International Journal of Economic Literature (INJOLE) e-ISSN: 3026-0221
Vol. 2 No. 2 February 2024, page., 521-532

RISK ANALYSIS IN ENTREPRENEURIAL DECISION MAKING

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Abstract

Being an entrepreneur means having the courage to take risks. Uncertainty that could result in losses is called risk. Making decisions is a way to weigh and choose between various choices. The approach is a review of the literature with an awareness of prior research findings on risk analysis in entrepreneurial decision making that is obtained from online journal references. This study's findings indicate that decision-making is necessary throughout the entire lifecycle of entrepreneurial endeavors. This includes the planning phase, the implementation phase, or operationalization of activities, and the supervision phase, which entails monitoring, verifying, and evaluating the plan's implementation's outcomes to ensure that the goals are met in terms of quantity, quality, cost, and the effective and efficient use of other resources.
Keywords: risk analysis, entrepreneurial decision making

INTRODUCTION

When constructing a business, business risk can be understood as a potential hindrance and disadvantage that could arise at any point. When starting a business, there are always a number of risks involved, from seemingly simple to complex issues. These include issues that an entrepreneur faces with his staff, an unorganized system for managing a business, failing to conduct research before starting a company, and many more issues. All business risks are essential to the development of a firm since the appearance of these risks is linked to critical elements in the business building process (Suswinarno, 2012).

Risk analysis is crucial since it guides business decisions. 1) Reduce possible losses by assisting people and organizations in recognizing possible dangers and threats and taking the necessary precautions to lessen their effects. This assists in mitigating or preventing losses that might arise if certain risks are not recognized and controlled; 2) Better decision-making: by assessing potential risks and their severity, individuals and organizations may decide whether to proceed or not; 3) Improving business continuity: By recognizing and reducing risks, companies can weather unforeseen circumstances and natural disasters. This reduces interference with corporate activities while maintaining client access to essential services and goods.

The primary goal of risk analysis is to identify the best course of action for each risk that has been discovered in terms of mitigation or prevention. These precautionary steps can assist businesses in setting priorities for their resources, lowering major risks, and maintaining goal focus. Entrepreneurs must routinely conduct risk assessments in order to accomplish this goal.

It is necessary to have knowledge of the following six categories of business risks: financial, capital, corporate, operational, technological, and market risks (Hughes et al, 2021).

To reduce business risks, firms and entrepreneurs must understand risk factors. The following are the elements that lead to business risks: 1) Uncertain economic situations: The company's economic conditions require special attention to ensure that it does not face financial troubles; 2) Uncertain natural conditions: For many companies, natural conditions have a significant impact on business development, particularly in terms of creating goods. Good economic conditions allow corporations to create more advanced technologies. Stated differently, high-quality natural conditions translate into high-quality products. The likelihood that a customer will purchase a company's product increases with increased awareness of it; 3) Shifts in how people live their lives It is undeniable that advancements over time will impact alterations in human living, ranging from attire to diet. Current trends typically follow changes in lifestyle. Thus, one way to think about the causes of business risks is changes in lifestyle. Businesses and entrepreneurs should constantly innovate to lower business risks brought on by changes in human lifestyle. Product innovations, marketing strategies, and human resource innovations are all possible; 4) Incorrect marketing strategy: A company's ability to improve its products and grow into a more evolved entity depends heavily on its marketing strategy. Promotion is often the marketing technique employed by businesses or entrepreneurs; 5) Inadequate preparation; it is always preferable to perform extensive planning beforehand. Similar to this, careful planning is essential when starting a firm (Tony Wijaya, 2015).

The likelihood is that the business will grow gradually if business risks can be reduced. Thus, you must prepare well in order to become an entrepreneur.

Problem

There are dangers associated with every enterprise in this world; none exists at all without them. In business, risks can arise anywhere, at any time, and every second, minute, and hour. Uncertainty-related risk arises because it is impossible to forecast when it will occur and managers need to be ready to handle it. The business will either benefit or suffer from something that is unpredictable. Risk is an element of working life for both individuals and businesses. There are many different types of risks, including the risk of fire, getting struck by or colliding with another vehicle on the road, having accidents at work, dealing with economic uncertainty, correctly analyzing and predicting investments, flooding during the rainy season, and so forth. Company risk might manifest as operational risk, financial risk, or another type of risk. If we do not foresee the hazards we encounter from the beginning, these risks may result in losses for us.

Determining the magnitude of the risk that will materialize is the goal of risk measurement. This is done in order to determine the company's exposure to high and low risks, their effect on performance, and the order in which the most pertinent risks should be prioritized (Sarasvathy, 2016).

