ISSN: 2395-1664 (ONLINE)
DOI: 10.21917/ijms.2019.0150

EVALUATION OF ENTREPRENEURS RISK - A STUDY WITH REFERENCE TO CHHATTISGARH STATE

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Abstract
Entrepreneurship is the primary factor for the emergence and development of small enterprises, trade or any business venture and thus assumed significant importance both in research and in action for accelerating economic growth. Entrepreneurs bridge the gap between science and the marketplace by creating new enterprises and bringing new products and services to the market. However new enterprises are sensitive to changes in external environment leads to risk. The intrinsic risk in new venture encourages the entrepreneurs to embrace this risk. It is imperative that the entrepreneurs must manage the environment factors proactively to minimize the adverse effect of the challenging business environments. The purpose of this paper is to provide insight of entrepreneurship and identified major categories of risks faced by the enterprises situated in Chhattisgarh state, to accomplish the objectives of the study both primary and secondary data are used. Primary data are collected through personal survey method by a structured questionnaire from respondents and secondary data are collected through various sources like research articles, text books, newspapers, and websites. The finding of the study will help owners-managers of SMEs to give the importance to the identification, evaluation and management of risks. In other words, incorporating risk management process into operations, SMEs will be better equipped to reduce their negative impact on enterprise success.

Keywords:
Business Risks, Entrepreneurship, Risk Management, Strategies

1. INTRODUCTION

Small and Medium Enterprises (SMEs) are the primary growth driver of Indian economy for decades it is further evident from the fact that today there are around 40 million SMEs in India contributing almost 50% of the industrial output and 40% of India's workforce. SMEs have emerged as the leading employment generating sector and have provided balanced development across sectors. SMEs have become an increasingly important component of economic development which represents a substantial proportion of the national economies all around the world. In this context, Henderson and Weiler [14] state that SMEs can be defined as the major engine of economic growth. SMEs play a key role in development of any economy [18] and they are especially important in developing countries like India where poverty eradication and unemployment are still major issues facing citizens.

Entrepreneurs capture the risk and uncertainty in business process of decision making, including innovations related to products, production methods, markets and types of industrial organization. Shapero [3] mentions entrepreneur takes initiative, organizes some social economic mechanisms and accepts risk of failure. The social role of entrepreneurs is to bring overall change through innovations for the maximum social good.

One of the critical success factors in entrepreneur success is the management of risks. Economic theory predicts that entrepreneurs, as business owning residual claimants, are less averse towards risk and uncertainty than others [17]. Entrepreneurs assume business risks in the most uncertain environments. Their income, wealth, satisfaction and social status are dependent on the outcomes of their decisions in uncertain situations. On top of that, most of the entrepreneurs' investment portfolios are totally undiversified [21], also due to capital constraints in the market for entrepreneurial finance. Cooper et al. [9] found that entrepreneurs exhibit higher self-efficacy than other managers, and consequently think that they are better equipped to deal with risks than are non-entrepreneurs.

Entrepreneur thus can be described as one who initiates and structure an economic activity or enterprise. The entrepreneur not only brings economic but also socially and culturally change in any economy. He is the vital figure of economic activities and propeller of development under free enterprise. Entrepreneurship is crucial for economic development however; Entrepreneurship is associated with risk bearing uncertainty gains and losses. The very classic and influential economists and philosophers who laid the foundation of thinking about entrepreneurship defined the entrepreneur as a risk bearer [19] or, explicitly as an uncertainty bearer or as agents who are less inclined to avoid losses [19]. Keeping in consideration the importance of Entrepreneurship and the risk associated with entrepreneurship the study is am at to explore the insight of entrepreneurship and Identification of risks confronted by entrepreneurs.

2. OBJECTIVES OF THE STUDY

The objectives of this study is to identify various types of risks faced by SMEs and to determine the extent to which the small and medium business units' employ diversification, collaboration, credit scorecard and insurance as risk mitigation strategies.

2.1 HYPOTHESIS TESTING

To achieve the objectives of the study following null and alternative hypothesis is to be tested

H_0: There is no significant difference in adoption of the different risk mitigation strategies by Small and Medium Enterprises (SMEs).

H_a: There is significant difference in adoption of the different risk mitigation strategies by Small and Medium Enterprises (SMEs).

