LITERATURE REVIEW OF BUSINESS RISK OF TRANSPORT SERVICES

Emeka Everestus ANORUE
Institute of Business and Economics, Mykolas Romeris university, Ateities st. 20, LT-08303 Vilnius, Lithuania

Abstract.

Purpose – to present an analysis of business risks assessment faced by transportation industry in trying to deliver services to customers from the point of production to storage and final deliveries to end users with a little insight to explain in simple terms what transportation, risk and business risk entails.

Research methodology **–** the research was conducted using thorough scientific literature analysis method in the transport and logistics industry generally.

Findings – these risks where identified, analysed, evaluated and at the end, a corresponding efficient way of minimizing them is proposed, having in mind that risk has remained inevitably a prerequisite for business to grow. You cannot eliminate risk completely.

Keywords: transport services, business risk assessment, transportation industry, risk management, services.

JEL Classification: L9, G32**.**

INTRODUCTION

The purpose of the scholarly analysis is to provide the results of scientific literature review on the business risk assessment of transportation services which is vast but, for the purpose of this work, the research work will specifically look at the risks experienced by transport companies in delivering services to customers and propose measures to manage and reduce it to its bearable minimal. The objective of this study is to review Transportation, the services transportation offers, the risk they face while offering these services and also to find solutions to manage those risks in favour of the transportation industry.

The remainder of this paper is organized as follows: Section I reviews the concepts of risk assessment; Section II describes methodological approach how scientific literature review on was performed.; Section III presents the results. The paper ends up with conclusions.

BACKGROUND

1.1 CONCEPTS OF BUSINESS RISK

To understand what Business risk all is about, one must first and foremost know what a BUSINESS is and what RISK is too. Some people see business as an organization, or entity while some see it as a building, office or as an organization or enterprising entity engaged in commercial, industrial, or professional activities.

Businesses can be for-profit entities, or they can be non-profit organizations that operate to fulfill a charitable mission or further a social cause. There must always be a motive behind the establishment of a business but, for the purpose of this research, we are talking about those ones whose sole aim is to make profit and growth. No business wants to remain stagnant. None.

Business can also be described as a planned activities geared towards exchanging services for payment and its very important that we all understand that the heartbeat of every business is to maximize profit which brings about its growth and expansion.

Having defined business, what then is risk? Risk is anything that endangers a business. Anything that reduces profit or stand in the way of its aims and objectives which is to grow through profit maximization. Anything, be it, consumers behaviors, management approach, government policies, weather, or the activities of the business to satisfy her customers etc. Anything means whatever.

Business risk can now be seen as those exposures to threat an enterprise faces while trying to make profit. Any action, activities or factor(s) that will lower the profit of a company or lead it to her failure is called business risk. Anything that threatens a company's growth is called business risk. The term business risks refer to the possibility of a commercial business making inadequate profits due to uncertainties - for example: changes in tastes, changing preferences of consumers, strikes, increased competition, changes in government policy, obsolescence, natural disaster etc. - Wikipedia

Will Kenton (2017) defines the term business risks as the possibility of a commercial business making inadequate profits (or even losses) due to uncertainties - for example: changes in tastes, changing preferences of consumers, strikes, increased competition, changes in government policy, obsolescence etc. He continued by saying that Every business organization faces various risk elements while doing business. Business risk means uncertainty in profits or danger of making a loss and the events that could pose a risk due to some unforeseen events in future, which causes business to fail or record losses.

Risk is the chance that the outcome differs from the expectation. Usually, when we talk about business risk, we are referring to a possible negative impact and consequences of an event or decision in relation to an economic activity. Risk simply means whatever that will disrupt, interfere or reduce a designed speed to growth and profit.

In business, there will always be a certain degree of risk that any organization must face to achieve its goals. At the essence, risk is a fundamental requirement for growth, development, profit and prosperity. In a broad range of every business industry, including healthcare, finance, accounting, technology and supply chain, effectively managed risks provide pathways to success. But like any path, you need to know all the divots, detours, and dangers along the way. The transportation industry is at the heart of risk. Risks are inevitable if you want to grow. No risk no reward.