Estimating the degree of loss (damage) can be used to quantify risk, and the likelihood that an event will occur is highly arbitrary and mostly dependent on experience and reason. Determining the likelihood of a risk materializing is a challenging task in risk assessment since statistical data isn't always accessible for all threats. Furthermore, it is frequently quite challenging to assess the impact intensity (damage) for immaterial assets. Impact is the result of a risk in terms of cost, time, and quality. We can determine the potential for the danger if we are aware of its likelihood and consequences (Suswinarno, 2012).

In the event that business activities, products, transactions, or material risk factors change, a company is required to periodically assess whether the assumptions, data sources, and procedures used to measure risk are still appropriate. Additionally, the system must be improved. Businesses can use a variety of qualitative and quantitative methods, according to their specific goals, level of complexity, and capabilities, to estimate risk (Rustam, 2017).

These two choices might result in fixed expenses, thus they must always be made effectively and efficiently when entering a market where competition is fierce. Fixed expenses resulting from funding decisions are referred to as fixed funding costs, and fixed costs resulting from investment decisions are referred to as operating fixed costs. Leverage is the use of fixed costs to boost earnings.

RESEARCH METHOD

This article's methodology makes use of literature study, which is a technique for gathering data that entails comprehending and examining theories from a variety of research-related books. Preparing the required tools, creating a working bibliography, scheduling time, and reading or recording research materials are the four steps of library study in research. The process of gathering data for this study involves looking for and creating sources from a variety of sources, such as books, journals, and previously completed research. To bolster the claims and concepts, library materials gathered from a variety of references are critically examined and need to be thoroughly explored. The data analysis method used in this work is content analysis, which can be used to draw valid conclusions that can be examined. A methodical and iterative methodology was used to obtain a complete understanding of themes connected to risk analysis in entrepreneurial decision making during the literature search for this extensive research. Establishing the scope of the literature review precisely, identifying key subjects like the theoretical foundation, optimization techniques, social and cultural aspects, and offering suggestions for real-world application are the first steps (Paré & Kitsiou, 2015).

RESULT AND DISCUSSION

Entrepreneurship Theory

The process of discovering, creating, and realizing a vision is known as entrepreneurship. The vision could be a creative concept, an opening, or a more effective method of carrying out tasks. This process culminates in the formation of a new company that operates in an unpredictable or risky environment (Kurniawan, 2021).

The term entrepreneurship is derived from the core words wira, which mean knight, hero, fighter, superior, and brave, and the word business, which means working, doing something. Hence, a tough person who takes action is what is meant to be understood when one defines entrepreneurship (Kurniawan, 2021).

In summary, entrepreneurship is the capacity to take calculated risks by using one's own initiative to generate and implement new ideas using a variety of resources in an effort to maximize profits while offering the best possible service to all stakeholders. Entrepreneurship is the process of an activity to increase the added value of existing resources. The aptitude and character required to carry out entrepreneurial activities in the form of the values and attitudes required to undertake business are known as entrepreneurialism (Alifuddin, 2022).

Being an entrepreneur comes with difficulties and can occasionally include speculation. In this situation, a person's bravery in taking chances is crucial. If you truly want to get into entrepreneurship, you have to be prepared to deal with competition, shifting consumer demands and tastes, shifting raw material pricing, and inevitable losses. A person who lacks the guts to take chances will typically opt to stay in the safe area. A safe zone is a place where one is at ease, secure, and free from the possibility of confrontation or unpleasant circumstances. An entrepreneur is someone who dares to take chances, ventures outside of their comfort zone, and comes up with and implements novel ideas. An essential component of risk-taking daring is risk management. Thorough planning is also necessary to bolster the bravery to take chances. One can foresee more dangers the better at making considerations (Audrestch et al, 2016).

Risk Analysis

Risk is invariably linked to the potential for an unanticipated and unwanted event to transpire. Some claim that risk is the inability to succeed or take advantage of business prospects. Experiences that go wrong and monetary losses are examples of business risk. An entrepreneur can better himself through business risks by picking up new skills, being tenacious and persistent, and putting in a lot of effort to succeed. Risk is the possibility or threat of an event or action having an effect that is counter to the desired outcome (Anwar & Saleem, 2019).

Uncertainty that could result in losses is called risk. Risk is the unanticipated potential. According to Mahmud M. Hanafi, danger is a bad thing. Based on the several definitions given above, risk can be defined as the potential for a departure from expectations that could lead to losses. In order to fulfill one's potential as an entrepreneur, risk tolerance is both necessary and normal. A willingness to live in the moment, awareness of current events, and worry for the future are all necessary components of risk tolerance. An entrepreneur who has the guts to take chances and a strong sense of commitment will not give up searching for opportunities until he sees results. According to Rivai, in addition to professional skills, education, IQ, work environment, sense of security, and decision-making capacity, one of the characteristics that determines risk-taking attitudes is tolerance for risk. In order to understand risk, one must consider three aspects of risk tolerance: result potential, outcome expectations, and outcome uncertainty (Mahmud M. Hanafi, 2016).

