the sector. To ensure the effective and efficient management of risk, effective risk management policies and procedures need to be put in place. Risk management measures are put in place by government, regulatory bodies or institutions to provide reasonable assurance that objectives could be achieved.

In spite of the well-structured process in managing risk exposures at KKL, the company still faces the problem of embezzlement, theft, inaccurate and unreliable information provided by officials on the field. This phenomenon mostly leads to huge sums of losses to the company, and this invariably affects the company's general performance and profit negatively.

1.3 Research Questions

Related to the problem, the research seeks to address the following questions:

i. How effective is the risk management process, practice and policy of KKL?

ii. What is the level of awareness of risk management practices of the staff of the company?

iii. What measures does the company adopt to minimize losses through good risk management practices?

1.4 The objectives of the Study

The objective of the study has been classified into general and specific objectives.

1.4.1 General objective

The general objective of the study is to review the consequences of risk management on the performance of Kuapa Kokoo Limited. This will be realized considering the following operational objectives:

1.4.2 Specific objectives

i. To review the risk management processes, practices and policy of the company;

ii. To understand the level of awareness of risk management practices of the staff of the company;

iii. To review the measures adopted by the company to minimize losses through good risk management practices.

1.4.3 Significance of the Research

Risk is a significant aspect of business activities in a market economy. As risk taking constitutes a major characteristic of the cocoa sector, it is important for management to address these risk issues.

Cocoa buying companies have the responsibility of taking decisions in the best interest of their stakeholders. The owners are interested in the continued existence of the companies as they expect reasonable returns on their investment and wish to avoid capital losses. Also, the company's employees, customers and government (Cocoa Marketing Board) also have interest in the company's survival. Therefore, cocoa companies need to follow the due process to avoid taking on risk that adversely affects the resources of their stakeholders.

Risks inherent in the operations of the cocoa sector have become much more diversified and complicated and are generally categorized as the following: credit risk, market risk, liquidity risk, operational risk, electronic data processing (EDP) risk, and management risk. Risk management is a prominent issue given the degree of impact it has on the cocoa sector and its operations, should it emerge. Consequently, the strength of risk management systems in the cocoa sector has naturally become one of the most important aspects in assessing the safety and soundness of the sector.

Also, the deregulation and increased competition in the Ghanaian cocoa industry in recent times has led to most cocoa buying companies taking uncalculated risk. Herein lies the justification for this study.

1.5 Scope of the Study

This study was limited to the staff of KKL. Respondents for the study were basically employees and management of the Company (KKL).

1.6 Limitations of the Study

Time and financial constraints limited the number of respondents contacted. The ideal situation would have been to cover many respondents, but since there is time allocation and financial resources limitation on the part of the researcher, it limited the number of respondents contacted.

Also, the degree of reliability of responses due to memory lapses could affect the precision of the outcome. Additionally, biases introduced by some respondents could also not be estimated.

In spite of these limitations, the study was still good and reliable since data was collected from credible sources.

1.7 Organization of the Study

This work consists of five chapters. Chapter one deals with the background of the study, statement of the problem, objectives of the study, justification, the scope of the study and limitations of the study.

Chapter two focuses on the literature review. Detailed related literature was reviewed on the subject. Chapter three discusses the methodology used in the study and the profile of the KKL. Chapter four deals with analysis of the data collected.

Chapter five which is the final part is devoted to summary of findings, conclusions and recommendations on the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the existent literature on the concept of risk management. In this direction, the chapter provides broad discussion and review of risk, and risk management theories and the empirical evidence by prior researchers.

2.2 Risk

Risk management is an area of paramount importance to an organization. This is because every company is exposed to risks. Effective risk management is necessary for the progression of a business entity (Williams 2002). This chapter explains in detail what risk is, and provides information on the sources, characteristics and effect of risk, risk identification and assessment. The discussion also focuses on the risk management cycle, process and policy, as well as questions such as who has the responsibility for risk management and why risk assessment and management are important to the organizations.

2.2.1 Definition of Risk

Risk is the uncertainty associated with any investment. That is, risk is the possibility that the actual return on an investment will be different from its expected return. A very important concept in finance is the idea that an investment that carries a higher risk has the potential of a higher return. For example, a zero-risk investment, such as treasury security has a low rate of return, while a stock in a start-up company has the potential to make an investor very wealthy, as well as the potential to lose one's entire investment. Certain types of risk are easier to quantify than others. To the extent that risk is quantifiable, it is generally calculated as the standard deviation on an investment's average return (Farlex Financial dictionary, 2009)

Risk is defined in ISO 31000 as the effect of uncertainty on objectives *(whether positive or negative).*

There are a number of terms that relate to the word "risk", namely "chance", "possibility", "danger", "gamble", "hazard", "jeopardy", "peril", "speculation" and "uncertainty". Usually the connotation linked to risk is a negative one, which implies loss or misfortune.

According to Flesher (1996) the word "risk" derives from the early Italian *risicare,* which means "to dare". In this sense, risk is choice rather than fate. The action we dare to take, which depends on how free we are to make choices, are what the story of risk is all about.

According to Birkett. W. P. et al. (1999), risk refers to the probability that an event, condition or action may adversely affect an organization or its activities. In the same sense, Pickett (1997) states that the concept of risk is fundamental to the auditing role, since it may be in conflict with the concept of control. Controls are designed to ensure that objectives are achieved; risk may prevent this. Overall, risk should be reduced by adequate controls, and the greater the degree of risk, the greater the need for good controls. Audit has a clear remit to expose and help to minimize the level of risk that threatens the organization.

According to Namee (2005), "risk" is a common word found liberally used in the daily news media, weighty academic journals, and the professional magazines for leaders of business, the economy and government. A manager skimming over the daily news or perusing a more weighty publication is likely to find the word "risk" used in many different ways. Risk is the property that causes value to vary in uncertain ways. It is not the variation that is the source of risk. Managers can and do anticipate variation and deal effectively with it. The source of risk is the uncertainty of an unexpected change in the environment.

Gleim (2004) defines risk as the uncertainty of an event occurring that could have an impact on the achievement of objectives, and specifies that risk is measured in terms of consequences and likelihood and is inherent to every business or government entity. Opportunity risks assumed by management are often drivers of organizational activities. Beyond these opportunities may be threats and other dangers that are not clearly understood or fully evaluated and too easily accepted as part of doing business.

According to Valsamakis (1999), risk is defined as a deviation from the expected value. It implies the presence of uncertainty, where there may be uncertainty as to the occurrence of an event producing a loss, and uncertainty on the outcome of the event, where the degree of risk is interpreted with reference to the degree of variability and not with reference to the frequency with which the event will occur or to the probability that it will display a particular outcome.

According to CIPFA (1997), risk is the chance of things going wrong. As individuals, in the experience of risk is an unavoidable fact of life. However carefully in trying and planning things and whatever precautions they take, the likelihood is that every now and again things may still go wrong. The situation is very similar for organizations, except that often the stakes are higher, and the cost of things going wrong may therefore be far greater. Corporate risk can, thus, be described as the probability that an event or action may adversely affect the organization.

