

Risk - The Element of Uncertainty in Business Activity

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Abstract

This article describes the role of risk in business. The author also presents the factors influencing entrepreneurial activity. Following the analysis of the researchers' opinions regarding the concept of risk, the author describes her own vision related to the notion of risk.

The importance and complexity of risk in the business economics is also researched.

This article will be useful for professors, students and business researchers dealing with the sciences of entrepreneurship.

Key words: firm, risk, business, business strategy, entrepreneurial activity

J.E.L. classification: L20, D81, M21, L1, L26

1. Introduction

Risk is an undesirable event that can have a negative impact on the intended objectives of the business.

There are several opinions of those who study business, especially of those who work in this field, where risk manifests itself as an element of uncertainty in their activity.

The term risk is defined differently in specialized works in the country and abroad.

2. Theoretical background and Research methodology

The author Nicolae Hoanță, reveals the notion of risk, as "the probability of an unfavorable event to take place. Risk can also be defined as the probability of success or failure, in which success means making a profit and failure involves suffering a loss of money from an investment" (Hoanță, 1996).

Aurel Giurgiu is of the opinion that the risk represents "the probability of an unwanted event occurring" (Giurgiu, 1995).

According to the Explanatory Dictionary of the Romanian language, the term risk comes from the French language, from the word risqué and means a "possibility to reach a danger, to face a trouble or to suffer a damage: possible danger" (Dobrotă, 1999, Creaza.com, 2021).

And, according to the Latin meaning, the term risk refers not only to the chance of losing, but also to the chance of winning.

The definition of economic risk given in Nita Dobrota's "Dictionary of Economics" is that of an uncertain and probable event or process that may cause damage, loss in an economic activity, operation or action. Unlike uncertainty, economic risk is characterized by the possibility of describing a law (rules) of probability for the expected results, as well as by the knowledge of this law by those interested (Dobrotă, 1999).

In our opinion, the risk is a lightning that negatively influences the entrepreneurial activity, but at the same time it can also bring benefits.

The risk is between certainty and uncertainty. It is an impact on the activity, for which the decision maker must identify the possible events, and even the probability of their materialization.

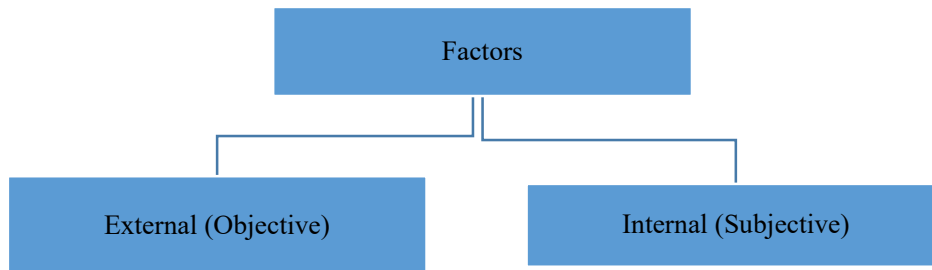
In the activity of an enterprise, the risk intervenes in any field of activity, which can affect them. Another problem, in the process of identifying the risk, consists in highlighting the factors, which determine the appearance of the risk at enterprise level in any field of activity of the enterprise, be it

economic, social, financial or political. Therefore, it is necessary to monitor and analyze the risk factors in order to formulate a response strategy that reduces the effects felt.

The occurrence of risks may be the result of decisions received inside or outside the company, such as: the actions of competitors, suppliers, public opinion, changes market conditions, lack of necessary information, etc.

Specialty literature highlights two large groups of factors that influence the occurrence of risks:

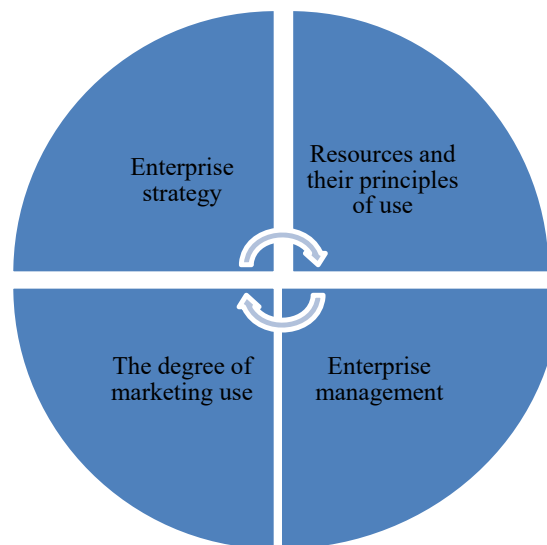
Figure no. 1. Classification of risk influencing factors



Source: Elaborated by the author based on materials (Stihi, 2010, Scutari, 2020).

