ENTREPRENEURIAL PROACTIVE BEHAVIOUR IN RESPONSE TO TURBULENCE OF THE BUSINESS ENVIRONMENT

C. M. RĂDULESCU, G. BOCA, R. TOADER, C. ANGHEL

ABSTRACT

The competitive environment in which businesses operate is the subject of analysis, evaluation and control for the formulation and selection of strategic alternatives in order to obtain sustainable competitive advantages. Behaviors that firms can adopt in relation to the business environment can be reactive and proactive. The reactive behavior is the development, by the firm, of decisions and actions considered a response to the negative effects that come from the turbulence of the business environment. The proactive behavior is a tool which is in the hands of entrepreneurs, and employees alike. The management performances of entrepreneurs can improve the business risk and can increase the degree of proactivity. These elements are presented in this study. The research was initiated some time ago. This paper summarizes the results of previous phases of research and focuses on creating a model for assessing the degree of perception of entrepreneurial proactivity based on the management performance of entrepreneurs and business risk.

Keywords: model, entrepreneurial proactivity, risk, performance, entrepreneurs, turbulent business environment

1. INTRODUCTION

Small and medium enterprises represent a vector of economic growth, and are considered "the hidden giant of economy." (Drăguşin, 1999). This phrase may be justified if we observe the spectacular growth of SMEs in the last two decades. The enhanced dynamics is because of the objective requirement for diversity, mobility and speed. The observations and analyzes made on the evolution of the various national economies have revealed that the development of SMEs is based on these changes (Radulescu, 2004), (Radulescu, 2007):

- Technical changes are characterized by mutations that occur due to the continuous progress of technology, which generates both business and constraints to existing businesses;
- Economic changes relate to:
  - switch from classical economy to information-type economy;
  - switch from centralized economy to a market economy;
  - international economic activities;
- Social changes aim to reduce social disparities, and the activity of SMEs is meant to meet the increasingly diverse and growing needs of consumers;
- Political changes leading to different policy options on SMEs, at government level;
- Psychological changes are based on the complex development of the population, generated by the growing magnitude of educational and communication processes, by the information revolution.

A business’s activity is significantly influenced by a set of external elements consisting of individuals, institutions, bodies, regulations or phenomena. The environment is the system of the organization, the ambient in which it exists and operates (Nicolescu, 1996). The competition in which businesses operate is subject to review, assessment and control for the design and selection of strategic alternatives towards achieving sustainable competitive advantages. This environment is, for the enterprise system, the environment in which it exists and operates.

The correct perception of the environment and finding the resources necessary for the company to adapt to each new development is the subject of careful consideration, both external and internal (Global Report Global Entrepreneurship Monitor,
GEM 2013). While there has been much research in this area so far, specialists have failed to develop a widely accepted model concerning the generation of aggregated indicators for tracking the behavior of companies, entrepreneurs faced with an ever-changing environment. He who believes he can achieve this, is wrong. There is no universal elixir when talking about entrepreneurship and entrepreneurs. There is no exhaustive list of variants, as the heterogeneity of the forms of expression of environmental variables (external and internal) blocks this process.

2. LITERATURE REVIEW AND CONTENT
2.1 Environmental components and their influence on business

The external environment of a company is the totality of the factors beyond it that influence it positively or negatively (Mintzberg et al, 1996). It is a set of factors of a complex and heterogeneous nature in which some factors act independently and others simultaneously. The current features of the external environment are:

- turbulence: a lot of rapid and unexpected changes occur in the environment, each with different magnitude, large or small, overlapping, resulting from various factors, i.e. economic, political, social, legal, technical, etc. Today's environment is turbulent, characterized by extremely frequent changes of very different amplitudes that have a wide incidence on a small firm, changes that can hardly be expected. Dealing with such an environment produces changes in the small company, most being adjustment solutions, which allow it to withstand changes in the environment. A turbulent environment highlights the crucial role that research and development activities have and the need to practice forecasting and ensure managerial dynamism. (Kuan, 2005)

- rapid development of business opportunities; there are many economic opportunities in an environment, which, in recent years, alternate rapidly. Among the factors that may contribute to increasing development opportunities I shall mention especially technological advances and competition changes.

