

# Objective and Subjective Preconditions for Entrepreneurship – From the Point of View of Enterprise Risk Management

Maria Luskova, Maria Hudakova, Katarina Buganova

**Abstract**—Established objective and subjective preconditions for entrepreneurship, forming the business organically related whole, are the necessary condition of successful entrepreneurial activities. Objective preconditions for entrepreneurship are developed by market economy that should stimulate entrepreneurship by allowing the use of economic opportunities for all those who want to do business in respective field while providing guarantees to all owners and creating a stable business environment for entrepreneurs. Subjective preconditions of entrepreneurship are formed primarily by personal characteristics of the entrepreneur. These are his properties, abilities, skills, physiological and psychological preconditions which may be inherited, inborn or sequentially developed and obtained during his life on the basis of education and influences of surrounding environment. The paper is dealing with issues of objective and subjective preconditions for entrepreneurship and provides their analysis in view of the current situation in Slovakia. It presents risks of the business environment in Slovakia that the Slovak managers considered the most significant in 2014 and defines the dominant attributes of the entrepreneur in the current business environment in Slovakia.

**Keywords**—Entrepreneurship, innovations, opportunity, risk, uncertainty.

## I. INTRODUCTION

ENTREPRENEURSHIP plays a very important role in human society. It contributes to job creation, it is the key to competitiveness, it opens locks of human potential, it is the driving force of the market economy and its achievements provide social welfare. Entrepreneurship can contribute to social and economic cohesion of regions whose development is lagging behind, the integration of disabled people into work. New business initiatives increase competitive pressure and force other enterprises to react by improving efficiency or introducing innovation. Currently, there is much talk about corporate social responsibility, which means that enterprises voluntarily integrate social and environmental concerns in their business activities. Significant role plays also entrepreneurship education that contributes to preparation of people to be responsible, enterprising individuals who have the skills, knowledge and attitudes needed to achieve the goals

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they set for themselves to live a fulfilled life [3].

The European Commission defines entrepreneurship as: "the mindset and process to create and develop economic activity by blending risk-taking, creativity and / or innovation with sound management, within a new or an existing organisation" [2].

## II. OBJECTIVE PRECONDITIONS FOR ENTREPRENEURSHIP

The basic precondition for successful management and development of enterprises is favourable business environment. It is an environment in which the state promotes and protects economic competition, thus creates clear and stable rules, effectively ensures compliance with all market participants and also minimises administrative barriers and requirements towards entrepreneurs. In a word, quality business environment means good conditions for free entrepreneurship.

Business environment in Slovakia has undergone significant changes in recent years. Development of entrepreneurship represents an irreplaceable importance for the Slovak Republic, whose main objective is to reach the level of developed countries in Europe as soon as possible. Despite this fact, only 41% of entrepreneurs considers business environment in Slovakia unfavourable [12].

There are many international organisations and institutions in the world dealing with measuring and evaluating not only the success of enterprises and entire countries based on their competitiveness, but also measuring the quality and competitiveness of their business environment. The survey carried out by PwC and Forbes magazine in 2014 dealt with the issues of quality of the business environment in Slovakia. This survey showed that the greatest threats to the business environment in Slovakia include, according to Slovak business leaders, bribery and corruption, the ability to obtain the key skills and shifts in consumer spending and behaviour (Fig. 1).

Bribery and corruption have traditionally maintained the leadership position in Slovakia. According to an extensive survey of economic crime recently made by PwC, 31% of organisations in Slovakia experiencing economic fraud stated that it was just the corruption and bribes. It is very likely that the actual incidence of corruption is even higher, as this type of fraud is difficult to detect. Corruption and bribery are one of the most serious categories of economic crime and several studies consider them to be the largest global business risks - the risk of damage to reputation and the financial loss [9].

