Business Opportunities, Mitigating and Managing Risks of the Prospective Entrepreneurs

S.Suganthi[1], S.T.Arokkiya Mary[2]

[1] *Assistant Professor, Department of Computer Science, Tagore Govt. Arts and Science College, Puducherry, India*
[2] *Assistant Professor, Department of Computer Science, Bharathidasan Govt. College for Women, Puducherry, India*

---***---

ABSTRACT

Entrepreneurship is critical to the expansion and development of any country's economy. Entrepreneurship functions as a preventative measure for a country's economic growth, resulting in the creation of job possibilities, national revenue, rural development, technical development, industrialization, export promotion, and so on. Entrepreneurs are the business's risk-takers. Risk management is key to operating any business in a profitable fashion. There are many risks facing an entrepreneur when starting and operating a new business venture. The trick is to eliminate risks that will hurt the venture, while taking on risks that will provide for long-term profitability. The risks facing the entrepreneur need to be initially identified as part of developing a business plan and revisited regularly in ongoing operations. Entrepreneurs transform ideas into economic possibilities via innovations, which are seen as a critical source of competitiveness in an increasingly globalizing world economy. The most significant problems are a shortage of funds, high raw material costs, and high loan rates. Most entrepreneurs had no prior business experience. Entrepreneurs judged finance, marketing, and company plan preparation to be the most valuable talents. 33% of hurdles are explained by firm age, size, and entrepreneur qualifications, implying that the younger and smaller the company, and the less qualified the entrepreneur, the more significant the problems.

Keywords: Business Opportunities, Entrepreneurs, Risk management, Mitigating and Managing Risks.

1. INTRODUCTION

Risk management is key to operating any business in a profitable fashion. There are many risks facing an entrepreneur when starting and operating a new business venture. The trick is to eliminate risks that will hurt the venture, while taking on risks that will provide for long-term profitability. The risks facing the entrepreneur need to be initially identified as part of developing a business plan and revisited regularly in ongoing operations [1]. Preparation for adverse events affecting a new business venture is necessary, but being too pessimistic or allowing fear of adverse events to stop an entrepreneur from taking any risk will keep a business venture from achieving it greatest potential and profit [2].

It is important that an entrepreneur develop an understanding of the risks of the business environment. The risks include liability risks stemming from contracts and torts, sometimes referred to as operating risks, regulatory compliance risks, financial risks, and strategic risks, including taxation [3]. Understanding how the business structure is used to operate the business venture allows the entrepreneur to develop a plan to manage business growth and understand business risk.

Human causes of risk refer to actions by employees, contractors, and those persons over which a company has control. These events can include torts stemming from negligence at work, labor strikes, shortages of qualified trained workers, and corporate mismanagement. An example of this type of risk would include embezzlement of money by an internal financial executive [4].

The use of a comprehensive approach allows a business entity to review and combine all risks into a functional perspective that allows the entrepreneur to evaluate risks and integrate new risks as different opportunities become more important to the business venture. Businesses sometimes use a risk matrix to assess or characterize the probability and impact of risk [5]. The use of such a tool can help a business quantify risk and decide whether to undertake an activity based on its level of risk.

International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 07 Issue: 04 | April - 2023 Impact Factor: 8.176 ISSN: 2582-3930

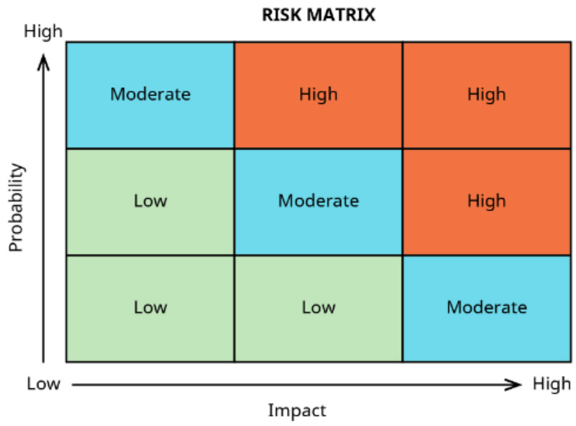


Fig -1: A Risk Matrix of the Prospective Entrepreneurs

Entrepreneurship generally involves a certain level of risk-taking. All things considered; entrepreneurs comprehend that they should go out on a limb in the quest for potential profits. They understand that so as to accomplish their strategic plan, some level of risk-taking is essential. Businesses of all sizes tackle risks in regards to the advancement of products, fabricating them, selling them, gaining a profit on these operations and overseeing development. In the event that the entrepreneur is a sole proprietor, she faces extra personal obligation risks and budgetary risks from ensuring business loans. Risk management strategies incorporate risk decrease, risk exchange and risk evasion.

