

## THE ENTREPRENEUR AND THE RISK

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**Abstract:** Since the beginnings of history, risks have been one of the greatest and most fascinating challenges for the humanity due to its omnipresence in all fields of activity. The risk is inherent for any entrepreneur. And, as each activity performed by the entrepreneur differs, so do the risks. The control of the risk represents the key to a successful business. The risk management implies identification of risks that could affect the success of a project and their proactive administration in order to reduce their impact.

### 1. INTRODUCTION

According to the classical theory of decision, it is identified as an uncertain but possible element that appears permanently in the process of the socio-human activities, whose effects are damaging and irreversible<sup>1</sup>. Whereas according to the dictionary the risk is defined as “exposure to the possibility of loss or damage”, the insurance companies consider this element as “a hazard or a possibility of incurring loss”.

Referring to the quantification of these risks, it can be stated that “the measuring of the risk is performed either analysing the non-linearity of the utility revealed in money, or by the variation of the distribution of the probabilities of the possible gains and losses, for each particular choice.”

According to the definition, the risk can be rendered schematically by the following equation:

$$\text{risk} = \text{magnitude} \times \text{probability}$$

magnitude of the consequences
probability that the accident occurs

This represents the definition of the risk from the perspective of the experts. Form the public's perspective, the definition becomes:

$$\text{risk} = \text{hazard} + \text{outrage}$$

The outrage will be the feeling of fury, revolt, strong and justified emotion

Other definitions for the risk:

- The chance of losing
- The possibility to lose
- The uncertainty that affects the result
- The real dispersion of the foreseen results
- The multidimensional concept that cannot be reduced to a sole element, to a figure

<sup>1</sup> [http://www.managementul-riscurilor.ro/index.php?option=com\\_content&task=view&id=30&Itemid=37](http://www.managementul-riscurilor.ro/index.php?option=com_content&task=view&id=30&Itemid=37)

Thus, we can state that the notion of uncertainty is present in all the definitions of the risk, as the validation of its existence will always lead to the existence of two possible distinct results.

In business, the expression “He who does not risk does not gain” is well-known, such as its variant “He who does not risk, stays with what was left after the others made their choices”. Starting from these expressions, we can say that in business the risk is wanted and assumed in order to obtain a profit.

The risk is inherent for any entrepreneur. And, as each activity performed by the entrepreneur differs, so do the risks. The control of the risk represents the key to a successful business. The risk management implies identification of risks that could affect the success of a project and their proactive administration in order to reduce their impact. “Conventionally, the entrepreneur is identified with the person that agrees to take risks so that he can catch and benefit from the opportunities on the market, being himself the creator and the manager of the business”<sup>2</sup>. He has to set these risks against the advantages he might have if he succeeds, he has to analyse the market he wants to address to, to segment it and then choose it. If he neglects these aspects, his chances of success will diminish.

The risk management presents five components:

- Identification – listing all potential risks associated to the project
- Analysis – agreeing upon the possibilities of incurring risk, the potential impact, time extension and costs
- Planning – realizing plans for reducing risks to an acceptable level and identifying associate costs
- Pursuing – making sure the planned actions have been accomplished and monitoring the maturation of the identified risks
- Control – sorting out the risks as they are appearing

Considering that the degree of manifestation of the risk is directly connected to the probability of its occurrence, we can put forward a classification of the gravity of the risks according to the probability of its occurrence.

Events can thus be:

- Very risky – when the probability of their occurrence is very high
- Of medium risk – when the probability of the occurrence of these events is moderate
- Of low risk – when the probability of the occurrence of such events is low

## 2. THE CLASSIFICATION OF THE RISKS

A) considering the magnitude of their production or the effects they trigger

- risks more or less serious
- risks more or less known
- risks harder or easier to avoid

B) according to their production manner

- pure risks: consequences of some casual events that cannot be foreseen (hurricanes, earthquake, fires, floods, wars, bomb attacks etc.)

<sup>2</sup> Simionescu Aurelian-coord, *Manual de inginerie economică*, Editura Dacia, Cluj-Napoca 2002

-speculative risks linked to decisions made within a company or an investments project, being events with a high likeliness of occurrence depending largely on a series of external factors influencing these processes

C) regarding their dimension and evolution. Thus, we can identify:

-macrorisks – the result of the evolution in a certain direction of one institution (or of the management of an investments project)

-microrisks – determined by the endogenous factors specific to the firm's sector of activity

In order to approach risk, an entrepreneur must use means and methods of managing uncertainty, as major basis of the risk's factors, in order to fulfil the objectives described within the project. Only an extremely rigorous approach, constant on all levels of the project's realisation can lead to an efficient control over the activities of the project and the reduction of the risk factors.

