

Vladimir Njegomir^{1*}

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STARTING AN ENTREPRENEURIAL VENTURE: A STUDY OF DETERMINANTS²

ABSTRACT: Entrepreneurship is defined as an individual creative capacity for identifying opportunities and implementing useful ideas in practice. Entrepreneurship plays a key role in the economy and society as it enables economic growth and addresses social issues. Entrepreneurship is a driving force for the growth and transformation of national economies. In view of the importance of entrepreneurship, especially for developing countries such as Serbia, studying the determinants that drive individuals to embark on entrepreneurial ventures has become a valid topic. The aim of the present study is to analyse the determinants that influence individuals to start an entrepreneurial venture. The paper will examine the motivation for starting an entrepreneurial venture, entrepreneurs' personality traits, creativity and innovativeness, as well as willingness to embrace risk, as determinants of entrepreneurship.

KEY WORDS: entrepreneurship, determinants, motivation, embracing risk, innovativeness

^{1*} Full Professor, Faculty of Law and Business Studies Dr Lazar Vrkatić, Novi Sad, email: vnjegomir@sbb.rs

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1. Introduction

Ever since Cantillon (1755) first described entrepreneurship as a theoretical concept, there have been many attempts to define this concept. However, all definitions agree that the concept of entrepreneurship, as well as any activity related to implementing new business ideas, refers to starting new business ventures, i.e., entrepreneurial companies. Entrepreneurship also involves the improvement of existing business ventures. Among the most famous companies that apply internal or corporate entrepreneurship are Apple, Amazon, Facebook, and Google. These companies are considered entrepreneurial because of their pro-activity, innovation, and willingness to accept risks. Entrepreneurship means the ability to identify opportunities and implement useful ideas in practice (Acs, 2008; Ireland & Webb, 2007). The tasks that this behaviour requires can be accomplished either individually or in groups and usually require creativity, initiative, and a willingness to take risks.

The importance of entrepreneurship for the economy and society was confirmed by the theoretical economist Schumpeter as early as 1934. In his book *Theory of Economic Development* (1934), Schumpeter argued that entrepreneurship creates new products and technologies that make the existing ones obsolete. Entrepreneurship is a key ingredient that initiates both growth and transformation of national economies (Demko-Richter & Njegomir, 2014). Entrepreneurship contributes to economic growth and development in multiple ways, such as gross domestic product (GDP) increase, improved living standards, economic independence, encouraging roles for large companies, job creation, support for capital formation, poverty eradication, and societal development.

More than 99% of all businesses in the EU countries are entrepreneurial, employing between 50% and 85% of the total workforce and contributing to the creation of 50–70% of GDP on average (SME Performance Review, 2021). However, entrepreneurship in Serbia is still underdeveloped, although significant progress has been made in recent years.

According to the Agency for Business Registers data (2023), more than 300,000 entrepreneurs currently operate in Serbia, making up almost 65% of the total number of companies. This number is still sig-

nificantly lower than in the EU states. According to the 2022 report of the Statistical Office of the Republic of Serbia (RZS, 2022), at the end of 2020, the total number of entrepreneurs in Serbia was 298,279. 272,446 workers were employed in entrepreneurial firms, the value of turnover was 1,565,289 million dinars, and the gross added value was 416,499 million dinars. The number of exporting entrepreneurs (3,240) was less than the number of importing entrepreneurs (4,073), and the value of exports by entrepreneurs (19,737 million dinars) was less than the value of imports (23,659 million dinars).

The Legatum Index of Prosperity (Legatum Index, 2023) indicates limiting conditions for entrepreneurship development in Serbia. According to the conditions for the development of entrepreneurship, Serbia is ranked 52nd in the world in 2023, which is a marked improvement from the 2013 ranking of 66th. According to the latest available Global Competitiveness Index of the World Economic Forum, Serbia was ranked 72nd in 2019, which is seven places lower than in 2018 (Global Competitiveness Report, 2019). However, on the 2020 World Bank's Doing Business list (the last one available), Serbia has advanced by four positions compared to 2019 and now ranks 44th out of a total of 190 countries (Doing Business, 2020).