2. MITIGATING RISKS IN BUSINESS

Once we know the kinds of risks that you may encounter, the next step involves developing a risk management strategy to either prevent them or minimize its sting [6].

Following are some of the risks mitigating steps to consider:

Fig- 2: Steps of Mitigating Risks

2.1 Perform a detailed risk assessment

While reviewing potential risk, you can assign it a risk level such as-

- Extremely likely;
- Moderate probability of occurrence; and
- Minor probability of occurrence.

We can further refine this assessment by reviewing each risk based on its potential impact.

2.2 Develop contingency plans

With our risks neatly organized, we can develop a contingency plan or even multiple plans for how to handle each one. For every risk identified, decide which combo of risk prevention, risk mitigation will work best to protect our business.

2.3 Develop and implement risk monitoring and management plans

Our business risk management plan is only useful as our current risk level. Constantly evaluating risk exposure and ensuring that have contingency plans will help to keep operations ticking along and avoiding costly errors created by risks in business.

2.4 Employ risk treatments

Risk mitigation strategies should be created with the following risk treatments:

Avoidance– Eliminate the risk or withdraw from the risk.

Reduction– Optimize and mitigate risk. Identifying high potential scenarios allows businesses to manage risk. It can reduce the potential downtime of the business.

Sharing– Transfer the risk by outsourcing the threat to a third party like an insurance company.

Retention– Accept the risk and budget accordingly. It means the company should be able to afford to keep the risk on board as there are enough risk control measures.

2.5 Monitor and review

All risks in business that have been identified should be monitored and reviewed regularly by a team, and implementation should be driven from executive and board level to team leaders.

International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 07 Issue: 04 | April - 2023 Impact Factor: 8.176 ISSN: 2582-3930

3. LEGAL RISK AND PROTECTION

Business operations of any sort need to follow business regulations and laws. The failure to follow business regulations may lead to fines, lawsuits, or even criminal penalties. Legal risk stems primarily from a breach of contract and/or the commission of a tort. Common examples of this type of risk includes product liability lawsuits. These lawsuits are frequently very expensive class action lawsuits or regulatory investigations of dangerous products. There are many famous case examples including automobiles, asbestos, pharmaceutical drugs, breast implants, and airplanes [7].

Other lawsuits stem from contracts, including borrowing money from a bank. The business has an obligation to pay it back, or it breaches a covenant within a contract. Other common types of contracts are those used in selling services and products, leasing real estate, and other similar contractual obligations.

Due to liability risks, business owners and investors are always looking for ways to limit their personal liability. Incorporation is a standard risk protection strategy for this potential problem, as are the use of other types of limited liability structures such as LLCs. This is one of the main advantages of properly operated corporations and LLCs, which allow for limited personal liability of owners and investors. Partners in GPs and sole proprietors are personally liable for all of the debts of the business, even beyond their own investment in the business [8].

However, a particular challenge for small business entrepreneurs is that even when they form a corporation or LLC, many lenders, landlords, and other entities providing credit to a small business circumvent the limited liability protection by requiring owners and investors to personally guarantee the debts of the business operations. This means that the owner who personally guarantees the credit will have to pay back the obligation if the business cannot. An owner can obtain insurance or borrow money for such guarantees. LLCs and corporations do protect their owners, shareholders, and members from a number of different tort claims, such as personal injury lawsuits and claims made directly against the organization.