In broad terms, the risks faced by an organization can include the following:

- failure to accomplish established objectives and goals for operations or programmes
- failure to meet statutory and regulatory requirements
- wrong decisions taken because of incorrect, untimely, incomplete or unreliable information, poor record-keeping, inappropriate accounting, inaccurate financial reporting and financial loss and exposure
- fraud, corruption, misappropriation of assets, waste and loss, failure to safeguard assets adequately
- customer dissatisfaction, negative publicity and damage to the organization's reputation
- failure to safeguard staff and customers adequately, and acquiring resources uneconomically or using them inefficiently or ineffectively.

2.3. Levels of Risk

Risks fall into the following categories:

- strategic risk - the risk to revenue, earnings and product offerings as a result of poor decision-making or implementation of those poor decisions. Included in this category is the risk of the deterioration of reputation arising from negative publicity.

- credit risk - the risk that counterpart will default on obligation, resulting in a financial loss.
- market risk - the risk of any fluctuation in the value of a portfolio resulting from adverse changes in market prices and market parameters.
- operational risk - the risk of loss resulting from inadequate or failed internal processes and systems, as well as the actions of people or from external events (The Risk management Framework 2005).

2.4. Characteristics of Risk

According to Sobel (2004), risks have many different characteristics. The purpose of this section is to determine and understand the characteristics of each risk. It is specifically designed to answer the following questions about each risk:

- where does the risk arise (is it external or internal to the company)?
- would the occurrence of the risk directly impact on the company's achievement of its strategic objectives?
- would the occurrence of one risk cause another risk to occur?
- are there relationships and correlations with other risks?
- is the risk pervasive throughout the organization, or more discreet?

An understanding of risk characteristics can help organize and provide a sequence to the formal assessment, give participants a context for understanding how the various risks affect the organization, and identify opportunities to combine or redefine risks before the formal risk assessment.

2.5 Sources of Risk

According to Sobel (2004), understanding the source of each risk helps to manage the risk at its source instead of its outcome. If the source of a risk is not identified, the risk cannot be managed as effectively and efficiently as desired by management. External risks (those arising outside the organization) may not be fully manageable by the company. Internal risks that are not managed at the source may result in ineffective deployment of valuable resources. For example, if a company's products are not selling as expected due to a perception that the price is too high, there may be an increased focus on managing price risk within the sales and marketing areas.

Sources of risk are elements of the organizational environment that can bring about positive or negative outcomes. For example, the decision to start the production of a new item by an organization is hardly influenced by the market conditions. Therefore, the market conditions that are described by the presence of competitors, the needs of customers, the quality of the raw materials, etc. are sources of risk for this organization. Different definitions and classifications can be used in managerial practice. A general classification may use physical, social and economic sources, but an in-depth investigation of risk identification may need classification that can cover all types of risks in more detail. Depending on the environment in which risks arise, their sources can thus be represented as follows:

- physical environment
- political environment
- operational environment
- legal environment

- cognitive environment (Tchankova 2002)

2.6 External and Internal Risk

One way in which to classify risks is to refer to external and internal risks. External risks are usually very difficult or impossible to control. These include risks such as economic factors (inflation, petrol price), the financial markets (exchange rates, share prices), regulating factors (legislation, import control and regulations) and the actions of competitors (Goetzee 2004). Internal risks arise as a result of the organization's own activities, processes, products, contractual obligations and/or relationships with employees, clients, suppliers and the environment.

Pickett (2005) states that several events, which can be classified as either external or internal factors, may affect an organization. The external and internal factors are as follows:

- **External factors**
  - Economic
  - Natural environment
  - Political
  - Technological
- **Internal factors**
  - Infrastructure
  - Personnel
  - Process

Sobel (2004) describes internal and external risks in an organization as follows:

- **Strategic - external risks**

- Industry - changes in the education or technology industries may require alterations in business and potentially threaten its long-term viability
- Economic - significant economic changes, in particular an economic downturn, may result in reduced consumer spending, inflationary costs, a tightening labour market or other economic effects that could inhibit profitability and growth
- Political change
- Competitors
- Consumer preference

■ **Strategic - internal risks**

- Market share
- Reputation
- Brand equity
- Strategic focus
- Investor confidence

AIRMIC, ALARM and IRM (2002) suggest that the risks threatening an organization and its operation can result from factors both external and internal to the organization. Figure 2.1 summarizes examples of key risks in these areas and shows that some specific risks can have both external and internal drivers and therefore overlap in the two areas. They can also be categorized further into types of risk, such as strategic, financial, operational, hazards, etc.

2.6.1. The effect of risks

Cascarino and Van Esch (2005:) suggest that, in general, business risks can affect a business's ability to successfully compete, maintain financial strength, maintain its positive public image and, ultimately, its ability to survive. Risks affect the overall quality of an organization's products, people and services. However, risks cannot be eliminated, but only managed.

2.6.2. Risk identification

According to Pickett (2005), the risk management process starts with a method for identifying all risks an organization faces. This should involve all parties who have expertise, responsibility and influence over the area affected by the risks in question. All imaginable risks should be identified and recorded. Business risk is really about these types of issues, and not just the more well-known disasters, acts of God or risks to personal safety.

Every organization faces a number of risks of varying levels of seriousness. Risk can be seen both in terms of threats (something going wrong) and opportunities (achieving, or not achieving, business objectives). It can be financial (e.g. incurring bad debts) or non-financial (e.g. pollution), although most will be reflected in deteriorating financial performance sooner or later (Financial Management 2005: 3).

AIRMIC, ALARM, IRM (2002) indicate that risk identification sets out to identify an organization's exposure to uncertainty. This requires an intimate knowledge of the organization, the market in which it operates, the legal, social, political and cultural environment in which it exists, as well as the development of a sound understanding of its strategic and operational objectives. Risk identification should be approached in a methodical way to ensure that all significant activities within the organization have been identified and all the risks flowing from these activities are defined. All associated volatility related to these activities should be identified and categorized.

2.6.2.1 Techniques with which to identify risk

Various techniques may be used in the process of identifying risk. According to the results of a study on the use of the enterprise risk management (ERM) by organizations on which methods are used most frequently, conducted by the Institute of Internal Auditors Research Foundation, the most popular methods are interviews, questionnaires and workshops.

- **Interviews**

This is the best method by which to obtain information with regard to areas that hold possible risks for the organization. However, for a thorough study it is not sufficient to only conduct interviews.

- **Questionnaires**

Questionnaires may be used to point out important information that may be examined further by means of other techniques.

- **Workshops**

Workshops may be arranged to identify information on risk areas. This entails the bringing together of key figures in the organization at one central point (conference venue). Certain subjects are discussed by the group, from which the identification of risks follows with the help of a facilitator. These workshops may be manual or computer-driven. With a manual system, the facilitator will table certain subjects and the group will discuss them. From the discussion, the risks will be identified (Goetzee 2004).

