THE RISK IN BUSINESS

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ABSTRACT: *Risk is a normal and inseparable partner of any activity having direct and powerful effects on the results of that activity. Any activity is a degree of risk. The most important risk is judging it in a positive way, either as a necessity to increase the opportunities for gain and / or a number of challenges which enhance the value of that business. Prosperous businesses are focused on earnings quality by accurately assess risk-gain balance using information technology. Understanding, however, it can be concluded that the risk of business account for all methods and means by which risk is managed to meet business objectives with uncertainty as major basic risk factors.*

KEY WORDS: *business; risk; uncertainty; business strategy; costs; benefits; business management*

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1. INTRODUCTION

In the last two decades of the twentieth century, we witness a changing economy, the creation of a "non-natural", the complexity is a growing. Entrepreneur depends on chance, every day more, the existence in the business of constant concern for the analysis and management.

Knowledge of the risk, in all that you describe requires availability, while possibly specialists, material resources of the entrepreneur. Correlation of these elements generates insufficient knowledge, poor decision and therefore partial or damage.

Thus, the risk can be viewed as the inability of firms to adapt to time and least cost to environmental changes. Viewed from this perspective, the risk of affecting the activity of a company has as main business climate instability and the inability of traders to counteract the effects of time and without high costs generated by the continuous evolution of the environment in which it operates. It follows therefore that risk is a permanent feature of the business of the company, it must implement adequate

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risk management mechanisms, highlighting the rapid changes occurring and intervention measures.

Novelty XXI century, the understanding of business risk, is precisely this: to handle risk in a positive way, either as a necessity for increased opportunities to win business, or as a series of new challenges. Risk begins with understanding the risk factors involved in strategic business planning.

2. RISK - DELIMITATION CONCEPTUAL RISK IN ECONOMIC AND SOCIAL SCIENCES

In terms of risk, how the approach is extremely important: querying all out objectively, but discovered a number of opportunities and challenges where the reward exceeds the net costs and risks. Irving Fisher said that "the risk varies inversely with knowledge". So the ability to select and use information is essential in the assumption of risk.

Etymology is of French origin. In French, risque has two meanings: the first sense means - exposing itself to risk, potential danger, an annoying, nuisance, knowing the negative facets of ownership, in the second sense - to support something, to have a chance, opportunity, occasion, purpose designed to look positive, positive, possibility of success.

Using the concept of risk and developing methods for estimating risk in the economy began to be practiced by Adam Smith (Wealth of nations - the average profit rate always involves more or less risk), J. Stuart (Principles of Political Economy with some of their applications to the social economy - "the difference between gross profit interest and rewards the efforts and risks entrepreneur"). Later in 1921 Frank Knight says in Risk, Uncertainty and Profit that "the doctrine that profit is explained only in terms of risk has been fully confirmed.

a. Antiquity. Theoretical sources of risk are relatively less studied and known. Economic thought in ancient Greece by Plato, Aristotle and Xenophon, note references to danger, uncertainty, caution and risk of several types, which may threaten the state or individual. More common risks of a social or political. Aristotle in Politics distinguishes between natural hazards (disasters, disasters, etc.) And political risks arising from the adoption or amendment of laws and regulations that may lead to inappropriate social discontent (plots or even revolution).

He also notifies the link between size and risk level of flexibility of the system of laws. Plato in his dialogues, made reference to special risks in the conduct of war, the influence of state stability and success qualities soldiers in a battle. He has several references to the risk of lending, which found a number of factors: family, legal system failures on the protection of property, erotic needs of individuals (!), Chance, clarity and certainty.

b. Middle Ages. Concerns regarding the risk occur much later, since the XII century, with the development of the church, acting as trainer medieval scholastic education in the spirit of work, improving relations between individuals, of solidarity, helping to alleviate tensions and fights. Subsequently, economic thinkers of the XVI - XVIII, mainly mercantile be issued narrow medieval, and focus on economic concerns before the moral and philosophical. Development of State as an institution, which prefațează individual desire for gain and wealth is a purpose and adventure and risk, one way. It is during the great geographical discoveries, the establishment and development of colonial empires.