Entrepreneurs and small and medium-sized enterprises play a key role in society since they enable economic growth and solve social issues. It is in the national interest to support the establishment, survival, and development of entrepreneurs, small and medium enterprises. Their role, as a healthy and dynamic part of the economy, is crucial in times of crisis and unemployment, since they help increase employment, develop innovations, represent a significant source of tax revenues, and improve social welfare and cohesion by solving social issues. They support both national and local growth development and increase the effective operation of large companies.

Considering the importance of entrepreneurship, especially for developing countries like Serbia and countries that need internal incentives for faster economic development, it is extremely important to study the determinants that motivate individuals to start an entrepreneurial venture. The aim of the present study is to analyse these determinants.

The study will examine the motivations for starting an entrepreneurial venture, entrepreneurs' traits, entrepreneurs' creativity, innovativeness, and the willingness to accept risks as determinants of entrepreneurship.

2. Entrepreneurs' Characteristics

Starting and succeeding in an entrepreneurial venture depends on a number of factors. The factors that drive individuals to establish entrepreneurial ventures include macroeconomic conditions, regional conditions, motivation, creativity, innovation, willingness to accept risks, individual characteristics, demographic factors, education and work experience. Certain factors are assigned different importance depending on the approach, e.g., the individual level and the regional and macroeconomic level. Entrepreneurship can be examined from various angles, including but not limited to economic, psychological, and technical. The economic school of thought examines the entrepreneur as an individual starting a new venture and operating as a business. Parker (2018) provides a historical overview of different interpretations of an entrepreneur, from the creative disruptor to the risk taker to the modern understanding of entrepreneurship, where individual traits determine the outcome of the choice between the new venture and paid employment. The recent economic literature post-1978 (Parker, 2018) tends to be less concerned with questions of the definition of entrepreneurship and usually views entrepreneurship as any activity in which individuals are self-employed and willing to embrace risk for profit, forgoing relatively secure returns they might earn in another occupation.

Personality traits that influence individuals to become entrepreneurs are numerous and it is difficult to make a comprehensive list. The essence of entrepreneurship is finding ideas that can be implemented, i.e., which represent market opportunities, and the entrepreneur's personality traits should enable them to successfully establish and manage the entrepreneurial process.

Summarizing the numerous studies of entrepreneurship, Parker (2018) states that at the individual level, the determinants of entrepreneurship include:

- 1) financial and non-financial incentives (profit making, job satisfaction, desire for independence).
- 2) human capital (age, experience, formal education, entrepreneurship education).
- 3) social capital, business networks and entrepreneurial teams.
- 4) risk attitudes, excessive optimism, and other psychological traits.
- 5) marital status, health, and industrial factors.
- 6) family background.
- 7) the difference between an individual who considering starting a new venture and an individual who has started one or more parallel entrepreneurial ventures.
- 8) characteristics of the existing company.

Penezić (2003) lists the following basic traits of an entrepreneur:

- 1) Vision, or where they see their business going in the near future.
- 2) Total commitment, determination, and persistence to start again when they make a mistake and realize it. Potential entrepreneurs must rationally expect difficulties and often seemingly intractable problems. When such situations arise, they must not be disappointed and discouraged, but must see every mistake or failure as a new experience and opportunity to learn.
- 3) Self-confidence about oneself, one's values and abilities.
- 4) Optimism – entrepreneurs are optimistic by nature. When they start a business, they expect to succeed in it. However, optimism, in and of itself, is not enough. Entrepreneurs set a goal, believe that they will succeed and do everything to make it happen.
- 5) Innovation and creativity, not as an inventor in the traditional sense, but as someone who can occupy a part of the market that is often invisible to others.
- 6) Being result-oriented or having the ability to define goals and enjoy their achievement.
- 7) Ability to embrace risks, considering that starting one's own business involves risks that need to be carefully evaluated. Effective risk management is essential.