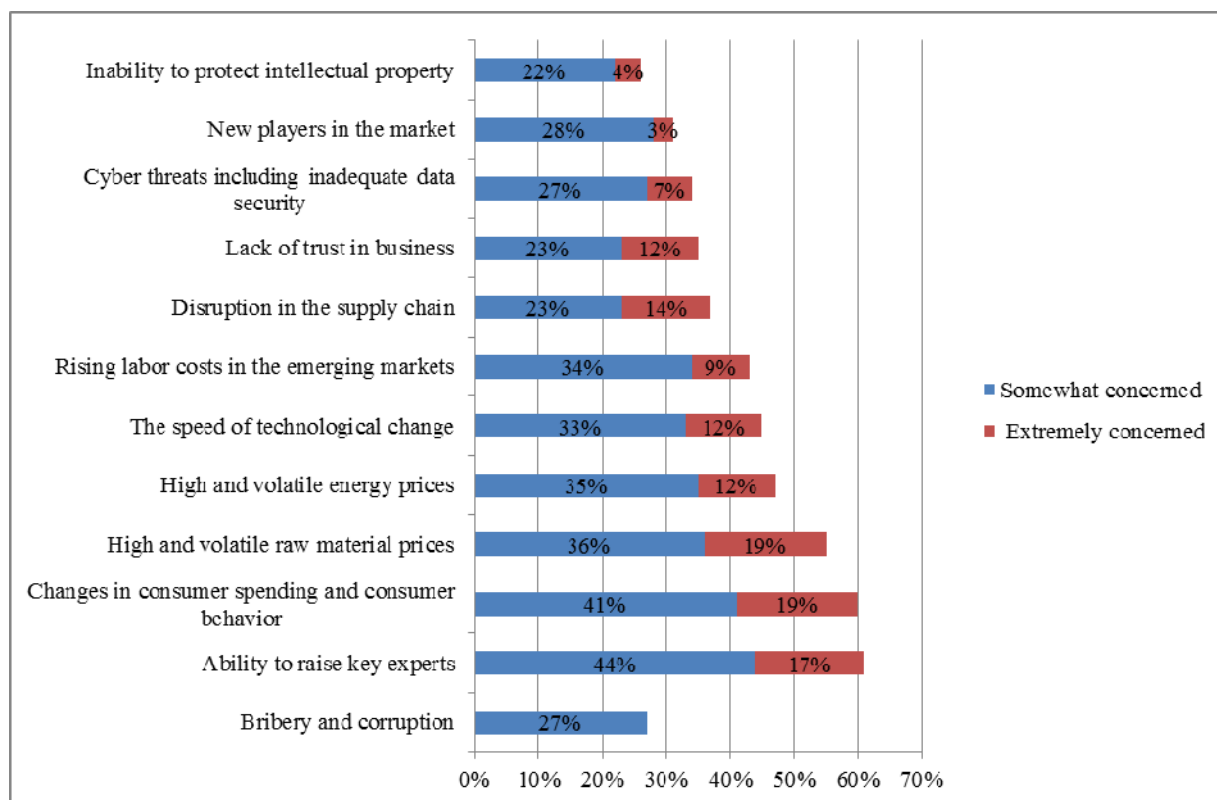


Fig. 1 Business risks in Slovakia in 2014 [9]

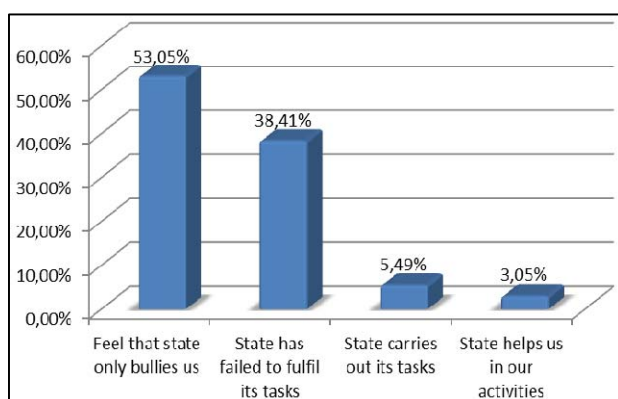


Fig. 2 Evaluation of state approach to the needs of small and medium-sized enterprises (own processing)

The risk of unavailability of top people is also linked with a poor education system, which will not generate them sufficient. Changes in consumer behaviour are most often accelerated by new technological advances. If the companies do not catch them at the right time and the right way, it is a really big threat for them.

There currently prevails an opinion among businessmen that support system for SMEs is relatively chaotic, involves many actors dealing with the issue of support for SMEs and is also characterised by complex linkages. In 2013, there was made a statistical survey of the business risks of SMEs in the Žilina region, within the project "Current trends in business risks of small and medium-sized enterprises in selected

regions of the Czech Republic and Slovakia." There were interviewed 164 small and medium-sized enterprises in the Žilina region using empirical research (questionnaires and interviews with competent persons of SMEs) [1].

The survey shows that 71.95% of small and medium-sized enterprises in the Žilina region have met with corruption and bribery within the business activity. Although the main support of SMEs include central government authorities, whose tasks are concentrated mainly around policy-making, fundraising and specialised agencies, banking institutions and various funds, even though 38.41% of SMEs think that the state has failed to fulfil its tasks and 53.05% of SMEs feel that the state bullying (Fig. 2).

