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COMPREHENSION OF RISK BY ENTREPRENEURS IN POSITION OF DECISION MKANG AUTHORITY.

Sugathapala M A S H
sachinihansamali01@gmail.com

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ABSTRACT

The domain of business decision-making is inherently susceptible to risks due to the all-encompassing unpredictability that forms the basis of anticipated results from investment selections. This unpredictability has the potential to result in monetary setbacks and even the demise of businesses. This paper explores the entrepreneurs' understanding of risk and how such decisions are affected by risk. The qualitative research design in this study employed the interpretive research approach as its underlying philosophy. Employing a qualitative research methodology, this study embarks on a comprehensive exploration of the multifaceted interplay between risk and entrepreneurial investment decision-making. This investigation draws theoretical insights from the Neoclassical Investment Theory, thus enhancing its analytical framework. To gather robust insights, 20 in-depth interviews were conducted among entrepreneurs in different industries and subjected to thematic analysis. The results revealed that an entrepreneur's behavior related to investment decisions is interpersonal under risk. Furthermore, the responses that were weighted to one side implied that the level of risk controls entrepreneurs' desire to expand their investment strategies. The research findings indicate that risk remains a prevailing concern within the realm of investment decisions, as it is an inevitable aspect that can be mitigated through effective management. Investments devoid of risk may lack the potential for substantial returns, as overcoming risk can propel a business toward unparalleled achievements. The degree to which risk acts as a deterrent to investment hinges on an investor's personal risk tolerance. Embracing the adage' prevention is better than cure,' it is imperative for managers to proactively address risk and its consequences by employing methodologies of risk analysis.

1. INTRODUCTION

Within the domain of management, decision-making stands as a pivotal function, entailing a commitment to actions that necessitate well-informed choices for the day-to-day operations of an organization. A comprehensive plan must be in place to cultivate sound decisions, encompassing the establishment of achievable objectives with a forward-looking perspective (Miu and Crisan, 2011). The context in which decisions are crafted brims with uncertainties and risks, thereby demanding heightened prudence in formulating investment choices. According to Barberies and Thaler (2003), decision-making denotes the process of opting for a course of action among available alternatives. Rustichini et al (2005) presented decision-making as the act of selecting a logical option from an array of choices. Nonetheless, in scenarios where decision-making interfaces with future events, the specter of risks and uncertainties may emerge.

Investment involves allotting resources for the medium or extended term, with the envisaged outcome being the recuperation of investment expenses and the attainment of substantial profits. Apart from financial resources, human and material resources also come into play. The economic and financial landscapes exert an impact on investments, rendering projected outcomes ambiguous (Avram et al., 2009). Investment determinations materialize following a comprehensive assessment of the investment venture. Within this decision-making process, a fundamental influencer is the investment's inherent risk. This risk emerges due to the uncertainty surrounding the eventual recovery of investment costs and the realization of profits.

The exploration of investment, investment decisions, and investment behavior offers a dual perspective. These domains can be dis-sected through empirical and theoretical lenses, although the two approaches diverge considerably. Appreciating investment behavior necessitates the incorporation of historical and institutional factors. Jorgenson aptly emphasizes that viewing empirical and theoretical research as distinct entities is an oversimplification. Economic theory contributes to potential explanations of investment behavior, demarcating econometric analysis from empirical generalizations that haven't undergone econometric scrutiny. Thus, it becomes pivotal to subject econometric models of investment behavior to rigorous testing to ascertain their viability in practical econometric applications (Jorgenson, 1967).

Comprehending investment behavior and decisions mandates an exploration of relevant theories alongside practical analysis of investment processes. Empirical findings can serve to refine or supplement existing investment theories, enhancing understanding. Conversely, the precise and effective empirical exploration of investments can be grounded in theories of investment behavior. The neoclassical investment theory is underpinned by an assumption that agents possess the capacity to quantify numerical probabilities and create probability distributions for anticipated returns. Crotty (1992) critiques this notion, coining it as 'the triumph of ideology over theory and fact'. The neoclassical investment framework is predicated on the belief that durable capital assets enjoy robust resale markets, thereby obviating risks in decisions. Within a firm's context, the distinction between owning and renting capital is marginal. In either scenario, if the investment outcome proves unfavorable, the firm retains the option to resell capital assets and subsequently channel the liquid capital into new investments (Crotty, 1992).

