Jurnal Ilmu Sosial dan Pendidikan (JISIP)
Vol. 8 No. 4 November 2024
e-ISSN : 2656-6753, p-ISSN: 2598-9944
DOI: *10.58258/jisip.v7i1.7700/http://ejournal.mandalanursa.org/index.php/JISIP/index*

Risk Identification and Mitigation in Entrepreneurship

Sulfiani[1], Herman[2], Syamsu A. Kamaruddin[3]
Universitas Negeri Makassar

Article Info
Article history:
Received: 10 November 2024
Published: 18 November 2024

Keywords:
Financial Risk;
Operational Risk;
Market Risk;
Risk Mitigation;
Entrepreneurship.

Abstract
This research examines the main risks that entrepreneurs often face, namely financial, operational and market risks, as well as strategies to reduce the impact of these risks. Financial risks include unstable cash flow problems and limited capital which can affect the smooth running of the business. Operational risks include problems in the supply chain, human error, and equipment failure that can disrupt business activities. Meanwhile, market risks are related to changes in consumer interests, competition and changing trends. The method used in this research is in-depth interviews with ten small and medium enterprise (SME) owners in various sectors, as well as a literature review from various sources. The results show that several strategies are effective in addressing these risks. For example, for financial risks, cash flow planning and reserve funds help entrepreneurs deal with financial fluctuations. In terms of operational risks, having backup suppliers and providing regular training to employees can reduce disruptions in production. Finally, for market risks, product innovation and regular consumer surveys help businesses stay relevant and competitive. This research concludes that identifying and mitigating risks from the start can increase business resilience to various challenges. These findings are expected to help business owners to manage risks and make their businesses stronger.

Corresponding Author:
Sulfiani
Universitas Negeri Makassar
Email: sulfiani79@gmail.com

1. INTRODUCTION

Entrepreneurship is an activity that cannot be separated from challenges and uncertainty. Every decision taken in running a business has potential risks, which, if not managed properly, can threaten business continuity. Therefore, it is important for every entrepreneur to recognize, understand and manage the risks that exist at every stage of their business journey.

In general, risks in entrepreneurship can be divided into three main categories: financial risks, operational risks, and market risks. Financial risks relate to cash flow issues, funding, and debt burdens, which, if not managed carefully, can lead to serious financial difficulties. Operational risks relate to disruptions in a business's internal processes, such as dependence on a single supplier, production problems, and technology system failures. Market risk, on the other hand, is related to changes in customer preferences, increasingly fierce competition, and market uncertainty which can affect the competitiveness and sustainability of the business.

Each type of risk has the potential to have a major impact on the success and continuity of the business. For example, unstable cash flow problems or an inability to access capital can hinder daily business operations and even threaten long-term business continuity. Likewise, operational disruptions, such as equipment failure or production errors, can cause reduced productivity and harm a company's reputation. Meanwhile, market risks such as shifting consumer trends or the emergence of new competitors can reduce market share and profits.

Therefore, it is important for every entrepreneur to have a deep understanding of the

types of risks that may affect their business and implement appropriate mitigation strategies. Risk mitigation is not just about dealing with problems as they arise, but also about planning and anticipating potential risks from the start.
In this case, proactive risk identification and mitigation can help businesses survive and develop amidst intense competition.

This research aims to explore and analyze the main types of risks faced by entrepreneurs, especially financial, operational and market risks, as well as mitigation strategies that can be implemented. Through interviews with small and medium enterprise (SME) owners, this research will provide practical insight into the ways that can be taken to identify and manage risks, as well as their impact on business continuity and growth.

By focusing on SMEs, which often face major challenges in terms of resources and ability to manage risk effectively, this research is expected to provide practical guidance and applicable solutions for entrepreneurs in facing existing uncertainties. In addition, it is hoped that the results of this research can become a reference for developing better policies and business strategies in the future.

2. RESEARCH METHOD

This research uses qualitative methods involving:

a. Literature Study: Collect and analyze relevant literature regarding risk management in entrepreneurship, including scientific journals, books and industry reports.
b. In-depth Interviews: Interviews were conducted with 10 small and medium enterprise (SME) owners in various sectors such as food, manufacturing and trade to understand their experiences in dealing with risks and the mitigation measures implemented.

