

TYPES OF ENTERPRISES - MAIN RISK AND IMPACT FACTORS SPECIFIC TO THE COMPLEX BUSINESS AREA

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Abstract: *All the progress achieved in various fields of activity (technology, communication etc.) considerably diminishes its distribution time and distance. A consequence of this fact is the market globalization phenomenon, in the context of local peculiarities conservation and maintenance. Currently, even small enterprises are involved in international business. In other words, the internationalization process is not only specific to large important enterprises any more. As for the amplitude and complexity of the business field, this requires a high level of investment of professional and creative resources, as well as a close-to-reality forecast of its main effects. On an international level, business is the collection of commercial transactions which take place between two or more countries. Private companies take part in such transactions with the purpose of gaining profit, while government authorities may or may not pursue this goal. Thus, most enterprises, regardless of their size, are deeply affected both by international competition and by all the events taking place at the level of world economy.*

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Jel classification: *F23, L20, M21.*

1. INTRODUCTION

At present, it has been approved that, from an economic point of view, a profitable business can turn unprofitable because of changes in the initial environment. Risk may have as approach a company's inability to adapt in real time and at the lowest possible cost to market changes. From this point of view, the investment risk is generated by the high instability of the business environment, as well as by the company's incapacity to react in time and with low costs in order to counteract this trend.

Company management approaches the notion of risk both from the point of view of gaining profit and from the point of view of possible losses. So, the risk may be a real drawback for any economic activity development in good conditions. Unless this major impact is controlled, the decision-making process is hard, because there is a decrease in business volume and also the company must suffer certain smaller or larger damages. The attempt to eliminate or even diminish the risk's negative effects is based on the company's development of an efficient activity.

2. RESEARCH OBJECTIVES AND METHODOLOGY

The main research objectives of this article are:

- Presentation and analysis of basic criteria for defining and grouping companies;

- Short analysis of small and medium-sized enterprises as main „motors” of global economy development;
- Interpretation of the „risk” notion's meanings, specific to the complex business field.

The research methodology used in issuing this article is based on the empiric analysis of company „behavior”, at the same time emphasizing the „presence” of a risk which comes with any business that takes place on a national, as well as on an international level.

3. BASIC CRITERIA FOR ENTERPRISE DEFINITION AND GROUPING

There are multiple criteria for the definition and grouping of enterprises:

- Form of organization;
- Use of production factors;
- Property subjects;
- Field of activity;
- Cover area etc.

1. According to the form of ownership, multiple types of enterprises can be defined (N *et al.*, 1999), such as:

- Private companies – their main characteristic is that their entire patrimony belongs to either one single person or one single group of people. This type of company appeared since early times and, as society developed, its diversity increased.
- Current realities make possible the existence of multiple private companies all over the world (hundreds of millions of companies). They cover a wide range of parameters and functions.
- Private companies have the following basic characteristics: the establishment and operation decision belongs entirely to the entrepreneur, as well as the ownership of the minimum required funds necessary to establish it, the economic and social risks which derive from the development of the company's activities are completely assumed by the entrepreneur etc.

If we consider the number of capital owners, private enterprises can be divided into two very important categories:

- The individual company, which patrimonial belongs to a single individual, is presently the most commonly used for small and medium-sized enterprises;
- The group company, which patrimonial belongs to at least two persons. Some of the most frequent forms of group companies are: the family company, the corporate company, the joint stock company.

The patrimony of the family company is in the common property of a certain family's members. This type of enterprise is small and often the family members are not only its owners, but its employees as well. In this environment, there are strong cooperation and solidarity relationships.

The corporate company is created with the participation on several individuals who, in the past, had performed similar activities, in similar conditions, and who freely expressed

their will to cooperate. These persons, through the act of company constitution, become co-participants in the management activities.

The most frequent form of private group enterprise used on a large scale in contemporary economy is the joint stock company. From a patrimony point of view, the capital splits in a high number of parts, each part having its own face value called a stock.

