IJFANS INTERNATIONAL JOURNAL OF FOOD AND NUTRITIONAL SCIENCES
ISSN PRINT 2319 1775 Online 2320 7876
 Journal Volume 11, Iss 11, 2022

An study on different concept of Entrepreneurial Decision under Risk and Uncertainty

Poonam
Assistant professor economics Arya girls college Ambala cantt

Abstract: Entrepreneurial decision-making is inherently characterized by risk and uncertainty, posing unique challenges and opportunities for entrepreneurs. This abstract presents a comprehensive study that explores various concepts of entrepreneurial decision-making in the context of risk and uncertainty. Firstly, it examines the distinction between risk and uncertainty and their implications for entrepreneurial decision-making. While risk involves measurable probabilities and outcomes, uncertainty pertains to unpredictable or unknown variables. Understanding this distinction is crucial for entrepreneurs as they navigate the complexities of decision-making in dynamic business environments. Secondly, the abstract delves into different theoretical frameworks and models that entrepreneurs employ to make decisions under risk and uncertainty. It discusses classical decision theory, prospect theory, and the effectuation and causation approaches, highlighting their respective strengths and limitations in guiding entrepreneurial decisions.

Keywords: Entrepreneurial decision-making, risk, uncertainty, classical decision theory, prospect theory, effectuation, causation, theoretical frameworks, decision models, challenges, opportunities.

Introduction

It is not feasible to consume goods and services unless the means to do so already exist, which are known as capital goods or intermediate commodities. In some cases, consumption is the end result of one's own production; in others, it is the outcome of a trade between one's own commodities and those of other people. Bread for milk is one example of a direct transaction, whereas money for milk is another example of an indirect exchange. Money's function is to enable the exchange of commodities and services; any amount of money may serve this purpose (money is never neutral in this regard). Because it is hard for entrepreneurs to create sophisticated manufacturing processes with so many different types of intermediate items without money, the economy will stay fairly basic[1][2]. In addition to providing substantial driving assistance for entrepreneurial activity, money allowed for the relative pricing of any "nal or intermediate products. Using legal or politically controlled money instead of natural money, which is based on the best market commodities utilized as a medium of exchange instead of industrial or consumer goods,

Among the most nuanced things a person can do is make an entrepreneurial choice. By selling products and services to the market, an entrepreneur may acquire the resources it needs for future consumption, but it is always functioning in the future, not in the past or the present. The ability to purchase products and services from the market, both now and in the future, depends on the monetary profits generated by this specific industry[3]. When a company owner can't meet customer demand for a product or service on his own, he will bring in help in the form of workers. Managers and other employees that assist entrepreneurs in their work do not take on the

ISSN PRINT 2319 1775 Online 2320 7876
 Journal Volume 11, Iss 11, 2022

same level of risk as entrepreneurs themselves. The only way they can be considered entrepreneurs is if the job they did was part of a productive system. If entrepreneurs don't have access to the capital goods they need to start a business, e-capitalists step in to fill the gap. The risk that investors take on is limited to the capital goods that are sold to entrepreneurs under certain contractual terms [4].

Different levels of uncertainty in entrepreneurial decision

Entrepreneurial decisions are made in the face of various levels of uncertainty, ranging from low to high. Understanding these levels of uncertainty is crucial for entrepreneurs to effectively assess risks, make informed decisions, and navigate dynamic business environments. Here are different levels of uncertainty commonly encountered in entrepreneurial decision-making:

Low Uncertainty: In situations of low uncertainty, the outcomes of different alternatives are relatively clear, and the probabilities associated with those outcomes are well-known or easily estimated. Entrepreneurs can rely on historical data, market research, and established trends to make decisions with a high degree of confidence [5]. For example, launching a product in an established market with predictable consumer demand may entail low uncertainty.