2.6.3 Addressing specific risks

It is sometimes very difficult to identify the risks that threaten an organization, because there are so many risks. According to a study performed by the Institute of Internal Auditors Research Foundation (IIA RF 2002), the top five areas affected by risk are as follows (it is important to note that this is not a complete list):

- reputation or rating
- people and intellectual capital
- technology
- competition
- expenses

According to Pickett (2004), the risks that are identified as the most common by government departments are as follows:

- financial risk
- project risk
- compliance risk
- reputation risk
- missed opportunities

CIPFA (1997) breaks the risk categories down as follows:

- assets - buildings, contents and material
- people - personal security and safe working systems
- reputation - poor media coverage
- information
- continuity of operations
- failure to meet targets

2.6.4 Risk assessment

According to Vallabhaneni (2005), the entity must be aware of and deal with the risks it faces. It must set objectives, integrated with sales, production, marketing, financial and other activities, so that the organization is operating in concert. It must also establish mechanisms to identify, analyze, and manage the related risks.

Risk assessment (risk analysis) is the process of identifying the risks and determining the probability of occurrence, the resulting impact, and additional safeguards that would mitigate this impact. It includes risk measurement and prioritization.

The assessment of the potential impact of a particular risk may be complicated by the fact that a range of possible outcomes may exist or that the risk may occur a number of times in a given period of time. Such complications should be anticipated and a consistent approach adopted, which, for example, may seek to estimate a worst-case scenario over a 12-month period. The assessment of the impact of the risk on the organization should take the financial impact, the impact on the organization's viability and objectives and the impact on political and community sensitivity into account. The analysis may be either qualitative or quantitative, but should be consistent to permit comparisons (Goetzee 2004).

The assessment and classification of risk will be different for each company and internal audit helps management by commenting on the criteria used for classification and/or criteria that have been applied. The following is a list of risk management techniques:

- accept the risk (e.g. for low impact, low likelihood risks)
- reduce the risk (e.g. by implementing improved internal controls)
- avoid the risk (e.g. by not engaging in a particular activity)
- transfer the risk (e.g. by means of insurance, or by requiring third parties to sign on (Bagshaw 2002)

2.6.5 Management acceptance of risks

Gleim (2004), practice advisory (2600), states that when the chief audit executive believes that senior management has accepted a level of residual risk that is unacceptable to the organization, he or she should discuss the matter with senior management.

If the decision regarding residual risk is not resolved, the chief audit executive and senior management should report the matter to the board for resolution. One of the key requirements of the board or its equivalent is to gain assurance that risk management processes are working effectively and that key risks are managed to an acceptable level (IIA 2004).

2.7 Risk Management

According to Namee (2005), the risk management practice of yesterday focused largely on hazard insurance and probable loss, but the risk management practice of today focuses on the broad issues of general management. This is the essence of management, and the reason why understanding risk and the practice of risk management is a central issue for management today and tomorrow.

Managing risk is actually managing the organization in planning, organizing, directing, and controlling the organization's systems and resources to achieve objectives. This must come from within and act to change the organization and its responses to change in the environment rather than trying to guess what risks will affect the organization. In this context, the organization should develop certain characteristics to improve its ability to respond to change.

Managers must plan, organize, direct, and control systems to reflect both risk and opportunity. The strategic risk/opportunity curve is an effective thinking model to plan control systems to deal with both risk and opportunity over multiple time horizons (Risk Management Framework 2002).

Risk management has been related to financial loss due to fraud and has also been associated with doing something wrong. As a result, there has been a preoccupation with administrative processes and controls rather than outcomes and performance. Risk management has different and more complex dimensions in the public sector compared to the private sector, which means more attention should be devoted to "getting the balance right". Managing risk is a continuing activity and not something done once a year. To be effective, risk management requires a systematic and logical approach, as well as the availability of good quality information to individuals (IIA 2004).

According to AIRMIC, ALARM and IRM (2002), risk management is a central part of any organization's strategic management. It is the process according to which organizations methodically address the risks attached to their activities with the goal of achieving sustained benefits in each activity and across the portfolio of all activities. The focus of good risk management is the identification and treatment of these risks. It marshals the understanding of the potential upside and downside of all those factors that can affect the organization. It increases the probability of success, and reduces both the probability of failure and the uncertainty of achieving the

should be a continuous and developing process that runs throughout the organization's overall objectives.

Risk management should be a continuous and developing process that runs throughout the organization's strategy and the implementation of that strategy. It should methodically address all the risks surrounding the organization's activities in the past, present and, in particular, the future. It should further be integrated into the culture of the organization with an effective policy and a programme led by the most senior management. This strategy should be translated into tactical and operational objectives according to which responsibility will be assigned throughout the organization to each manager and employee responsible for the management of risk. Risk management supports accountability, performance measurement and reward; thus promoting operational efficiency at all levels.

CIPFA (2001) explains risk management as the term applied to a logical and systematic method of establishing the context of and identifying, analyzing, evaluating, treating, monitoring, and communicating the risks associated with any activity, function, or process in a way that will enable the organization to minimize losses and maximize opportunities. In the public sector there are many cases where risk management is being practiced under other names, such as health and safety, community safety, environmental management, emergency planning, treasury management, etc.

Gleim (2004) suggests that in the process of risk management, the internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems. The internal audit activity should evaluate risk exposures relating to the organization's governance, operations, and information systems with regard to the following:

- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations
- safeguarding of assets
- compliance with laws, regulations, and contracts

Deloitte & Touche (cited by Pickett 2003) separates the risk management cycle into four stages:

- identifying, assessing and prioritizing risks

- formulating plans for assuring the effectiveness of the system designed to protect the company and for further mitigating priority risks
- monitoring reporting, governance issues and oversight
- ensuring the organization's sustainability, capability and continuous improvement

Ernst & Young (cited by Pickett 2003) identifies six major components of effective risk management as follows:

- a risk strategy
- risk management processes
- appropriate culture and capability
- risk management function
- enabling technologies
- governance

Arthur Andersen (cited by Pickett 2003) argues that there is no one-size-fits-all approach to enterprise risk management (ERM). That said, they believe that any ERM project must begin with the following five essential actions:

- establishing an oversight structure
- defining a common language and framework
- targeting risks and processes
- establishing goals, objectives, and a uniform process
- assessing risk management capability

According to Pickett (2004), The Australian (New Zealand) standards on risk management involve the following six-step process:

- obtain support of senior management;
- develop the organizational policy;
- communicate the policy;
- manage risks at organizational level;
- manage risks at the programme, project and team level;
- monitor and review;

Risk management is detecting, preventing and managing the possibility of something going wrong in an area of business in which the likelihood and/or impact of this untimely event could threaten a company from meeting its business objectives. This untimely threat may originate in and/or affect any area of a business, such as financial reporting, operations or any other segment of the business infrastructure. Furthermore, successful risk management does not mean absolute assurance, but rather an approach to systematically manage the higher risks of each segment in a business to mitigate these risks, as well as to identify and address new risks as a business evolves (Wolosky 2005).

2.7.1 The risky business of risk management

According to Namee (2002) risk management is a vital force for corporate governance when it works well. Unfortunately, it does not always work out as planned. The following factors influence the success of risk management:

- senior management's expectations about risk;

- the corporate culture and attitudes toward accountability;
- the background and experience of the risk manager;

The most common misconception about risk management is that there is some way to see into the future. There is no crystal ball, "magic matrix" or special model that predicts the future. The future is unknown in any detail.