Parker (2018) states that the most important determinants of entrepreneurship are age, experience in the labor market, marital status, and whether a parent was an entrepreneur. A higher level of risk has a negative effect on starting an entrepreneurial venture, although market risk and risk attitudes have not been adequately quantified. Parker (2018) believes that psychological differentiating factors do not have a significant effect, since self-confidence and determination are conducive to success in entrepreneurship but are likely to be productive in other occupations as well. We believe, however, that interdisciplinary research on entrepreneurship is extremely useful, especially the analysis of determinants from the economic and psychological aspects. Parker (2018) argues that previous research has not properly quantified human capital. He also believes that social capital has potential but has not been sufficiently studied so far. Instead of looking for individual determinants of entrepreneurship, he argues, we should look for success factors in entrepreneurship and the conditions in which they thrive.

Harvard Business School (2020) notes that, although there's no single personality profile, there are certain characteristics shared by successful entrepreneurs.

1. Curiosity – An entrepreneur's ability to remain curious allows them to continuously seek new opportunities.
2. Structured Experimentation – With each new opportunity, an entrepreneur must do market research and run tests to determine if the opportunity is worthwhile to pursue.
3. Adaptability – New business challenges and opportunities present themselves at every turn, so successful business leaders must be adaptable and remain flexible to ensure their business keeps moving forward.
4. Decisiveness – Being decisive does not mean having all the answers. Successful entrepreneurs need the confidence to make challenging decisions and see them through to the end. If the outcome turns out to be less than favourable, the decision to take corrective action is just as important.
5. Confidence – Lack of confidence can deter investors or lead customers to question their purchasing decisions.

6. Team Building – A great entrepreneur is aware of their strengths and weaknesses. In many cases, it's the entrepreneurial team, rather than an individual, that drives a business venture toward success.

7. Risk Tolerance – Successful entrepreneurs are comfortable with encountering some level of risk to reap the rewards of their efforts; however, their risk tolerance is tightly related to their efforts to mitigate it.

8. Comfortable with Failure – Entrepreneurs must prepare themselves for, and be comfortable with, failure. Rather than let fear hold them back, they maintain a positive attitude to allow the possibility of success to propel them forward.

9. Persistence

10. Innovation

11. Long-Term Focus

Beringer and Ireland (2012) list the following characteristics of successful entrepreneurs:

- 1) passion for business,
- 2) focus on products and consumers,
- 3) perseverance despite failure,
- 4) execution intelligence (ability to transform an idea into a sustainable business).

In addition to individual characteristics, entrepreneurs' education, work experience and demographic characteristics are also important. Entrepreneurs' level of education is a vital factor, considering that entrepreneurs are on average more educated than the general population (Hisrich, Peters & Shepherd, 2008). Entrepreneurial education and the development of entrepreneurial orientation (Franceško, Njegomir, & Živković, 2018) are essential for solving the problems that entrepreneurs encounter in doing business. Work experience can have both negative and positive effects on deciding to start a new venture, depending on the individual's previous experience, which may be one of frustration and boredom, or growth and promotion. Upon starting an entrepreneurial venture, however, work experience has a significant positive role in growth and success.

Demographic factors of entrepreneurship include gender, age, ethnicity, or religious affiliation. Each of these factors has additional elements which determine entrepreneurs' success.

Entrepreneurs tend to be young to middle-aged men. The entrepreneurial barometer - a study by Ernst & Young - indicates that 76% of entrepreneurs in Serbia are men and 24% are women (EY, 2023). In the Agency for Business Registers report (APR, 2023), the structure recorded on March 1, 2023, is somewhat different, but it still shows a significantly higher proportion of male entrepreneurs (66.3%) compared to women (33.7%). In Serbia, 72% of entrepreneurs have a higher (university) education (at least three years), 12% have a college education, and 16% have secondary education (EY, 2023).

In recent times, the traditional demographic structure of entrepreneurs is changing significantly. In the USA, but also in Serbia, there is a growing number of women, elderly and young adults in entrepreneurship.

