

# Business under the Influence of the Random Factor

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## Abstract

*The word “business” has recently become of common use. And now it is so frequently used, that one does hardly think at the term itself as having a definition or more connotations and interpretations. We live in a period when many people are dreaming to have their own business or call themselves business men, intrinsically perceiving the profits or potential losses implied by such status.*

**Key words:** *business, random factor, determinism, risk*

A business is [4] an entrepreneurship, a trading entity or a company in the public or private area, focused on producing goods or services aimed to meet the needs of the customers. Or, by business is understood [5] a contractor, an under-contractor, a tender, a consultant, a provider of technical, administrative or physical services, organized as sole owner, in partnership, association, corporation pursuing profit by carrying out its activity. Producing goods and/or services in order to obtain profit [3] is another method of describing a business. In the said paper it is also mentioned that such an activity can be carried out by an individual, by a family, under a partnership or in a company.

Here are only a few possible explanations of the term which will represent the quintessence of the present paper. Action – reaction; contact; agreement – conflict; profit – loss, are elements indissolubly connected with the idea of business, along with the lack of certainties in respect with the result that the steps undertaken by an enterpriser might have.

It is our intent to create a framework in line with our objectives, grounded on the following assertion of Nicolae Georgescu – Roegen [2]:

“(…) Physicists say that a radium atom explodes when it wants to explode, and not when something makes it explode”.

Viewed in a wider context, this warning is not encouraging at all, and creates the impression of total lack of a cause – effect relation. For many individuals, such fatalist approach to daily events is the only explanation of the surprising results reached consequent to one’s own actions. No doubt that each of us has felt at some moment as the observers of the radium atoms, asking ourselves why certain events had occurred although there was nothing that could make us foresee them. Not just once, actions aimed to serve to noble purposes ended by not having any effect whatsoever or, worse, had negative effects. The reaction of each individual to such consequences differs depending on numerous elements, on the individual’s own features, from personality, information background, education, tradition, environment, to his/her ability to

analyze the events. However, we all understand that forces, influences and conditions exist out of our control; we soon learn that we live under random factor influences, that most of the experiences we face throughout our existence are subjected to this concept.

Specialists say that a random factor experience is that experience which from its very beginning has more than one potential result and the result of which is unknown before the end of that experience. In order to describe the concept of random factor, we usually invoke a very simple yet illustrative example: the one of throwing the dice. We know very well that the result can be any natural number between 1 and 6, but we cannot know which one before actually seeing the result of the throw. The example we referred to suggests an essential aspect: the random factor does not exist for an individual unless that individual perceives its effects. Without a defined purpose, it is extremely difficult to foresee the effects of any action, because we perceive the random factor aspect in view of the differences between the actual results and our expectations.

We also need to underline the fact that the random factor aspect is grounded on movement, on modification and transformation. The description of every status as a whole implies the use of some parameters, indicators or descriptors. Such measures are fixed, unique, because they are pre-existent or concomitant to the observation. Therefore, a certain status in which a system is at a certain moment is not random factor. It just “is”, and by being it has all the needed strengths in order to be studied and characterized in a unique way. The random factor aspect is implemented along with movement, because every descriptor can alter and can take one of the many possible values. We are not pleading in favor of the idea that every action implies random factor. The movement of the Earth implies as a certitude the succession of days and nights; by putting two physical bodies next to each other, heat will be transferred from the warmer body to the colder one; a production cycle in a plant, in a short period of time will have the same fix costs regardless the success or in-success of the sales; and the examples could go on. However, it must be said that to some extent the absence of movement is not an argument supporting the lack of random factor aspect; the persons who ever found their cars hit on the parking space in the morning would agree with our assertion.

The last observation recalls a “movement” concept rather difficult to be described, moreover taking into account the fact that we are neither philosophers nor physicians. We encounter the concept of perpetual, intrinsic movement of everything that exists; we encounter the permanent modification each of us perceives in himself and in everything around him. Our life has a controllable component and a component out of our control, which we make great efforts to subordinate. It would be sad if the assertion in the beginning of this paper would make people, beings who are often conscious and intelligent, to subject themselves to the unknown, to the unpredictable, to give up without a fight. Nicolae Georgescu Roegen said, continuing the quoted fragment, that consequent to repeated observations, which need to be enough in number and in precision, one can foresee the behavior of the entire radium mass, although from individual observations it results that in general each atom does what it wants. Therefore, this is a real chance for those of us intending to exceed fatalist determinism: observation, recording, assiduous measurement of the random factor influencing our existence.