2.7.2 The risk management process

The method used for identifying and assessing risk will differ according to the type of organisation. The most elementary method is to ask the following three questions:

- what could go wrong?
- what could cause it to go wrong?
- what could the organization do to prevent it from going wrong

According to AIRMIC, ALARM and IRM (2002:4), risk management protects and adds value to the organization and its stakeholders through supporting the organization's objectives by:

- providing a framework for the organization that enables future activity to take place in a consistent and controlled manner;
- improving decision-making, planning and prioritization by a comprehensive and structured understanding of business activity, volatility and project opportunity or threat;
- contributing to the more efficient use or allocation of capital and resources in the organization;
- reducing volatility in the non-essential areas of the business;
- protecting and enhancing assets and company image; and
- developing and supporting people and the organization's knowledge base.

The risk management process has gone through the following steps:

> Risk identification

Risk identification sets out to identify an organization's exposure to uncertainty. This requires an intimate knowledge of the organization, the market in which it operates, the legal, social, political and cultural environment in which it exists, as well as the development of a sound understanding of its strategic and operational objectives, including factors critical to its success and the threats and opportunities related to the achievement of objectives.

> Risk description

The objective of risk description is to display the identified risks in a structured format, for example, by using a table. The risk description figure (Figure 2.2) overleaf can be used to facilitate the description and assessment of risks.

> Risk evaluation

When the risk analysis process has been completed, it is necessary to compare the estimated risks against the risk criteria that the organization has established.

> Risk reporting

Different levels in an organization need different information from the risk management process. A company needs to report to its stakeholders on a regular basis to set out its risk management policies and report on its effectiveness in achieving its objectives.

> **Risk treatment**

Risk treatment is the process of selecting and implementing measures to modify the risk. Risk treatment has risk control or mitigation as its major element, but extends further to, for example, risk avoidance, transfer and financing, etc.

> **Monitoring**

Effective risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place.

2.7.3. Risk management cycle

> **Objectives**

Risk management starts and stops with helping an organization achieve its objectives. This includes high-level corporate objectives and the lower-level operational objectives that derive from an overall strategic plan.

> **Risk policy**

One aspect of risk management that comes to the fore when developing suitable arrangements relates to commonality and consistency - that is, consistency in terminology, clarity of the respective roles in the organization, an accepted assessment methodology, and a willingness to develop a culture that supports risk management and accountability rather than blame assignment.

> **Risk identification**

The risk cycle requires that a formal process is in place for identifying risks to the business. This may be done through research, business analysis, risk workshops, audit and review, industry benchmarking schemes or regular staff surveys.

> **Risk assessment**

Once all known risks are documented, there has to be a mechanism to put them into context, and sort out which ones are important and crucial to address and which ones can be sidelined for the time being. The idea is that an organization can allocate its base resources to areas of high risk with a view to mitigation and, meanwhile, assign venture capital to areas of low risk that can be further exploited.

> **Risk mitigation**

High levels of unacceptable risk have to be mitigated to bring them to an exposure that fits the organization's risk appetite. Mitigation revolves around implementing controls where required. Controls increase the certainty that risks will be addressed, and that objectives will have a better chance of being achieved.

> **Risk management**

The overall response to risk across an organization will be found at this stage: the adoption of a risk management strategy. The response to risk depends on the nature of the risk and whether it is of high, medium or low priority. Some risks have to be accepted, because there is little that can be done to mitigate them, or the cost of such mitigation is prohibitive.

2.7.4 Risk management policy

Pickett (2003) suggests that the risk management policy of the organization should fit into the policy on performance management, and each risk status should prompt different types of actions as a response to the risk exposure identified along, for example, the following lines:

- high risk exposure: urgent board level reports and ongoing monitoring
- major risk exposure: director involvement rapid review
- significant risk exposure: manager intervention and summary briefing to director
- moderate risk exposure: basic management practice applied
- low risk exposure: no special action
- trivial risk exposure: review whether able to remove resources away from monitoring

In this way the board and top management may have a view on risk across the organization and how it is handled.

IRMIC, ALARM and IRM (2002) stress that an organization's risk management policy should set out its approach to and appetite for risk and its approach to risk management. The policy should also set out responsibilities for risk management throughout the organization. Furthermore, it should refer to any legal requirements for policy statements.

Attached to the risk management process is an integrated set of tools and techniques for use in the various stages of the business process. To work effectively, the risk management process requires the following:

- commitment from the chief executive and executive management of the organization
- assignment of responsibilities in the organization
- allocation of appropriate resources for training and development on enhanced risk awareness by all stakeholders.

2.7.5 Responsibility for risk management

The board of directors has overall responsibility for ensuring that risks are managed. In practice, the board will delegate the operation of the risk management framework to the management team, who will be responsible for completing the activities pertaining to risk management. There may be a separate function that coordinates and manages these activities and has specialist skills and knowledge. Everyone in the organization plays a role in ensuring successful enterprise-wide risk management, but the primary responsibility for identifying risks and managing them lies with management (Institute of Internal Auditors 2004).

The board is responsible for setting the organization's risk appetite and tolerance. The audit committee of the board is responsible for overseeing all aspects of risk management and internal control, including compliance activity, the audit programme, the appropriateness of accounting policies and the adequacy of financial reporting. The executive and the senior management teams are responsible at the management level for implementing the board-approved management strategy and developing policies, processes, procedures and controls for identifying and managing risks in all areas of activity (The Risk Management Framework 2005).

2.7.6. Managing risks through internal control

CIPFA (1997:6) suggests that if an organization is to manage and assess risks successfully, then the evaluation of risk will need to cover the whole spectrum of the organization's activity to ensure that the most appropriate decision is taken. Similarly, managers should be in possession of information on the organization's risk exposure in order to take sensible and timely decisions, so that objectives are achieved.

Organizations need to establish an efficient and effective system of internal controls to ensure that they meet their objectives. "Internal control" is defined as the whole system of controls, financial or otherwise, established in order to provide reasonable assurance of:

- effective and efficient operations;
- reliable financial information and reporting; and
- compliance with laws and regulations.

i) Effective and efficient operations

Organizations need to establish controls to assist them in operating effectively and efficiently to meet their basic objectives, including both financial and non-financial performance goals, and to help them in the safeguarding and efficient use of resources. Safeguarding includes controlling the unauthorized use or loss of assets and ensuring that liabilities are identified and controlled.

ii) Reliable financial information and reporting

Organizations need to maintain proper accounting records and have reliable financial information to assist them in making decisions for day-to-day operations and for publication to third parties.

iii) Compliance with laws and regulations

Organizations seek to operate within the law and abide by relevant regulatory requirements that apply to them, as infringement can often result in the imposition of serious penalties and, in extreme cases, can bring about an organization's demise. Furthermore, legislative and regulatory changes themselves often require that organizations reappraise and change their corporate objectives.

2.7.7 Why risk assessment and risk management are important to the organizations

According to CIPFA (1997), organizations have sets of aims and objectives, and the ultimate responsibility for achieving these rests with senior managers. Furthermore, the environment within which organizations work changes constantly, and so these aims and objectives are refined and redefined constantly, adding to the uncertainty and risk that organizations face.

In order to achieve the organization's objectives, senior managers must first clearly define these objectives and then identify the risks associated with failing to achieve them. Managers then have the responsibility for establishing controls in order to minimize these risks or avoid the risks altogether. They are also charged with the responsibility of monitoring the effectiveness of these controls and their continued relevance.