Owing a significant number of stocks gives the owner the right of property over a certain part of the enterprise. Through stock market transactions or through direct sell – buy transactions, the right of ownership can be given over an important part of the company.

State companies – are characterized by the fact that the entire patrimony of the enterprises belongs to the state. The constitution and operation of state enterprises depend exclusively on the will of the state decision factors, according to each country's laws. (R, 1993)

Mixt companies – is a combination between private and state enterprises. Often, these take the form of joint stock companies, where the state becomes one of the most important stockholders. Its fundamental characteristics are tightly connected to the percentage of stocks owned by the state. The profile of mixt companies is very close to the profile of private enterprises, differing from one branch of economy to another and from one country to another. If we study carefully the division of companies according to their form of ownership, it is clear that, while companies increase in size, the percentage of private enterprises decreases; at the same time, the percentage of state companies, as well as of mixt companies increases. On the other hand, if the size of societies decreases, then there is an increase of the percentage of private companies, as well as a significant decrease of the percentage of state and mixt companies.

Although small and medium-sized enterprises are more frequent in the field of economy and at the level of economic sectors, they have lower percentages if we refer to a certain set of indicators which comprises: turnover, gross profit, number of employees.

2. In Romania, according to the law, companies are divided into two main categories: autonomous administrations and trading companies.

Autonomous administrations are organized and operate mainly in the national economy's strategic branches – weapons industry, energetic industry, mining and natural gas exploitation, post-office and train transportation. (...)

Most state enterprises turned into trading companies. These are established in order to perform economic actions, they are legal persons and take the following forms:

- Unlimited company, whose social obligations are guaranteed with the social patrimony and with the unlimited and common responsibility of the partners;
- Limited partnership company, whose social obligations are guaranteed with the social patrimony and with the unlimited and solidary responsibility of the partners; the partners are only responsible up to the point of their input convergence;
- Partnership limited by shares company, whose corporate funds are split in shares and the social obligations are guaranteed with the social patrimony and with the unlimited and solidary responsibility of the partners; the partners are only obliged to pay for their stocks;

- Joint stock company, whose social obligations are guaranteed with the social patrimony; stockholders are only obliged to pay for their stocks;
- Limited liability society, whose obligations are guaranteed with the social patrimony; partners are only obliged to the payment of social parties. (N *et al.*, 1999)

3. Another important classification of enterprise types is their size. It must be said that there are multiple parameters which can be used to assess a company's size, but the most frequent one is the number of employees. Its main advantage is the easiness of obtaining information and also the possibility to use it for comparison regardless of economy branch or country.

Both in the European Union and in Romania, companies are divided into:

- Microenterprises, which have up to 9 employees;
- Small-sized companies, with 10 to 49 employees;
- Medium-sized companies, which have between 50 and 249 employees;
- Large companies, with over 250 employees.

In the Romanian economy, the evolution of small and medium-sized enterprises is tightly connected to multiple causes and to the existence of certain conditions:

- The absence of this sector before the year 1989;
- An adequate legislative frame for the constitution of small and medium-sized enterprises;
- The benefits offered when starting a business;
- The acceleration of national economy privatization;
- The increase of the reorganization phenomenon specific to state companies.

The size of an enterprise is a heterogeneous complex of micro-economic and organizational components, which is approached in different ways. If we refer to the structure configuration and the organizational dimension of a company, these can be influenced by:

- The division of work and the specialization of the performed activities;
- The standardization which refers to the company formalization procedures;
- The extension phenomenon specific to procedures, rules and written communications;
- The structural organization of the enterprise, meaning its general configuration;
- The traditionalism of the enterprise.

Basically, the most important dimensions of a company refer to:

- The structure of company activities;
- Concentration of the specific authority;
- Workflow coordination and control;
- The sizing process of company activities.