Business risk is the awareness an organization has to know that which will reduce its profits or lead it to failure. Anything that threatens a company's ability to achieve its goals is considered a business risk. There are many factors that can converge to create business risk. Sometimes it is a company's top leadership or management that creates situations where a business may be exposed to a greater degree of risk. It might be an employee or activities of the company towards satisfying her customer that might lead to risk. Risk is inevitable and no matter how careful an organisation is, it will definitely arise.

Kit Sadgrove in his book The Complete Guide to Business Risk Management (2015) Begins by asking 'What is risk?', 'How do we assess it?' and 'How can it be managed?' He goes on to examine in detail the key danger areas including finance, product quality, health and safety, security and the environment. With case studies, self-assessment exercises and checklists,

Ignas Dzemyda (2014) in Strategic management of business organizations stated the main goal of each organization is to make profits and increase its value in the market and to expand it, and this can be achieved in two verified forms: increasing or decreasing the turnover of the organization. Each version of the implementation of the organization can choose a number of different ways that will be most acceptable to it

Risk assessment is a constantly developing business process. It takes important place in companies performing various activities (Crockford 1982; Dionne 2013). Enterprise risk management is a systematic and integrated approach to the management of the total risks that is faced by the company.

Broadly speaking, a risk assessment is the combined effort of: identifying and analysing potential events that may negatively impact individuals, assets, and/or the environment; and making judgments "on the tolerability of the risk on the basis of a risk analysis" while considering influencing

factors. Risk is inevitable and cannot be totally eliminated and doing so is just a waste of time and resources. Suggestions are that, risks should be identified, evaluated, analyzed and then managed. Risk Assessment is not finished until the risk is managed which means reducing it to a bearable level.

In an interdependent, fast-moving world, organizations are increasingly confronted by risks that are complex in nature and global in consequence. Such risks can be difficult to anticipate and respond to, even for the most seasoned business leaders, Hence, Organizations that succeed, do so because they are best able to optimize the risk and reward equation for both strategic and Operational issues.

M. F. Rebelo and R. Silva (2016) state that both internal and external business

environments encourage risk, and the whole organization's activities are related to

risk and its manifestation. These authors highlight the consequences of a week enterprise risk management. The poor risk management has the greatest impact on business, which leads to a loss of competitiveness in the market, and thus a weakening of business.

Risk assessment and management strengthens confidence within the company personnel, business partners as well as other stakeholders or third parties.

International standard ISO 31000 defines risk as "the effects of uncertainty on objectives." In its broadest terms, risk is anything that could be an obstacle to achieving goals and objectives

Risk is the possibility that something unfavourable might happen. Risk means uncertainty. It is the probability that an event might disrupt the target

"In simple terms, risk is the possibility of something bad happening – Wikipedia

Duncan Martins (2008) in his book, Managing Risk in Extreme Environments defined risk as "stuff happens" something unexpected occurs, causing critical safety issues and economic losses

Another useful definition is offered by the expert risk management authors Smith and Merritt in their book, Proactive Risk Management (2002) "A risk is the possibility that an undesired outcome or the absence of a desired outcome disrupts a future work project. Risk management then is the activity of identifying and controlling undesired project outcomes proactively". It is important we understand that risk management and risk assessment are interwoven. Risk management is the macro-level process of assessing, analysing, prioritizing, and making a strategy to mitigate threats to an organization's assets and earnings. Risk assessment is a meso-level process within risk management. It aims to breaks down threats into identifiable categories and define all the potential impact of each risk. Risk analysis is the micro-level process of measuring risks and their associated impact.

1.2 CONCEPTS OF TRANSPORT SERVICES

TRANSPORTATION

Transportation means movement of products from the beginning of the supply chain to the customer. Transportation plays a significant role in any supply chain because products are rarely produced and consumed at the same location. An object produced at one point has very little value to the prospective customer unless it is moved to the consumption point. The success of any supply chain is closely linked to the appropriate use of transportation. Every company makes use of different modes and routes of transportation for maximum profitability.