In managing risks effectively, senior managers should provide clear guidelines on the nature and level of the controls expected and the amount of risk the business is prepared to tolerate. When confronted by risk, managers thus have a series of alternative courses of action from which to choose, as described below:

- control it! Controls can be established to mitigate the risks, but this may not always be possible.
- live with it! Managers may decide that the cost of implementing controls may outweigh the benefits obtained by mitigating the risk. Therefore, they may decide that some level of residual risk is acceptable.
- insure it! Managers may seek a compromise between risks that can be tolerated and those that can be covered either by setting aside internal funds or by diversifying and externalizing the risks through insurance.

Approach to dealing with risks

Managers deal with business risks by one or more of the following:

- Designing and maintaining a set of **control** activities
- **Sharing or transferring** the risk through contractual relationships with third parties (most commonly through insurance contracts)
- **Avoiding** the risk by choosing to change the business process to achieve the objectives in a less risky manner

- **Diversifying** operations, so that the risk of total loss is minimized.
- **Accepting** the risk (or the residual risk after applying other means) as the price of doing business. Namee (2002).

2.8 Limitations of Risk Management

A fundamental concept underlying the definition of risk management is that risk management structure provides only reasonable assurance that agency objectiveness will be achieved. Limitations are inherent in all risk management processes. These result from poor judgment in decision-making, human error, management's ability to override controls, collusion to circumvent control, and consideration of costs and benefits relative to risk management. No matter how well risk management procedures operate, some events and conditions are beyond management's control (Lannoye, 2003).

2.9 Management Override of Risk Management Procedures

Management may override or disregard prescribed policies, procedures, and controls for improper purposes. Override practices include misrepresentations to state officials, staff from the central control agencies, auditors or others. Management override must not be confused with management intervention (ie the departure from prescribed policies and procedures for legitimate purposes). Intervention may be required in order to process non-standard transactions that otherwise would be handled inappropriately by the risk management processes. A provision for intervention is needed in all risk management processes since no process anticipates every condition (Lannoye 2003).

2.9.1 Personnel Errors or Mistakes

The risk management procedure is only as effective as the personnel who implement the procedure and process. For example, employees may misunderstand instructions or make errors of judgment. Employees may also make mistakes because of personal carelessness, distraction or fatigue. The risk department should carefully consider the quality of the entity's personnel when evaluating risk (Williams, 2000)

2.9.2 Collusion

The effectiveness of segregation of duties lies in individuals' performing only their assigned tasks or in the performance of one person being checked by another. There is always a risk that collusion between individuals will destroy the effectiveness of segregation of duties. For example an individual received cash receipts from customer can collude with the one who records these receipts in the customers' records in order to steal cash from the entity (Williams, 2000).

2.9.3 Judgment

Effective risk management may be limited by the realities of human judgment. Decisions are often made within a limited time frame, without the benefit of complete information, and under time pressures of conducting agency business. These judgment decisions may affect achievement of objective. Risk management may become ineffective if management fails to minimize the occurrence of errors for example, misunderstanding instructions, carelessness, distraction, fatigue, or mistakes (Lannoye, 2003).

2.9.4 Breakdowns

Even well designed risk management procedures and processes can break down. Employees sometime misunderstand instructions or simply make mistakes. Errors may also result from new technology and the complexity of computerized information systems.

2.9.5 Cost versus Benefits

The cost of risk management must not exceed benefits to be derived. Potential loss, associated with exposure, should be weighed against the cost to control it. Although the cost-benefit relationship is a primary criterion to be considered in designing risk management policies, the precise measurement of costs is generally not possible. The challenge is to find a balance between excessive risk which is costly and counterproductive and too little risk which exposes the organization to increased and unnecessary risk (Lannoye, 2003).

2.10 Summary

In this chapter, risk management is explained in detail; that is the definition of risk, and sources, characteristics and the impact of risk. This knowledge is necessary to understand the role of management and risk department in the risk management process. The chapter also expands on the risk management cycle and policy, the responsibility for risk management, and how to assess risk management.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the activities and processes for undertaking this research work. It presents an account of how data was collected and processed into a dissertation document. The discussion was centered on the following;

Research design

Population under study

Sampling techniques

Data requirement and source

Method of data analysis

3.2 Research Design

Research design is "the blueprint to include experiments, interviews, observation, and the analysis of records, simulation or some combination of these," (Donald. Pamela, 2003).

According to Jankowicz (2000), research design is defined as the deliberately planned arrangement of conditions for the analysis and collection of data in a manner that aims to combine relevance to research purpose with economy of procedure. The idea behind a design is that different kinds of data gathering are combined, so that the data will be -

- relevant to the thesis or the argument that will be presented;
- an adequate test of the thesis;
- accurate in establishing causality in situations where the researcher wish to go beyond description to provide explanations for whatever is happening; and
- capable of providing findings that can be generalized to situations other than those of the immediate organization.

According to Hussey and Hussey (1997), research design is the science (and art) of planning procedures for conducting studies so as to obtain the most valid findings. Determining the research design will give a detailed plan that can be used to guide and focus the research. The study was a cross- sectional design with a descriptive survey.

3.3 The study population

According to Mason et al. (1997), the population of a study is the collection of all possible individuals, objects or measurements of interest. For this study, the population consists of farmers, administrative staff, and management staff of KKL.

3.4 Sampling Techniques

Given that not all people connected with the company are concerned with risk management, judgment sampling was used to choose the population to be investigated. With this kind of sampling, the researcher exercised his own judgment to include elements that are presumed to be typical of a given population about which he seeks information.

According to Black (2006), judgmental samples do not involve any random selection process.

3.5 Sample size

In research, it is often impossible to study the entire population. However, some researchers do overcome this difficulty in situations where the study population itself is small and also not very scattered. To address the challenge of access to the complete population, representative samples are thus prescribed and accepted in any scientific study. A sample refers to a set of people or objects chosen from a larger population in order to represent that population to a greater extent (Mason et al, 1997). Therefore, the size of the study sample and the way in which it is chosen will certainly have implications for the confidence in the results and the extent to which generalizations can be made. For this research, the sample included 23 administrative staff including district officers and sector managers, and 10 management staff.

3.6. Sampling frame

A sample size of 33 was used for the study. The 33 persons selected represented a larger sample that helped to reduce the level of error and increase the level of precision. In selecting the respondents the researcher used, purposive and convenience sampling technique.

3.7 Data Collection

Data collection was done by way of a questionnaire and interviews, and the technique of sampling helped in this research.

3.7.1 Survey by questionnaire and interviews

According to Welman and Kruger (2001: 160), in a structured interview, the interviewer asks a respondent a collection of questions from a previously compiled questionnaire (known as an interview schedule), face-to-face and records his or her responses. The interview is restricted to the questions, their wording and their order as they appear on the schedule, with relatively little freedom to deviate from it.

Jankowicz (2000) states that a semi-structured interview differs from a conversation, because the topic and issues to be covered have been determined in advance. Furthermore, the interviewer has previously determined the sample of people whom he or she intends to contact, and usually his or her attempt to prevent biases from affecting the data occurs before data collection rather than after it.

