

Entrepreneurship and risk – taking

Mehdi Aman Allah¹⁺ and Hamid Nakhaie²

¹ South Tehran Branch, Islamic Azad University, Tehran, Iran

² Mahan Center, Islamic Azad University, Mahan, Kerman, Iran

Abstract. Risk – taking and Entrepreneurship are two associated words studying in the entrepreneurial literature. In the most definitions, entrepreneurs are associated with risk and risk – taking. One of the most important factors in the entrepreneurs+ success is their risk – taking .Entrepreneurs must be risk – taker to realize their ideas. In this article, we study the relationship between entrepreneurship and entrepreneurs and risk – taking and the importance of the effect of risk– taking on entrepreneurship.

Keywords: Entrepreneur, entrepreneurship, risk, risk – taking

1. Introduction

One of the entrepreneurs+ personality traits is risk – taking. Many of people think risk – taking is extreme risking, but entrepreneurs intend to receive medium and rational risks. Most of people intend to go to their own attitude extremes about risk and risk – taking. Conservative person would select isn't blamed because of it. But the entrepreneurs select the medium limit; it means they prefer the medium risk. This is because they feel their attempts and abilities would influence the result of the work. In general, the entrepreneurs wouldn't consider every kind of risk, but they consider rational and certain risks. It means the entrepreneurs, not only follow the ideas as working situation, but also consider the current risks of these ideas. The risks are in the form of chance or uncertainty. When a work is high risk, it means its return is uncertain. In other words, there is the failure chance as success chance in that work.

2. Entrepreneurship

Many definitions of entrepreneurship can be found in the literature describing business processes. The earliest definition of entrepreneurship, dating from the eighteenth century, used it as an economic term describing the process of bearing the risk of buying at certain prices and selling at uncertain prices. Other, later commentators broadened the definition to include the concept of bringing together the factors of production. This definition led others to question whether there was any unique entrepreneurial function or whether it was simply a form of management. Early this century, the concept of innovation was added to the definition of entrepreneur-ship. This innovation could be process innovation, market innovation, product innovation, factor innovation, and even organizational innovation. Later definitions described entrepreneurship as involving the creation of new enterprises and that the entrepreneur is the founder. Considerable effort has also gone into trying to understand the psychological and sociological wellsprings of entrepreneurship. These studies have noted some common characteristics among entrepreneurs with respect to need for achievement, perceived locus of control, orientation toward intuitive rather than sensate thinking, and risk-taking propensity. In addition, many have commented upon the common, but not universal, thread of childhood deprivation, minority group membership and early adolescent economic experiences as typifying the entrepreneur. At first glance then, we may have the beginnings of a definition of entrepreneurship. However, detailed study of both the literature and actual

⁺ E-mail address: mehdi.amanallah@yahoo.com

examples of entrepreneurship tend to make a definition more difficult, if not impossible. Consider, for example, the degree to which entrepreneurship is synonymous with 'bearing risk', 'innovation', or even founding a company. Each of the terms described above focuses upon some aspect of some entrepreneurs, but if one has to be the founder to be an entrepreneur, then neither Thomas Watson of IBM nor Ray Kroc of McDonald's will qualify; yet few would seriously argue that these individuals were not entrepreneurs. Although risk bearing is an important element of entrepreneurial behavior, many entrepreneurs have succeeded by avoiding risk where possible and seeking others to bear the risk. As one extremely successful entrepreneur has said; 'My idea of risk and reward is for me to get the reward and others to take the risks'. Creativity is often not a prerequisite for entrepreneurship either. Many successful entrepreneurs have been good at copying others and they qualify as innovators and creators only by stretching the definition beyond elastic limits. There are similarly many questions about what the psychological and social traits of entrepreneurs are. The same traits shared by two individuals can often lead to vast different results: successful and unsuccessful entrepreneurs can share the characteristics commonly identified. As well, the studies of the life paths of entrepreneurs often show decreasing 'entrepreneurship' following success, which tends to disprove the centrality of character or personality traits as a sufficient basis for defining entrepreneurship. So, we are left with a range of factors and behaviors which identify entrepreneurship in some individuals. All of the above tends to reinforce the view that it is difficult, if not impossible to define what an entrepreneur is, and that the word itself can be best used in the past tense to describe a successful business person. (Masi: 1)