Modes of Transport 2.

1) Railways – Railways are priced to encourage large shipment over a long distance
2) Road Transport. This includes, transportation with cars, buses, trucking etc.
3) Water Ways – It includes transportation by ships and boats used for bulk products
4) Air Transport – includes small packages which are costly and time specific
5) Pipeline – used for transport of natural gas, petroleum, oil and water

In modern times, a lot of authors and writers have included Intermodal and walking in the list as modes of transportation. To this study, we will simply focus on the five (5) well known mode of transportation. Intermodal is the combination of two modes mentioned above, Intermodal is the use of two modes of freight, such as truck and rail, to transport goods from shipper to consignee. It's simply means the use of multiple transportation modes to move people or goods from one place to

another.

II. THE METHODOLOGY OF RESEARCH

This research is designed to establish the business risks of transport services. The following questions are pertinent to this study:

(1) What do the services transportation offer?
(2) What are the risks in delivering these services?
(3) What are the actions taken to reduce these risks?

III. THE RESULTS

3.1 WHAT DO THE SERVICES TRANSPORTATION OFFER?

Transportation Services are collective functions and activities designed to bring satisfactions to customers who move from place to place or send their goods to other destinations.

Interestingly, services differ from company to company but for the course of this paper, we will focus on the few below.

Some companies provide prompt and high-quality service of international freight transportation alone, some companies just deals on bus transportation option and services, some just provides city taxis, some engage in providing luxury cars rentals and some engage in door-to-door shipping and delivery and so on all these are services under the transportation industry.

(1) Warehousing Services
(2) carriage of passengers
(3) Packing
(4) Package delivery
(5) Air-cargo services
(6) Load /offloading services
(7) Ocean-Bulk carriers
(8) Trucking services
(9) Fleet acquisition
(10) Equipment lease
(11) Drivers training and lease
(12) Intermodal services

3.2 WHAT ARE THE RISKS IN DELIVERING THESE SERVICES?

Running a business requires diligence and hard work, and to remain successful means, a painstaking study of the inherent risks in that particular business.

The risks transportation companies face may vary but can include fleet integrity and safety, driver safety and retention, and compliance issues. Some of these risks are directly impacted by outside influences, particularly weather events, traffic and road conditions but for the purpose of this study, we have been to break them down into seven.

To reap customers loyalty, you must put in more to reap the rewards of customers, revenue and satisfaction. While success is the ultimate goal, business risk may stop you from achieving the goals you set. There are obvious business risks which every business must look out for, irrespective of the business and that includes, Economic risk, compliance, security and fraud risk, financial risk, reputation risk, operational risk, competition risk, and strategy risk. It is important that we mention that apart from these numerous risks, the transportation companies inherited other special kind of risk which includes while rendering services and these risks includes,

(1) Cyber-attacks
(2) Labour/staff Shortages,
(3) Infrastructure Decay
(4) Regulatory Oversight
(5) Health and safety Risk
(6) Financial loss/refunds
(7) Weather
(8) Accidents/Loss

Transportation risk assessment and subsequent management begins with analysing your biggest risks, determine where they come from, and the likelihood they will occur. It's absolutely critical

to conduct regular comprehensive risk analyses to prepare for and protect your company interests. Many of these challenges present travel and logistics failure or difficulties for the organization.

3.3 WHAT ARE THE ACTIONS TAKEN TO REDUCE THESE RISKS?

Edward Anderson in his book Business Risk Management: Models and Analysis (2013) gave a little explanation of what should be done to curb risks. Many companies set up a formal risk register to document risks. This enables them to have a single point at which information is gathered together and it encourages a careful assessment of risk probabilities and likely responses to risk events. These responses are also evaluated and ranked according to their effectiveness.

