



Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P. O. Box 49274, 00100
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
THIRD YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 14th December, 2023
Time: 11.30am –1.30pm

KFI 306 - RISK MANAGEMENT

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

CASE STUDY: SAMUKA ENTERPRISES CORPORATION

Samuka Enterprises Corporation, a prominent multinational entity, embarked on a pivotal expansion strategy aimed at diversifying its product portfolio and extending its global reach. The company set its sights on penetrating a new market, one characterized by significant volatility stemming from political unrest and economic fluctuations. Within this context, several key risks emerged as pivotal factors influencing their strategic trajectory. First and foremost, the prevailing political climate in the targeted region was fraught with uncertainty, marked by frequent protests and unpredictable policy shifts. Additionally, the market's history of economic volatility, including rampant inflation and currency devaluation, posed substantial financial challenges. Moreover, the region's limited infrastructure and unreliable logistics raised concerns about potential disruptions in the company's supply chains. Added to these challenges were the stringent and often changing local regulations that demanded meticulous compliance. In response to these identified risks, Samuka Enterprises Corporation meticulously crafted a comprehensive risk management strategy. They opted for a diversified investment approach within the market to counterbalance the potential impact of political and economic fluctuations. Financial instruments were judiciously employed to hedge against currency risks and market fluctuations. Collaborating closely with local partners facilitated a nuanced understanding of regulatory intricacies while mitigating compliance-related risks. Furthermore, robust insurance policies were secured to cushion against potential supply chain interruptions and political instability. Despite these formidable challenges, Samuka Enterprises Corporation's astute risk management approach enabled them to establish a robust foothold in the new market, minimizing the adverse impacts of political unrest and economic turbulence. This case study underscores the critical importance of proactive risk assessment, diversification strategies, adaptive financial hedging, and the value of local partnerships in navigating uncertainties within new markets, presenting an instructive model for students studying risk management in finance.

- a) As per the excerpt above, firms perceive risk differently, and this guides their approach to risk management. Giving examples in each, describe the three risk attitudes as identified in risk management. (6 marks)
- b) Using examples, differentiate between the following terms identified as potential threats to Samuke Enterprises.
 - i) Subjective risk and objective risk (2 marks)
 - ii) Pure risk and Speculative risk (2 marks)
- c) For risk management to be effectively implemented in Samuke's operations and activities, it must fulfill some conditions. List any three characteristics of risk management. (6 marks)
- d) It is advisable for all firms to have an operational risk department and adequate staff depending on their size and potential risks. Highlight any four functions of a risk office in this department. (4 marks)
- e) Highlight any three roles played by Samuke's board of directors with regard to risk management. (6 marks)
- f) Information asymmetry arises when two contractual parties possess different amounts of information. Distinguish between the moral hazard and adverse selection. (4 marks)

QUESTION TWO (20 MARKS)

- a) Failure to properly identify a firm's exposure to risk can be catastrophic both legally and financially. Explain the common mistakes that a risk officer may make that could be costly to the firm. (8 marks)
- b) A risk policy is neither important nor relevant to a firm's approach in risk management. True or false? Justify your answer. (6 marks)
- c) Risk identification is done when a company seeks to establish its exposure to risk. Evaluate the crucial questions that should be addressed during this process. (6 marks)

QUESTION THREE (20 MARKS)

- a) The risk management process is a continuous cycle that ensures all aspects regarding risk are well taken care of. Discuss the steps involved in the risk management process. (10 marks)
- b) Businesses face different risks depending on their business environment. Describe any five categories of risk that firms are exposed to. (10 marks)

QUESTION FOUR (20 MARKS)

- a) Risk measurement deals with determining the potential impact of identified risks. Describe any three methods used in the measurement of risk by firms. (6 marks)
- b) Adoption of risk management has significantly increased in the last decade and it is being practiced more conspicuously now. Discuss the factors that have contributed to the rapid growth of risk management in Kenya. (6 marks)
- c) Risk management aids businesses estimate the extent of their risk exposure and the decision on how to handle the risk or potential opportunity. Expound the various strategies and financial options for managing risk. (8 marks)

QUESTION FIVE (20 MARKS)

- a) Insurance ensures that a business minimizes the probability of a risk or loss occurring and is well covered in an eventuality. Briefly explain the five principles of insurance. (10 marks)
- b) Enterprise risk management is meant to minimize the effects of risk on an organization's capital and earnings. Elucidate any five challenges firms encounter during enterprise risk management. (10 marks)