The internal factors are those that appear inside the enterprise and that influence only its activity. In turn, the entrepreneur can directly influence these factors, reducing the subsequent negative consequences or capitalizing on the expected positive ones. These factors are related to the factors of the internal environment of influence of the enterprise, namely:

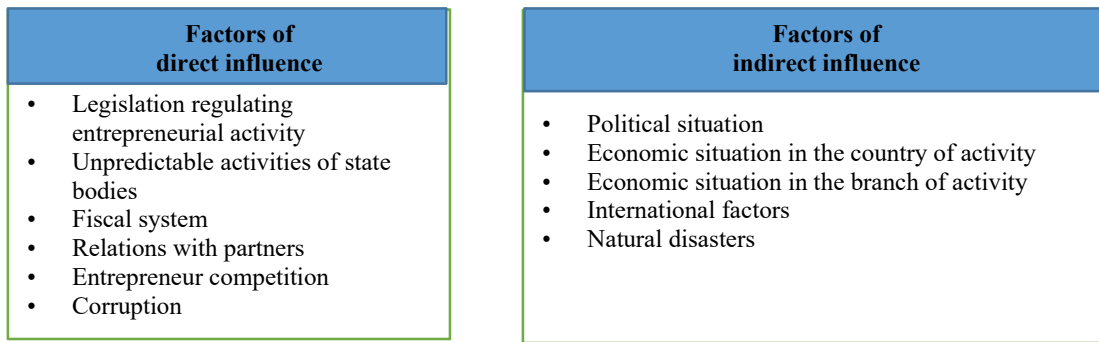
Figure no. 2. Classification of internal factors influencing risk



Source: Elaborated by the author based on the materials: (Stihi, 2010).

External factors are those that present a danger to the company from the outside, which the entrepreneur cannot influence, but is obliged to take them into account, as they contribute to his result and activity. External factors are divided into two groups: factors of direct influence and indirect influence.

Figure no. 3. Classification of external factors influencing risk



Source: Elaborated by the author based on the materials: (Stihi, 2010, Scutari, 2020).

The multitude of factors, which give rise to business risk, conditions its assertion in different situations:

Any study carried out at a company cannot find out exactly whether everything that was produced will be also sold. Demand for a company's products is usually unknown, as consumer choice, price, and supply size are unpredictable. Therefore, the instability of the demand, of the sales, of the price, determines the appearance of the risk in the life of the enterprises.

In some countries, entrepreneurs who run a certain business are encouraged and supported by state bodies, and in other countries future entrepreneurs are ignored.

3. Findings about entrepreneurship in the Republic of Moldova

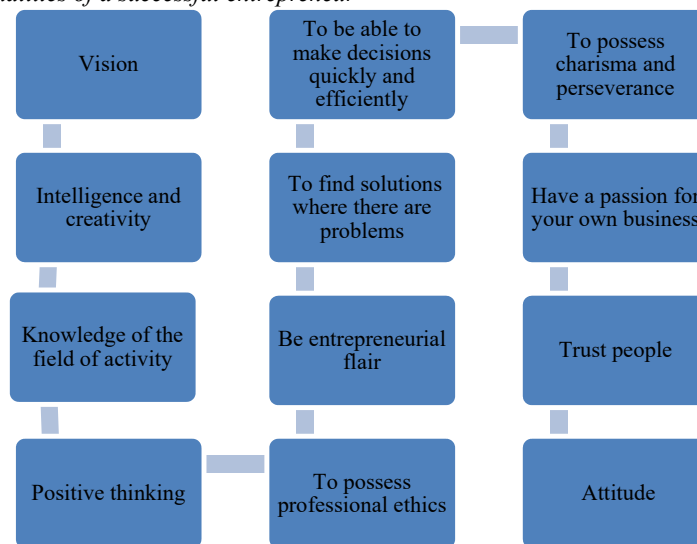
In the Republic of Moldova, the procedure for registering enterprises since 2014 has been simplified. Thus, maintaining the business is easier after the first two years of activity.

But, unfortunately, there are still other factors, apart from those listed above, that can affect the process of entrepreneurship.

Entrepreneurial competence. The main cause of the failure of the newly opened enterprise is entrepreneurial incompetence. Many entrepreneurs do not have the necessary qualities to run a business. The entrepreneur must have skills in production, finance, supply and sales.

According to Marius Ghenea, the qualities of a successful entrepreneur are:

Figure no. 4. The qualities of a successful entrepreneur



Source: Elaborated by the author based on the materials: (Marius, 2011, Scutari, 2020).

Many aspects of entrepreneurial incompetence can be attributed to the fact that business involvement for some people is an unexpected situation. Following the incompetence of these entrepreneurial qualities can lead to various risks related to entrepreneurial activity.

Table no. 1. The main responsibilities of the entrepreneur

1.	Inventory control	Lack of this control can lead to customer dissatisfaction and ultimately loss of customers. The entrepreneur may not only have stocks that are too large, but also their structure may be inadequate. Strict stock control avoids this.
2.	Financial control	The financial success of the company depends on the appropriate credit policy and the capital of the company, which constantly requires rigorous control.
3.	Planning	The changes that are taking place lately require the development of appropriate strategies. Well-designed plans allow the entrepreneur to reap great benefits and prevent the risks that may arise. Without well-established planning, the development of the business becomes very difficult, the entrepreneur can have high hopes and profits will be low.
4.	Location	It is often said that the business location is chosen because a place has been found available without conducting a study. This is a lossy error. In order to set up a business, two factors must be considered: the cost of business location and the related sales volume.