Globally, the transportation industry is marked by obvious risks too numerous to mention. It is important to know that in the bid to reduce risk, many companies are upgrading and putting risk assessment and management models in place so as to be able to answer some questions which leads to better work performance and patronage. Many users and customers are now asking their carriers what policies are in place to reduce the risks that have the potential to impact their shipments. Without a concrete, clear cut risk management solution in place, shippers will likely go elsewhere. They have too much at stake to take chances.

When a transportation company fails to put an effective transportation risk management solution into practice, they send a wrong message- they communicate to their employees and customers that risk management is not a top priority for them. This can have a detrimental effect on morale and total output of employees and the general business.

To avoid or minimize risk around our businesses, first it is necessary to identify risk, analyse the risk and evaluate the risk factors. By doing this, business risk assessment has been carried out.

There are steps you can take to manage or minimize risk. It's important that these actions follow policy and procedure, and that they be done properly and in a timely manner. The transportation industry is characterized by a lot of risk; Poor visibility, lack of management, lack of planning and an ineffective transport management system can all have dire consequences for a business including missing deliveries, incurring unwanted costs and ultimately losing valuable business. So, the question is, how do you reduce the risk and stop reoccurrence of problems and what can a business do to avoid these risks? The lists are endless but, for the purpose of this study, we chose just a few factors and actions which include.

(1) Employ the use of UpToDate Transport software system
(2) Map out shipping criteria with your carriers
(3) Put measurable KPI's in place for carriers
(4) Strategic shipment consolidation
(5) Hire professionals' employees.
(6) Employee training and Retraining
(7) Know the laws and regulations
(8) Insurance
(9) Identify potential risk
(10) Strategic disaster planning
(11) Monitoring
(12) Employee Participation.
(13) Effective risk assessment technique

CONCLUSIONS

Business risk assessment determines possible mishaps, their possibility, consequences, and the tolerances for such events in general. The transport service sector is not an exception.

The services provided by the transportation companies are too numerous to mention. These are all seen as services to customers. These services are what differentiates them from each other and what attracts customers to them. In trying to satisfy a customer, they find themselves into challenges which are hitherto referred to as "risk".

Risk is inevitable and are part of business growth test. Some very important factors that make a company stand out are measures they put in place to make sure that risks are reduced to its barest minimal and to a level where they will, not only satisfy their customers but, also make profit and achieve company's corporate goals.

This research work, has been able to painstakingly, identified these risks and map out steps and actions to be taken by transportation companies to manage these risks and still remain in business.

REFERENCES

Anderson, E.J (2013-12-31) *Business Risk Management*: Models and Analysis, Wiley & sons

Crockford, GN (1982) *The Bibliography and History risk management some preliminary observations*, The Geneva papers on risk and insurance 7, 169-179

Dionne, G. (2013). Risk Management: History, Definition and Critique http://dx.doi.org/10.2139/ssrn.2231635

Duncan, M. (2008) *Managing Risk in Extreme Environments* -Frontline business lesson for corporate and financial institutes 181 Kogan Page Publishers, https://books.google.lt/books?id=D45itAmHnusC

Kenton, W. (2017). *Business risk. Investopedia* (Business Risk Definition (https://www.investopedia.com/terms/b/businessrisk.asp)

Dzemyda, I. (2014). *Strategic management of business organizations activities* -student work book. Mykolo Romerio universitetas

ISO 31000, (2018). *Risk management* – Guidelines, https://www.iso.org/publication/PUB100426.html

Preston, G., Merritt, M. (2002) *Proactive Risk Management* (1st edition) 248, Productivity Press https://doi.org/10.4324/9780367807542

Rausand, m., Haugen, S.(2020).*Risk Assessment* – Theory, Method and Application. (2nd Edition). John Wiley and sons, Inc

Rebelo, M,F., Santos, G and Silva, R. (2016). *Integration of management systems*: towards a sustained success and development of organizations.
Journal of Cleaner Production,127, Elsevier.

Sadgrove, K. (2015). *The Complete Guide to Business Risk Management*. (Edition: 3rd). Routledge