In order to get the required data/information, interviews were conducted. Each person being interviewed chose a venue and a time for his or her interview.

3.8 Pilot Study/ pre-testing of questionnaire

To conduct the pilot survey, a structured questionnaire on the topic was administered to some staff of Federation Commodities (FEDCO) and based on the outcome some of the questions were restructured.

3.9 Data Handling

To check for accuracy and completeness of data and ensure quality, questionnaires and interview guide were numbered serially. For instance, all responses on agreed items were assigned with letter A and responses on disagreed items were coded AA.

3.10 Data Analysis/Presentation

The data collected was analyzed using Statistical Package for Social Scientist (SPSS) computer software programme. The result was presented using statistical tools such tables. Both descriptive and inferential statistics were used to analyze the data.

3.11 Ethical considerations

The principal researcher formally sought the consent of all respondents and observed all the necessary protocol.

The researcher ensured that information received from respondents was treated with a high level of care and confidentiality.

The identities of key informants were not disclosed in the report since the research is to evaluate what pertains and not to use personal opinions of individuals.

3.12 Study Profile

When internal marketing of cocoa was liberalized in Ghana, a group of farmers led by Nana Frimpong Abrebrese established Kuapa Kokoo as a farmer's cooperative in 1993 with assistance from Twin Limited UK. Two years later, the union received its first Fair-trade certification. The cooperative works at improving the social, economic and political wellbeing of its members. Kuapa Kookoo simply means Good Cocoa Farming.

The vision of KKL is to become a leading, caring, efficient and the most globally recognized cooperative in cocoa production and marketing in Ghana.

As its mission, Kuapa Kokoo seeks to develop itself into a formidable farmer-based organization capable of mobilizing quality cocoa products, improving the livelihood of members and satisfying customers.

Among the core values of KKL are Transparency, Democracy, Equity, Commitment, and Care for Community.

Objectives of Kuapa Kokoo are:

- To provide a medium for the social, economic and political empowerment of cocoa farmers.
- Enhance the participation of women in the decision making process at all levels of operation and organization.
- Encourage environmentally sustainable cocoa production processes

One of the distinguishing activities that sets Kuapa Kokoo apart from all other players in the cocoa buying industry in Ghana are the social projects

Kuapa has over the years invested several millions of Ghana Cedis in the communities where the union has local chapters. The nature of the projects is geared towards the benefit of the entire community not just members of Kuapa. The projects are funded out of the farmers Trust which is where Fair-trade premiums and other funds are lodged.

Kuapa Kokoo has a non-discriminatory approach to setting up projects. Eligible societies can apply to the farmers' trust which is represented by elected farmers who vet and approve projects based on publicized criteria.

Here is how the project funds have been expended over the period:

Health and Safety

Kuapa puts a lot of premium on the physical well-being of its members and there is ample evidence to support this. Several communities have benefited from pump wells. Societies such as Adansi Koforidua who hitherto struggled for portable water can now conveniently pump clean drinking water from their pump wells.

Kuapa organizes periodic mobile clinics in its societies. Doctors and medical staff are taken to the doorstep of the farmer for check-ups and training on preventive techniques to avoid diseases.

Kuapa has built (KVIP (Kumasi ventilated improved pit)) styled toilets in communities such as Bipoa, Twifo Wamaso, Abenabena Nyamebekyere to mention but a few providing a decent and convenient way to dispose-off human waste.

Education

Several schools have been built. Bayerebon number 3 has a primary – Junior High School block all constructed by Kuapa Kokoo. The project serves ten (10) other nearby communities. Schools have also been constructed in Amankwatia, Akomadan, Aboabo Camp, Apedwa, Sankore and Sefwi.

Divine Chocolate Limited, formerly the Day Chocolate Company, is a manufacturer of Fair-trade chocolate products in the United Kingdom and the United States. In 1997 members of Kuapa Kokoo Farmers Union at their 4th Annual General Meeting resolved to set up a chocolate Company in the United Kingdom with "Papa Paa" (best of the best) cocoa beans produced by the members themselves.

In partnership with Twin Trading and supported by the Body Shop, Christian Aid and Comic relief, the then Day Chocolate Company was formed in the United Kingdom in 1998 with Kuapa Kokoo owning a third of its shares.

Its first product, launched in October 1998, was Divine milk chocolate. Since then, variations such as Divine white chocolate, flavoured milk chocolate, dark chocolate and drinking chocolate etc. have been added to the company's list. In the year 2007 the name of the Company was changed to Divine Chocolate Limited.

Divine Chocolate's trading system is unique even in the sphere of fair trade, in that members of Kuapa Kokoo own the majority stake in the company and share in its profits. Another brand, Dubble, was launched in 2000 in collaboration with Comic Relief.

Divine Chocolate launched a subsidiary in the USA in 2007. Kuapa Kokoo owns a third of the shares in Divine USA.

Divine Chocolate UK was voted Observer Best Ethical Business in 2008 and Best Social Enterprise in 2007. Divine Chocolate celebrated their 10th Anniversary this year.

Members of Kuapa Kokoo are very proud to own shares in Divine Chocolate as it gives them a voice in the global trade of chocolate.

3.13 Summary

In this chapter the survey methodology has been discussed in detail, including research design and data collection, the selection of a target group, the research method used to gather the information, the questionnaire and interviews, the responses of the people who were interviewed and data analysis and interpretation.

In the next chapter, the results obtained from the research are discussed in greater detail.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.1 Introduction

This chapter reports the findings of the research. The findings are based on the methodology as discussed in the previous chapter. The primary data collected was analyzed using statistical package for social science (SPSS). Since the data collected was mainly categorical data, tabular statistical analysis method was adopted. The tables report the frequency, relative frequency or percentage and cumulative relative frequency. It is important to indicate that the source of data is the data collected from the field.

4.2 Descriptive statistics

Basically, descriptive statistics utilizes numerical and or graphical methods to look for patterns in a data set. Normally, it summarizes the information in a data set by revealing the average indicators of the variables used in a study and presents that information in a convenient way (McClave et al, 2000). As discussed in the previous chapter, KKL was selected for the study.

Table 4.1: Whether there exist risk department

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
STRONGLY AGREE	24	72.7	72.7	72.7
AGREE	8	24.2	24.2	97.0
NOT SURE	1	3.0	3.0	100.0
Total	33	100.0	100.0	

Source: Field Data - April, 2010

The table 4.1 represents the frequency distribution table for the responses from respondents on the question 'whether there exist risk department.' From the analysis it was noted that ninety-seven percent (97%) of the respondents agree to the fact that there exist risk department at KKL.

Table 4.2: Proper Risk Management Guidelines Adhered to

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
STRONGLY AGREE	15	45.5	45.5	45.5
AGREE	15	45.5	45.5	90.9
NOT SURE	3	9.1	9.1	100.0
Total	33	100.0	100.0	

Source: Field Data - April, 2010

The table 4.2 above represents the frequency distribution table for responses from respondent on the question 'Whether Proper Risk Management Guidelines exist at KKL'. From the analysis it was noted that ninety-one percent (91%) of the respondents agree to the fact that there is proper risk management guidelines in the company.

Table 4.3 Policies regarding the Importance of Risk Management and Appropriate Conduct Exist.