Moderate Uncertainty: Moderate uncertainty arises when some information is available, but there are still significant gaps or ambiguities in understanding the potential outcomes of different choices. Entrepreneurs may have some knowledge of market trends and customer preferences but lack certainty about specific variables such as competitor actions or regulatory changes[6]. Making decisions in these circumstances requires a balance between analysis and intuition, often involving scenario planning and sensitivity analysis.

High Uncertainty: High uncertainty occurs when there is a lack of information or understanding about the potential outcomes of entrepreneurial decisions [7]. This may result from disruptive technological changes, shifting consumer preferences, or unprecedented market conditions. In such situations, traditional analytical methods may offer limited guidance, and entrepreneurs must rely heavily on creativity, experimentation, and adaptability. Effectuation, a decision-making approach that emphasizes leveraging available resources and embracing uncertainty, may be particularly relevant in high-uncertainty contexts[8].

Knightian Uncertainty: Named after economist Frank Knight, Knightian uncertainty refers to situations where probabilities cannot be assigned to potential outcomes because they are unknown or unknowable[9]. This level of uncertainty is characterized by true ambiguity and unpredictability, such as in emerging markets or revolutionary technological disruptions. Entrepreneurs facing Knightian uncertainty must navigate uncharted territories, relying on intuition, resilience, and the ability to learn quickly from feedback and experience.

By recognizing and understanding the different levels of uncertainty, entrepreneurs can tailor their decision-making strategies accordingly, minimizing risks and maximizing opportunities in the pursuit of entrepreneurial success[10].

Subjective ambiguity is often linked to occurrences involving human acts and behaviors in the conventional wisdom. A driver's ability to safely approach a crossroad depends on his or her reflexes and level of experience. A company's sales are very sensitive to customer actions and

ISSN PRINT 2319 1775 Online 2320 7876
 Journal Volume 11, Iss 11, 2022

the actions of its rivals. Even mundane occurrences like "the daily sales of a specific commodity" or "the automobile moving on a crossroad" are one-of-a-kind. Such occurrences might be seen as a special instance or as part of a larger category of similar occurrences, such as "car accidents" or "sales" in general[11]. Assuming a dice game is analogous to the company's sales history is incorrect. This is a different case. However, compared to the entrepreneur's steady daily sales history of the same product in the same place, today's sales aren't really remarkable. The enterprising person will mistakenly classify these sales as belonging to the same category. This mistake might have major consequences in many instances[12]. An entrepreneur may conclude that an event's likelihood cannot be ascertained through the application of frequency methodology (which is applicable solely to a class of events) and lacks numerical structure if he is not convinced of the frequency that results from viewing "daily sales" as homogeneous occurrences. This is analogous to the scenario in which 30 red balls and 60 white and black balls are placed in an urn, but the exact ratio of the colors is unknown. #ere is no way to determine the likelihood of each class. For both white and black balls, the #e probability falls somewhere between 0 and 2/3. To determine the unknown ratio of white to black balls, the decision maker will rely on his own discretion. He may look at the past as a sequence of events involving the person responsible for placing the sixty white and black balls into the urn. The known knowledge that the probabilities might be within a range provides more helpful information than the frequency, which is, in a way, useless here. When compared to the possible random introduction of colored balls into that urn, the quantity of red balls is either much larger or significantly lower in certain instances[13]. The amount of viable color combinations in an urn is often more than two, making the process more involved. On the other hand, maybe two people of different colors are adding the mysterious balls to the urn, and each of these people is acting independently. This type of uncertainty is thrown at almost all entrepreneurial choices. There are a lot of obstacles to overcome while conducting studies to determine the frequency[14]. It makes no sense to calculate the frequency of likelihood for such rare occurrences. Without a category for related occurrences, you cannot speak about an event's distribution. Because it only applies to circumstances that are different or unrelated, looking at past events or making observations will not help the current issue[15].