3. Entrepreneurial Motivation

In the previous sections, some of the factors that influence an entrepreneurial venture were listed. Besides individual characteristics, the decision to start an entrepreneurial venture is also influenced by social and environmental factors. Although passion, hard work, self-management, and business administration are necessary for starting an entrepreneurial venture and success in business (ME, 2023), we believe that three factors are crucial: the motivation that drives entrepreneurs to start the venture, innovation and willingness to accept risks.

Without motivation, entrepreneurs would not even decide to pursue new opportunities. Entrepreneurial motivation activates and motivates the entrepreneur to invest more effort to achieve their goals, which implies that a motivated entrepreneur will be ready to invest effort to achieve the set goal. The limitations that entrepreneurs must be prepared to overcome include the possibility of business failure, numerous obstacles, isolation and loneliness, financial insecurity, long working hours, often more than twelve, and multiple hours of daily engagement,

as well as strained personal relationships despite the support from family and friends (Mariotti & Glackin, 2016).

Incentives for entrepreneurial ideas and ventures include freedom, profit, influence, control, and creativity (Chrisos, 2023). However, in countries such as Serbia, with high job loss, lack of employment opportunities, or limited employment opportunities due to the lack of skills in demand, the way out is often self-employment. In a comprehensive survey of attitudes about entrepreneurship in Serbia, as many as 80% of respondents see entrepreneurship as a type of employment, while 65% of respondents see entrepreneurship as means of survival (CEVES, 2014).

Some people see implementing new ideas as a form of freedom and choice. Some might even feel that if they do not try it, they will regret it their whole life (McCormack, 1993). This is also a motivating factor for starting entrepreneurial ventures. Su et al. (2020) concluded that positive emotions can significantly influence entrepreneurial motivation and the entrepreneurial process. Bartha, Gubik, & Bereczk (2019) found that social mission boosts entrepreneurial motivation in Central and Eastern European countries. Hemert et al. (2019) indicated that entrepreneurial motivation has a positive effect on companies.

Penezić (2003) lists four key motives that have been confirmed by many studies and insights into business practice:

- 1) dramatic changes in family and/or personal situation (job loss, refugee status, divorce...).
- 2) availability of resources for starting a business (ideas, money...).
- 3) verified entrepreneurial abilities.
- 4) examples of other successful entrepreneurs.

The desire to achieve profitability is one of the key factors for starting an entrepreneurial venture in developing countries or in conditions where the entrepreneurial venture is started as a self-employment option rather than using ideas in practice. Money, however, is usually not a sufficient motivating factor for starting an entrepreneurial venture (Mariotti & Glackin, 2016). Usually, motives are associated with values, such as control, fulfilment, independence, self-confidence, ownership,

financial compensation (income and wealth), control over working conditions, and contribution to society (Mariotti & Glackin, 2016).

Three key factors that motivate individuals to become entrepreneurs have been identified: 1) the desire to be the owner of the business ('be one's own boss'), 2) implementing one's own ideas and 3) earning profit.

Being one's own boss is the aspiration of many entrepreneurs. In Serbia, according to the 2014 CEVES report, there are as many as 81% of those who strive for independence, reject authority, and feel frustrated at the thought of potential employment in organizations where the organizational structure imposes rules of conduct on them, as well as restrictions on their own expression, advancement and achievement of personal and professional goals.

Implementing one's own ideas is a very strong motivation for starting an entrepreneurial venture (Chrisos, 2023). Most people naturally wish to actualize their ideas. For instance, Google is a company that encourages creativity and entrepreneurship among employees by validating their creative and entrepreneurial spirit. Many large businesses have mechanisms to encourage corporate entrepreneurship. However, when these mechanisms are absent, individuals choose to leave the company and start an entrepreneurial venture.

Achieving profit is a secondary goal compared to the previous ones, except in Serbia (CEVES, 2014). In Serbia, entrepreneurship is seen as a type of employment (80% of respondents), means of survival (65% of respondents) or a way to get rich (52% of respondents). The main purpose of achieving this goal is financial independence. Making a profit and constantly increasing the company's value is the key business goal in certain situations. However, achieving profit often takes second place compared to the desire to actualize one's own ideas.