Montchretien capture details of industrial production and trade of the eighteenth-century France reflecting on bringing the risk of that time. He was the promoter of economic nationalism, saying that fair work leads to profit while the opposite, bankruptcy and ruin, internal trade is a priority because of safety and utility, while the outside is considered as more risky. Here are some forms of risk identified Montchretien: the risk of sea transport, the risk of falsification of precious metals, the risk of flooding (for agriculture), the risk of change (which wants Montchretien issued by any chance). Montchretien state is essential to stability, it may impose coercive order associated with safety, on the contrary, social unrest (rebellion of Urbino, for instance), fighting between the Italian states, are considered the danger of adverse repercussions on the economy and the ability defense of the state.

c. Classics. During the great classics of the economy, perception, risk taking and evaluation dimensions were first studied in detail by economists, rather they considered the risk as a product of specific cultural environment of time. Recognition of the economy as a science following the publication of Adam Smith's works, and industrial and scientific progress (especially Newton's equilibrium theory) were the prerequisites for first attempts of defining and understanding the scientific background risk. The balance between supply and demand was a system, set the "invisible hand" of A. Smith, law-abiding general equilibrium (Newtonian). Certainty was given to price stability. The transition from predominantly agrarian economy to the manufacturing was the shift from a developed and stable in activities characterized as "business risk".

The role of entrepreneurs in profitable use of capital is highlighted by A. Smith deriving capital owner, ie the developer of "special servants" (managers today). Smith shows that with the permanent risk throughout the economic process, there are a variety of business risks in general. The most typical example is a lottery in which "winning lozurile not compensate lozurile white, although the size of lozuri tempts many adventurers to throw in such risky assets test. He also links to obtain the three main income (wages, profits and rent) the existence of certain risks.

Among other forms of risk identified by A. Smith and his school of economists are:

- the risk of rent of land (even made a correlation between the nature of different crops and risks of such land);
- risks related to fluctuations "random" values of the exchange market of gold or silver bullion (anticipated problems and the exchange risk on the country);
- the risk of illegal exports of gold bars, with major implications in the stability of the currency;
- risk capital borrowed, which shows a calculation of interest and a potential risk of circumventing the law;
- moral hazard involving the debtor and creditor capital;

- the risk of granting a loan, discussion of interest inherent in representing the price plus the price of insurance risk using money lender to borrow that money.

The lawmakers noted the concern of that period to avoid the negative implications of risk more perspective and less of a substantive humanitarian. School representative classical definition of several types of risk, assess and prioritize them according to severity and costs involved.

d. Neoclassics. Century thinkers (Stanley Jevons, Leon Walras, Carl Menger) develop theories aimed at capital accumulation, growth and overall development of long-term economic system, based mainly on marginal theories of 70 years. Neoclassical theory starts from the premise that the individual is guided by the principle of rationality (considered to be relative), then use its "best" resources available according to the constraints on subject.

Differences in understanding of the concepts of risk, uncertainty, chance, etc. led to the strengthening of three key schools of thought neoclassical: School in Vienna - the theory of marginal utility, School of Laussanne - general equilibrium theory and the Cambridge School - partial equilibrium theory. - Leon Walras (School of Loussanne) separates the natural action ("play of natural forces, which are blind and fatal) and humanitarian ("have their source in the exercise of will of a man who is familiar psychic power and free"), divide which is closest to the current classification of risk theory.

Successor of Walras, Vilfredo Pareto, considered beneficial in the knowledge:

- Intuition or foresight useful "where experience can not occur. In Walras's theory, capital appears as a cash advance (as in classical), but as a tool of production, and land is a natural capital consumed, intractable but at risk of death (earthquakes, floods - risks in pure form). Also, work is still considered a natural capital, but consumable and perishable destructible by using the accident. Walras and Pareto first introduced the concept of insurance as a sum of money necessary to cover cases fortuitous.
- School in Cambridge, represented by Alfred Marshall, based on general equilibrium theory, indicates that the system of interdependencies in the economy involves risks and their effects propagate. That is, there is a risk to a certain level of economy determine the effects propagated in size and intensity to another or other levels that are interconnected. In Marshall's view, "profit is risk remuneration, consisting of what remains after deducting interest and salary manager of gross profits. Thus, risk is seen both as an element of profit and cost. Marginal Fisher noted that "instability is one of the cornerstones of the current trend of industry-oriented trusts and cartels.
- School Germany is a criticism of liberalism, make important contributions to the theory of risk by leading German economic nationalism Friedrich List, an advocate of economic protectionism, which must ensure the security of those who invest capital, skill and labor in new industries. Separate list risks fields (ie the farmer is subject to the risk being insured against the potential risks "without any sacrifice", while in transport entrepreneur risk their entire

capital). List shows that the risk of affecting the macro scales and even mondo - economic.

e. Contemporaries. In 1921 Knight Frank published the first paper on risk, particularly looking at the entrepreneurial risk. Chronologically it follows John Maynard Keynes that is different macroeconomic analysis on ciclicitatea production, unemployment, inflation, monetary problems. Its analysis is influenced by specific transformations and crises period. Keynes talks about a cost of risk are meant to cover "possible deviation of actual earnings for unknown reasons from expected earnings. Friedrich Hayek analyzes risk on the safety of buildings, and Louis Hacker raises issues of risk taking and fiscal policies.

School Keynes identified risks in most areas of economic and social life and has described their integration into the work and achievements of the capitalist entrepreneur. In the decades immediately close, stands Orio Giarini (Director of International Institute of Risk in Geneva) that through its work that covers the risk (particularly certainty limits) makes an alternative design in relation to neoclassical economics, namely that related to the entry in the economy services and "in a world of uncertainty for which we need to prepare and to assume risks, seek to stop a world of certainty, the risks to be eliminated.

The most important theorist of marketing, Philip Kotler, was addressing the risks of creating a new product, the overall risk of marketing, consumer-perceived risk, country risk in its work, bringing together such a comprehensive formula marketing vision to the perception of risk, both in terms of the undertaking and the subject-social being. Paul Samuelson defines the concept of "economy of uncertainty 'explaining it by the conduct of firms to uncertainty about: the price of products, policy environment, technology, inputs, intensity of competition. He defines "risk aversion" as a situation where a person "annoyance of losing a sum of money is greater than the pleasure of winning it.

Neumann introduced a theory of utility theorem and developed a mathematical model that bears his name to calculate utility. This model is used to study basic and advanced concepts of risk, particularly in experimental and modeling. Theoretical approach to risk is far from being exhausted due to the complexity and variety of problems, and because to be an interdisciplinary approach. Determined, a definition of risk might be as follows: "Risk is defined as an element of uncertainty but it is always possible that events in the technical, human, social, political, reflecting changes in the distribution of possible outcomes, the likelihood of subjective values and objectives, with possible damaging and irreversible effects.

Analyzing the concept of risk can not formulate a single definition, but instead we can distinguish three main features: causes of risk from instability into all processes taking place in the economic life of a country; the critical point for expressions of risk is determined by the objectives of the developer; risk is the possibility that objectives are not achieved.

3. RISK PERCEPTION

Currently, the basis for decisions no longer operate with absolute certainty, with accurate predictions of the evolution of a particular item, but makers use more and more frequently, to estimate probable, uncertain, the concept of risk and uncertainty. Most decisions are adopted in terms of risk and / or uncertainty, incomplete or incorrect knowledge of one or more variables is a defining feature of economic activity in the current conditions and those which explain increasingly large differences between yields various business activities or projects. A very interesting way of looking at things is the public risk perception, perception influenced by emotions. Social perception is based on observed data and knowledge we have about people belonging to a group.