Regarding the financing, small and medium-sized enterprises mostly use trade credit, which arises from the mutual and logically connecting relationships between the supplier and customer. SMEs use supplier credit to a lesser extent, based on which they obtain the machinery and equipment they pay more than one year. Small and medium-sized businesses often have troubles getting to funds through bank loans. In the region of Žilina, 37.2% of the SMES has a feeling that banks use too hard criteria for providing credits and only 3.05% of the enterprises surveyed thinks that banks accept their needs in full (Fig. 3). 33.54% knows criteria that banks assess in the credit process, 48.78% has some idea about the criteria and 17.68% of enterprises do not know criteria at all [4].

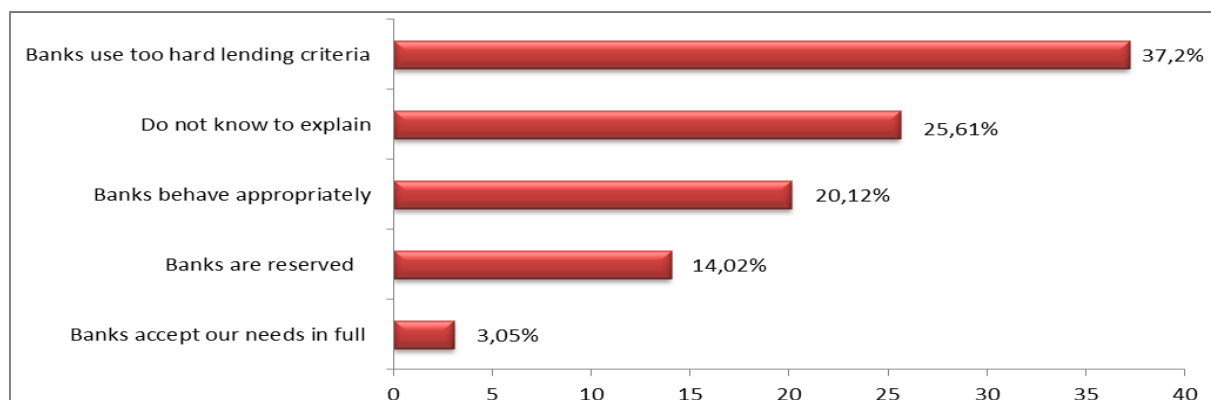


Fig. 3 Evaluation of the approach of banks to finance small and medium-sized enterprises

A number of serious problems that enterprises face in the course of their existence are not caused due to adverse financial-economic results, but the human factor and the overall support of the neighbourhood play a major role for small and medium-sized enterprises. In the region of Žilina, 51.22% of the SMES claims that the neighbourhood supports them, 32.32% does not feel interested and 16.46% has the feeling that they are envious of. Investment in the right selection, skills and permanent motivation, not only for employees but also the key managers is more important than investing in the most advanced technologies. When setting up an enterprise, 48.78% of SMEs was mainly motivated by the money, 10.98% found the business as mission, 21.95% wanted to have a job, and 7.92% of entrepreneurs did not have any opportunity, but just start a business.

### III. SUBJECTIVE PRECONDITIONS FOR ENTREPRENEURSHIP

Subjective preconditions for entrepreneurship are linked to the personality of an entrepreneur – Manager. In particular, they are given by his personal characteristic, which refers to the abilities for entrepreneurship and at the same time it should be accompanied by moral and intellectual levels as well.

Managers are significantly different among themselves, not in their knowledge, skills and experience, but also in many other factors that make up their personality. According to [7], we understand personality as a unity - integrity – the whole set of biological, psychological and social characteristics of a man. Personality is what determines human behaviour in a specific situation. Personality hides what specifies the uniqueness (individuality) of each individual (structure of personality), but also what determines the changes in his behaviour (dynamics of personality).

Opinions on what constitutes the structure of personality vary according to whether the approaches of different psychological schools. The majority of psychologists distinguish intellectual and emotional aspect of personality. There are hereditary and congenital components in personality together with the social learning obtained. The structure of personality is most commonly presented as a summary of skills, temperament, interests and needs, character and will. We distinguish to which extent the inheritance or

connaturality, individual inner factors and influence of social environment are involved in forming. For the assessment of the personality of the manager there appears to be preferable the following structure of the personality [6]:

- Activation - motivational properties - attitudes, interests, aspirations, values, ideals, etc.
- Self-regulatory characteristics – will, conscience, disciplining.
- Performance characteristics – physical characteristics, intelligence, creativity, general and professional knowledge, management skills (to analyse, anticipate, decide, lead, control).
- Socio-relational characteristics – the need to have an influence, need and ability for cooperation, communication skills (social competence).