As there are numerous limitations that entrepreneurs have to overcome, it is possible that they may lose motivation along the way. There are several models that can ensure that motivation is maintained despite challenges. They include: 1) setting personal goals, 2) leveraging entrepreneurial success stories, 3) connecting with other entrepreneurs who learn about the challenges of entrepreneurship, 4) maintaining personal health, 5) creating a morning routine, 6) setting reminders, 7) engaging

in motivational activities, 8) sleeping well, 9) practicing challenges with loved ones and 10) rewarding oneself (Newlands, 2017).

4. Innovation

Innovation has been of vital importance throughout human history. Innovations, such as fire, the wheel, agriculture, irrigation systems, the use of metals, writing, etc., changed the course of history (Njegomir & Demko-Richter, 2013). Without innovation, humans would never be able to calculate, write, sail, drive, trade or improve their own well-being. Research shows that success in Japan was achieved thanks to the ability of businesses, i.e., entrepreneurs, to create new knowledge, disseminate it within organizations and incorporate it into products, services and systems (Nonaka & Takeuchi, 1995). Unfortunately, innovation is underdeveloped in Serbia. The lack of innovation in Serbia is indicated by the Global Innovation Index (Dutta et al., 2022) for 2022, where Serbia ranks 55th in the world. Therefore, it is necessary to stimulate innovations, especially commercially viable innovations.

Entrepreneurs are the central actors of innovative change and disruption (Parker, 2018). By increasing the volume of production and improving competitiveness, innovative entrepreneurs open opportunities for further trade and specialization, the outcomes of which are higher productivity, living standards and economic growth (Campbell, 2009).

Creativity is thought to be entrepreneurs' defining characteristic which stimulates entrepreneurial innovations. Creativity is the ability to see the world in new ways, find hidden patterns, make connections between seemingly disparate things and create new ideas (Kaur, 2022). In the context of entrepreneurship, creativity implies the ability to create new ideas and solutions to consumer problems in a target market. On the other hand, entrepreneurial innovation represents the ability to put ideas into practice. Entrepreneurial innovation refers to creating new products or services, improving processes, or finding new markets for existing products or services (Kaur, 2022).

Creativity is influenced by intuition and the subconscious. Perspective formation is a key component of creativity (Barnard & Herbst,

2019). Barnard and Herbst (2008) studied different approaches to formal and semi-formal creativity processes. They noted that creativity is an essential factor for innovation, and thus for entrepreneurship. However, considering the numerous factors that influence the outcome of an entrepreneurial venture, it becomes clear that creativity alone is not enough. It must go hand-in-hand with general business acumen to achieve success in a new venture.

Creativity helps improve existing business practices, while innovation creates processes that turn an invention or innovative idea into a marketable product or service (Mazla et al., 2019). Entrepreneurs are dreamers, visionaries, full of energy, future-oriented and inclined to accept risks. Entrepreneurs need to initiate change and exert control over people and events so they can focus on the future. Entrepreneurs must be innovative, strategic thinkers who devise new methods for capturing markets or creating new markets. Some of these entrepreneurial giants, such as Henry Ford, Tom Watson (IBM) or Ray Kroc (McDonald's), influenced the global economy (Gerber, 2010).

Today, innovation, together with entrepreneurship, is a major driver of competitiveness, economic growth, and prosperity. New knowledge can generate growth only through transformation through entrepreneurship into innovation. Entrepreneurs are drivers of innovation. Entrepreneurs do not have to be innovators; however, they must have the ability to recognize marketable ideas and to allocate the necessary resources to implement a particular innovation. According to Draker (1985), the entrepreneur: 1) seeks change, 2) responds to it, and 3) uses it as an opportunity.