Entrepreneurial Decision under Risk

Entrepreneurial decision-making under risk involves evaluating various alternatives where the probabilities of outcomes are known or can be estimated. In such scenarios, entrepreneurs quantify the potential risks associated with each decision and assess their potential impact on the venture's success. Here are key aspects of entrepreneurial decision-making under risk:

Identifying Risks: Entrepreneurs begin by identifying potential risks associated with different options. These risks may include market volatility, competitive threats, regulatory changes, financial constraints, and technological uncertainties.

Assessing Probabilities: Entrepreneurs assess the likelihood of various outcomes occurring based on available information, historical data, market research, and expert opinions. They quantify probabilities to determine the likelihood of success or failure for each decision.

ISSN PRINT 2319 1775 Online 2320 7876
 Journal Volume 11, Iss 11, 2022

Calculating Expected Value: Entrepreneurs calculate the expected value of each alternative by multiplying the probability of each outcome by its associated payoff or cost. This provides a quantitative measure of the potential value or return associated with each decision.

Considering Risk Appetite: Entrepreneurs consider their risk appetite or tolerance levels, which reflect their willingness to accept uncertainty and potential losses in pursuit of business objectives. Risk-tolerant entrepreneurs may be more inclined to pursue high-risk, high-reward opportunities, while risk-averse entrepreneurs may prioritize minimizing potential losses.

Balancing Risk and Reward: Entrepreneurs weigh the potential risks and rewards associated with each decision to determine the optimal course of action. They seek to maximize expected value by selecting alternatives that offer the highest potential return relative to the level of risk involved.

Implementing Risk Mitigation Strategies: Entrepreneurs implement risk mitigation strategies to reduce the likelihood or impact of adverse outcomes. These strategies may include diversifying revenue streams, securing insurance coverage, establishing contingency plans, and conducting thorough due diligence.

Monitoring and Adjusting: Entrepreneurial decision-making under risk is an ongoing process that requires continuous monitoring and adjustment. Entrepreneurs track key performance indicators, market trends, and external factors to assess the effectiveness of their decisions and make timely adjustments as needed.

Overall, entrepreneurial decision-making under risk involves carefully assessing probabilities, quantifying potential outcomes, and balancing risk and reward to make informed choices that maximize the likelihood of success while mitigating potential losses. By adopting a systematic approach to risk management, entrepreneurs can enhance their decision-making effectiveness and improve the long-term sustainability of their ventures.

Management of uncertainty in entrepreneurial decision

Managing uncertainty is a critical aspect of entrepreneurial decision-making, as entrepreneurs often operate in dynamic and unpredictable environments. Here are several strategies for effectively managing uncertainty in entrepreneurial decision-making:

Embrace Agility: Adopting an agile approach allows entrepreneurs to respond quickly and effectively to changing circumstances. This involves staying flexible, adapting plans as new information emerges, and being open to pivoting strategies when necessary. Agile methodologies, commonly used in software development, can be applied to other aspects of entrepreneurial ventures to manage uncertainty more effectively.

Build a Diverse Network: Cultivating a diverse network of contacts, mentors, advisors, and industry experts can provide valuable insights and perspectives that help mitigate uncertainty. Engaging with individuals from different backgrounds, industries, and experiences can offer fresh ideas, alternative viewpoints, and access to valuable resources. Networking also provides opportunities for collaboration and partnership, which can help spread risk and increase resilience in the face of uncertainty.

ISSN PRINT 2319 1775 Online 2320 7876
 Journal Volume 11, Iss 11, 2022

Conduct Market Research: Thorough market research is essential for gaining a deeper understanding of customer needs, preferences, and behaviors, as well as competitive dynamics and industry trends. By gathering and analyzing relevant data, entrepreneurs can make more informed decisions and identify opportunities in the marketplace. Market research helps reduce uncertainty by providing insights into potential demand, market gaps, and areas for differentiation.

Scenario Planning: Scenario planning involves envisioning and analyzing various possible future scenarios, including best-case, worst-case, and most likely outcomes. By considering different possibilities and their potential implications, entrepreneurs can develop contingency plans and strategies to mitigate risks and capitalize on opportunities. Scenario planning helps entrepreneurs prepare for uncertainty by anticipating potential challenges and formulating proactive responses.