There are four images that appear in the public perception of risk:

a) Imminent danger ("sword of Damocles"). The risk is considered a threat which can strike at any time and cause a disaster risk source is artificial. The danger is unable to provide time of the accident. A relevant example would be the public that nuclear disaster may cause at any time.

b) Risk invisible ("Pandora's Box" - Slow Killers). The risk is invisible threat to public health or welfare. The effects appear late and are not likely catastrophic. The public has no direct access to information depends on external sources. The credibility of the source of information is crucial. The risk is minor, but the trend is strong quarrel those involved. An example would be the preservatives, food additives, genetic engineering etc. vegetables subject.

c) The cost - benefits ("Balance of Athens"). The public perceives the risk as the difference between what wins and what loses. Perception of risk is limited to financial gains or losses. Probabilistic thinking in these situations work. The classic example would be gambling.

d) Voluntary risk (risk for the sake of risk „The Myth of Hercules"). The risk is desirable and actively exploited, risk exposure is voluntary. There is a perception that the subject can control the risk with skill. The consequences are not necessarily catastrophic. This is evident in the case of sports more or less extreme.

3.1. Risk targeting specific activity company

Identifying types of risk that a company can face is an essential step for management unforeseeable, but is only first step in a series of initiatives to be carried out to correct interiorization in developer environment risky behavior. Either choice involves the waiver of one or more alternatives or we have already discussed the fact that election results can not be made known accurately, for various reasons.

The need for risk assessment made its presence felt in the life of the developer in several cases, namely: when you have to compare two or more alternatives with similar results, but with different risk levels; where should compare two or more alternatives that may prove just as risky, but get different results, where no alternatives said, the developer must decide whether to accept or not a given situation risky in terms of judging their own criteria for acceptance of risk.

No hazard identification or determination of losses is not simple problems for an entrepreneur. Description of default risk and loss potential based on the idea of quantifying the probability of occurrence and severity of the event, so our steps we consider appropriate to begin with a brief overview of the concept of "probability distribution" and how it is used in addressing business risk. From the outset we said that this chapter can be presented in an abstract manner or in a simple manner, based on evidence. Information, in most cases is the same but the first approach can be thorny because of language and not least the writing.

The normal course of business by a business requires, in addition to equity, and leveraged. These two are different sources of capital for business, the cost it generates, and, for investors, the risk they assume for the placement of capital available in the respective company. If the investors' point of view things are clear in that it is always the risk assumed by creditors is less, because they are paid before shareholders for the company, calling on equity or borrowed capital may have different consequences on the profitability achieved and the firm value.

Selection and implementation of a certain financial structures are based on conditionality and more restrictions, such as integration into the global strategy firm, taking into account the branch of activity in the operating company, the rules of lending institutions, the general climate capital market and investors' expectations, the cost of each source of capital, etc.

Currently acting in a dynamic competitive environment and encountering a number of uncertainties regarding the evolution of market interest rates and profitability of investment projects already under way, companies should pay particular attention to financial risk because it can materialize cause the limitation or suspension of access to bank credits to finance the capital market, the company decapitalization using operating profits to pay interest costs when financing strategy is not designed properly, decreased market value or business bankruptcy.

3.2. The measures of risk management at an economic

Risk management measures that can be applied by an operator know a particular variety, the choice of such measures depends on both the nature of risk and the resources available to the company at a time and purpose.

Makers can take the following major steps:

a) avoiding risks;
b) insurance against risk;
c) restructuring activity;
d) diversification;
e) desinvesting;
f) short-term profit maximization.

a). Avoiding risks. The easiest and most efficient techniques to protect against risk are to avoid it. This measure is adopted by a large number of companies and requires ongoing monitoring of economic conditions in certain markets, sectors, activities, etc. The company thus avoiding to invest in those areas characterized by a high degree of risk. In this case, particular importance is the quality of information and personnel engaged in conducting studies and forecasts of the risk affecting various business projects.

Before adopting such techniques, managers need to establish the relationship between the return they want to obtain and the risk they are willing to assume. Adopt a policy of avoidance of activities characterized by high risk, without taking into account business opportunities, is bad for business, since it lost the opportunity to invest in areas with high efficiency. A lot of managers willing to accept high levels of risk, but the hope of obtaining large profits on short time. In the background, business firms resist as long as possible take risks, provided that they identify and manage them effectively in order not to jeopardize the survival of the firm on the market and to get as high profit.