In the context of neoclassical investment models, firms are portrayed as risk-neutral, with risk stemming solely from the cost of capital. However, adopting the perspective of reversible investment or liquid physical capital, the firm tends to become risk-averse. This implies that any investment errors made by the company would incur relatively minimal costs. Yet, when considering illiquid capital, investments become irreversible, with mistakes carrying substantial costs. In such cases, prudent risk-aversion management is recommended (Crotty, 1992).

When shaping the theory of investment behavior, the foundation of capital accumulation hinges on the objective of maximizing the utility derived from a series of consumptions. Maximizing utility from a consumption stream and acquiring capital services through investment goods procurement constitute core tenets of the optimal capital accumulation theory. Jorgenson highlights diverse viewpoints and variations of the neoclassical firm's capital theory. Several alternatives exist concerning what entrepreneurs should maximize; however, none of these can be deduced solely from the maximization of consumption stream utility within the defined parameters—except for the consistent maximization of the firm's present value. The Fisherian analysis elucidates that none of these formulas possess universal applicability within the theory of investment decisions.

In light of the above, risk constitutes a pervasive phenomenon across all business domains. However, the predicament confronting investors lies in the uncertain nature of the future, rendering the precise value of potential risk to investments or businesses indeterminable. This poses a challenge to both investors and managers in the decision-making process. With the pronounced and continuous drop in share prices since 2008, risk-averse investors have grown apprehensive about identifying stocks worthy of investment, while investors in nascent businesses persist in their efforts. Nevertheless, these investment challenges are contingent upon factors such as government policies, inflation, available cash flow, and physical elements like infrastructure quality. Consequently, this study primarily centers on the management of risk associated with financing projects or new investments. Its objectives encompass the exploration of risk constituents, elucidating the role of managers in risk management, and delineating the intrinsic complexities of investment decisions, all aimed at enhancing the fortunes of investors.

2. MATERIAL AND METHODS

Qualitative research establishes connections among diverse concepts, disciplines, subjects, and terminologies to elucidate intricate phenomena. Aligned with the nature and context of the study, the author embraces the interpretivism philosophy, which underscores the researcher's pursuit of comprehending the distinctions in entrepreneurs' roles as societal actors. With the intention to probe the influence of risk on entrepreneurial investment choices, the researcher opts for an inductive approach, which furnishes a comprehensive grasp of the phenomenon under scrutiny (Adam et al., 2017). This approach's flexibility enhances research quality and stimulates the study's originality (Skipton & Bail, 2014).

The present study approaches the problem inquisitively, aiming to delve into authentic realities. The investigative strategy steers researchers toward an enhanced comprehension and interpretation of individuals, groups, and organizations within social, political, and related contexts (Bhushan & Medury, 2014). Envisaging a diverse spectrum of inputs and aspiring to elevate their enterprises, the researcher selects respondents from clustered industries. These entrepreneur respondents are propelled by a fervent aspiration for growth and advancement, propelling them to explore various investment avenues for business expansion and heightened achievements. Gaining insights into the investment behavior and decision-making processes of these individuals holds the promise of shedding light on how risk shapes their choices, thus enriching the holistic comprehension of investment dynamics within the sector.

To collect data, a blend of purposive sampling and snowball sampling methodologies is harnessed. The purposive sampling method entails selecting initial respondents, echoing the support of Ajzen (2002), Lusardi & Mitchell (2011), and Nasir & Khalid (2004). Subsequently, the snowball sampling technique is employed to identify additional respondents with extant investment plans. This dual-method approach, in alignment with Atkinson & Messy (2011), Hilgert & Hogarth (2003), Özen & Ersoy (2019), and Satsios & Hadjidakis (2018), aims to construct a respondent pool that harmonizes with the research objectives. The research locale chosen for this study is the Colombo district, the administrative, judicial, and most populous city of Sri Lanka.