3. MATERIAL AND METHODS

To fulfill the objectives of the study, both primary and secondary data is used. Primary data was collected by questionnaire handed to SMEs which were the target population of the study. The business units which were targeted are restaurants, general retail shops, transport, cosmetic and beauty shops, and private school. The samples of 100 enterprises were served with questionnaires but only 86 completed questionnaires were received from the respondents representing 86% response rate. The 86 questionnaire collected through survey were subjected to statistical analysis descriptive statistics, cross tabulation and chi-square. Convenience sampling method is employed only those business units which we found convenient for some reason were selected. Data is analysed using SPSS version 23.

4. DATA ANALYSIS AND DISCUSSION

4.1 CONCEPT OF ENTREPRENEURSHIP

Entrepreneur combines a business idea in the form of creating a new market or benefiting from an opportunity caused by deficient aspect of present market with components of risk and capital. According to Olutunla [27] the word entrepreneurship is derived from the French word 'entreprende' meaning to 'undertake'. To this end, an entrepreneur is someone that creates a business. But as noted by [28], although the creation of business is certainly an important facet of entrepreneurship, it is not the complete picture. The entrepreneur as a person brings in overall change through innovation for the maximum social good. Human values remain sacred and inspire him to serve the society. He has firm belief in social betterment and he carries out this responsibility with conviction. In this process, he accelerates personal, economic as well as human development. The entrepreneur is a visionary and an integrated man with outstanding leadership qualities. With a desire to excel, he gives top priority to Research and Development. He always works for the well-being of the society. More importantly, entrepreneurial activities encompass all fields or sectors and foster a spirit of enterprise for the welfare of mankind.

One of most significant features of entrepreneur individual is the ambition to take risk. Entrepreneur's activities involve risk and uncertainty due to its very nature and decision to be an entrepreneur is alone riskier than other alternatives and added that the event is not shaped solely by psychological factors, but external factors promoting start of the entrepreneurship activities are also important [29]. According to Perry [30], risk taking is not a feature, approach or a response, but it is the way of entrepreneur perceive world and entrepreneurs have more optimistic perceptions for risky conditions than others [20].

4.2 CONCEPT OF RISK

Business life is full of uncertainties. It is not possible to precisely predict what will happen tomorrow. Risk refers to uncertainty of outputs to be obtained as a consequence of implementing decisions. This uncertainty implies that results of decisions may lead to disenchant [4]. According to Raghavan [26], risk is the potentiality that expected events may have an adverse impact on the capital earnings. Risk could also refer to the chance that some unfavourable event will occur and in this respect risk describes a situation where there is not just one possible outcome of returns to an investment but an array of potential returns. Risk could therefore be viewed as uncertainty of financial loss.

4.3 ENTREPRENEUR PROPENSITY TO RISK

Researchers have determined the three variables of risk: risk perception, tendency and willingness to take risk. Risk propensity is usually defined as a general tendency toward any individual taking or avoiding the same, in the context of decision-making. Risk propensity is a common tendency to accept or avoid it. Such decisions are made in high-risk situations. Therefore, risk for passing the initiative is necessary in order to achieve good results in turbulent markets, as business owners or managers who dare to take on greater risk will take actions that are appropriate and provide better performance.

The tendency toward taking risks in the group, as suggested by Sitkin and Pablo [4], is related to outcomes of previous risky decisions and may influence the propensity to risk. Groups, that had a realization of operations with more positive outcomes, showed a greater propensity to risk, and, also, a group with higher levels of collective efficacy may have an increased susceptibility to hazards because it feels more capable of handling the problems that arise, and groups with more ambitious goals may have a higher risk appetite, because it is essential for their success. Environment is another variable that may also play an important role, the group may have a higher risk appetite if it is valued in the social environment of the group.

5. RISK TAKING BEHAVIOUR

5.1 THE PERCEPTIONS VIEW OF RISK TAKING

Palich and Bagby [23] stated that the entrepreneurs tend to downplay the risk they perceive, expecting to accomplishment over any adverse situations that arise. They found that entrepreneurs typically possess overconfidence exemplified by their consistently looking at new venture opportunities more positively than others. Hillier [13] found that entrepreneurs are biased in their perceptions of risk and opportunities. Shane and Venkataraman [2] argue that entrepreneurs who possess proprietary knowledge about new venture opportunities accept greater risk. Baron [31] argues that entrepreneur's lower perceptions of risk relates to their lesser ability to engage in counterfactual thinking. Most recently, Janney and Dess [16] argue that the entrepreneur may possess specialized knowledge and idiosyncratic resources that mean that risks perceived by others do not apply to the entrepreneur, who effectively has superior human capital resources. A person with substantial prior education, knowledge and experience in the relevant technology and market realms may see little risk in a particular new venture, while another person without such knowledge and experience may view the same new venture as being much riskier.