Even if we assume that the innate properties play an essential role, still crucial importance for the successful work is represented by how he is able to develop these properties and willing to raise other necessary knowledge, experience and skills.

There are those desired abilities, knowledge, and skills coming into the foreground that allow managers to efficiently operate in dynamically changing conditions. It is a distinct shift towards strengthening the importance of personality characteristics, to the ability to perceive the problems in a wider context.

The effective properties of leadership teams and leaders of organisations are preferred in particular [5]:

- intelligence, initiative, self-confidence,
- "helicopter view" (i.e. ability to see wider context, ability to access the system),
- ability to work with different people (ability to communicate and cooperate with them),
- a sense of a comprehensive responsibility,
- monitoring and compliance with the objectives,
- experience with the group management (the sooner the better, various management activities in organisations of interest are also important, etc., passing the training of young managers, etc.),
- experience of working at various job positions.

Manager acts in several management roles in his work, which are combined and overlap. Crisis manager is one of the

roles of the manager, i.e. each head of manager should also be a crisis manager. Crisis manager is ready to identify, analyse and evaluate the potential risks, coordinate the preparation of emergency plans, in the event of a crisis, suggest procedures of safety measures and effectively manage their progress, effectively coordinate workers, communicate with workers, public and, in particular with the media. It follows that in dealing with the crisis in the enterprise, the crisis manager performs the following activities:

- decides on the tasks, resources and concrete measures, quickly deals with the problems in order to eliminate consequences of the crisis, monitors and evaluates the situation,
- ensures the functioning of crisis information system, provides effective communication, not only for the team but the public as well,
- manages and coordinates the activities of all those who are involved in addressing the crisis, provides the strengthening of psychological resistance of team workers.

The attributes of an entrepreneur in the current environment mostly include the increased demands on the ability to have a vision and strategy, think global in the local context and to cope with crisis situations. The ability to upgrade, motivate and inspire others also include the qualities often mentions [9].

Innovation is one of the most important preconditions for the development of the enterprise. The basis for innovation activity is therefore a systematic examination of areas of change that can be a source of business opportunities. Innovation management is focused on the introduction of new and improved products, services, processes, as well as new ideas and techniques into practice. Innovation process is the process of creation and spreading of innovation. Innovation processes in the business activities are mostly understood as implementation of the individual innovation or their files providing quantitative and qualitative change in products, processes and structure of production-technical base with all economic and social contexts. In general, there are five stages of the innovation process, see Fig. 4.

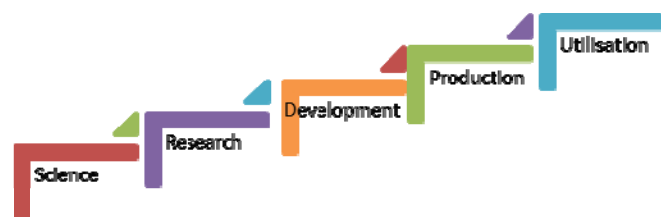


Fig. 4 Basic stages of the innovation process

Innovation process usually does not pass all stages. Considering the partial innovations only, or innovation of quantitative character, there are only carried out phase, which are necessary for their implementation. The purpose is the creation of added value for the customer he is willing to pay for. The best way to manage the innovation process is to manage it as a separate project, independently from the rest of the organisation.

Every entrepreneur should give the opportunity to his

employees to use creativity and ideas in order to support enterprise growth and increase profit. Employees are therefore an essential component of the innovation process. The paradox is that, in some surveys, only 8% of the owners of various enterprise confirmed that they capture the innovation impulses of their employees, and subsequently apply them in practice [8]. Whereas the benefit of innovation is the creation of new values, in particular from the perspective of consumers and customers, it is necessary that they are also involved in the innovation process.