Why is it that taking a business risk is a must for growing a company? since the formation of business risks is linked to crucial elements in the establishment of a company.

Financial risk, capital risk, company risk, operational risk, technological risk, and market risk are the six categories of business hazards that need to be understood.

1. Financial Risk
   Building a business, as we all know, costs money. Additionally, if you want to grow your company and get a large following. Initial cash and sales revenues can be used to fund the establishment of a business. In the interim, you might hunt for other people who are prepared to invest and grow sales to improve the financial standing of the company. Profits will rise in response to more sales. The profits will boost the company's finances. Finances are included in the category of business risk since they are crucial to the establishment of a business. The risk of diminishing revenues is known as financial risk. Uncertain market conditions are typically the cause of declining sales. Businesses will lose a significant amount of money even in a dire circumstance. Thus, it is critical for business owners to consider strategies for both growing and sustaining their product sales.
2. Capital Risk
   You will undoubtedly require funds while starting a business, as it may be considered the first stage in constructing a company following the idea for one. You can raise business financing on your own or by working with others. It is anticipated that with this corporate capital, sales volumes will rise and yield large profits, resulting in a speedy return on investment. To put it briefly, the company will grow. On the other hand, there are hazards associated with having business capital. Capital risk is the risk that results in losses when sales do not increase. It will be challenging to recover the original investment if the company you are starting loses money. The entrepreneur's funding may even run out at some point. An entrepreneur needs to be aware of this capital risk as a result.
3. Company Risk
   Building a business always involves hoping that it will keep growing until it becomes a firm. Many other people or other firms will want to work with it if it becomes a company. Collaboration will lead to the company's development. However, the caliber of the goods being purchased and sold must be taken into consideration while starting a business. Customers are likely to not want to purchase these products if the quality is not upheld. A situation such as this would negatively affect the corporation, maybe leading to a decline in shares.

4. Operational Risk
Company operations include factors like human resources, production techniques, enforcing policies, and so on in an organization. To put it briefly, business operations are what allow a company to grow and become more sophisticated. Thus, before starting a business, business operations must be taken into account. Every operational division of the business will perform its assigned duties. However, there will be business hazards if the company's activities are not successful. Operational risk is the result of any component of the business failing to perform its duties and responsibilities effectively. Operational risks can be caused by a variety of factors, including poor decision-making, a lack of innovation and high-quality products, and issues with human resources. Therefore, it is imperative that any business, particularly its executives, keep an eye on how each segment of the business is operating.
5. Engineering Risk
Certain methods are required to create a product. The goods made using this unique process will be of a higher caliber than goods made by other businesses. Sales can be generated with this kind of product production, allowing the business to turn a profit. In order to prevent other organizations from using the same procedures, a company's techniques are typically not shared. The methods that the business possesses are crucial to its expansion. On the other side, this strategy might pose a danger to the firm and be harmful to it. We refer to this business risk as technological risk. Technical risk is a type of business risk that arises from improper operation of the production procedures. To prevent technical hazards, it is therefore necessary to keep improving the quality of human resources and the inspection of manufacturing equipment.
6. Market Risk
Market risk is a risk that results from shifting consumer preferences, lifestyles, and the introduction of new, improved products. Consequently, any business should keep innovating in order to be able to adapt to "market" conditions and compete with other businesses' products.
(karami Cowden et al, 2022).

Decision Making in Entrepreneurship

Making decisions is a process that involves evaluating and choosing one or more possibilities. After going through various logical calculation steps and considering all of the options, a conclusion is made. The decision maker must go through numerous steps before formulating and implementing findings. These phases could involve identifying the primary issue, formulating potential solutions, and finally arriving at the point of choosing the optimal course of action (Aspizain Chaniago, 2017).

Making decisions is the primary responsibility of both managers and entrepreneurs. Identifying issues and looking for wise decision alternatives are examples of decision-making activities. Making decisions is necessary at every stage of management activities, including planning, implementing, operationalizing, and supervising the plan's execution to ensure that the outcomes meet the desired outcomes in terms of quantity, quality, costs, and the economical and efficient use of other resources (Rigtering et al, 2020).

Selecting a specific option from a range of available options is the process of making a decision. Thus, choosing amongst different approaches to complete a task is the act of making a decision. Your level of decision-making experience will directly correlate with your level of confidence and action-orientedness. An entrepreneur may be able to make a lucrative choice whenever business prospects present themselves if he can decide within a suitable time frame.

