

THE INNOVATION AND THE RISKS' MANAGEMENT

Mirela BUCUREAN, Naiana ȚARCĂ, Ioana HOREA

University of Oradea, Faculty of Economics

e-mail: mbucurean@uoradea.ro, ntarca@uoradea.ro, ihorea@uoradea.ro

Keywords: innovation, risk, entrepreneur

Abstract: Change is the one who is always offering opportunities to create something new, something different. Systematic innovation therefore consists in the organized, purposed search for change and in the systematic analysis of the opportunities that these changes provide for economical or social innovation. 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. INTRODUCTIONS

Innovation is the characteristic tool of entrepreneurs; it is the means through which they exploit change as a possibility to accomplish different businesses or services. It is necessary for entrepreneurs to consistently search for innovation sources, their changes and symptoms, which indicate the possibilities of realization of successful innovations. Nowadays, because of acerb competition, entrepreneurs have to practice systematic innovation. The innovation represents the process of development and implementation of new ideas inside an organization. The innovation is the main action that permits observance of the principle of the total quality management – the continuous development.

In the specialized literature a stress is placed on the innovation of products and innovation of processes. Innovations of products have a direct impact upon cost, quality, style or availability of a product or service. Innovations of processes are new methods of designing and manufacturing the products or of their delivery. For instance, a new technology is an innovation of process. At the same time, the new forms of organization of the management and of work, including diversification of positions and the quality programmes are also innovations of process.

The degree of innovation can differ a great deal. We can talk about a new vision regarding the way of arranging machineries in a workshop that eases the work of the employees and increases work productivity by 1% or about 100% new product, such as the biophotonic scanner, which, in no more than 3 minutes, measures the level of the antioxidants in the body.

The most palpable effect of the innovation is a new product or one considerably bettered. It has been noticed that the time necessary for bringing on the market a new product has considerably shortened during the last decades, which demonstrates the organizations' pregnant preoccupation for innovation. It is considered that the success of the organization is directly proportional with its capacity of innovation, capacity rendered by: the quality of human resources, a participative management style, the openness of the managerial staff towards innovation, an adequate rewarding system, infrastructure available for the research, financial resources allocated for innovation. Unfortunately, the Romanian organizations haven't been

particularly preoccupied with innovation, this being one of the reasons for their low competitiveness on the foreign market.

Innovation at enterprise level is conditioned by a series of specific factors, both to the enterprise as an institution, as well as to the people, as they are: the coherency of strategy, the clarity of the objectives, a sufficiently high enough financing degree and a proper management of the innovating activity, the existence of complete teams, capable of solving complex problems which may appear during the development of the project, the existence of clear results' and people's work evaluation, the existence of a competitive climate, both inside and outside the enterprise.

2. THE RISK AND THE MAJOR THREATS TO THE FIRM'S SURVIVAL

Moreover the modern theories appreciate the existence of three essential motivations in undertaking expected risk factors:

- The success of a managerial decision is indestructibly linked to the undertaking of some risks
- The risk factors represent for the managers elements necessary to be considered, their undertaking belonging more to the professional nature than to the personal propensity of the individual towards this chapter
- The undertaking of the risk factors by the managers imply a special emotional contents due to the anxiety, fear, excitement an exhilaration but also to the danger felt by the person deciding. Besides these three main reasons, one should also obviously take into account the variations noted because of the different circumstances, the attitude of the managers towards risk depending, after all, on the relation between the position detained at a certain moment by certain elements considered of reference: the level of profit, the amount of liquidities and the sales at a certain level.

The main studies reveal that regardless of the domain in which they perform their activity, the managers are more likely to be tempted to reject risk than accept it, as they react generally rapidly to the information they receive on short term as well, instead of anticipating future events. In this view, the main form of avoiding risks consists, for the managers, in negotiating contracts which according to the stipulated clauses would amortise the general uncertainty and the instability of the market and of the economic environment.

Studying the managerial behaviour Mac Crimmon and Wehrung noticed that one of the methods applied by the leaders of some institutions as for undertaking risks is constituted by avoiding taking them and delaying decision making by delegating other people to perform activities specific to the management. Other opinions in this field show that managers avoid fighting risk as they consider it a controllable element not accepting the idea of its uncertainty and implicitly its inherent undertaking. So Keyes shows how people having entrepreneurial drive and an appetite for risk try to rather dominate the uncertainties of the destiny instead of accepting the undertaking the risk. Leading the research on another direction of studying Adler established a clear distinction between the managers that avoid risks and those who undertake them mentioning that the latter are not satisfied with taking them, permanently trying to master and change them.

The International Credit Agency issued a list of "10 major threats" to the firm's survival due to the lack of evaluation of the risk:

1. Wrong location of the business. This is part of the marketing policy: it involves lack of promotion of certain fair advertisements and defectively choosing the market.

2. Too much capital stuck in fixed assets. The efficiency of the usage of the fixed assets is low.

3. Shortage of capital. Too large investments in fixed actives have been made and there is not enough mobile capital to continue the production.