4. FINANCIAL RISK AND PROTECTION

An entrepreneur needs money to launch a business, whether that comes in the form of loans from family, their own savings, or investors. The founder will be expected to put their own money at risk, whether in the form of a loan to their own business or equity in their own business. If they do not have any “skin in the game,” then others will not be interested in loaning them money. This means that if the business fails, it will have repercussions for the owner, even if they operate as a corporation or LLC [9]. This is the essence of financial risk: starting a new business with insufficient funds to sustain operations over an extended period of time.

Any new business owner needs to have a sound financial strategy as a part of the overall business plan. This should show income projections, the liquid assets that will be required to break even, and the expected return on investment for all investors in the first five-to-ten-year timeframe [10]. Failure to accurately plan could mean that the entrepreneur risks business closure and bankruptcy, and investors get nothing.

5. EFFECTIVE WAYS ENTREPRENEURS CAN MANAGE RISK

5.1 Measuring the risk

In order to mitigate potential risks, an entrepreneur needs to measure a risk before he takes one. Most entrepreneurs specialise in risk weighting. They don’t lose much if the strategy fails, but if it succeeds, they benefit a great deal by taking the risk. Therefore, they make their company more viable and profitable by taking simple methods in their plan of action.

5.2 Seeking a new opportunity

Entrepreneurs also have the opportunity to recognise flaws in the market and find solutions to the issue. Pursuing a new opportunity is a potential challenge, but entrepreneurs have the opportunity to learn a lot from it – if their solution is feasible. First mover advantage is also what pushes them to further innovate. Although savvy entrepreneurs understand their limitations, they don’t allow their vision to be limited by a lack of resources.

5.3 Insurance is a must

Insurance shields the entrepreneurs from lost liabilities, accidents and illnesses and passes the risks to insurance companies. By ensuring all sorts of raw materials and processes, in the event of a company or scheme failure, they

International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 07 Issue: 04 | April - 2023 Impact Factor: 8.176 ISSN: 2582-3930

have a chance to lose even less. Insurance may not reduce the risk of the company, but you can use it as a financial instrument to protect against risk-related losses. It guarantees that you will have some financial compensation in the event of a failure. In any event, this can be critical to the survival of your organisation.

5.4 Cut back on financial risks

The key to risk management is to reduce financial risk by monitoring your receivable accounts to mitigate outstanding balances and to recognise bad credit risks early in your business. It is possible to introduce credit and payment requirements to further mitigate financial risks, defining which credit ratings and payment histories are appropriate.

5.5 Learn how to anticipate and predict risks

Let the loss not come as an unexpected surprise. The definition, marketing plans, back-ups and the post-success plan need to be extensively prepared. If you manage to almost predict a risk, you have a chance to reduce it. Often, since you can foresee a risk, you can establish a risk management plan to reduce its consequences and mitigate it rightly.

"As a result, from about 70,000 new firms created in 2014, the number has grown by about 80 per cent to about 1, 24,000 new firms in 2018," the survey read.

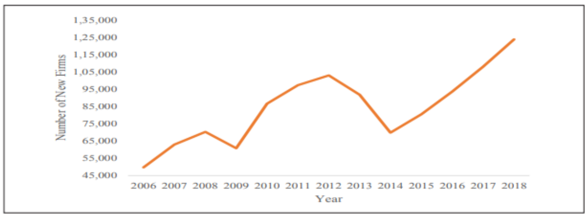
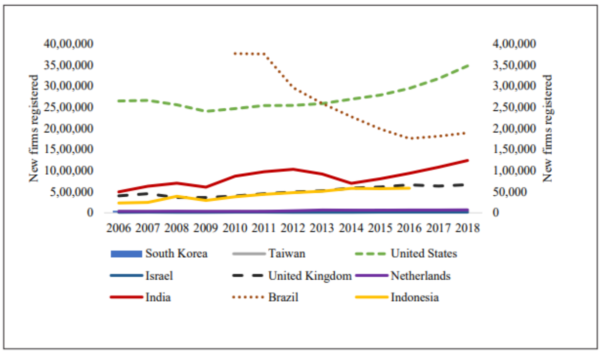


Fig- 3: Growth in new firms over time in India

Due to this dramatic growth in new firms, India ranks third in the number of new firms created, as per the same World Bank data. That said, the mean number of new firms registered per year per 1000 workers in India between 2006 and 2016 was only 0.10, which is quite less compared to developed economies like UK (12.22) and US (12.12).