3. Risk and risk taking

For the sociologist Niklas Luhmann the term 'risk' is a neologism that appeared with the transition from traditional to modern society. "In the Middle Ages the term *residuum* was used in highly specific contexts, above all sea trade and its ensuing legal problems of loss and damage." In the vernacular languages of the 16th century the words *rischio* and *riezgo* were used. This was introduced to continental Europe, through interaction with Middle Eastern and North African Arab traders. In the English language the term risk appeared only in the 17th century, and "seems to be imported from continental Europe." When the terminology of risk took ground, it replaced the older notion that thought "in terms of good and bad fortune." Niklas Luhmann (1996) seeks to explain this transition:

"Perhaps, this was simply a loss of plausibility of the old rhetoric's of Fortuna as an allegorical figure of religious content and of prudence as a (noble) virtue in the emerging commercial society." Risk-taking refers to the tendency to engage in behaviors that have the potential to be harmful or dangerous, yet at the same time provide the opportunity for some kind of outcome that can be perceived as positive. Driving fast or engaging in substance use would be examples of risk-taking behavior. They may bring about positive feelings in-the-moment. However, they can also put you at risk for serious harm, such as an accident. (<http://ptsd.about.com>)

4. Entrepreneurship and risk – taking

Entrepreneurship is a process in which the entrepreneur establishes new jobs and firms, new Creative and growing organizations associated with risk – taking by new and creative ideas and entrepreneurship identification of the new opportunities and resources mobilization. It results in introducing a new product or service to society. In Britain encyclopedia entrepreneur means "a person who organizes and manages a job or economic association and receives its risks". The origin of word entrepreneurship is French. This word is equivalent of French *Entreprendre* and English *undertake* that was translated to Entrepreneurship in English by John Stewart Mill. In general, entrepreneurs accept four types of risks as follows:

4.1. Financial risk

Most of entrepreneurs finance by savings and personal effects and if they fail, they will lose it. They take risks of failure. Since they don't want and can't risk their own saving, house, effects and rights, are not success in their job and its risk – taking.

4.2. Job risk

There is always this question "can an entrepreneur find a new job or return to his /her previous job if he /she fail in his / her economic activity?" This is the biggest concern of managers who want to have a secure organizational job with ideal emoluments.

In general, the entrepreneurs wouldn't consider every kind of risk, but they consider rational and certain risks. It means the entrepreneurs, not only follow the ideas as working situations, but also consider the current risks of these ideas.

4.3. Social and family risk

The beginning of entrepreneurial job needs a high energy and is time – consuming. Because of these undertakings, he may confront some social and family damages like deficiencies and the problems resulted of her or his absence in the home and its effects on his / her family.

5. Mental risk

Perhaps the biggest risk that an entrepreneur takes is the risk of mental health. The risk of money, home, spouse, child, and friends could be adjusted but mental tensions, stress, anxiety and the other mental factors have many destructive influences because of the beginning and continuing of entrepreneurial activity. Therefore entrepreneurship requires risk and the organization's resources or entrepreneur continually confront the failure risk. This time – means the time which is the introduction of the later successes – is a part of entrepreneurship. Profitability, as one of the signs in entrepreneurial individuals and organizations, is achieved by high return. In the emulative world, the high return requires high risk. And entrepreneurial risk – taking is the risks of the possible failures that power the persons to do risky activities or high return. (<http://women.mim.gov.ir>)

Now, given to these 4 important risks above mentioned, we must consider the entrepreneurs must be risk – taker to realize their ideas. Risk greatly influences entrepreneurship. After selecting the objective, entrepreneur tries realize it. Risk – taking and the objectives have a direct relationship as the bigger objective, the bigger risk. Also challenging results in improving quality and services of entrepreneurs. As a result it should be said when an entrepreneur consider the risks of a work, he /she considers the chance of success or failure in order to continue it or not. When he/ she continue it regardless to the possibility of failure has taken risk.

6. Reference

- [1] Salehi, Rasol, Entrepreneurship, <http://www.taksabt.com/index.php>
- [2] Masi, Paul Di-, Defining Entrepreneurship, <http://www.gdrc.org/icm/micro/define-micro.html>
- [3] <http://en.wikipedia.org/wiki/Innovation>
- [4] <http://ptsd.about.com/od/glossary/g/risktaking.htm>
- [5] <http://women.mim.gov.ir>
- [6] <http://www.kab03.blogfa.com/post-6.aspx>