Upon securing access to the selected respondents, 20 in-depth interviews are conducted with executives possessing over 5 years of industry experience. These interviews are conducted either in person or online via Teams for the primary study. The point of data saturation is reached after the 14th interview, adhering to the data saturation criterion by Braun and Clarke (2014). To confirm this threshold, the researcher conducts an additional six (06) interviews. Audio recordings of all interviews are carried out with participants' consent, and conducted in English. Participants show no reluctance or opposition to the recording process. The recorded interviews are transcribed and retained as supportive resources for data management. Interview durations range from 20 to 30 minutes, guided by a structured interview guide that ensures consistent and focused questioning across all participants. This guide preserves the coherence and relevance of the discussions. During interviews, the researcher also takes concise field notes, maintaining a balance between note-taking and upholding the rapport established with participants.

Thematic analysis, delineated by Braun & Clarke (2013), serves as the data analysis technique in this study. This process involves coding the data to pinpoint key elements pertinent to the research inquiries: "How do entrepreneurs navigate decisions amid risk?" and "How does risk impact investment decisions?". The ensuing findings furnish invaluable insights into the intricate interplay of these facets within the captivating realm of investment decision-making.

2.1 Propositions and Concept Indicator Model

Risk as observed by Smith Dennis &Fishbacher (2012) is borderless. This is to say that it can be found in almost all facets of life such as investments, health, socio-technical, geopolitical, organizational, cultural etc. Altman (2009) posited that systemic risk combines natural events and it covers social, economic and technological developments. Generally, investing in Government bonds is faced with different degrees of risk. The greater the risk, the greater the expected returns. Government bonds have low risk because the interest rate is known and the chances of defaulting are low. But a decision to invest in shares, projects and new businesses is faced with uncertainties because it is impossible to accurately estimate due to the fact that future financial developments can affect share price e.g. inflation risk, market risk, economic risk, interest rate risk etc. This shows the risk inherent due to variability in future returns. As defined by Vessbs (2011), risk is the quantifiable likelihood of loss or less- than-expected-returns. From above, it is observed that Pandy (2006) defined risk from the angle of investment returns which in reality are not certain. This is due to reasons relating to instability in the value of money, inflation, economic factors such as changes in income level, credit risk, inflation risk, economic risks, unsystematic risk, business risk and so on. Vessbs (2011) equally sees risk as possible quantifiable loss which can result from expected returns of an investment due to natural disasters, inflation etc. In essence both definitions recognize the fact that return on investments is uncertain and it's also prone to some risk. In order to determine the extent of risk in investment decisions, this study makes an effort to evaluate investment success in terms of different shades of risks, such as financial risk, market risk, legal risk, safety risk, and personal risk.