Iterative Testing and Learning: Adopting an iterative approach to product development and business strategy allows entrepreneurs to test hypotheses, gather feedback, and learn from real-world experiences. By implementing small-scale experiments, pilots, or prototypes, entrepreneurs can validate assumptions, refine their offerings, and adapt their strategies based on customer feedback and market response. Iterative testing and learning enable entrepreneurs to manage uncertainty by incrementally refining their ideas and approaches over time.

Develop Resilience: Building resilience is essential for navigating uncertainty and overcoming setbacks in the entrepreneurial journey. Resilient entrepreneurs possess the ability to bounce back from failures, setbacks, and unexpected challenges. They maintain a positive attitude, remain adaptable, and persevere in the face of adversity. Developing resilience involves cultivating self-awareness, building a strong support network, and practicing mindfulness and stress management techniques.

By employing these strategies, entrepreneurs can effectively manage uncertainty and increase their chances of success in the dynamic and unpredictable world of entrepreneurship. Rather than viewing uncertainty as a barrier, entrepreneurs can embrace it as an opportunity for innovation, growth, and resilience.

Conclusion

Entrepreneurial decision-making under risk and uncertainty is a complex and dynamic process that requires a combination of analytical rigor, creative thinking, and adaptability. By embracing uncertainty as an opportunity for innovation and growth, entrepreneurs can leverage diverse concepts and strategies to make informed decisions that drive the long-term success and sustainability of their ventures.

References

[1] Knight, F. H. (1921). Risk, Uncertainty, and Profit. Houghton Mifflin.

[2] March, J. G. (1991). Exploration and Exploitation in Organizational Learning. Organization Science, 2(1), 71-87.

[3] Sarasvathy, S. D. (2001). Causation and Effectuation: Toward a Theoretical Shift from Economic Inevitability to Entrepreneurial Contingency. Academy of Management Review, 26(2), 243-263.

[4] Kahneman, D., & Tversky, A. (1979). Prospect Theory: An Analysis of Decision under Risk. Econometrica, 47(2), 263-291.
[5] Casson, M. (1982). The Entrepreneur: An Economic Theory. Rowman & Littlefield.
[6] Shane, S. (2003). A General Theory of Entrepreneurship: The Individual-Opportunity Nexus. Edward Elgar Publishing.
[7] Gigerenzer, G., Todd, P. M., & the ABC Research Group. (1999). Simple Heuristics That Make Us Smart. Oxford University Press.
[8] Eisenhardt, K. M., & Sull, D. N. (2001). Strategy as Simple Rules. Harvard Business Review, 79(1), 107-116.
[9] Sarasvathy, S. D. (2008). Effectuation: Elements of Entrepreneurial Expertise. Edward Elgar Publishing.
[10] Simon, H. A. (1957). Models of Man: Social and Rational. John Wiley & Sons.
[11] McGrath, R. G., & MacMillan, I. C. (2000). The Entrepreneurial Mindset: Strategies for Continuously Creating Opportunity in an Age of Uncertainty. Harvard Business Press.
[12] Busenitz, L. W., & Barney, J. B. (1997). Differences between Entrepreneurs and Managers in Large Organizations: Biases and Heuristics in Strategic Decision-making. Journal of Business Venturing, 12(1), 9-30.
[13] Witt, U. (2001). Learning to Consume - A Theory of Wants and the Growth of Demand. Journal of Evolutionary Economics, 11(1), 23-36.
[14] Shepherd, D. A., & Patzelt, H. (2011). The New Field of Sustainable Entrepreneurship: Studying Entrepreneurial Action Linking What Is to Be Sustained with What Is to Be Developed. Entrepreneurship Theory and Practice, 35(1), 137-163.
[15] Mintzberg, H., Raisinghani, D., & Théorêt, A. (1976). The Structure of "Unstructured" Decision Processes. Administrative Science Quarterly, 21(2), 246-275.