Source: World Bank's EODB Entrepreneurship Data, Business Formation Statistics of the U.S. Census Bureau and Survey Calculations
Note: Secondary axis for India, Brazil and, Indonesia

Fig- 4: Comparison of Entrepreneurial Activity across Countries

More importantly, the Survey highlights that literacy and education in a particular district influences entrepreneurial activities in that region. "The eastern part of India has the lowest literacy rate of about 59.6 per cent according to the census of 2011. This is also the region in which formal entrepreneurial activity is the lowest," the report states.

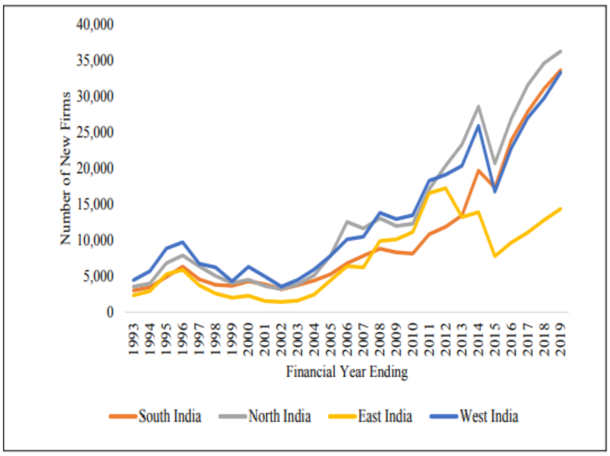


Fig-5: Growth in New Firms Across Regions Over Time

6. CONCLUSIONS

Risk is part of the equation for any startup business. There is no way to protect against every risk. However, there is a way to identify risk, plan for it, manage it, mitigate against it, and protect against it to an extent. The key to understanding and dealing with risk is not to take a utopian approach to a business startup, thinking that it will never happen to you. Risk is omnipresent. Statistically, some unexpected things will happen. Thus, the best approach to risk is to consider and implement strategies to help you and your business deal with it such as incorporation, insurance, and monitoring.

REFERENCES

1. Drover, W., Busenitz, L., Matusik, S., Townsend, D., Anglin, A., & Dushnitsky, G. (2017). A review and road map of entrepreneurial equity financing research: Venture capital, corporate venture capital, angel investment, crowdfunding, and accelerators. Journal of management, 43(6), 1820-1853.
2. Kim, Y., & Vonortas, N. S. (2014). Managing risk in the formative years: Evidence from young enterprises in Europe. Technovation, 34(8), 454-465.
3. Morris, M. H., Webb, J. W., Fu, J., & Singhal, S. (2013). A competency-based perspective on entrepreneurship education: conceptual and empirical insights. Journal of small business management, 51(3), 352-369.
4. Wales, W. J., Parida, V., & Patel, P. C. (2013). Too much of a good thing? Absorptive capacity, firm performance, and the moderating role of entrepreneurial orientation. Strategic management journal, 34(5), 622-633.
5. Harner, M. M. (2011). Mitigating financial risk for small business entrepreneurs. Ohio St. Entrepren. Bus. LJ, 6, 469.
6. Becherer, R. C., Haynes, P. J., & Helms, M. M. (2008). An exploratory investigation of entrepreneurial marketing in SMEs: The influence of the owner/operator. Journal of Business and Entrepreneurship, 20(2), 44.
7. Brindley, C. (2005). Barriers to women achieving their entrepreneurial potential: Women and risk. International Journal of Entrepreneurial Behavior & Research.
8. Morris, M. H., Schindehutte, M., & LaForge, R. W. (2002). Entrepreneurial marketing: a construct for integrating emerging entrepreneurship and marketing perspectives. Journal of marketing theory and practice, 10(4), 1-19.
9. Forlani, D., & Mullins, J. W. (2000). Perceived risks and choices in entrepreneurs' new venture decisions. Journal of business Venturing, 15(4), 305-322.
10. McGrath, R. G. (1999). Falling forward: Real options reasoning and entrepreneurial failure. Academy of Management review, 24(1), 13-30.