- amplification of uncertainty; it is the result of many changes that cannot be accurately predicted and quantified. Economic activity involves a growing number of local, national, international variables, of different nature, which are reflected in the multiplication of situations of risk and uncertainty, difficulties in directing and controlling economic actions.

Today, we see a more pronounced dynamism of the business environment and a dramatic increase in the frequency of changes (Nicolescu, 1996). This environment is very complex, manifesting both through elements of different nature and different coverage plans, such as branch, area, region, country. The evolution of the business environment can be favorable or unfavorable to business development. Depending on the influence of environmental factors (direct / indirect), the time period in which they operate (short / long) and the companies' opportunity to control them.

2.2 Ways to respond to the influences of environmental factors

Companies perceive the environment as a source of opportunities and constraints. Any change in the environment reflect on the company, which must analyze and direct its attention depending on the content and extent of the influence of the environmental change on it. The company is not passive in relation to the environment, it can carry out its own actions to influence the environment to evolve in the right direction, favorable to it. In this case, we are dealing with proactive companies. The ones that merely react to changes in the environment are called reactive companies. We emphasize that in this case, as well, the reaction type actions of the company cause changes in the environment.

The company’s response to a turbulent environment is either a rapid reactivity, i.e. the company acts in a very short time, once the event that could have consequences on it is identified, or it is a proactive attitude, adopted by the company acting before the time in which it is anticipated the events with undesirable consequences will occur, (Parker and Collins, 2010) hereafter entrepreneurial proactivity.

Entrepreneurial proactivity starts from the entrepreneur himself, extending to employees through a participatory, visionary and responsible attitude towards anticipation, prevention and mitigation actions for risks and threats. This phrase, recently assimilated in management, is little known in the organization, but rather it is known at the level of individuals. However, we emphasize the need to introduce this concept throughout the company, which must act as a whole.

Entrepreneurial proactivity is a dynamic and evolving concept. For small and medium firms they occur, they act, they adjust according to external environmental factors. Amplification of uncertainty is a result of many changes that cannot be predicted and quantified.
with sufficient accuracy (Popa et al., 2002). The fact that there is a growing number of local, national and international variables in the activities of companies, of very different nature, to a greater extent, increases situations of risk and uncertainty, and is reflected in an increased difficulty of perceiving and controlling entrepreneurial actions.

2.3. The relationship between strategic management and entrepreneurial processes

Numerous studies (Bamberger, 1989), (Mintzber et al., 1996), (Nicolescu, 1996), (Drăgușin, 1999) show that strategic management is the process of continuous adaptation of the shape and structure of a company’s resources, to the opportunities and constraints of the changing environment. Strategic management is the means by which to achieve and keep a balance between the company's resources and environmental opportunities. The importance of strategic management is based on several arguments:

- Allows the organization to adapt to rapid environmental changes, anticipating them or their generation;
- Provides competitive advantages in a high-risk environment;
- Enhances the effectiveness of coordination.

Although the entrepreneurial processes associated with strategic management do not have the magnitude of those in large corporations, by their profound implications and examinations, they become comparable to them. The number of small and medium companies adopting strategic management, however, is extremely low.

The authors of the paper (Nag et al., 2007) state that in an increasingly tense competitive environment it is imperative for small and medium companies who wish to succeed, to develop a true management strategy.

In fact, strategic management is an effective way to guide a business’ activity based on environmental developments.

The desire and will to win the competitive fight forces SMEs to establish long-term development strategies and ways of achieving the goals set in conjunction with the resources available. Establishment of (proactive) strategies in small and medium companies, tracking their implementation, can determine a decrease of a company’s risk concerning competitive environment and vulnerability.

The strategic evolution of a company is related to both the development of the environment and that of the organization. This generates a number of sensitive issues regarding organizational change together with strategic pilotage, which is based on technological and trade scanning.

The entrepreneurial proactivity may become a modus vivendi when speaking of strategy formulation. The main actor is the entrepreneur, who, through its dynamic characteristics, or it role (investor, innovator, manager, performer) and its size (actionable, creative, psychological), generates economic effects by the businesses he initiates and develops, causing significant movements of capital, along with its multiplication and an increase in wages. Economic changes entail changes in the configuration of the social structure and its individual components (Ronstadt, 1884), (Shane, 2000).