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
AGREE	18	54.5	54.5	54.5
STRONGLY AGREE	10	30.3	30.3	84.8
NOT SURE	4	12.1	12.1	97.0
STRONGLY DISAGREE	1	3.0	3.0	100.0
Total	33	100.0	100.0	

Source: Field Data - April, 2010

Table 4.3 represents the frequency distribution table for the responses from respondents on the question 'Policies regarding the importance of risk management and appropriate conduct.' From the analysis it was noted that eighty-four percent (84%) of the respondents agree to the fact that policies regarding the importance of risk management and appropriate conduct exist.

Table 4.4: Management Periodically Reviews Policies and Procedures to Ensure that Proper Risk management Policies are in place

Response	Frequency	Percent	Valid Percent	Cumulative Percent
AGREE	16	48.5	48.5	48.5
STRONGLY AGREE	14	42.4	42.4	90.9
NOT SURE	2	6.1	6.1	97.0
STRONGLY DISAGREE	1	3.0	3.0	100.0
Total	33	100.0	100.0	

Source: Field Data - April, 2010

Table 4.4 above represents the frequency distribution table for responses from respondents on the question 'Management periodically reviews policies and procedures to ensure that proper risk management policies are in place.' from the analysis it was noted that ninety-one percent (91%) of the respondents agree to the fact that Management periodically reviews policies and procedures to ensure that proper risk management policies.

Table 4.5 : Whether There is Risk Management Policy in the Company

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
AGREE	15	45.5	45.5	45.5
STRONGLY AGREE	12	36.4	36.4	81.8
NOT SURE	5	15.2	15.2	97.0
STRONGLY DISAGREE	1	3.0	3.0	100.0
Total	33	100.0	100.0	

Source: Field Data - April, 2010

Table 4.5 above represents the frequency distribution table for the respondent on the question 'Whether there is risk management policy. From the analysis it was noted that eighty-two percent (82%) of the respondents' strongly agree to the fact there is.

Table 4.6: Management Appropriately Evaluates Risk When Planning for new Products or Activity

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
STRONGLY AGREE	12	36.4	36.4	36.4
AGREE	12	36.4	36.4	72.7
NOT SURE	8	24.2	24.2	97.0
DISAGREE	1	3.0	3.0	100.0
Total	33	100.0	100.0	

Source: Field Data - April, 2010

Table 4.6 above represents the frequency distribution table for the respondent on the question 'Does management appropriately evaluate risk when planning for new product or activity.' From the analysis it was noted that seventy-three percent (73%) of the respondents agree to the fact management appropriately evaluate risk when planning for new product or activity. This practice from the respondent reveals that it is in conformity with best practices.

Table 4.7 The Company's Culture and Human Resource Policies Supports Business and Risk Management Systems

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
AGREE	20	60.6	60.6	60.6
STRONGLY AGREE	10	30.3	30.3	90.9
NOT SURE	2	6.1	6.1	97.0
DISAGREE	1	3.0	3.0	100.0
Total	33	100.0	100.0	

Source: Field Data - April, 2010

Table 4.7 above represents the frequency distribution table for responses from the respondents on the question 'Significant internal and external operational, financial and other risks are identified and assessed.' From the analysis it was noted that ninety-one percent (91%) of the respondents agree to the fact significant internal and external operational, financial and other risks are identified and assessed. This practice from the respondent reveals that it is in conformity with best practices.

Table 4.8 There is Reporting Procedures in Communicating Account of the Company's Position

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
AGREE	17	51.5	51.5	51.5
STRONGLY AGREE	10	30.3	30.3	81.8
NOT SURE	4	12.1	12.1	93.9
DISAGREE	1	3.0	3.0	97.0
STRONGLY DISAGREE	1	3.0	3.0	100.0
Total	33	100.0	100.0	

Source: Field Data - April, 2010

The table 4.8 above represents the frequency distribution table for responses from respondents on the question 'There are effective reporting procedures in communicating a balanced and understandable account of the company's positions and procedures.' From the analysis it was noted that eighty-one percent (81%) of the respondents agree to truth that there is effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures. This will to a larger extent help identify problems associated with managing risk exposure.

Table 4.9 There are Established Channels of Communication for Individuals to Report Suspected Breaches of Improprieties

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
AGREE	14	42.4	42.4	42.4
STRONGLY AGREE	12	36.4	36.4	78.8
NOT SURE	4	12.1	12.1	90.9
DISAGREE	3	9.1	9.1	100.0
Total	33	100.0	100.0	

Source: Field Data - April, 2010

The table 4.9 above represents the frequency distribution table for responses from the respondent on the question 'There is established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties.' From the analysis it was noted that seventy-nine percent (79%) of the respondents agree to the fact that there are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties. This will in tend to help identify problems associated with managing risk exposure.

Table 4.10 All Staff Understand Their Role in Risk Management

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
AGREE	15	45.5	45.5	45.5
STRONGLY AGREE	12	36.4	36.4	81.8
DISAGREE	4	12.1	12.1	93.9
NOT SURE	2	6.1	6.1	100.0
Total	33	100.0	100.0	

Source: Field Data - April, 2010

The table 4.10 above represents the frequency distribution table for responses from respondents on the question 'All staff understands their role in the area of risk management.' From the analysis it was noted that eighty-two percent (82%) of the respondents affirm to the fact that all staff understands their role in the area of risk management.

Table 4.11 Payments are made Through the 'Akuafo Cheque' System

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
AGREE	10	30.3	30.3	30.3
STRONGLY AGREE	3	9.1	9.1	39.4
DISAGREE	20	60.6	60.6	100.0
Total	33	100.0	100.0	

Source: Field Data - April, 2010

The table 4.11 above represents the frequency distribution table for responses from respondents on the question 'whether payments are made through the 'Akuafo Cheque' System'. From the analysis it was noted that only thirty-nine percent (39%) of the respondents agree that payments are made through the Akuafo cheque system and the remaining sixty-one (61%) are saying that payment is made through the cash system. This will to a larger extent will expose the organization to higher risk since the district officers and the purchasing clerks' alike can run away with the money.

Table 12: Whether District Officers and Purchasing Clerks Keep Physical Cash on Them.

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
AGREE	17	51.5	51.5	51.5
STRONGLY AGREE	10	30.3	30.3	81.8
NOT SURE	4	12.1	12.1	93.9
DISAGREE	1	3.0	3.0	97.0
STRONGLY DISAGREE	1	3.0	3.0	100.0
Total	33	100.0	100.0	

Source: Field Data - April, 2010

The table 4.12 above represents the frequency distribution table for the responses from respondents on the question 'Whether District Officers and Purchasing Clerks Keep Physical Cash on them. From the analysis it was noted that eighty-two percent (82%) of the respondents agree that at KKL, District Officers and Purchasing Clerks Keep Physical Cash on them. Three (3%) is not sure of the situation.