Innovations are an important element of entrepreneurship in any industry. In the insurance sector, for example, the invention of micro-insurance provided the opportunity for low-income citizens and businesspeople to be included in insurance coverage. Thanks to the emergence of public-private partnerships in insurance it became possible to provide capital to cover risks with catastrophic outcomes (Njegomir & Marović, 2013). Innovations have gained importance due to growing consumer demands and ever-stronger competition. Innovation is a key driver of competitiveness, economic growth and prosperity (Chandra

et al., 2009). Innovations determine productivity and growth in organizations, sectors, regions and countries, and are especially important for global businesses. Although innovations were mostly implemented in large companies during the 20th century, the practice has shown that small and medium-sized enterprises initiated most of the revolutionary innovations in the late 20th and the first two decades of the 21st century.

Innovation in entrepreneurship does not always mean creating a completely new product, service or business method. Innovations do not have to be based solely on scientific or technological inventions. Commercial breakthroughs, including new business models, also represent innovations in entrepreneurship (Spulber, 2014). The concept of innovation, derived from the Latin verb *innovare*, refers to renewal or restoration. Essentially, innovation involves the introduction of something new or different. In addition to devising and implementing new ideas, entrepreneurship also involves creative imitations, focusing on market niches and customer creation strategies. Entrepreneurial innovations, depending on the degree of novelty, are divided into 1) incremental innovations, where only certain aspects are improved (for example, technological or marketing), 2) market improvements, which include improvements in application, increasing consumer satisfaction and lowering costs for consumers, 3) technological improvements that are not passed on to the consumer and 4) radical innovations, which are the result of improvements in technology and utility for consumers.

According to the subject of innovation, innovations are classified into production, process, organization, and marketing (Oslo Manual, 2015; Pain, 2011; Allen & Yago 2010). Production innovations involve the introduction of new or significantly improved products or services, which improve the range and quality of the current offer. Process innovations involve the introduction of new or significantly improved processes for the manufacture or delivery of products and services. Organizational innovations refer to the implementation of new organizational methods. Marketing innovations are the implementation of new marketing methods, including significant changes in product design or packaging, product distribution, promotion, or pricing.

According to Mariotti & Glackin (2016), innovation is the essence of entrepreneurship. Where other people only see problems, entrepreneurs recognize opportunities. Many successful businesses grew from a good entrepreneurial perception of a problem. The authors give the example of entrepreneur Anita Roddick who resented paying for unnecessary perfumes and fancy cosmetics packaging and founded *The Body Shop International*, believing that other women felt the same. Innovative entrepreneurs need to practice how to recognize ideas and use their imagination.

In identifying opportunities, it is crucial to identify the products and services that people need and are willing to pay for, rather than the products and services that the entrepreneur wants to produce and sell. An opportunity must have four key qualities: 1) attractiveness to consumers, 2) durability, 3) timeliness, and 4) embeddedness in a product, service, or business that creates or adds value for customers and end users (Hayton, Chandler, & DeTienne, 2011). Timmons (1999) gives a similar definition, i.e., the opportunity must be 1) attractive to customers, 2) applicable in the business environment, 3) can be executed in a defined window of opportunity and 4) can be implemented with the right team as would be sustainable.

In addition to exercising creativity, Harvard Business School (HBS, 2020) identified several skills necessary for entrepreneurs to be innovative: 1) basic financial skills, 2) networking skills, 3) the ability to accept and act on feedback, 4) recognizing patterns in data, market trends, and consumer behaviour, 5) strategic thinking that includes analytical, communication, and problem-solving and planning skills, 6) negotiation skills, and 7) advanced thinking about intelligence, abilities, and talents.

5. Risk Acceptance

Risk has been an inextricable part of the rise of civilization from the first human communities to the present day. Today, due to the progress of the economy, medicine, science and technology, global business, population growth and value increase, individuals, businesses, and society are more exposed to risks than ever (Njegomir, 2011a). The gurus of