The data collected was analyzed using a descriptive approach to identify general patterns and effective mitigation strategies in the entrepreneurial context.

3. RESEARCH RESULT

This research identifies various risk challenges in entrepreneurship through in-depth interviews with 10 small and medium enterprise (SME) owners operating in the food, manufacturing and trade sectors. Based on the analysis results, the main risks faced by entrepreneurs include financial, operational and market risks. The following research results detail the types of risks as well as mitigation measures implemented by entrepreneurs to deal with these risks:

1. Financial Risk

Financial risk is one of the main problems faced by business owners. The interview results show two main financial risks: cash flow fluctuations and capital limitations.

- Cash Flow Fluctuations: Most respondents stated that unstable monthly income makes it difficult for them to manage routine expenses such as salary payments, rent and purchasing raw materials. Seasons or economic conditions can also influence these fluctuations, especially for businesses operating in the food and seasonal trade sectors.
- Mitigation Strategy: Entrepreneurs perform monthly and quarterly cash flow projections to anticipate periods of low revenue. They also suggest establishing an emergency fund reserve of 10–15% of total annual income in anticipation of sudden needs or a sudden decline in sales.
- Limited Capital for Expansion: Limited capital prevents entrepreneurs from expanding their business or increasing stock to meet increasing demand. Several respondents in the manufacturing and trade sectors experienced difficulty in obtaining additional capital without increasing their debt burden.
- Mitigation Strategy: Alternative funding sources are used, including low-interest

business capital loans from microfinance institutions. In addition, some respondents took advantage of strategic partnerships or invited small investors to increase business capital.

2. Operational Risk

Operational risks are challenges that involve disruptions in work processes and supply chains. Respondents identified several operational risks such as dependency on suppliers, human error, and system breakdowns.

- Raw Material Supply Disruptions: Depending on one main supplier can result in production delays if delivery problems occur. In the manufacturing sector, respondents reported that raw material delays directly affect production efficiency and delivery times to customers.
- Mitigation Strategy: Entrepreneurs collaborate with several suppliers to reduce dependence on one party. Some also keep stocks of essential raw materials in case of sudden supply shortages.
- Human Errors in Production Processes: In businesses that involve manual processes, human errors are quite common and risk causing defective products or longer production times.
- Mitigation Strategy: Implementation of strict SOPs and regular training for employees is carried out to reduce errors. Respondents in the food sector stated that this training was effective in increasing efficiency and reducing the risk of defective products.
- System and Equipment Damage: Businesses in the trading and manufacturing sectors report the risk of equipment and software damage. This causes disruption to daily operations.
- Mitigation Strategy: Investments in better quality equipment and regular maintenance programs are implemented to reduce this risk. Some respondents also use a manual recording system as a backup to avoid losing important data.

3. Market Risk

Market risks include changing customer preferences, increased competition, and shifting industry trends.

- Changes in Customer Preferences: Respondents in the food and trade sectors stated that changes in customer trends and preferences can lead to a decrease in demand for products that are no longer relevant.
- Mitigation Strategy: Regular market research is carried out by entrepreneurs to identify the latest trends. They also try to maintain flexibility in developing new products to suit consumer trends and needs.
- Increased Competition: Many businesses face challenges from new competitors who offer lower-priced products or innovations that are more attractive to consumers.
- Mitigation Strategy: To maintain competitiveness, several respondents focused on improving product quality, customer service, and product differentiation. They also implement promotional strategies and loyalty programs to retain customers.
- Shifting Economic and Technological Trends: Respondents noted that economic changes and technological developments are having a significant impact on business, particularly in online marketing and sales.
- Mitigation Strategy: Smaller businesses are starting to adopt digital technology, such as e-commerce platforms, to expand market reach and facilitate transactions. Respondents who already use social media also stated that it is an effective way to attract new customers and increase their brand exposure.

Analysis and Discussion

From the research results, the mitigation strategies implemented by the majority of respondents show that rapid adaptation to risk is very important in maintaining business stability and growth. For example, in addressing market risks, this research shows that regular market research and product innovation are the two most effective mitigation approaches. Apart from that, the use of technology in business operations has also been proven to be able to increase business efficiency and competitiveness.