According to Henry Minzberg,(7) the role and directions of involvement of the entrepreneur generate turbulence in the society, in each country. Economically, entrepreneurs determine a significant movement of capital through the business they run. These changes then induce social changes (in the social structure and configuration of the individual components). The management performance of entrepreneurs can be quantified, analyzed and evaluated.

The direct link created between entrepreneurial proactivity and the managerial performance of entrepreneurs makes the business strategy be based on the company’s relations with its stakeholders, with its partnerships with local actors and the business environment, social responsibility, etc.

The managerial performance of entrepreuners consists both from quantity or tangible factors (e.g. technical, managerial competences, experience, notorious issues, good relational and partnership networking established etc) and intangible factors, such as: decision making ability, team cohesion, empathy etc (Toader et al., 2012), (Dinu, Tăchiciu, 2009).

Appraisal of managerial performances varies with respect to the firm’s activity domain or field. The entrepreneurship barometer can also include these aspects which become the source for entries into the overall assessment system of the entrepreneurial ecosystem. (Antreprenorii vorbesc-Barometrul antreprenoriatului românesc 2013).

2.4. Entrepreneurial risk and its perception

In the process of opening an SME, of particular importance is the assessment of risk and possible consequences of business failure. During the period in which the decision to enter into a business is made, by crystallization of motivations for creating a business, the entrepreneur is full of optimism, the concept of risk
is difficult to accept, and failure is seen as a phenomenon that occurs to other entrepreneurs. The author (Rădulescu, 2004) identified four critical areas of risk:

- financial risk: their savings and bank guarantees;
- career risk: those who fail can have difficulties in being accepted as employees or in establishing future business relationships;
- family risk: stress, emotions for the family, loss of prestige;
- mental risk: the entrepreneur can identify so much with his business that he can perceive business failure as personal failure.

The entrepreneur's attitude towards risk is a very important feature of the management of SMEs. The more market risks advance, the more the notion of protection by security disappears, being replaced by a series of measures related to: leadership management and management of the structures built; personality of the leader.

During its growth, all the new needs that the company feels are perceived as new risks, because their intensity is unpredictable or because they meet certain thresholds of growth (Iosif, 1999). The company's vulnerability in the face of uncertainty and risk requires the implementation of strategic business management aimed at protecting the company against special situations such as: credit risk, giving up control, loss of a client, staff absenteeism, competition from former employees, insolvency of a debtor, the negotiating strength of a supplier. In the paper (1), the authors (Allaire and Fârşiotu, 1999) show that usually an entrepreneur's investment in his own firm is guided by psychological rather than economic considerations. Although the entrepreneur is seeking to obtain an appropriate return for his risk, this assessment is generally personal and empirical.

Even if the actual or foreseeable yield is not at the level of risk compensation, he still continues to invest and maintain the company "on track", due to reasons associated with: the possibility of having their own business, lack of career prospects, the degree of specialization of assets.

However, many entrepreneurs want to evaluate any project or business commitment (Allaire and Fârşiotu, 1999, pg .52).

There is a direct link between the activity of the company and risk. It is illustrated in (Table 1). The risk associated to the firm’s activity domain is a major threat. The risk level might influence the perceived degree of entrepreneurial proactivity. Such a matrix is represented in (Figure 1.).

As first conclusion, regarding the described assumptions, firms gain competitive advantage when they can quickly accumulate skills. It involves commitment from a company, rapid circulation of information on products, technology, management. An item of particular importance is the existence of a national and regional environment that stimulates competitive advantages.

<table>
<thead>
<tr>
<th>Initial capital available</th>
<th>The level of risk</th>
<th>Business field / business profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Small</td>
<td>Commerce, services to the public, consulting, etc.</td>
</tr>
<tr>
<td>Moderate</td>
<td>Moderate</td>
<td>Units in the hospitality industry, small workshops (productive), specialized services</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
<td>Productive units, supermarkets, construction companies, private freight and air transport etc.</td>
</tr>
<tr>
<td>Very high</td>
<td>Very high</td>
<td>Private banks, insurance companies, financial companies, etc.</td>
</tr>
</tbody>
</table>
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### 3. RESEARCH METHODOLOGY

The research is based on creating a mathematical model that can be successfully used in management practice, with the aim of using it in assessing entrepreneurship, both nationally and locally. The purpose of research is to facilitate the work of decision-makers who can intervene to improve or at least mend entrepreneurial processes in Romania.