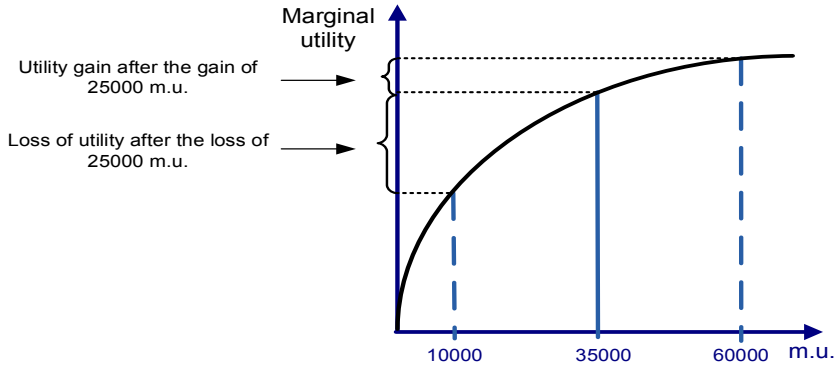
theoretical economics, Samuelson and Nordhaus (2009) emphasize that the economy is a risky business. Although there are many different definitions of risk, we believe that risk is best defined as a combination of the probability of an event and its consequences (ISO, 2002).

As early as 1755, Richard Cantillon noted that willingness to accept risks was essential for entrepreneurs. According to him, the entrepreneur is an arbitrator or speculator who conducts exchanges and bears the risk as a result of buying at certain prices and selling at uncertain prices. Knight (1921) indirectly indicates that embracing risk is a major factor. Brooke (2010) cited a later article by Knight (1942) that described profitable opportunities for entrepreneurs generated by heterogeneous subjective expectations arising under conditions of incomplete information. Canbur (1979) and Kilstrom and Lafont (1979) stress the importance of the risk aversion level, noting that risk-averse individuals choose paid employment, while more risk-tolerant individuals become entrepreneurs. Baluku et al. (2020) investigated risk aversion, entrepreneurial attitude and intentions in a sample of 573 students in their final year of study, and the employment status of participants six to twenty-four months after graduation. This study showed that risk aversion has a negative effect on general entrepreneurial attitude and intention. De Blasio et al. (2018) investigated the influence of risk attitudes on decisions to start an entrepreneurial venture. Using previous surveys of household income and wealth conducted by the Bank of Italy, the authors found that individuals who had experienced an earthquake had significantly higher risk aversion, and at the same time found that an increase in risk aversion had a significant negative effect on the likelihood that respondents become entrepreneurs. Previous research has shown that risk aversion is beneficial for decision-making while starting an entrepreneurial venture (Brandstätter, 2011; Obschonka & Stuetzer, 2017).

The economic explanation of the way people react to risk and uncertainty starts from the concept of diminishing marginal utility of income, which is equated with risk (Njegomir, 2011b). According to theoretical economics, depending on the willingness to accept risk, three types of people can be distinguished: risk-averse, risk-accepting and risk-neutral. The theory of diminishing marginal utility (Chart 1) says that most people are risk averse. In other words, most people feel that

the dissatisfaction that may arise from a certain loss is greater than the satisfaction from the same amount of gain.

Chart 1. Risk aversion



Source: Njegomir (2011b). Note: m.u. = monetary units

Chart 1 shows that additional income units increase utility by progressively smaller amounts. A function of diminishing marginal utility actually shows risk aversion. However, entrepreneurs are typically risk-accepting individuals.

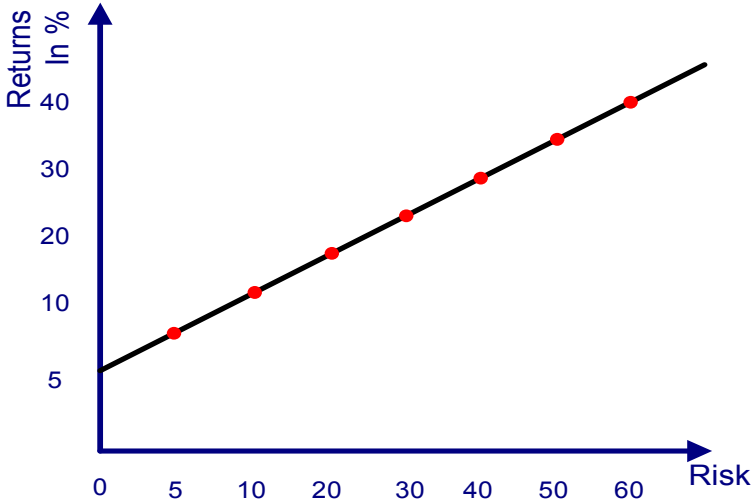
Both theory and practice agree that success requires taking risks. There is a functional dependence between risk acceptance, starting an entrepreneurial venture, and long-term success in business (Obschonka, Silbereisen, & Schmitt-Rodermund, 2015). Therefore, risk can have both a positive and a negative impact on the entrepreneur's business results. However, one cannot be an entrepreneur without embracing risk. It follows from the above that one of an entrepreneur's key features is the willingness to accept risks. There will be no business success without it. The extent of risk acceptance will directly depend on risk tolerance. Risk tolerance represents the level of risk that an individual or business entity is ready to accept for the sake of achieving a goal (Njegomir, 2011b). It depends on the availability of financial resources, willingness to accept risks and the entrepreneur's profile.