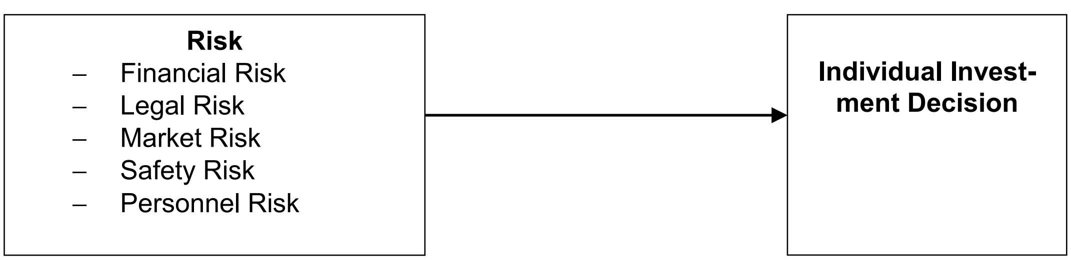

Figure 1: Concept Indicator Model
Source: Author

3. RESULTS AND DISCUSSION

3.1 How do entrepreneurs navigate decisions amid risk?

The study already selected the sample as entrepreneurs since they are risk takers by the definition. Hence, the data analysis and the inclusion of risk factors have shown that most respondents take risks by accepting the truth in the adage "the higher the risk, the higher the return" and would want to take the risk inherent in the stock market. As a result, many risk-takers have made investments in erratic markets like the stock market. However, the data from the poll showed that even the people's willingness to accept losses in unforeseen circumstances the frequency of accepting risks depended on their level of risk tolerance. Investors were accustomed to handling several investments as well as third-party authorizations for investments in order to remain stable during unpredictable times. The repetition of such operations raises people's tolerance levels and encourages them to invest more. As a result, choosing the best selections from investment portfolios requires a high level of transparency, an understanding on financial products, rules and regulations, the financial market, financial security, and personnel capacity to tolerate risk. Therefore, it may be inferred that those who are willing to take on a lot of risks are motivated to invest and that their choice of investments is influenced by shades of risk.

3.1.1. Financial Risk and Individual Investment Decisions

The relationship between financial risk and investment decision-making is integral and symbiotic. Financial risk, stemming from the uncertainties inherent in market dynamics, economic conditions, and external events, serves as a critical factor that shapes investment choices. As responded by entrepreneurs weigh the potential returns of an investment against the associated risks to determine the optimal allocation of their resources. The level of risk an entrepreneur is willing to undertake directly impacts their asset selection, portfolio diversification, and overall investment strategy. This risk-return trade-off lies at the heart of investment decision-making, as investors seek to strike a balance between the desire for higher returns and the need to manage and mitigate potential losses. Consequently, the intricate interplay between financial risk and investment decision-making drives the formulation of strategies that align with individual risk preferences, financial goals, and market realities.

3.1.2. Legal Risk and Individual Investment Decisions

The relationship between legal risk and investment decision-making is a critical consideration in shaping prudent investment strategies. Legal risk arises from the potential legal and regulatory uncertainties associated with investments, including changes in laws, regulations, or litigation that could impact the value and viability of investments. Entrepreneurs must thoroughly assess legal risks to make informed decisions that safeguard their capital and ensure compliance with relevant regulations. The existence of legal risk can influence an investor's choice of investments, prompting them to avoid sectors or assets prone to legal disputes or regulatory changes. Comprehensive due diligence becomes paramount, as investors seek to evaluate the legal standing of a company, its contracts, intellectual property rights, and potential liabilities. Legal risk also extends to international investments, where differing legal systems and jurisdictional complexities can introduce additional layers of uncertainty. In essence, recognizing and managing legal risk is an integral component of effective investment decision-making, helping investors preserve their capital, navigate legal complexities, and align their portfolios with legal and regulatory requirements.

3.1.3. Market Risk and Individual Investment Decisions

The relationship between market risk and investment decision-making is a pivotal determinant in shaping portfolio strategies. Market risk, synonymous with systematic risk, emanates from broader economic and market fluctuations that can affect the entire investment landscape. Investors must meticulously consider the potential impact of market risk on their investment choices, as it can significantly influence asset prices, returns, and overall portfolio performance. The degree to which an entrepreneur is exposed to market risk influences their asset allocation decisions, guiding them to diversify across different asset classes or industries to mitigate the adverse effects of concentrated risk. Moreover, market risk is an essential factor in the formulation of risk-adjusted performance metrics that aid entrepreneurs in evaluating the attractiveness of an investment relative to the level of risk undertaken. Therefore, the interrelation between market risk and investment decision-making underscores the necessity of a well-informed, dynamic strategy that adapts to changing market conditions while aligning with an entrepreneur's risk tolerance and financial objectives.

3.1.4. Safety Risk and Individual Investment Decisions

The relationship between safety risk and investment decision-making plays a crucial role in determining the viability of investment opportunities. Safety risk pertains to the potential harm or danger to human lives, environmental sustainability, and community well-being associated with certain investments. entrepreneurs are increasingly considering safety risk as an integral factor in their decision-making processes, reflecting a growing awareness of the broader societal impacts of investments. Companies that prioritize safety practices and adhere to stringent environmental, social, and governance (ESG) standards are often perceived as more sustainable and resilient in the long term. In sectors such as energy, transportation, and manufacturing, safety incidents can lead to reputational damage, legal liabilities, and financial losses. As a result, entrepreneurs are incorporating safety risk assessments into their due diligence procedures, evaluating companies' safety records, risk management protocols, and commitment to ESG principles. This integration of safety considerations in investment decisions reflects a broader trend toward responsible investing and underscores the importance of aligning financial goals with ethical and safety-conscious investment choices.