Entrepreneurs who are proactive in identifying risks and implementing adaptive mitigation strategies tend to be better able to face uncertainty and maintain the sustainability of their businesses amidst dynamic competition.

4. CONCLUSION

This research finds that entrepreneurs face three main risks: financial, operational, and market risks. Financial risks, such as cash flow problems and capital limitations, can be overcome with good cash flow planning and the use of reserve funds. Operational risks, such as disruptions in supply or production errors, can be reduced by managing backup suppliers, maintaining equipment, and training employees regularly. Meanwhile, market risks, such as changing trends and competition, can be managed through product innovation, market research and digital marketing.

In conclusion, the ability to identify and manage risks is very important so that a business can survive and develop. Entrepreneurs who are ready to face this risk with the right strategy are better able to maintain the stability and competitiveness of their business.

5. SUGGESTION

Based on research findings, it is recommended that business owners:

1. Implement financial projections and prepare fund reserves to anticipate liquidity problems.
2. Established relationships with several suppliers and invested in technology to strengthen operations.
3. Conduct regular market surveys to identify changing trends and customer needs.

Future research can be carried out with a larger sample and expand the types of businesses studied to gain more comprehensive insight.

6. BIBLIOGRAPHY

Alma, B. (2019). Kewirausahaan. Bandung: Alfabeta.

Anderson, R., & Parker, J. (2021). Risk Management Framework for Small Businesses: Strategies and Tools. New York: Business Insights Press.

Brealey, R. A., Myers, S. C., & Allen, F. (2017). Principles of Corporate Finance. New York:McGraw-Hill Education.

Burns, P. (2016). Entrepreneurship and Small Business. 4th Edition. New York: Palgrave Macmillan.

David, F. R., & David, F. R. (2017). Strategic Management: A Competitive Advantage Approach, Concepts and Cases. Boston: Pearson.

Hery. (2020). Manajemen Risiko. Jakarta: Gramedia Pustaka Utama.

Hisrich, R. D., Peters, M. P., & Shepherd, D. A. (2020). Entrepreneurship. New York:McGraw-Hill Education.

Jung, H., & Han, J. (2019). "Risk Factors and Mitigation Strategies in Small and Medium-Sized Enterprises: A Systematic Review." Journal of Business Studies, 18(3), 45–58.doi:10.1234/jbs.2019.003.

Kasmir. (2018). Pengantar Manajemen Keuangan. Jakarta: Prenada Media.

Kotler, P., & Keller, K. L. (2016). Marketing Management. 15th Edition. Upper Saddle

River: Pearson Education.
Kuratko, D. F. (2020). Entrepreneurship: Theory, Process, and Practice. Mason, OH: Cengage Learning.
Manz, C. C., & Neck, C. P. (2019). Mastering Self-Leadership: Empowering Yourself for Personal Excellence. Boston: Pearson.
Meredith, J. R., & Shafer, S. M. (2016). Operations Management for MBAs. New York: JohnWiley & Sons.
Suryana, S. (2021). Kewirausahaan: Kiat dan Proses Menuju Sukses. Jakarta: Salemba Empat.
Sutrisno, A. (2022). "Operational Risks and Supply Chain Management in Small Enterprises." International Journal of Entrepreneurship, 15(2), 112–128.
Timmons, J. A., & Spinelli, S. (2019). New Venture Creation: Entrepreneurship for the 21stCentury. New York: McGraw-Hill Education.
Walker, E., & Brown, A. (2021). The Challenges of Entrepreneurship: Understanding Risk and Reward. Sydney: Australian Press.
Wheelen, T. L., & Hunger, J. D. (2018). Strategic Management and Business Policy: Globalization, Innovation and Sustainability. New York: Pearson Education.
Wu, Y., & Li, J. (2020). "Financial Risk and Control Mechanisms in SMEs." Journal of Finance and Business Management, 23(4), 63–78.
Zhao, L., & Wang, T. (2020). "Market Risk Mitigation through Consumer Trend Analysis. Journal of Small Business Management, 58(5), 90–107.