The different size of societies can influence: the appearance of dependency relations or domination relations between different enterprises, relations between decision-makers and subordinates, the companies' efficiency degree etc.

If we analyze in detail the size of an enterprise, we can explain at large the competitively differences between various categories of companies. So, there is an ideal organization size, where the long term medium cost increases, and decreases in the

opposite situation. In other words, a company's ideal size implies a detailed knowledge of the market capacity, taking into account mainly the dimension of the demand and the situation of sales at a certain moment in time.

Also, the different company sizes can lead to obtaining the same goods for different prices and this means issuing a thorough analysis of both competitively factors and profitability factors present in each organization. The conclusion of these previous facts is that a company's organizational structure differs according to the company's size.

4. SMALL AND MEDIUM-SIZED ENTERPRISES - „MOTORS” OF GLOBAL ECONOMY DEVELOPMENT

In the context of a modern market economy, it is absolutely necessary that small, medium-sized and large enterprises are able to coexist in a rationally proportional balance, each of them having advantages, as well as disadvantages. They generate most of the national income and, at the same time, ensure workplaces for the population.

There are generally various approaches for the definition of small and medium-sized enterprises; these approaches consider different meanings of enterprise sizes and also of the main existing ways of expression and quantification. For example, the Georgia, Atlanta Institute of Technology performed analyses in 75 countries and compiled a synopsis of 50 definitions of small and medium-sized enterprises, which was adopted by the World Bank. (W B, 2010)

In our opinion, the different approaches in defining S.M.E.'s can be grouped as shown in Table 1: (N, 2001)

Table 1 Main types of approaches for the definition of S.M.E's

Current number	Approach categories		
	Criteria	Name	Main characteristic
1.	Economy cover area	General	They set the same S.M.E.'s definition criteria for all economy branches.
		Differential	They set different S.M.E.'s definition criteria, according to their field of activity (industry, commerce, transportation etc.).
2.	Number of used indicators	One-dimensional	They define S.M.E.'s based on a single indicator, most often the number of employees.
		Multidimensional	They define S.M.E.'s based on multiple indicators; the most commonly used are the number of employees, turnover and authorized capital.

Source: Nicolescu, 2001

During the last several years, the general tendency is to approach small and medium-sized enterprises from a general and one-dimensional perspective. This means that the definition of small and medium-sized enterprises is done according to the

„number of employees” indicator, regardless of the branch and the field of activity. This kind of approach is specific to most European countries and is also practiced in Romania.

Nevertheless, the previous approach also has a series of disadvantages, the most important one being the lack of austerity. The fact that the advantages which derive from the use of the previously-mentioned criteria are more important than its disadvantages allows it to be used on a large scale. In this respect, the following advantages can be mentioned:

- It is easy to use;
- It's periodical quantification in official statistics;
- The economic factors' impossibility to change the company size;
- The possibility to compare companies to one another, even if they belong to different branches and economic fields.

Small and medium-sized enterprises have a series of characteristics which reflect their reduced size and its consequences as regards the embedded activities being designed and made operational. Thus, according to a group of prestigious specialists who issued, under the aegis of U.N.I.D.O., a reference paper in the field of S.M.E.'s their defining characteristics are those in Figure 1. (N, 2001)