### 3. IDENTIFICATION OF RISKS AND STRATEGIES OF DIMINISHING THE RISKS

For an entrepreneur, the identification of risks practically represents the outcome of an ensemble of factors: special abilities, relevant experience in the field gained by the person involved in such activities and, last but not least, his art in successfully using the managerial specific techniques.

As for identifying the risks, within the modern theory, four major distinct categories are known:

1. Working out a list of possible risks. Working out a risk profile
2. Establishing risks on the basis of previous experiences
3. Comparing the risks with those arisen within similar projects
4. Establishing the risks likely to occur in the process of the activities

After defining the risks and their probabilistic estimate, the main problem of the entrepreneurs was finding the optimum reply strategies to reduce risks within the investments projects.

1. Acceptance of risks – refers to the way in which the entrepreneur understands the risk and the probability of its occurrence, as well as the estimated consequences brought about, and takes the decision of not acting towards removing it;

2. Avoiding the risks – represents the second strategy used in certain conditions for minimising the risks. It is important to mention here that minimising risks does not mean avoiding making managerial decisions. This strategy is usually implied in the situation when the purpose is altered or when a part of the project is cancelled, circumstances that can produce big disturbances both within the estimated activities and for the results awaited, when it is considered an act of wisdom from the entrepreneur to avoid the risk of accepting such alterations that may lead to major problems;

3. Monitoring the risk and preparing the plan for unforeseeable situations. this process is based on choosing a set of indices and watching their evolution;

4. The transfer of risks – is well known that within a series of activities that imply special risks or use very expensive techniques, it is preferable to insure the latter with institutions specialised in the field of insurance. This process is practically a transfer of the risk towards another institution, specialised in insurances, and obviously possessing superior competences in monitoring and controlling risks. That is because with several very important contracts, involving consistent insurance sums, no insurance company can easily cope with honouring the insurance money stipulated in the contract. These examples identify the direct

methods of risks transfer in the case of certain projects or between the insurance companies themselves, against these factors. There are also ways of indirect transfer of the risks, such as employing an expert, within a project, in order to evaluate and monitor the process of certain activities, representing essentially another form of risks transfer, this time from the project manager to another person considered more experienced or competent in the field.

5. The systematic reduction of the risks – represents practically a complex of methods and strategies designed to systematically diminish the risks until their settling within a limit acceptable by the entrepreneur.

In the end of this paragraph, we can state that even though they were distinctly approached, these strategies of risk diminution are rarely used individually, the most frequent form employed by the managers being that of combining them with the view of using a complex strategy, able to provide, in time, an adequate answer.

#### **4. THE ENTREPRENEUR'S ATTITUDE TOWARDS RISK**

Most modern theories on the decisional theory start from the general idea of individuals' aversion towards risk, regardless of the nature of their jobs, as the human being intrinsically chooses to doubtlessly reach a result, against an option that lacks the sure certainty, which could nevertheless lead to the same finality.

The studies of speciality state that attitude towards risk is a clear characteristic of each individual, linked to the development of the personality and to his culture. Due to the complexity of the phenomenon, as well as to the multitude of theories circulating in the domain of risk, the researchers' opinions are not always consistent in what the various characteristic aspects implied in this process are concerned.

Whereas for certain aspects as the appetite for risk, the researchers have agreed that it is by and large associated with some peculiar features of the personality of the individual making the decision, in what regards the distinction on scientific basis of the risk takers from the other members of the same culture or profession, the opinions of the investigators in the field diverge. These inconsistencies between the researchers' theories are though, generally, thoroughly justified, as, while the appetite for risk is considered by the specialists a stable element of the personality, the attitude towards risk as well as its perception by the individuals depend on variable elements such as: feelings, the way of perceiving reality, humour etc. While these characteristics are to be found at a general decisional level, a particular situation is that of managers or people involved in the management of certain business association, companies etc.

In accordance with the firm's turnover, the field of activity as well as their complexity, the respective society has or does not have a department specialised in the domain of prognoses, in order to identify, monitor and minimise risk factors, a structure managed by a risk manager. The latter needs to have a high qualification in the field and should be permanently in contact with the latest news and with the scientific researches into the strategies of fighting and/or diminishing risks.

For the smaller societies or companies, which do not have such specialized departments, the risk management activities are undertaken by the general manager of the said firm, who will necessarily include in his agenda this type of activities.

## 5. CONCLUSIONS

The change is inevitable in the present society; what really counts is the approach in team: management, employees, unions; both the strategy and the ways to follow in order to achieve it have to be established by all the people involved in this process after a thorough investigation into the matter. Regardless of the risk management system applied, the studies of speciality show clearly that undertaking risk is at the same time a necessity and a pleasure within the attributions of the management, revealing also the fact that this measure has more often a personal reason than an incentive one.

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