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ASPECTS OF ENTREPRENEURIAL RISK

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Abstract:

Entrepreneurship is a process of universal connectivity, through which business ventures are exposed to various risks. The subject of this paper is to present research on the various aspects on topic of risk in entrepreneurship. Research has shown that the tendency among entrepreneurs to make decisions that can be risky are very common, depending on many variables, such as risk perception, attitudes towards risk taking and willingness to take risks. And in the end it was pointed out that the following characteristics of entrepreneurs are essential for determination of risk preferences: size, length and type of business, the amount of profits of start-up funding, funding sources, number of employees and the like.

Key words:
entrepreneurship,
risk,
decision-making processes,
risk taking propensity.

1. INTRODUCTION

The subject of this paper is the presentation of research regarding aspects of risk in entrepreneurship. Entrepreneurship is a process of universal connectivity, which allows business ventures, acquisition or expansion of an existing business. According to Knight and Schumpeter entrepreneurs are considered to be carriers of the risk and uncertainty in business process of decision - making, including innovations related to products, production methods, markets, and types of industrial organization [7]. Cooper and Dundleberg define the entrepreneur as a person who either is alone or is managing a business, and McClelland define as a business manager who brings and takes responsibility for decisions making [14]. Entrepreneurial ventures involve gathering of natural resources (personnel, equipment, tools, money, time and basic raw materials) in order to start the company with expected revenue. These resources, and the risk they carry, should recognize and utilize them to reduce losses and increase profits.

The definition of micro, small and medium enterprises (SMEs) should be classified in the context of the country in which they operate, as usual, the concept varies depending on the country [7]. The criteria should include paid-in capital, shareholders funds, turnover and number of employees, or a combination of those.

Definition of risk and its elements is complex and multifaceted. Generally, as Redja has defined, the risk is related to the uncertainty in the loss occurrence. Yates and Stone define it as the degree of uncertainty and the potential loss that can follow a particular process, and Greene as “uncertainty about the occurrence of economic loss” and “measurable uncertainty” as reported by Knight. According to Willett - as “objective uncertainty about the occurrence of adverse events”. In addition to uncertainties, including the risk that losses may be more than financial or economic. Crowe and Horn defined risk as involuntary loss of reduction in the capacity of a legal entity to satisfy their desires [7].

2. ENTERPRISE RISK

The entrepreneur is the recipient of risks tending to overtake business risks. Busenitz noted that the basis of risk is “the dominant theme through the literature on entrepreneurship and risk and that is essential how entrepreneurs are predisposed to act toward risky alternatives or how to manage it” [5]. However, this statement is inconsistent with that given by McCarthy, who says that “... structural risk dominates the literature on entrepreneurship and ability to cope with risk has been identified as the primary challenge to entrepreneurs” [9].

Business risks arise due to uncertainty about the future effects of current decisions; that business choices should consist of an assessment of outcomes and possibilities that it differs from expectations. Bird distinguishes five types of risks related to all entrepreneurs: (1) economic risk, (2) risk in social relationships, (3) risk in career development, (4) psychological and (5) the health risk [3]. Harrington and Niehaus noted that there are more types of risk that can be applied to business decision-making process, such as price risk, credit and pure risk [9]. Price risks include market risks related to the implementation of the business plan, product demand, and issues of cost and price which include output and input. Romano et al. say that the cost of operating risk in relation to financial risks include credit, cash flow, working capital and foreign exchange [7]. It can be concluded that many of these risks result of pressures related to growth companies, entrepreneurial culture and information management.

Other types of business risk is the credit risk posed by the chance and magnitude of financial loss. There is a clear risk, also. They affect the business, due to decrease in the value of business assets, and may be: the demolition of the building structure, damage to equipment, inventories, business records, or other assets; recovery and replacement costs after a fire, flood, typhoon or other natural disasters; and loss of income during recovery. Pure risks include losses due to delivery companies or those that arise for crimes such as embezzlement and robbery.

Liles emphasizes that any new venture of the entrepreneur, relating to the financial situation, career or psychosocial health of employees, confronts with the disruption of existing social relations. Monetary risk, can affect the appearance of large losses, which results in a lower standard of living. Potential entrepreneurs should be advised to carefully analyze the risks, because the financial and emotional consequences of failure may be fatal, hence the decision depends largely on the perception of potential entrepreneurs for the risks involved. [7].

Raghavan, [11] mention, among risks in the SMEs sector, following:

1. Creation of a business entity involves risks caused by the lack of professionalism and responsibility placed on one or two key people in decision-making processes and business management.
2. Reduced power of financial structure occurs when an economic entity limits the mobilization of resources and efforts of SMEs to be able to raise capital and borrowings.
3. Fierce competition and inadequate margin business are the result of high competition.
4. Poor collection of receivables related to the liquidity of the SME sector.
5. Inability to follow technological progress by optimizing available resources caused by poor finances and the ability to synchronize the financial structure.
6. Employees in SMEs require additional costs in the form of education and training in order to provide results that ensure continuity of work and increase productivity.
7. The institution provided loans for SMEs must be able to cover social entrepreneurial activities. Access to financing micro enterprises through repayment of incentive structure, simplifying administration, etc.
8. There should be provision of security. Banks should carry out a detailed investigation and analysis of business of debtor as they already have protection and that will be reflected on the credit-worthiness.
9. Loans and advances to banks are considered as the primary source of external funding to support the growth of the industrial sector. Business owners are aware of the venture perspectives.