5.2 THE IGNORANCE VIEW OF RISK TAKING

Entrepreneurs seek information activity to diminish the uncertainty and risks of a new venture. Douglas and Shepherd

[10] argue that the mortality risk of a new venture depends upon the ignorance (of relevant information) in the minds of customers, producers and managers. Here we are concerned with the human capital of the entrepreneur and other managers, and whether they lack the general and specific knowledge required to effectively manage the new venture through survival to success.

The ignorance view is concerned with the extant knowledge (or its complement, ignorance) held by the entrepreneur, and does not examine the relationship between the extent of ignorance (i.e. risk) and one's attitude toward this risk. Implicitly, the ignorance view incorporates risk perceptions by the implication that the risks associated with the entrepreneur's ignorance are not perceived, but it also ignores cognitive biases and thus effectively assumes that the entrepreneur is not subject to any cognitive biases.

5.3 THE PREFERENCES VIEW OF RISK TAKING

The attitude and perception toward risk enter the entrepreneur's utility function. Douglas and Shepherd [10] states that the entrepreneur's risk preference (or aversion) decision depends upon five components of entrepreneurship, viz. the utility extract from income, independence, net perquisites offered by a new venture opportunity, disutility derived from risk bearing and work effort associated with that new venture. They posit that in choosing among different career (including new venture) opportunities, individual preferences for income, independence, risk, work and net perquisites are parameters in that person's utility function. The values of the five variables in the utility function depend on the magnitudes expected in the context of each career alternative. The total utility for each new venture option is then the sum of the products of the attitude parameters and the relevant variable in each alternative. The entrepreneur is expected to commit to the alternative that promises the highest level of utility in prospect.

Thus both risk attitude and risk perception enter the entrepreneur utility function. But note that neither of them is a necessary or sufficient condition for entrepreneurial behavior - it is the sum of the arguments in the utility function that determines the choice between career options, rather than the value of any one parameter or variable [10]. Thus, an individual might choose a highly-risky new venture (in which great risk might be perceived) despite being highly averse to risk, if expecting to be rewarded by high income levels and/or highly-satisfying decision-making autonomy. Thus, it is not surprising that studies of intending or practicing entrepreneurs might exhibit a variety of risk propensities [6] [11].

5.4 RISK MANAGEMENT PROCESS

SMEs are often confronted with various issues and challenges compared to larger enterprises. SMEs, benefit less from economies of scale and fewer have access to a wide resources base [7]. For that, it is important for the enterprise to implement Enterprise Risk Management. Enterprise Risk Management is an approach to measuring and monitoring risk and developing appropriate strategies to manage the risk. According to Onder and Erginn [52] enterprise risk management is a useful approach to identify and evaluate an organization's decisions and strategies. Risk management may help managers of SMEs to adopt strategies to mitigate risks that they may face.

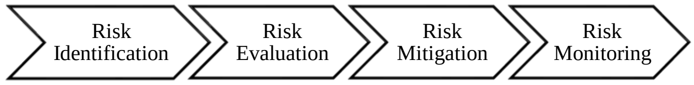

Fig.1. Risk Management Process

Source: Adapted from [32]

6. RISK IDENTIFICATION

The capacity of SMEs to identify the risks they could face and to develop strategies making it possible to avoid risks to increase its economic growth. However, managers who do not take risk management seriously are confronted with the problem of performance that threatens the continued existence of their businesses which can be equalized to what is called the risk. The sources of risks affecting business management are many. For example, Casualty Actuarial Society classified risk in different types of hazard risk, financial risk, operational risk, and strategic risk. The ERM framework categorizes risks within the following types: financial, operational, legal or compliance and strategic risk. This section is highlighting the major business risks dealing by the entrepreneurs from the state of Chhattisgarh.