3.1.5. Personal Risk and Individual Investment Decisions

The relationship between personal risk and investment decision-making underscores the inherent connection between an entrepreneur's individual circumstances and their chosen investment strategy. Personal risk encompasses an investor's unique financial goals, risk tolerance, time horizon, and overall financial situation. It is a pivotal determinant in shaping investment choices, as individuals must assess their capacity to bear risk in relation to their desired returns. A conservative investor, for instance, might prioritize capital preservation and opt for lower-risk investments, while more risk-tolerant entrepreneurs might seek higher returns through investments with greater volatility (Eeckhoudt, 2005). Personal risk also involves life-stage considerations; younger entrepreneurs might have a longer time horizon and thus be more willing to take on higher risk for potential growth, while those approaching retirement might prefer more stable, income-focused investments. Recognizing and understanding personal risk allows investors to tailor their portfolios to align with their financial objectives and comfort levels, creating a well-balanced approach that resonates with their unique circumstances and aspirations.

3.2 How does risk impact investment decisions?

Efficiency and effectiveness in organizational operations are essential for managing operational risks. This involves a delicate balance between risks and opportunities, as effective risk and opportunity management hinges on the choices made during decision-making processes. According to Gilboa (2010), a systematic approach to risk management is more efficient and effective compared to an informal process. The process of risk management highlights inherent risk factors within investment decision-making. The policymaking process is often inconsistent due to frequent changes and discontinuity in established guidelines like taxes, interest rates, and levies. This inconsistency poses significant challenges for entrepreneurs. Widespread executive corruption across various governance sectors adds an element of fear, uncertainty, and caution to investment decision-making. Influences from global superpowers also limit free market investments and operations in developing countries. Other contributing factors include fluctuations in money value, inflation, changes in income levels, credit and inflation risks, economic factors, and unsystematic and business risks.

Moreover, the commitment to sustaining a business introduces numerous challenges for entrepreneurs. Peterson (2009) highlights challenges such as difficulty in raising funds for further investments, which directly impacts business continuity; subpar management teams that indicate weak systems and strategies; failure to recoup customer acquisition costs within a year; inadequacy in regulating investments and maintaining sufficient cash reserves; product-related issues leading to market loss. Additional risk areas encompass natural disasters like floods and fires, inconsistencies in government policies, inflation, available cash flow, and physical factors like lighting and infrastructure quality.

4. CONCLUSION

The research concludes that risk is an inherent aspect of investment decisions grounded in subjectivity and cannot be completely eliminated; however, it can be effectively controlled. Investment endeavors lacking a risk component might not yield significant returns, as successfully navigating risks can propel a business to unprecedented achievements. The degree to which risk acts as a deterrent to investment hinges on the entrepreneur's personal risk tolerance. Embracing the notion of prevention being preferable to cure, managers should proactively anticipate and counteract risks through meticulous risk analysis techniques. It is imperative to initially scrutinize the various risk categories and potential preventive measures. The particular nature of each business and its goals should be considered, as each business confronts distinct risks. Additionally, governments should minimize frequent policy alterations, as these often lead to price instability and adverse effects on investment. Regulatory bodies like central banks and tax authorities should foster an investment-friendly environment by providing easy access to low-interest loans and tax incentives while avoiding complex tax systems. Accountants play a vital role in educating loan recipients about investment intricacies and sensitizing them to inherent risks in their investment choices. To meaningfully mitigate risks, accountants should meticulously analyze capital sources, associated interest rates, and the impact of inflation on both capital and business operations. In essence, addressing the challenge of risk, as echoed by Loewenstein et al. (2001), necessitates comprehensive comprehension by key decision-makers and an understanding of how risk influences decisions. Forward-thinking managers must analyze decision consequences, recognize inherent risks, and manage these challenges adeptly using methods like sensitivity analysis, expected value assessment, and payback period evaluation.

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