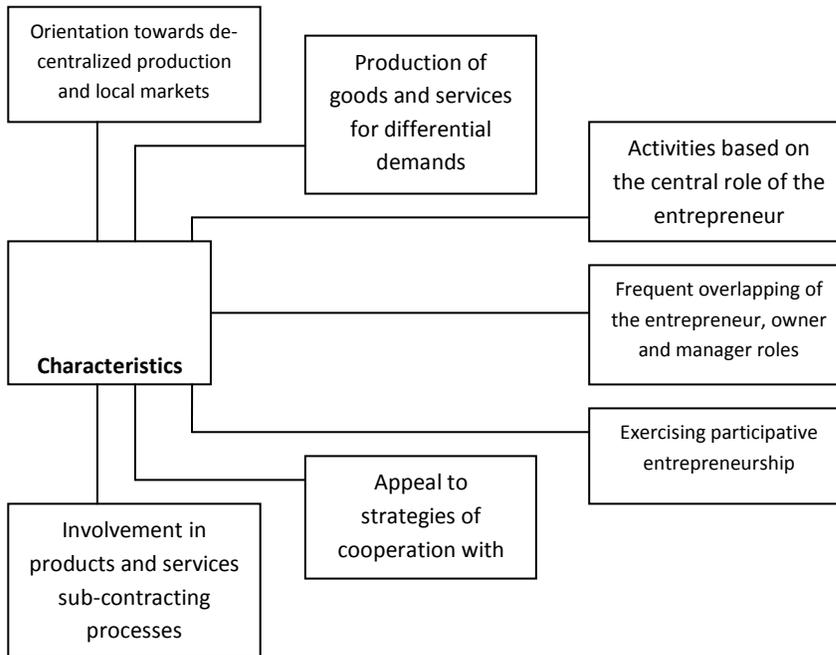


Figure 1: The dominant characteristics of small-sized enterprises

Another extremely important characteristic adds to the previously-presented ones, that is the high flexibility of small and medium-sized enterprises. This flexibility is mainly due to:

- The small size of small and medium-sized enterprises;
- The entrepreneur's permanent contact with the relations within the company and outside it;

- A favorable climate for organizational innovation and change processes.
So, there are multiple factors which can directly influence the activity performed in small and medium-sized enterprises.

Thus, Japanese professor Tanaka (T, 1998) considers that these factors are:

- Technological innovations;
- Changes in the structure of raw materials;
- Changes which refer to the market demands;
- Changes in the labor force offer;
- Commerce liberalization and globalization;
- Evolutions of the fund sources regime;
- The context of national economy and the internationalization process.

Specialists, among which American professor Bruce Kirhhoff (K, 1998) have determined the major impact of certain variables or factors on activities performed by small and medium-sized enterprises. Based on a thorough analysis of 179.136 S.M.E.'s, he established 6 main factors on which a company's survival depends, as results from the information in Figure 2. The factor with the highest impact on the company's evolution and survival is the entrepreneur's strategic options or choices with regard to the economy branch of the company, the offered goods and/or services, the size of the organization etc. (N, 2001)

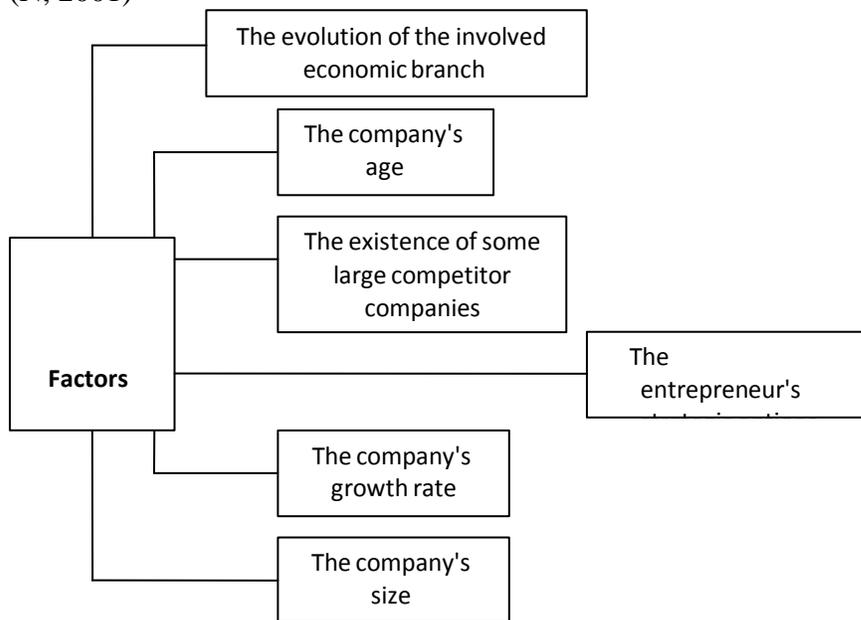


Figure 2: The main factors on which an S.M.E.'s survival depends

The typology of small and medium-sized enterprises is a very important theoretical and practical element, so there is an entire range of types according to the involved variables.