The research objectives were based on the release of two hypotheses and, later, on developing the mathematical model.

**Hypothesis 1:** There is a link between management performance of entrepreneurs and entrepreneurial proactivity

**Hypothesis 2:** There is a link between business risk and the management performance of entrepreneurs

**Hypothesis 3:** If one can assess the level of entrepreneurial proactivity depending on business risk and management performance of entrepreneurs

To find answers to these presumptions, a research plan has been developed consisting of the following steps:

- Presenting the context in which firms operate in the business environment-company system
- Identifying factors that influence entrepreneurs' performance management, company's proactivity, business risk undertaken by businesses.
- Developing questionnaires, scaling study categories
- Assessment of questionnaires, multi-criteria analysis and result testing
- Developing an evaluation model: \( G_p = f(P, R) \)

The model was developed with data from the following studies and prior research:

1. Diagnosis of Maramureș County, focusing on the situation and development of SMEs between 2008-2009;
2. Study on identifying business opportunities in disadvantaged areas;
3. Model of entrepreneurial school for women in NW Romania between 2009-2011;
4. Survey on identifying obstacles to the development of small and medium enterprises in Maramureș County between 2011-2012;
5. Study on expanding the offer for entrepreneurial education in the tertiary sector between 2010-2012;
6. Steps towards the association in clusters of firms in the furniture industry in Maramureș County between 2012-2013;

In total, over 1000 questionnaires were designed, implemented and interpreted. Around 10 inquiries were conducted, and more than 200 results interpreted.

### 4. RESULTS

- The research will provide information on the final approach proposed in this paper, namely to develop a model for assessing the perceived degree of entrepreneurial proactivity of a company considering the management performance of entrepreneurs and business risk.
- The limitations of the model.
- The qualitative input variables are influenced by the many changes, such as contamination with contextual situations and unexpected structural changes.
- The quantitative input variables are influenced greatly by the timeframe.
- This model is intended to be a flexible one, as input variables may undergo adjustments based on changes in macro-environmental conditions.

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**Figure no.1: Intensity of Factors depending of Firm’s Activity (Source: Authors)**
factors, especially corrections to the rules or
laws and rapid changes in technology.

Figure no.2: The Model of Factors Inter-
dependency (Source: Authors)

4.1 The mathematical Model

The developed mathematical model has a flexible
degree of the perception of the entrepreneurial proactivity GPi, by analyzing the two variables P and R.
R - business risk,
P - performance of entrepreneurs
GPi perceived degree of entrepreneurial proactivity
Based on sample data a maximum value has resulted for the variables P, R.
By using a value scale from 1...10, the following values have been obtained: Rmax= 9,5, Rmin= 1,5
Pmax= 9, Pmin= 3

Level R P
Superior 9,5 9
BaSE 5,5 6
Inferior 1,5 3

Considering K the number of the model’s
variables, the business risk respectively the
performance of entrepreneurs we obtain a matrix of
the form:

Md = 2^k = 2^2 = 4

Full experimental matrix is given by the matrix

EFC 2

Steps taken:
1. we extracted from the sample the four representative values of the degree of perception of
the proactive entrepreneurial GPi,
2. based on significant data encoded one of the parameter in the respective upper and -1, the lower level.
3. realization of matrix EFC 2

Matrix EFC 2

<table>
<thead>
<tr>
<th>Nr. det</th>
<th>X_{ai}</th>
<th>Ri</th>
<th>Pi</th>
<th>RPi</th>
<th>GPi</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>+1</td>
<td>+1</td>
<td>+1</td>
<td>+1</td>
<td>98</td>
</tr>
<tr>
<td>2</td>
<td>+1</td>
<td>+1</td>
<td>-1</td>
<td>-1</td>
<td>95</td>
</tr>
<tr>
<td>3</td>
<td>+1</td>
<td>-1</td>
<td>+1</td>
<td>-1</td>
<td>60</td>
</tr>
<tr>
<td>4</td>
<td>+1</td>
<td>-1</td>
<td>+1</td>
<td>+1</td>
<td>45</td>
</tr>
</tbody>
</table>
Based on mathematical model: \( \text{GPi}(R, P) = b_0 + b_1 \cdot R + b_2 \cdot P + b_{12} \cdot R \cdot P \), and taking into account the variables \( R, P \), we’ll calculate the values \( b_0, b_1, b_2 \) and \( b_{12} \):