Source: Elaborated by the author based on the materials: (Scutari, 2020, Antreprenor.su, 2012).

For the entrepreneur to be successful, he must be a strong personality, have a developed attitude and imagination to create something, and at the same time assume some responsibilities, including these showed in the Table 1.1.

We can conclude that from the moment of opening a business, the entrepreneur becomes responsible for all the measures that have been planned in his Strategy. Assuming these tasks can lead to a profitable and less risky business.

From the specialty literature, risk is a preferred topic, which demonstrates its importance and complexity in the business economy.

In practice, companies face several risk groups, one of which would be internal and external risks.

Entrepreneurs also face in their activity natural risks, occupational risks, risks that affect health, risks that damage the environment and have negative effects on future generations, etc., whose actions are permanent.

Another risk group includes: country risk; risk in foreign exchange operations; contractual risk; risk of bankruptcy; risk in the investment decision; securities risk; marketing risk; insurance risk.

By the nature of the activities carried out within the entities, the risks are classified into:

Legislative risk - current changes in the political framework and administrative structure lead to legislative uncertainty. Among the legislative risks that have a direct impact on the development of entrepreneurship are: the change of the fiscal code, the increase of the related taxes and quotas, of the tariffs, changes in the realization of the quality and control system, the convertibility, the foreign exchange, etc.

Financial risk presents the monetary losses that affect the patrimony and the results of the enterprise. The risks related to financial products can be consumer credit, mortgage credit, investments, bank deposit.

Commercial risk is generated by the appearance of new requirements, by the transformation of some phenomena, by unfavorable evolutions of the exchange rate, dependence on a supplier, modification of new concepts, new legislative regulations, domestic and international contracts.

Image risk can be generated by some negative elements of the company, for example: customer dissatisfaction, certain rumors related to poor quality production and others. Image risk is difficult to prevent and can cause significant damages to the business.

Social risk designates the danger for the enterprise of negative economic consequences of the loss of occupational or social status, caused by major social events (strikes, natural disasters or accidents that cause damages and against the occurrence of which insurance coverage is granted);

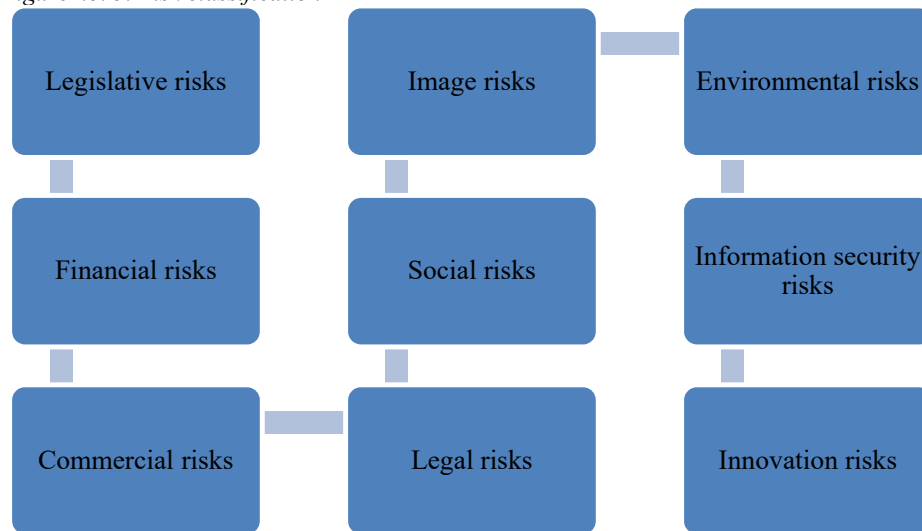
Legal risk is a component of operational risk, and represents the risk that affects the profitability of the company as a result of non-application or incorrect application of the legal and contractual framework.

Environmental risk is a risk that cannot be controlled by the company, but which can negatively influence its results, and comes in the following forms: country risk, competitive risk, deficit risk, regulatory risk, etc.

Information security risk has become a major component of the need to ensure the confidentiality, integrity and authenticity of information. This component is relatively new to computer security and technical ways are being sought to solve this apparent problem. Documents and informational messages give many problems to the decision-making act in a modern society, based on competitive economy.

Innovation risk is particularly important in the activity of enterprises, which is at the stage of implementing new ideas to increase the capital allocated for the production of goods and services, as a result of which there may be losses of financial resources in their production.

Figure no. 5. Risk classification



Source: Elaborated by the author based on the materials: (Creaza.com, 2021).

4. Conclusions

In conclusion, we could mention that in the process of entrepreneurial activity persists a wide range of risk classification that negatively influences the results of a company.

Several causes are identified that generate different forms of risk, including the planning of an incorrect business strategy, the innovation process, unwise decisions, lack of information, inconsistency of the legislative and regulatory basis, persistent financial crises at the country level and globally etc.

We consider that, at present, the degree of correlation of risks is of great importance for estimating their potential impact, therefore the role of the company is to establish a business strategy that corresponds to changes in the economic system and application the right risk management measures that occur in the process of entrepreneurial activity by making the right decisions in real time.

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