The famous consulting company Arthur & Little recently established a new small and medium-sized enterprises typology, Table 2, according to the nature of their activities and innovation and knowledge requirements: (N, 2001)

Table 2 Types of S.M.E.'s

Current number	Type	Definition (characteristics)
1.	Companies based on new technologies	Companies which continuously use advanced technologies in certain fields, characterized by rapid technological progress.
2.	Companies focused on market niches	Companies which successfully turn to profit value added specific to market niches.
3.	Technological leaders companies	Enterprises which, due to their performances, become leaders in a certain sector, promoting their own products.
4.	Companies which develop in (joint) partnership	Enterprises which act as subcontractors, taking part in new products design.
5.	Classic subcontractor companies with good performances	Companies which use subcontractors in order to produce goods usually designed by others.
6.	Resilient companies	Enterprises which reacted successfully, recovering after suffering due to market challenging conditions.
7.	Reactive companies	Enterprises of the previous type, which did not manage to recover.
8.	Passive, „calm” companies	Enterprises which follow their traditional course, without many changes and development.
9.	Companies on the verge of survival	Low performance companies which feel their existence is threatened.

Source: Nicolescu, 2001

Thus, two economy specialists, S. Birley and P. Westhead (B *et al.*, 1990), have established eight classification criteria for small and medium-sized enterprises:

- The company's longevity;
- The form of property;
- The company management's origin;
- The organizational structure;
- The production potential;
- The industry to which the company belongs;
- The product – market relation profile;
- The company's site.

Considering the approach, economists J. Clichá and P.A. Julien considered that the main types of small and medium-sized enterprises are:

- Traditional;
- Entrepreneurial;
- Administrative.

Other authors, like O.F. Collins and D.G. Moore, greatly emphasize the innovation degree of S.M.E.'s, dividing them into:

- Innovative;
- Mimetic;
- Repetitive.

According to J. Fillion (F, 1997), the evolution dynamics criterion divides S.M.E.'s into two types:

- Classic;
- „Comet” type.

In the category of traditional small-sized companies there are, usually, two sub-categories or types:

- Companies which have a single entrepreneur, while the other employees, regardless of their kinship with the entrepreneur, are in the position of performers, without special implication in the company's management;
- Family companies, where the entrepreneur is practically the entrepreneur's family, made up of at least 2 persons, who virtually participate in managing the company's activities; this generates multiple and complex entrepreneurial and management relations. In these companies, there are frequent conflict situations, also generated by family relations meeting with company relations; certain models for facilitating the solving of these conflicts have been issued. Some of these models are: Kopelman, Greenhouse and Connolly and also Stoner, Hartman and Arora. (N, 2001)

In contemporary times, there is great focus on small and medium-sized enterprises which activate in „high-tech” top sectors. According to a piece of research, small and medium-sized enterprises from the mentioned sectors can be structured as such:

- S.M.E.'s which activate in „high-tech” and mass-media sectors and which are prone to performing their activities on the internet, at the same time considering the latest discoveries;
- S.M.E.'s established by self-employed entrepreneurs, which focus on using the opportunities from the services sector, as well as electronic commerce;
- S.M.E.'s embedded in the structure of large companies.

Specialists consider that the three types of small and medium-sized enterprises previously mentioned are the base of the European Union's development, ensuring it both its functioning and its performance.