In this case, the entrepreneur has to act fast to seize the finest possible chance. To grow in their business, entrepreneurs need to be logical thinkers who can rely on their gut feelings and come up with original, unique ideas. They must also consider problems in a wider context and remember that important choices will have an impact on their company's operations for some time to come. Since an entrepreneur must make choices without the assistance of experienced staff or quantitative data, it is expected that he will be more proactive and inventive (Sari Dewi, 2017).

An entrepreneur's capacity to make choices that boost the company's future revenues determines their level of success in the marketplace. Years of experience can help one become a better decision-maker. But mistakes are inevitable in practice, and they must be promptly identified and corrected (Peter F Drucker, 2014).

Large corporations typically base their judgments on corporate data and paperwork found in business reports, surveys, and other forms of documentation. Typically, this data has been gathered in a predefined manner using approaches for solving problems (Wales, 2016).

In terms of principles for decision-making, the following is crucial: Establish what is known about the problem's facts first. Determine whatever aspects of the problems are not supported by the evidence. An entrepreneur in this well-known industry must base decisions on institutions, logic, and reasoning. Making and carrying out decisions requires guts and vigor. ready to act decisively after a decision has been made. If there is a lot of uncertainty, take moderate risks. Under some conditions, it could be preferable to stick with a strategy that has previously proven successful (Ojala Karami, 2020).

An entrepreneur needs to start acting on decisions and get rid of all uncertainty and hesitation. Give it significant thought if you are forced to choose between two options. Collect a variety of data and feel free to consult others. After that, decide without hesitation. Entrepreneurs will be able to make the finest choices if they are considering a variety of options. Decision-making can be influenced by a variety of elements, such as perception, motivation, and the process of learning (Jamil Latief, 2017).

In actuality, some entrepreneurs are able to make decisions during the decision-making process based on their experience, and other entrepreneurs act in a predetermined manner. If judgments are made based on prior experience, other factors like as location, time, entrepreneurial education, and so forth should also be considered. Entrepreneurs must carefully weigh all relevant variables and considerations before making any final decisions when managing their firm (Praptiningsih & Octavia, 2014).

To guarantee business success, an entrepreneur's business management process will involve creating concepts and plans, supervising staff, and maintaining systems. An organization's or business's ability to succeed depends on how well it uses its financial resources, clients, real estate, labor, and time. Moreover, an entrepreneur's disposition and style of decision-making can affect the outcome. After making a decision, you should act on it without delay (Johannes Ulrich et al, 2018).

When making a decision, the following elements and criteria need to be taken into account:

1. The human element
   It is important to pay attention and take into account the people who will be negatively impacted by the decision when making decisions.
2. Aspects related to psychology
   An entrepreneur must be aware of and take into account psychological impacts, both felt and unseen, such as emotions, thoughts, sensations, disappointment, and other psychological elements when making decisions.
3. Factors related to the body
   Making decisions requires mental effort. As a result, when making decisions, consideration for taking action must be included.

4. Intentional elements
   To reach the goals that have been established, an entrepreneur must consider the direction of the firm when making decisions and support it.
5. The element of time.
   Effective and efficient time must be allotted for analyzing the data and issues before making decisions.
6. Elements of implementation
   The monitoring of each choice made becomes the implementation aspect. Additionally, you must keep in mind that any choice you make will result in a sequence of activities. In the world of business, decisions are not always simple. Naturally, there are benefits and drawbacks to each option in the decision-making considerations meant to satisfy all parties. An seasoned businessperson must, nevertheless, possess the bravery to act quickly, carefully, and appropriately.
   Making decisions about concrete situations is actually not that hard. The debate is on whether to take action or not by weighing the benefits and drawbacks. Entrepreneurs will encounter a variety of hazards in the course of their business operations that could compromise the longevity of their enterprise. As a result, entrepreneurs must be able to accept risks and use risk-taking strategies (Hughes & Zhao, 2021).

Previous Studies

Erlinda Muslim, Ellysa Nursanti's supervisor, deduced from her research that risk analysis must be done to support decision-making in the face of all the uncertainty surrounding the achievement of these advantages. The purpose of the risk analysis conducted for this study is to identify the main risks associated with meeting sales goals, as well as the sales budget and risk response actions that the marketing team of the organization should take.

CONCLUSION

The capacity to take calculated risks and take the initiative to create and accomplish new things using a variety of resources in order to maximize profits while offering the greatest possible service to all stakeholders is what is known as entrepreneurship.

Uncertainty that could result in losses is called risk. Financial risk, capital risk, company risk, operational risk, technological risk, and market risk are the six categories of business hazards that need to be understood.

Making decisions is the primary responsibility of both managers and entrepreneurs. Identifying issues and looking for wise decision alternatives are examples of decision-making activities. In order to ensure that the results of the plan's implementation are in line with the target in terms of quantity, quality, costs, and the effective and efficient use of other resources, decision-making is necessary at every stage of management activities, including planning, implementation, operationalization, and supervision.

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