Table 4.13 Management Conducts Regular Reviews/Audit of Risk Implementation Strategies

Responses	Frequency	Percent	Valid Percent	Cumulative Percent

AGREE	20	60.6	60.6	60.6
STRONGLY AGREE	10	30.3	30.3	90.9
DISAGREE	3	9.1	9.1	100.0
Total	33	100.0	100.0	

Source: Field Data - April, 2010

The table 4.13 above represents the frequency distribution table for responses from respondents on the question 'Management conducts regular reviews /audit.' From the analysis it was noted that ninety-one percent (91%) of the respondents agree that Management conducts regular reviews /audit. This will, to a larger extent, promote effective risk management and monitoring and also serve as a check on factors that could contribute to high risks.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

It is a well–known fact that cocoa is the bedrock on which the economy of Ghana rests. The saying 'cocoa is Ghana, Ghana is cocoa' portrays the important role cocoa plays in the economy of Ghana. Cocoa is the second foreign exchange earner and the lives of many Ghanaians and their families depend on it. Consequently, the need to enhance risk management practices to mitigate losses in the cocoa sector.

One critical decision managers in the sector face is the management of risk. Among others, this decision is necessary for the profit determination of those firms. What this means is that cocoa buying companies that are unable to manage their risk exposures well would always face serious financial problems in the industry.

Findings

Case study data methodology was employed and the major findings of the study are summarized below:

Firstly, it was observed from the analysis that ninety-seven percent (97%) of` the respondents agree to the fact that management decision are made collectively and not controlled by one person.

Also, from the analysis eighty-four percent (84%) of the respondents agree to the fact that policies regarding the importance of risk management and appropriate conduct exist at KKL.

Again, the responses from respondents in connection with whether there are effective reporting procedures in communicating a balanced and understandable account of the company's positions and procedures. From the analysis it was noted that eighty-one percent (81%) of the respondents agree that there is effective reporting procedures in communicating a balanced and understandable account of the company's positions and procedures. This will help identify problems associated with managing risk exposure. It was also realized from the analysis that seventy-eight percent (78%) of the respondents agree to the fact that there is a policy for the risk department to report regularly to the board. These responses from the respondents give the indication that the practice of risk management at KKL is quiet effective.

From the analysis it was noted that ninety-one percent (91%) of the respondents agree that Management conducts regular reviews /audit. This will, to a larger extent, promote effective risk management and monitoring and also serve as a check on factors that could contribute to high risks. This has re-emphasized the work of Christl Pribil (2004) which indicated that risk management has three main divisions i.e. risk identification, risk analysis and risk management.

From the analysis it was noted that ninety-one percent (91%) of the respondents agree to the fact that significant internal and external operational, financial and other risks are identified and assessed. This practice from the respondent reveals that it is in conformity with best practices.

Eighty-two percent (82%) of the respondents agree that at KKL, district officers and purchasing clerks keep physical cash on them.

5.2 Conclusions

The data collected were analyzed to make conclusions about the research findings. After the analysis the following conclusions were made:

The management decisions are made collectively and not controlled by one dominant individual.

There also exist code of conduct and ethics policies in the company and also policies regarding the importance of risk management and appropriate conduct are communicated to all staff especially in the area of loan disbursement. According to Christl and Pribil, (2004) employees should be encouraged to ensure that prior to embarking on any activity such an activity should be subjected to a final check. This check should cover at least the following points:

- Compliance with internal guidelines;
- Completeness of the risk policy;

The management of KKL periodically reviews policies and procedures to ensure that proper risk management policies are put in place. The company has clear objectives and these have been communicated so as to provide effective direction to employees on risk management and control issues.

The management appropriately evaluates risk when planning for new product or activity. There exist processes for independent verification of transaction of officers.

The Akuafo Cheque System of payment is not used by District officers and Purchasing Clerks, as required by government. Farmers prefer payment through the cash system to that of the cheque system and purchasing clerks are forced to pay them by cash because of competition.

At an interview with the General Manager, it came out clearly that the company has no comprehensive strategic plan. The company loses huge sums of money through stealing and embezzlements

5.3 Recommendations

Based on the findings of the study, the following are recommended for policy makers and the management of KKL in particular and other buying companies in general.

1) The government/policy makers should insist that the Akuafo Cheque System of payment should be the only mode of paying farmers and any official of the company who breaches such directives should be severely punished. From the responses from respondents and records reviewed from the company, it was realized this is where the company suffers most of its losses and therefore such a phenomenon needs to be seriously checked.

2) Officials of the company should **not** be allowed to transport/carry cash from the urban centres or district capitals to the farmers in the villages.

3) All licensing cocoa buying companies in general and KKL in particular should have a strategic plan as well as risk management policy to guide both management and employees.

4) The Ghana Cocoa Marketing Board should make it mandatory that all Licensing Cocoa Buying Companies should have strategic plans.

5.4 Direction for future research.

Future researchers should explore other factors that influence profitability of cocoa buying companies in Ghana besides risk management. The current evidence is that the influence of risk management does not so much explain variations in the profit levels of the buying companies.

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INSTITUTE OF DISTANCE LEARNING

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

TOPIC: CONSEQUENCES OF RISK MANAGEMENT ON THE PERFORMANCE OF A COMPANY: THE EVIDENCE OF KUAPA KOKOO LIMITED (KKL)

This study is purely academic and respondents are assured that whatever information is provided will be highly confidential.

Instructions: Please kindly tick the box that clearly expresses your view about a question.

A. PERSONAL DATA

1. Sex: Male [ ] Female [ ]

2. Age: 19 or less [ ] 20–29 [ ] 30–39 [ ] 40–49 [ ] 50 or more [ ]

3. Which Department do you belong?

Sales and Marketing [ ] Finance and Admin. [ ] Technical [ ] Risk [ ]

Supply Chain [ ]

4. Which staff category do you belong?

Junior staff [ ] senior staff [ ] Management [ ]

5. Management decisions are made collectively and not controlled by one dominant

individual.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

6. Codes of conduct or ethics policies exist in the company

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

7. Policies regarding the importance of risk management and appropriate conduct are communicated to all staff.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

8. Audit or other control systems exist to periodically test for compliance with codes of conduct or policies.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

9. Management periodically reviews policies and procedures to ensure that proper controls are in place.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

10. There is system in place to monitor compliance with policies and procedures and report to management instances of non-compliance.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

11. The company has clear objectives and these have been communicated so as to provide effective direction to employees on risk assessment issues.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

12. Management appropriately evaluates risk when planning for new product or activity.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

13. There is a clear understanding by staff within the company of what risks are accepted by management.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

14. Policies and procedures exist to ensure critical decisions are made with appropriate approval.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

15. Processes exist for independent verification of transaction (to ensure integrity)

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

16. Processes are in place to ensure that policy overrides are minimal and exceptions are reported to management

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

17. The company communicates to its staff what is expected of them and scope of their freedom to act.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

18. People in the Company have the knowledge, skill and tools to support them in their duties in order to effectively manage risk and achieve company objectives.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

19. There are effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

20. There are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

21. There are processes to monitor the company's ability to re-evaluate risks.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

22. There is appropriate communication to the management on the effectiveness of the ongoing monitoring processes on risks and control matters.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

23. There is specific monitoring arrangement in place to report actual or suspected fraud and other illegal or irregular acts or matters that can affect the company's reputation or financial position.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

24. Management approves the overall-scope of review activities.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

25. Officials of the company pay farmers through the Akuafo Cheque System

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

26. Official of the company transport cash from banks to the farmers.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]