Presently, a new type of small and medium-sized enterprise gradually shapes up, that is the knowledge-based enterprise, which combines some essential features like:

- Predominance of intangible assets;
- Inclusion of activities which require a wide range of knowledge;
- Use of labor force with a high degree of specialization;
- Speedy development of company research and development activities;
- Use of the latest technological discoveries in the field;
- An offer of goods and services which can be exported;
- The goods and services offered by the company have a relatively short life span.

Regardless of characteristics and types, S.M.E.'s have – like any other company – a triple dimension:

- Instrumental, which refers to the economic aspects that, in the end, reflect in the company's practicality and efficiency;
- Socio-political, which mainly reflects the organization's relation and decision elements, where divergent aspects are especially important;

Cultural-reflexive, expression of behavioral values, in fact of the organizational culture which manifests in the company and greatly affects the content and form of manifestation of the previous two dimensions and, implicitly, the performances of S.M.E.'s. (F *et al.*, 1997)

So, small and medium-sized enterprises are companies of relatively small dimensions, but which have a complex variety and a high degree of performance, which ensures the growth of a country's socio-economic performances.

5. THE MEANINGS OF THE TERM „RISK” IN THE COMPLEX BUSINESS FIELD

In the business field, the notion of risk is associated to deprivation of goods (tangible goods and intangible goods), as well as to the company's potential benefits. It is the situation in which the possibility of an unexpected deviation from the expected, predicted or hoped for result manifests.

If we analyze the risk from a business perspective, then it is somewhat different from the general risk. The performance of a business also involves the existence of risk in its purest form, because, in this field, the risk is tightly connected to earnings, to reward.

The notion of risk was and will always be an ongoing preoccupation for different specialists who analyzed this phenomenon. Thus, plenty of theories, concepts, instruments, methods and models appeared which are meant to „facilitate” the transition from abstract to concrete. Nevertheless, it can be said that, for some entrepreneurs, all these tools are too little known and applied, unlike strong companies which have the power to successfully apply them. The specialty economic literature tries to roughly delimit the correct behavior of such an entrepreneur, on the background of an uncertain and risky environment. In the economic environment, „threats” may appear at any level and may be highly varied. In these difficult conditions, each potential entrepreneur must make sure that the performed activity implies as small risks as possible. The first step which they need to take is to identify the risk's emergence and manifestation process. The basic idea is that any entrepreneur must know their business very well, as well as the main characteristics of the environment with which it permanently interacts. This step seems to be the easiest step in a company's struggle with the unforeseen, because most of the risks can be identified long before they actually occur.

The next step is much more difficult, focusing on the assessment of risk occurrence odds and also on the thorough analysis of the major consequences involved. All the observations made along the way and the adjustments that can be made afterwards will become concrete by the correct appreciation of this phenomenon's odds of happening (objective probability).

The major problems occur when the evolution in time of these complex phenomena is forecast. The entrepreneur cannot wait for too long, so that they have the full informational collection at hand, because they are in urgent need for present objective probabilities, not future ones. The correct and real time assessment process of risk occurrence probability and also of their intensity is very complicated and, as a consequence, the help of real specialists in the field is necessary. Nevertheless, also they

need concrete and complete information in order to accurately assess the particular nature of the risk and also its level of predictability.

In the context of risk assessment, the fact that it is seldom that specialists, when analyzing a phenomenon perceived as random, have different opinions is not neglected. Based on their own research, one of them might say that there is no <<reason for concern>> - meaning that either the risk occurrence odds are very small or that the effects of a possible occurrence are not assessed as severe. Another expert, studying the same risk, may say that, on the contrary, the issue should cause concern. The results of this type of difference of opinions are plenty everywhere and do not support the public opinion's trust in the field of economic education. There are usually three types of public reaction to these contradictions between specialists; these are:

An economic agent very little familiar to the problems that are the object of polemics, a person often called a <<profane>>, will decide that they cannot rely on the judgment of any specialist and that those alone can find the best answer to the respective issues. As a consequence, they will act according to their own point of view and the results will be seen in time.