These risks are presented in Table 1.

Authors of classification		
Bird (1989)	Harington and Niehaus, (2004)	Raghavan, (2005), MSP
Economic risk Social relations Career development Psychological Healthcare	Price risk Credit risk Pure risk	Lack of professionalism Limited funding Great competition Poor collection of receivables The advancement of technology Education and training The credit policy Security for granting loans awareness lenders

Table 1: Types of risks in the enterprise business

3. PROPENSITY FOR RISK - TAKING

Many researchers have so far determined the three variables of risk: risk perception, a tendency toward taking risk and willingness to take it [7]. Brockhaus defines the propensity for taking risks as: "The probability of winning a prize in connection with the realization of the proposed solutions to the situation, as an alternative situation which may provide less of a reward, as well as less serious consequences than the proposed situation." [4].

According to the authors Junehed and Davidsson -risk taking can also be defined as one of the three dimensions of entrepreneurial orientation of the company and refers to the readiness of organizations for the purpose of assigning significant resources that provide opportunities that may be uncertain [10]. Sitkin and Veingart define risk perception as a subjective interpretation of the expected loss, which affects the individual, and is related to uncertainty in decision making and the consequences they bring [13]. Risk propensity is usually defined as a general tendency toward any individual taking or avoiding the same, in the context of decision-making [10]. Risk propensity is a common tendency to accept or avoid it [13]. Such decisions are made in high-risk situations. Therefore, risk for passing the initiative is necessary in order to achieve good results in turbulent markets, as business owners or managers who dare to take on greater risk will take actions that are appropriate and provide better performance.

Aaby and Slater pointed out that an organization with an international vision, favorable perceptions and aspirations towards international business, is willing to take risks and have the capacity to positively engage in international business activities and will probably lead the company to business success [1]. Accordingly, in order to reduce risk, entrepreneurs are required to identify the variables affecting their business.

Beglei, [2] is based on the willingness to take moderate risk, or that entrepreneurs face different situations, they tend to his takeover, and, according to Mitton are willing to accept the unknown [7]. McClelland says that individuals have a moderate risk preferences if they have a need for improvement [14]. Liles believes that entrepreneurs often have to rely on the uncertainty regarding the financial and psychological well-being, providing security career and good family relationships to the stuff [7]. The tendency toward taking risks in the group, as suggested by Sitkin and Pablo, is related to outcomes of previous risky decisions and may influence the propensity to risk [12].

Groups, that had a realization of operations with more positive outcomes, showed a greater propensity to risk, and, also, a group with higher levels of collective efficacy may have an increased susceptibility to hazards because it feels more capable of handling the problems that arise, and groups with more ambitious goals may have a higher risk appetite, because it is essential for their success [6]. Environment is another variable that may also play an important role, the group may have a higher risk appetite if it is valued in the social environment of the group. According to Moreland and Levin, it is greater susceptibility to danger, since there is less fear of failure, if it is expected to provide the necessary assistance to the business partner [8]. If the consequences of failure are less, you can take greater risks. The above views of the author are presented in Table 2.

Brockhaus 1980	Aaby - Slater 1989	Sitkin - Pablo 1992	Moreland - Levin 1994
Rewards related to positive outcomes	International vision, good perception	Outcomes related to previous risky decisions	Failure Consequences smaller, readiness bigger
Sitkin -Veingart 1995	Beglei 1995	Junehed - Davidsson 1998	
Subjective interpretation. The common tendency to accept - is to avoid the risk	Moderate risk overtaking	Distribution of resources that give the uncertain possibilities	

Table 2: The tendency towards risk taking attitudes of certain theorists

4. CONCLUSION

The risk in entrepreneurship is a normal phenomenon which should be prepared by all participants in the operations of an organization. It is defined by three variables: risk perception, attitudes towards risk taking and willingness to take risks. SMEs are confronted with the nine factors, which cover: start - ups, finance, employment and human resources, the introduction of technological innovations, placement and control. In addition, each manager should be aware of the risks, which might occur during operations processes and managing of the organization and to clearly determine its propensity toward taking risky actions as well as his/her ability in dealing with arising, high-risk situations.

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ASPEKTI PREDUZETNIČKOG RIZIKA

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Apstrakt:

Preduzetništvo predstavlja proces univerzalne povezanosti tokom poslovanja koji je izložen mnogobrojnim rizicima. Predmet ovog rada jeste prikaz istraživanja na temu aspekata rizika u preduzetništvu. Istraživanje je pokazalo da je sklonost kod preduzetnika za donošenje odluka koje mogu biti rizične veoma česta, i da zavisi od mnogih varijabli, poput: percepcije rizika, sklonosti ka preuzimanju rizika i spremnosti da se preuzme rizik. Na kraju rada je istaknuto da su sledeće karakteristike preduzetnika bitne za determinisanje sklonosti ka riziku: veličina, dužina i vrsta poslovanja, iznos profita od start-up finansiranja, izvore finansiranja, broj zaposlenih i slično.

Ključne reči:

preduzetništvo,
rizik,
proces donošenja odluka,
sklonost ka riziku.