According to a survey in 2013, the innovations were evaluated as the most important opportunity for the growth of enterprises in the Slovak Republic. In 2014, up to 38% of Directors General also identified them as their primary choice. In the first place, however, only 46% of respondents consider increase of the share in existing market as top growth opportunity, organic growth of the enterprise, where it operates [9]. Similarly, small and medium-sized enterprises perceive the opportunities for the growth, where innovations have received 26% and 27% increase in the share of domestic markets. In the case of SMEs, financing for development is planned up to 89% of internal financial resources (of profits) of the enterprise. Enterprises invest the most of the funds to improve the services they provide to their customers. Almost half of the respondents have identified this area. A significant part of the investment will go to ensure the growth of the customer base and advertising and marketing. 28% of respondents plan to invest in a skilled workforce. 20% of entrepreneurs will invest to improve operational effectiveness. They realise that optimisation of operation is essential to successfully manage a competitive fight. Nearly a quarter of entrepreneurs stated that the investment of their company will be spent on innovation, and 16% sees opportunity in new technology; see Fig. 5 [10].

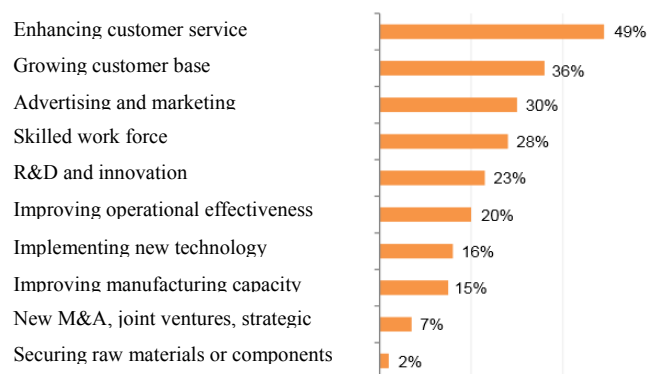


Fig. 5 Possible areas of investment for Slovak entrepreneurs and family businesses [10]

Similar professional surveys point to the fact that there are organisations around the world currently investing in the technologies. Experience at home and abroad, however, point out that family businesses are not positively inclined to changes. The fact is that the changes bring not only opportunities, but also risks. Although as a general rule, that

their strength is greater flexibility, the results are not clear, because there are many risk factors that may affect the success of innovation process. Many enterprises have a problem if the prospect of a short-term profit and success is at the expense of long-term credit. Another problem may include the communication and motivation of employees in order to make a change, often at the expense of current comfort and stable functioning of the processes in the enterprise. Communication with customers, especially with respect to the fulfilment of their expectations and competitive prestige is a very important part of the successful innovation process. Identification of risk factors is often very complex. It is, in particular, based on the expertise of members of the working team, debates and interviews as a result of which can include, for example checklists of risks threatening the innovation process or cognitive maps with risk factors, their links and possible impacts on the results of the project. Quantitative evaluation of the size of the innovation project risk is often entirely impossible. From this point of view, it is possible to use the method of scenarios or simulation. However, even in this case, there is expert evaluation of probability and consequences, or analysis and sensitivity mostly used to quantify the risk.

According to [11] of the PwC, the Slovak Republic, in comparison with other European states, has lower innovative potential. The causes mainly include the persistent lack of capital, in particular, in the form of risk capital support system from public funds, as well as conservativeness in the risk assessment of starting enterprise, or innovation projects on the part of the banks. Starting up the innovation in the Slovak Republic means to carry out the structural change in the funding of research, development and innovation, because without the sustained financial support through specific financial instruments and incentives using public and private resources, it not possible to achieve significant progress in increasing the technological level of products and services [11].

#### IV. CONCLUSION

Entrepreneurship and business environment are one of the main priorities of the representatives of the EC, which puts emphasis on the route of Europe to business society. The basic steps are considered the cancellation of obstacles to the development and growth in the field of entrepreneurship, balancing the risks and benefits in the entrepreneurship and the formation of society that appreciates the work of entrepreneurs and encourages mainly young people to business activities. Since the business is not only about personal freedom and potential financial profit, but also about many risks and responsibilities waiting for future entrepreneurs, education of entrepreneurs plays a big role. Students participating in entrepreneurship education are more likely to start their own business and their companies tend to be more innovative and more successful than those led by persons without entrepreneurship education backgrounds. Therefore the entrepreneurship education should address all students, not just those who are interested. Last but not least, there is an increasingly greater attention paid to innovation in

the context of the further development of entrepreneurial activities. Innovations, however, from the perspective of their development, realisation, and the implementation itself, represent one of the riskiest activities of the enterprise. On the basis of this fact, it is necessary to build a system of risk management and pay a special attention to risk assessment in this area. To take advantage and innovate is a precondition for the success of the enterprise in a market environment; therefore, it should be borne in mind that when achieving the objectives of the enterprise, the risks must be managed.

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