Another economic agent, from a second category of reaction, may choose to join the opinions of the expert who backs up their own point of view on the discussed issues. In this way, the individual remains the prisoner of their own level of knowledge and rejects beforehand any valid argument which the other specialist may bring.

At last, a third category is that of economic agents who listen to more opinions in the field, so that, before they form an opinion about the phenomenon, they have already gathered enough information and they have formed a broad vision on the phenomenon. (D, 2006)

It is easy to see that being in the last of these categories is the way to possible success. It should not be overlooked that, when some entrepreneurs can call for the help of specialists in this field, they should not appeal to them willingly. The main reason for this is not only the frequent disputes among specialists, but also a certain approach focused on the „study of perception”, which considers both the psychological and the emotional factors. These factors have a strong impact on the economic behavior of individuals, like many psychologists, such as Slovic, Baruch, and Fischhoff, emphasized. These psychologists analyzed the reactions of certain subjects to different types of risks which can appear in everyday activities. They concluded that, numerous times, certain individuals perceive the risk completely different from specialists in the field. Major problems appear when an insufficiently informed individual is put in the position to make major decisions for the company in a risky and unstable environment.

For a long period of time, the scientific community chose to ignore the public perception of risks, as long as the forecasts led to objective conclusions – although sometimes difficult to understand by non-specialists. For this reason, people became less confident with experts and their prognoses especially that the communication of results was not always done in a clear language, but in a difficult to understand manner. (...) It is obvious that the public's low awareness regarding certain risks and the people's lack of trust in experts makes most of the <<profanes>> avoid those actions which they perceive as very risky. (...) Apparently, there is a social stigma associated to some technologies,

places and products which the public perceives as being hazardous, even though, in most cases, scientific evidence suggests no reasons for concern. There is definitely the need for an appropriate publicity of information's and for including the psychological and emotional factors in the risk analysis process. Research shows that regular people have difficulties processing information from experts regarding risky events and this makes it necessary to establish a common language for the two parties, in order for data communication to be made efficiently. (D, 2006)

In some economy dictionaries, the total risk which appears in an economic activity is surprisingly assimilated to the corporate risk, which definitely comprises the common „vision” of two important risks: the financial risk and the economic risk. Other dictionaries refer directly to the concept of profit, which is considered the synthetic expression of a company activity's efficiency. Hirschey and Pappas consider that the business risk is the „chance” to lose, which is directly associated to the management decision. Economist Petru Prunea considers that the business risk manifests within the growth process specific to the company. A higher profit can be obtained through:

- The qualitative increase of assortments;
- Offered products and services diversification;
- Increasing the company's production capacities;
- The use of advanced technologies.

6. CONCLUSIONS

According to the Investment Electronic Encyclopedia, the business risk is the risk which can make a company unable to fulfill its permanent and growing cash-flow needs to cover its operating expenses. Consultancy Company McGladery defines the risk as the event or action which has a great impact and side effects over the company's stability. Both the company's capacity to fulfill its own objectives is influenced, as well as the go-live means of management strategies.

Therefore, it is easily noticeable that, although there is a wide range of opinions, all of these have in common the idea that the rise and manifestation of a risk is a source of potential problems for any company (problems come from the difference between the actual result and the expected result).

It is necessary, for the performance of a company's activities, that the manager issues and applies coherent, functional and efficient strategies, with the purpose of achieving the set goals. In other words, there is a complex relation between strategy and objective from the „risk” concept point of view.

The idea of total risk is fundamental in order to reflect the notion of business risk. It must be said that an entrepreneur's „opportunity” is directly influenced by their permanent preoccupation for the analysis and management of risk in its whole complexity.

The great development of economic activities, permanent novelties which make all risks even more diverse, as well as the multiple ways in which these manifest call for the need of scientific specialty research generalization.

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