b). Insurance against risk. Another alternative is to provide protection against risk. Insurance companies agree to provide only the risks purely accidentally, incidentally, whose materialization can be provided before, both in intensity and as time. In exchange for full or partial takeover risk to operators, insurance companies require an insurance premium, whose value is as high as the risk is higher. Traders turn to this technique when confronted with risks caused by environmental variables that does not control or the degree of control is very small. In this way, firms can focus on running their business without being concerned about the losses that may arise from the risk materializes. In the contract of insurance, the policyholder will pay an amount the insurer will be compensated for losses. Insurance is the main way of distributing risk, which applies only when the insurer can statistically predict the frequency and intensity of insured events.

c). Restructuring activities. Assume constant concern of the company for continued monitoring of the business climate in order to anticipate events that could damage the environment around them company. Depending on the estimated negative phenomena to occur, managers can determine the restructuring and adjustment of business to new market conditions manifested. One form of implementing this technique is choosing a legal form of organization appropriate and flexible combination with another company and the creation of joint companies for the purpose of sharing risk, or where the risk is very high, licensing other companies, since not require huge investments, but can greatly benefit. Also, risk reduction can be achieved by patenting products and technologies created by business and by maintaining a strict control over them, which assures the firm a significant technological lead over competitors.

Creating high-technology means, but high costs of research and development, which always ends with results that can be implemented in the company? Using a largest possible number of suppliers, customer diversification and product classification can substantially reduce risk. Implementation of these measures determined, usually an increase in operating expenses of the company.

Thus, the suppliers, the company would have to elect those that provide the lowest prices on quality of raw materials and materials which are situated a short distance from his business in order to reduce transport costs. Greater number of suppliers reduces the risk of failure in supply activities (non delivery terms or quantities), but considerably increased supply costs. Diversification allows the classification of products also reduce the risk sales by entering new market segments and by attracting so, the new categories of customers. The company must, however, is concerned about increasing the number of customers in each market segment in order to reduce dependence on a small number of consumers.

d). Diversification. Often, this technique is applied with restructuring activities and is considering reducing the risk by horizontal or vertical integration of the company or even by completely different development activities. Following such measures can better manage risk by spreading their different sectors, given that they are exposed to different degrees of risk.

e). Desinvesting. Involves reducing the amount of invested capital when there is a considerable increase in risk, by selling all or part of a particular asset to other businesses. Problems can arise when adopting this measure relates to the difficulty of obtaining a fair price, as close to market value for assets sold, and the difficulty finding a buyer for a business whose profitability has declined significantly or is affected by a considerable level of risk.

f). Short-term profit maximization. This technique applies when companies seek dezinvestirea total and complete withdrawal of a market driven by high risk. In this way it aims to maximize short-term gains on transactions undertaken by the sale of assets. To achieve this, operators will seek to reduce costs by removing the maintenance and repair operations, reduce distribution costs, promotional activities, increasing the extent possible sales prices, cancellation of training programs for employees, reducing staff.

However resulting in reduced costs and increase short term profit. In this case, the company would have to set the time horizon that would maximize profit and to determine how relationships with suppliers, customers and staff are affected. The company should consider well the implications of such a strategy. Thus, if she wishes to withdraw defined market, only to diminish the activity, such a policy will affect trade relations with business partners and will lead to irretrievable damage to its image in the market. Such aggressive behavior simply reduces the period during which the firm operates on the market in May.

All these strategies are based on continuous monitoring of the level of risk facing the operator. Their use causes a reduction in the company's vulnerability to environmental conditions, and a reduction in losses that could occur if the risk materializes.

4. CONCLUSIONS

Lait - the reason this research is that risks are present in every business and not just in any activity. Risks arise once the decision to start a business and pursue throughout her work. Manage risk is to work systematically on all business plans. And this is the recipe for success of any business: strategic management, ie planning and detailed scheduling of all activities and elements of a business. Most times, failure is the result of lack of vision, planning, organization and evaluation of the leading business. Vision XXI century the risk is a positivist. Risk is seen from a positive perspective. Systematic approach and informed risk decisions in a business can turn risks into opportunities extraordinary. And lead to business development opportunities. Have you consciously take risks and planned in a business, can result in rewards beyond the initial risks.

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