Table.1. Identification of business risks faced by entrepreneurs

Major risks	Mean	Rank
Capital market risk (capital constraints)	4.10	1
Regulatory and Compliance risk	3.95	2
Market risk (lack of contracts and demand)	3.73	3
Legal risk (change in legislation)	3.66	4
Operational risk (inability to handle process)	3.52	5
Economic risk (economic reforms)	3.15	6
Management risk (lack of management skills)	2.96	8
Security risk (accidents, Incidents, etc.)	2.87	9
Technology risk (adapting modern technology)	2.59	10

The most likely business risks perceived by entrepreneurs from Chhattisgarh state were as follows: capital, regulatory and compliance and market risks with mean of 4.10, 3.95 and 3.73 respectively. Shortage of capital rated as the greatest challenge of SMEs. This supports the findings of Smit and Watkins [32]. From these findings, it is clear that this type of risk is yet to be addressed by financial institutions and the governments of developing countries which may heavily affects the SMEs sector. Internal inefficiencies such as theft by employees and lack of commitment also put SMEs at high risk. Owners-managers of SMEs therefore, need to give the importance to the identification, evaluation and controlling of risks.

7. RISK MITIGATION STRATEGIES

Mitigating risk also implies that SMEs managers adopt strategies that allow to control or minimize the risk perceived by them. Risk mitigation generally can take the form of risk avoidance, risk acceptance, risk transfer and risk reduction. Risk management function in SMEs usually rests in the owner's assessment of threats and opportunities pertaining to the enterprise [1]. Ntlhane [22] asserts that risk management is the core principle that entrepreneurial or management should focus on in recognizing future uncertainty, deliberating risks, possible manifestations and effects, and formulating plans to address these risks and reduce or eliminate its impact on the enterprise.

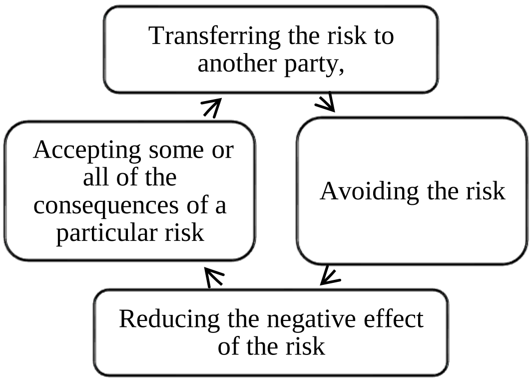

Fig.2. Risk Management Strategies

Source: Adapted from [32]

Incorporating risk management into SMEs operations makes them better equipped to exploit their resources and enable organizations to transform an expenditure activity into an activity that can yield a positive return [6][33]. Risk mitigation is therefore taking prominence even far above issues of financing constraints in long-term as well as short term investments [24]. Some risk mitigating strategies have been cited in the literature that includes collaboration, diversification, insurance and choice of the suppliers

7.1 COLLABORATION

Collaboration is one of the effective ways to control the risk within companies. The companies can collaborate with other organizations to form networks by various types of formal agreements such as strategic alliances, marketing promotion, R&D agreements, technical cooperation agreements, licensing agreements, and subcontracting. Collaboration could be used to overcome risks in carrying out the operations in the SMEs. The networking or linking brings together SMEs dealing with different products to direct customer supplier links reducing middle men exploitation [34] and hence reducing cost and risk. Collaboration is frequently used as a risk mitigation strategy in SMEs mostly to adapting with technology, financial and commercial risks.

7.2 DIVERSIFICATION

Diversification involves running of more than one business as a strategy for risk management by SMEs. This approach is based on the saying that one should not put all eggs in one basket. To some extent SMEs use diversification but the problem has been the process of diversification [8]. Many SMEs owners run more than one business as a diversification strategy to manage risk but that the process could be improved if SMEs managers were skilled the choice of suitable business combinations in their portfolios. Alquier [35] agrees with this approach as a more appropriate framework to capture and manage the diversity of risk while maintaining maximum returns.

7.3 INSURANCE

Insurance is another way used by SMEs to manage risks. This involves transferring risk to an insurance company so that in the event that the risk occurs then the insurance firm will take business to its initial state. In general, SMEs can obtain an insurance against the fire, flooding, property damage and personal injury. Hollman and Zadeh [15] added that, in addition to providing protection against the financial losses from such events, insurance may also cover other services for SMEs even if the SMEs does not suffer any loss. Risk management is less well developed within smaller entities where the strong enterprise culture mitigates against managing risks in a professional structured way.