Nowadays it might seem at least strange to a specialist to be requested to calculate the exact profit to be obtained next year and probably such request would make our intelligence a questionable matter. That is because nowadays nobody believes, given the complexity around us, that economic phenomena and behaviors have a determinist path. Wisdom as a result of experience and intuition of future events make us aware of the fact that the forces inside economic systems are not by far of mechanical nature and the assertion according to which it would be a sign of irrationality to incorporate the idea of random factor in every action of ours is more than 60 years overdue.

We are surrounded by a random factor and determinist amalgam and sometimes it is difficult to estimate the optimal proportion of those components in our lives. Some authors [5] think that

the lack of determinism would make us incapable of grounding our ideas, our convictions, would throw us in a void of a permanent unknown that is impossible to analyze and to control. But at the same time, the lack of random factor would make us prisoners of some determined ranges, would take away from us the right to choose, to fight, to have a personality. As for us, we shall refrain from being in favor or against these affirmations. The reason is connected to our inner and absolute personal conviction that the random factor is nothing but a mind projection, which does not exist “by itself” but as a result of the limits of understanding our exterior and inner phenomena.

Therefore we are close to Immanuel Kant’s approach who used the “Das ding an sich” and the “Das ding für mich” expressions in order to differentiate from the reality of the world and the perception upon it, the result being that the random factor only exists as a consequence of an insufficient understanding. We know the fact that Heisenberg’s theoretical principle of uncertainty brings a probabilistic vision of the world, but we have no solid reasons to believe that the author of this principle was fully informed about reality. Having such a point of view, it would be difficult for us to express an opinion regarding what would mean the existence in the lack of random factor without surpassing this work’s boundaries which will gradually be focused on a random factor in the economic life.

We can only say that in mathematics there is a very robust theory which states that anything can be demonstrated about something that does not exist on condition that a non-contradictory system of axioms is preliminary defined by us. Therefore, the random factor cannot exist by itself, but the experience teaches us that from various reasons we perceive the surprising effects of some actions that were pointed many times to other directions than those apparently shown by their results. Something is missing from the initial “calculations” and this deficiency comes whether from the insufficient internal cognition, whether from the limits of understanding the external environment or the connection between those two dimensions. We state that there is an “objective” random factor and a “subjective” random factor, a “systemic” random factor and a “specific” one, a “pure” random factor and a “speculative” random factor.

All those elements which people are willing to unanimously accept are connected to the objective random factor. On the banking market, the interest rate is of course considered by all to be a random factor size in the next year perspective - for example. There are enough reasons to assure the population that it would be a total lack of maturity to believe that the price of the Giga-thermal unit won’t change somehow in the next period, even though this has not been officially announced and even though for the moment one cannot choose a certain size. No enterpriser can sleep tight once he has decided the launch on the market of a new product and no production line has the guaranteed performance with any deficiency on the whole medium life duration. The random factor experiences show us that each of the elements discussed above means a confrontation with the unexpected changes in favor or in the detriment of the participants to the day by day life. The changes may be perceived by every observer and many of them cannot be influenced by this observation which makes the nature of the involved random factor to be an objective one. Unlike those kinds of cases, the effects of the objective random factor are felt at a particular level by the individual, as a result of some perceptions, orientations or personal decisions which do not stand on a preliminary, adequate information base.

It may be the case of the enterpriser who believes – only he knows why – that the supplier will bring the inputs two days earlier than the settled date and in accordance with this belief he takes prejudicial decisions. Or it may be the case of the one that strongly refuses to fix damage on the lighting system, being convinced that no employee shall end up by hurting. Or it may also be the case of some consumer willing to buy brand products from a peddler who has no guarantees. Thus we can say that we thought the objective random factor to be uncontrollable by the individual and only observed to a certain extent and that all the observers perceive the same

kind of effects at the same time with its manifestation. Unlike objective random factor, subjective random factor is generated by our lack of knowledge or by our incapacity or desire to apply them, or it is a random factor perceived as such by the respective subject, without the other individuals to perceive it in the same way. This second form of random factor we infer it as being more controllable than the objective random factor and its existence is owed more to the lack of interest in its elimination than to its impossibility.

This dual approach to random factor does not guarantee that a certain phenomenon with an accidental manifestation may be strictly included in one of the two categories. For the sake of correctness, one must remember that delimiting the objective from the subjective is a bold attempt, but at the same time we must admit that the difference between these two characteristics cannot be neglected. It would be totally fair to say that any random factor phenomenon has a certain weight of objective and subjective, the important one being that the second aspect is improvable.

Looking at random factor from another angle, we can detect a systemic and a specific side, thus revealing external and internal influences in its manifestation. For a small or medium enterpriser, the legislative, political or fiscal changes are exogenous influences and affect all the economic actors from the branch, even though each of them may feel the effects in different ways. It cannot influence the effects of these changes, but it has to adapt them. On the contrary, the enterpriser's decisions to invest in some shares, to improve a certain existent product or to increase the productivity capacity are intrinsically connected to the specific nature of the activity, to the internal conditions, to the organization's possibilities. The random factor generated by such action has a peculiar character which projects itself with no doubt on the general frame determined by the systemic random factor.