The entrepreneur's business is exposed to numerous risks that threaten property and assets, as well as employees' health and life, and that can disrupt business operations. Penezić (2003) lists the following risks that may pose a threat to entrepreneurs:

- Financial – Many entrepreneurial ventures are established with the help of personal savings that will be lost in case of failure. The same is true in the case of establishing a partnership.
- Career – Future entrepreneurs frequently want to know what will happen if their venture fails. Will they be able to find a new job or return to the previous one? This question does not apply to unemployed persons who see the business venture as a form of self-employment.
- Family/social – Starting one's own business requires a lot of time and energy. This is a huge sacrifice for the family, which is exposed to the risk of alienation and constant emotional turmoil.
- Psychological – An entrepreneur who has experienced a financial failure first-hand is usually not able to recover quickly. The fear of failure is also one of the most common causes of stress.
- Risks related to the acquisition of new equipment.
- Risks related to loan collection.
- Legal risks related to changes of legislation.
- Pure risks, such as the risk of fire, theft, and accident (insurable).

Accepting risk does not mean accepting the possibility of failure without preparation. Successful risk acceptance can be achieved with careful risk management. Risk management means minimizing risk costs. Risk management is seen as more than a cost centre concerned with avoiding fines due to non-compliance with legislation or high prices of financial risk coverage. Increasingly, it is viewed as a profit centre that enables business improvement, because it adopts a fundamentally different attitude, namely that risk can have both positive and negative impact on business performance. Variability is not necessarily bad if the entrepreneur or company can gain an advantage in their response to it compared to the competition. Chart 2 shows the risk and returns causality.

Chart 2. Risk and returns causality



Source: Njegomir (2011b)

Once again, risk is not necessarily bad. Being an entrepreneur means taking risks. Some entrepreneurs will succeed, while others will fail. Those who succeed use potential risks to explore new business opportunities.

6. Conclusion

Entrepreneurs are influenced by many factors. Whether they will be inclined to embark on an entrepreneurial adventure or not, depends on a number of individual characteristics, such as personality, education, work experience, but also on numerous demographic factors. However, motivation, innovation and willingness to accept risks have a dominant influence on starting an entrepreneurial venture.

As seen above, motivation is a key factor for starting an entrepreneurial venture and they strongly correlate. If there is no motivation,

there will be no entrepreneurial venture. There are three major motives for starting an entrepreneurial venture: 1) the wish to be one's own boss, 2) implementing one's own ideas and 3) earning profit.

Innovation is also very important. Entrepreneurial innovation is the ability to put ideas in practice. Without creativity and putting ideas into practice, there is no entrepreneurship. Entrepreneurial innovations are divided, according to the degree of innovation, into 1) incremental innovations, 2) market improvements, 3) technological improvements and 4) radical innovations.

Finally, there is no entrepreneurial venture without risk acceptance. Being an entrepreneur means taking risks. Some entrepreneurs will succeed, while others will fail. Those who succeed use potential risks to explore new business opportunities. Risk is an event that may or may not occur, the consequences of which may be positive or negative deviations from the set goal, i.e., the desired or expected business result. This means that risk can be a cause of failure, but also an opportunity for success.

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