7.4 CHOICE OF THE SUPPLIERS

The choice of the suppliers is another method used by SMEs to manage risks. This implies for SMEs to enter into contracts with various suppliers in order to influence the supplier’s behavior which alternatively can attenuate risks. These contracts can be some kind of performance guarantee that requires the constant quality of the products provided to SMEs. Moreover, studies carried out by Ellegaard [12] show that the managers interviewed reported that they focused on obtaining products from the local markets because this was particularly advantageous for the Western industrial companies. They claimed that a certain number of risks such as the political unrest and the currency issues, and risks related to the cultural differences could be avoided. A SMEs manager by Nzaou and Raymond [25] in France and Canada also confirmed the results of Ellegaard [12] by reporting that its company worked only with suppliers they already knew and who had the same mentality. Consequently, risks related to new suppliers have been avoided.

8. RISK MITIGATION STRATEGIES

This section attempt to identify various risk mitigation strategies used by SMEs and determine whether they were used equally and if not which is more popular. The study also assessed the association between the different strategies and different aspects of business growth. The study focused on four risk mitigation strategies namely collaboration, selection of suppliers, diversification and insurance

Table.2. Strategy Adoption Cross Tabulation

Risk Management strategies		**Responses**		**Total**
		Yes	**No**	
Collaboration	Count	20	66	86
	Expected Count	30.0	56.0	86.0
	% within strategy	23.3%	76.7%	100.0%
	% within response	16.7%	29.5%	25.0%
	% of Total	5.8%	19.2%	25.0%
Diversification	Count	34	52	86
	Expected Count	30.0	56.0	86.0
	% within strategy	39.5%	60.5%	100.0%
	% within response	28.3%	23.2%	25.0%

	% of Total	9.9%	15.1%	25.0%
Insurance	Count	42	44	86
	Expected Count	30.0	56.0	86.0
	% within strategy	48.8%	51.2%	100.0%
	% within response	35.0%	19.6%	25.0%
	% of Total	12.2%	12.8%	25.0%
Selection of suppliers	Count	24	62	86
	Expected Count	30.0	56.0	86.0
	% within strategy	27.9%	72.1%	100.0%
	% within response	20.0%	27.7%	25.0%
	% of Total	7.0%	18.0%	25.0%
Total	Count	120	224	344
	Expected Count	120.0	224.0	344.0
	% within strategy	34.9%	65.1%	100.0%
	% within response	100.0%	100.0%	100.0%
	% of Total	34.9%	65.1%	100.0%

From the study, we found out that insurance is the most popular strategy followed by diversification and selection of suppliers while as collaboration is the least risk mitigation strategy adopted by the business houses in state of Chhattisgarh at as shown in cross tabulation table.

Table.3. Chi-Square Tests

	Value	**df**	**Asymptotic Significance (2-sided)**
Pearson Chi-Square	15.152[a]	3	.002
Likelihood Ratio	15.225	3	.002
N of Valid Cases	344		

The result of chi-square test (χ^2) is 15.15 and the corresponding table value is 9.34 at 3 degree of freedom which is less than the calculated value. Moreover, the P value = 0.002 which is < 0.05). So we rejected the null hypothesis and concluded that there was a significant difference in adoption of the different risk mitigation strategies by SMEs. The choice of a strategy depended on other available risk mitigation strategies.

9. CONCLUSIONS

Entrepreneurship is one of the most important inputs in the economic development of a country. Entrepreneur looks for ideas and puts them into effect in fostering economic growth and development. The entrepreneur acts as a trigger head to give spark to economic activities. He plays a pivotal role in the development of industrial sector of a country. As entrepreneur is constantly required to make decision in an indefinite environment, risk is one principal feature confronted by entrepreneurs. The risk in entrepreneurship is a normal phenomenon. It is defined by three variables: risk perception, attitudes towards risk taking and willingness to take risks.

In this article, firstly we identify the various types of risks faced by SMEs and determine the extent to which the small and medium business community employ diversification, collaboration, credit scorecard and insurance as risk mitigation strategies. The study is also focusing on various challenged faced by entrepreneurs The results of this article show that the capital, regulatory and compliance and market risks are the most likely business risks perceived by entrepreneurs from Chhattisgarh state. This supports the findings of Smit and Watkins [32]. From these findings, it is clear that this type of risk is yet to be addressed by financial institutions and the government. Owners-managers of SMEs therefore, need to give the importance to the identification, evaluation and controlling of risks.

Moreover, the study found out that the insurance is the most popular strategy followed by diversification and selection of suppliers while as collaboration is the least risk mitigation strategy adopted by the business units in Chhattisgarh. We are expected that our study to be beneficial for owner-managers to develop risk mitigation plans according to the degree and the likelihood of risk perceived and consequently, avoid the risks or to reduce their possible impact on their company.

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