\[
\begin{align*}
\sum_{i=1}^{n} X_{0i} \cdot * \cdot \text{GPi} & = \frac{98 + 95 + 60}{4} | 45 | = 4 \Rightarrow 74.5, \\
b_0 & = 74.5, \\
\sum_{i=1}^{n} R_i \cdot * \cdot \text{GPi} & = \frac{(98 - 95) + (60 + 45)}{4} | 4 = 22, \\
b_1 & = 22, \\
\sum_{i=1}^{n} P_i \cdot * \cdot \text{GPi} & = \frac{(98 - 95) + (60 - 45)}{4} | 4 = 4.5, \\
b_2 & = 4.5, \\
\sum_{i=1}^{n} R_P \cdot * \cdot \text{GPi} & = \frac{[(+] 98 + [-] 95) + (-] 60 + (+] 45)}{4} | 4 = 3 \\
b_{12} & = -3.
\end{align*}
\]

The perceived degree of entrepreneurial proactivity:

\[
\text{GPi} \ (R, P) = 74.5 + 22.2R + 4.5P - 3RP
\]

\[
\begin{align*}
& = 74.5 + 22 \left( \frac{R - 5.5}{3} \right) + 4.5 \left( \frac{P - 6}{4} \right) - 3 \left( \frac{R - 5.5}{3} \right) \left( \frac{P - 6}{4} \right) \\
& \text{GP (R;P)} = 25.35 + 7.3R - 3.15P - 0.3R \cdot P
\end{align*}
\]

4.2 Verification of mathematical model.

Based on the sample and the ranges \( R \in (1,5;9,5), P \in (3;9), \text{GPi} \in (45;98) \).

Consider random values \( R=2 \) și \( P=6 \) based on the model we get:

\[
\begin{align*}
\text{GP (R;P)} & = 25.35 + 7.3R - 3.15P - 0.3R \cdot P \\
& = 25.35 + 7.3 \cdot 2 - 3.15 \cdot 6 - 0.3 \cdot 2.6 = 55.25
\end{align*}
\]

It follows that the condition is satisfied \( \text{GPi} \in (45;98) \).

5. CONCLUSIONS AND DISCUSSIONS

In the context of an unstable economic, social and political environment, SMEs in Romania are very vulnerable. It requires careful study of the causes that generate problems, major obstacles in developing their business objectives and setting priorities for supporting this sector.

The success of an SME and the ability to accommodate economic variables and maintain an upward trajectory are determined largely by the quality of its leaders.

The entrepreneur’s personality, characterized by strong motivation, gives SMBs a powerful entrepreneurial dimension.

Business - management relations are focused on identifying business opportunities and, in comparison with conventional management relations, are highly customized, and the risk, innovation, change elements, are more visible.

The entrepreneur is one of the main actors in the market economy.

Harnessing the potential of SMEs and entrepreneurs, while reducing their shortcomings, is determined - to a considerable extent - by the foundation and promotion of entrepreneurial activities.

Companies gain competitive advantage when they can quickly accumulate skills. It involves commitment from a company, rapid circulation of information on products, technology, management.

An item of particular importance is the existence of a national and regional environment that stimulates competitive advantages.

The model developed allows to determine the degree of entrepreneurial proactivity depending on business risk and the management performance of entrepreneurs. It has a great influence on economic and social activity, the organizational climate of each economic unit.

The proposed model can be successfully used in practice to calculate the degree of proactivity for different maximum or minimum risk situations and for different categories of entrepreneurs for which a performance evaluation has been conducted, according to specific evaluation criteria.

The model allows comparative analysis of the degree of entrepreneurial proactivity depending on variables chosen for the study.

The indicator on entrepreneurial proactivity can be an efficient tool on customizing measures to promote entrepreneurship.

References