We can talk for sure about a generated or voluntarily accepted random factor and also about a generated or involuntarily accepted random factor. The difference between voluntary and involuntary suggests the existence of a "speculative" random factor opposed to a "pure" random factor and we shall focus on this distinction when we deal with the classification of risks.

These dual delimitations we have presented are not important because our intent of framing the unexpected phenomena is due more to the attempt of understanding the causes, the effects and the perception way, rather than for the sake of classification. Approaching the random factor categories through two dimensions objective-subjective, pure-speculative, systemic-specific or others, is a simplistic approach for sure. The unexpected is complex and we have enough maturity in order not to believe that it can be surprised in terms of black and white, as long as the delimitation between the describers of the random factor types is no easy job. Nevertheless, we consider this first attempt of framing to be useful. Let us find the answer to the following question: "Which are the pure random factor phenomena with a systemic connotation, of objective nature and with indirect effects upon the organization?" In another language, we seek a phenomenon which is produced without the enterpriser's will, which is felt in the entire branch, which is acknowledged by all the economic actors and do not directly affect the organization. An example? The modification of the changes regarding the activity of the raw materials and material suppliers may have as a result the increase in the production factors' price for the enterpriser and, although this measure is not directly aimed at the organization's activity branch, the business may be damaged.

We did not bring this example into discussion for the sake of explanations but in order to highlight a possibly more open framing of random factor phenomena. Table 1 includes all the random factor categories we mentioned above:

**Table 1.** Some ways of framing the random factor

	Column 1	Column 2	Column 3	Column 4
a	Objective	Systemic	Pure	Direct
b	Subjective	Specific	Speculative	Indirect

The example presented by us refers to the combination (1a, 2a, 3a, 4b) where 1, 2, 3 and 4 refers to the number of columns. Another combination could be (1a, 2a, 3a, 4b) where there should be found random factor phenomena with external causes for the organization (they are systemic), perceived by it differently than they is perceived by other observers (they are subjective), voluntarily generated (they are speculative) and which directly affect the business. How many of these combinations we can build? There is a total of  $2^4 = 16$ , which means that we have already obtained 16 types of random factor.

The classification of the random factor phenomena has generated and still generates polemics among the specialists. The seemingly disagreement is mostly the result of the complexity of this type of events, under some essential aspects: the individual's perception, the intentionality, the causes and the effects. Without claiming that by the previous method we have offered an immutable cataloguing of every type of random factor, we still state that a certain order among those many possibilities can be made and here is why:

Column 1: Aims at the perception even though as we said above the line between objective and subjective is sometimes questionable.

Column 2: Aims at the internal or external nature of the causes.

Column 3: Aims at the voluntary or involuntary nature of the causes which will be essential in order to draw the division between the insurable and uninsurable.

Column 4: Aims at general nature of the impact which can be direct or indirect thus referring to the effects.

Some readers may think that these four columns are not enough or that their structure is incomplete. We have nothing against such a point of view: we are the first to affirm that we can bring improvements at least on the aspect of the effects. For example, the impact may be directly upon the organization's incomes, or upon the patrimony, or upon the employee stuff. The supplements in the model may be brought depending on the nature and the size of the business, on the specific conditions and on the elements assessed by each situation. We think that table 1 may represent a useful starting point for classifying the random factor phenomena that the enterpriser confronts in his activity.

In conclusion, the simple acknowledgement of random factor is not enough in the economic life or anywhere else. In the absence of questions about random factor's causes and effects of, we shall look at the unexpected as a game of faith and we shall yield to the temptation of submitting to it. As for the way we perceive phenomena, it can be more important than many other aspects. Existing and acting under the sign of random factor means understanding that there are unsuspected causes and effects. But existing and acting under the sign of risk means more than that: it means measuring the causes, the frequency of appearances of unexpected events and the intensity of effects. We use the results of the quantifications to make decisions, and the enterpriser is responsible for the accuracy of the evaluation because he is responsible for himself but also for the entire social cell called organization.

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## Afacerea sub semnul aleatorului

### Rezumat

*Cuvântul „afacere” a intrat în uzul nostru curent. Atât de des folosit, încât aproape nimeni nu-și mai pune problema că noțiunea în sine are, undeva, o definiție sau diferite conotații și interpretări. Trăim momente în care mulți dintre oamenii care ne înconjoară visează la propria întreprindere, sau se numesc afacereiști, percepând intrinsec câștigul sau pierderea potențială pe care le atrage după sine un astfel de statut.*