4. Problems with the credits. There are no resources to refund the debts.

5. Wrong management of stocks.

6. Uncontrolled expansion.

7. Improper capitalization. This is caused by the risk of the activity; if the risk is high, the dividends demanded by the investors will be high, the dividends are paid from the profit obtained and the reinvested amount will be smaller.

8. Lack of experience and qualification. There is no interest in improving the level of professional qualification of the employees.

9. Problems with the personnel. If the activity goes less than well the personnel will be tempted to find some other job (especially the employees who are well qualified).

10. Bureaucracy. It is found in the activities with unsatisfying results.

Other specialists have analysed the problem from another perspective and put together "7 factors of success" in evaluating risks:

1. Tendency towards action. This condition is supported by the organizational structure; the organization charts have to be under the form of a short and wide pyramid.

2. Closing near the client in order to understand his needs.

3. Autonomy and decentralization in making decisions.

4. Simple management based on values.

5. Reaching the assumed target, as they say "knitting the appropriate model"; in the process of activity renewal things should progress in small steps.

6. A qualified and dedicated personnel.

7. A control of the activity as strict as possible.

3. GENERAL EVALUATION OF RISK

General evaluation of risk comprises, by and large, of three segments:

a) Evaluation of the background: the economy as a whole, the sectors of activity and the enterprise,

b) The study of the enterprise organization: strategy, planning, budgets, control of the accounts, identification of the cycles of activities and fluxes of significant operations,

c) General analysis of the financial situation and of the results.

All these end with a periodic report at the disposal of enterprise's management.

There are four categories of people for who there have to be identified differentiated methods of encouraging change:

1. the economic man, motivated by economic stimuli, having a passive position towards change, being at the disposal of the organisation that holds the stimuli

2. the social man, having besides the strictly individual motivations some ample motivations as well, of a social nature; e.g.: the desire of fulfilment comparing to the other members

3. the man motivated by intrinsic elements that result from the activity he performs in within which he has to enjoy autonomy and even independence as these improve considerably the feeling of responsibility and the level of performance

4. the complex man, the most evolved hypostasis, driven by a great variety of elements that can combine in various ways. He presents various and variable attitudes, the interaction between him and the organisation is so strong that it generates a complex ensemble of individual and incentive factors that make him act plenary and effectively from reasons often unpredictable and hard to identify.

4. THE RISKS' MANAGEMENT

We have to proceed for the preliminary that the intelligent reaction to the challenges of the events with risk change a disaster into an opportunity.

This stage of the risk management has to comprise compulsorily the following steps:

- Checking the correctness of the risks identification
- Observing whether the risks have been correctly allotted: the risk has to be allotted to the person capable of managing it best
- The risks' priority: accomplished by means of the Risk's Matrix in order to confer a special attention to the risks lying in the areas of maximum probability and impact
- Verifying if there have been solutions contractually stipulated for all the risks

To control means to understand, to be able to quantify and become aware of the consequences. Considering these three major aspects more and more sophisticated and diversified theories have come up in time, in connection with the identification of, and the methods of measuring, the risks, and elements of the theory of decision. It is interesting to note also the fact that, irrespective of the complexity of the theory or the mathematic model employed in the calculation of the prognosis elements, the questions an entrepreneur has to answer permanently are as follows:

- What are the risks for the activities developed by the organisation?
- What are the losses likely to result from the risks undertaken?
- How significant are the losses within the total costs of the investment?
- How serious the losses could be in the event that the most pessimistic prognoses come true?
- What are the alternatives they might have for solving the crisis situation?
- How can the risks be eliminated or diminished?
- Would the accepted decisional alternatives lead to undertaking greater risks?

Considering the answers to these questions, the main risks that could bring about failure and critical situations can be roughly identified.

5. CONCLUSIONS

It is obvious that the entrepreneur's actual innovation and innovative spirit are of great importance. Many entrepreneurs are very capable and obtain expected results in production or product opening, but very few know how to sustain a creative innovative activity or to stimulate the creativity and innovative spirit of the staff he is working with in research. The implications are the more obvious if we consider the fact that the force of modern development consists in the capacity of inventing and then in the capacity of creating new products based on innovations. To be able to adapt to these imperatives, the entrepreneur needs to embrace the new and challenge it.

References

- [1] Drucker, P., *Inovatia si sistemul antreprenorial*, Editura Enciclopedica, Bucuresti, 1993.
- [2] Gilder, G., *The spirit of enterprise*, New York: Simon&Schuster, 1984.
- [3] Kaufman, A, Gilaluya, J., Gil Lafuente, A., *Creativitatea în managementul întreprinderilor*, Editura AIT Laboratories, București, 1995;
- [4] Merfea, Bogdan, *Aproape totul despre managementul întreprinderilor mici și mijlocii*, Brașov, 1998
- [5] Sebastian Vaduva, *“Antreprenoriatul”*, Editura Economica, Bucuresti, 2004