

## **The Concept of the Causes and Effects of Risk in Some Italian and Foreign Scholars of the Twentieth Century**

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### **Abstract**

In this paper we will examine the theme of risk and the causes related to it. We will highlight the studies conducted on these issues by various Italian and foreign scholars: each of them studied the concept of risk and the causes related to it from a different perspective. Finally, we will highlight that only the studies conducted by Corsani have succeeded in bringing true innovation to the concept of risk and related causes.

**Keywords:** risks, causes of risks, business

### **1. The concept of risk in some Italian and foreign scholars of the twentieth century**

In this period to deal with the issue of risk there were many Italian and foreign scholars, each of them studied the concept of risk from a different perspective, but only the studies conducted by Corsani were able to bring true innovation to the concept of risk. In Italy, in this period, we find two illustrious scholars who dealt with this issue, they were: Chessa and Cassola. Cassola pointed out that business risk was generated by the erroneous assessment of real phenomena, this error was due to an initial error in estimating the phenomena, as the entrepreneur estimated an event based exclusively on conjectural phenomena that differed in the corporate reality. Instead, Chessa defined corporate risk as "the risk that one must suffer in initiating and completing any economic action". The author also observes how the risk is found in all the manifestations of economic life and how all future events contain a more or less random element, which acquires greater or lesser entity according to our knowledge and the forecasts that we are able to do about the occurrence of certain facts and conditions. Among the foreign scholars who dealt with the issue of risk we remember: Fischer and Oberparleiter. Fischer, affirmed that the risk derives from the estimation of certain future events. He reiterated in his writings that although the estimate of one person may be better than that of another for superiority of knowledge, intuition and experience, the best estimate is only an estimate, and not a certainty. To this he added that in the real world there are no events free from uncertainty. Therefore, the risk exists, therefore, only insofar as there is ignorance about the event in question and varies according to the degree of the latter. Another vision of risk was proposed by Oberparlainter in the major work *Funktionen und Risiken des Warenhandels* which appeared in 1930, here the author highlights the originality of his thinking on risk, on the factors that determine it and on company policy. that it pushes. He reiterated that the risk presented itself as the possibility of encountering a loss, compared to the chance of earning, in the implementation of functions for bringing production closer to

consumption. The same concept of exchange risk is therefore introduced in the strictly economic-business sense, as it is defined as the danger of the failure of a deal with the consequent lack of an increase in value or, even, with the consequent ascertainment of a loss of assets. . The signs of recognition of the risk of exchange are identified first of all in the uncertainty of the occurrence of the event and in the impossibility of avoiding it, which is independent of the action aimed at applying the precautionary measures to avoid the damage. Furthermore, the extent of the event's scope is usually uncertain.

The risk, therefore, does not lie in the dangerous event per se, but in the possibility that the negative effect on business management is produced. The risky phenomenon essentially manifests itself in the phases of the provision of goods and their placement. Its effect, on the other hand, falls on costs, on higher charges incurred as a result of unsuccessful business, on profit. In the last part of his work, he reiterated that the risks could be transferred from the entrepreneur to third parties. But the transfer of risks then involved an underwriter of the same, this could be either the insurance company, or the pure speculator, who basically implemented, not infrequently, a concentration of cases by coordinating them. While the selling company was only going to take on the risks that it was not possible to transfer to third parties.

## **2. The conception of the causes and effects of risk according to some studies**

Authors, Italian and foreign, conducted their studies on the risk highlighting the causes and effects that arose from this phenomenon. Among the first studies conducted in this direction, those conducted by Willet certainly deserve a prominent place. He introduced risk classification criteria in the first place, separated economic risks from extra-economic ones, and observed, with regard to the former, that capital was exposed to various harmful eventualities and that the degree of risk varied significantly according to the type of investment and production activity. The risks of the second order were, on the other hand, independent from the activity explained by the operator in the economic field and had only an indirect influence on the management of the companies. The author noted that if the subjective value that someone attributed to a given object exceeded the respective commercial value, the loss of the object itself caused its owner a more serious damage than that of the loss of an object of equal value which was not attributed a special value of affection. Any reinstatement of the commercial value of the latter assets did not fully cover their loss, hence a particular risk that Willet called personal. Then, he classified the capital risks, based on the nature of the events from which they arose, the kind of damage to which they report and the degree of uncertainty about the occurrence of the events themselves. Under the first aspect, he distinguished static risks from dynamic ones; the first, which occurred in any economic situation, were due to natural events and human action. The latter depended on the occurrence of dynamic changes, in particular economic society, and were the context of uncertainty at the time in which the changes themselves occurred and the extent to which they assume. As Demaria observed, which accepted this distinction, the dynamic risks, linked to one or more production cycles, were neither strictly periodic nor constant in their law of occurrence, and this represented the reason for the great uncertainty about the future state of social variables, that is: trend supply and demand curves for goods and services; trend of income - how much is allocated to production needs and how much to the needs of the subject -, economic-technical

organization, frictions or frictions to economic action. By virtue of this, he reiterated, that the gradual increase in population and the gradual accumulation of capital subjected operators to slight risk, unless these phenomena caused other broader dynamic changes, while the change in consumer tastes and the improvement of plants and industrial organization presented a high degree of uncertainty. Therefore, the dynamic risk revealed itself in a characteristic aspect in the event that abundant stocks existed on the market pending investment. These availabilities could, at a given time, be used by an industrial company to increase the production of items already in production, or they could be used to build new plants. Be that as it may, the risk taken by the company was essentially due to the uncertainty relating to the elasticity of demand. When, on the other hand, the company made an investment in the production of new items, it suffered, in addition to the uncertainty inherent in the technical result of the new production, that relating to the possibility of placing new items; the latter was accentuated by the items that tended to satisfy needs not yet heard and that the operator set out to arouse. In the event of failure, the company ascertained a particularly serious damage, when it had set up specialized plants for that specific production which, in the case now assumed, suffered a total depreciation. Another classification of risks that emerged in the course of the various studies was that between technical and economic risks. Chessa was responsible for the classification of risk from an economic point of view, who extended the attribute of economic to all business risks. It determined this extension, since these risks affected people and wealth, that is, the fundamental elements of any economy. While Cassola was responsible for the classification of risk from a technical point of view, who stated that technical risks were mainly connected to the action of extra-economic factors, were inseparable from the processes of human activity and had their influence even when they did not occur. carried out the exchange. It determined this extension, since these risks affected people and wealth, that is, the fundamental elements of any economy. While Cassola was responsible for the classification of risk from a technical point of view, who stated that technical risks were mainly connected to the action of extra-economic factors, were inseparable from the processes of human activity and had their influence even when they did not occur. carried out the exchange. This situation occurs in the household industry itself, in which each family satisfies the needs of its members with its own activity and production is regulated solely on the extent of the needs themselves, it escapes the risk that depends on the technical means adopted and the natural ones conditions of the places where the production takes place. Among the technical risks, Chessa states in particular those due to natural events and those that judge from the irregularities of production. In this regard, he observes that the progress of science and technology do not tend only to eliminate or reduce the damage caused by natural phenomena, but also to the aforementioned cancellation, and this through technical transformations, the search for mechanical to manual work and, in general, the use of new production tools. But even in an isolated economy there is loss or damage without the concurrence of circumstances of a technical nature, such as, for example, when a certain amount of capital goods are accumulated and, in the short term, the availability of more effective surrogates than the purpose to be fully or partially satisfy previously established stocks. As causes of the technical risks, some authors put into action, however they highlight circumstances of a dynamic nature. Mangoldt in his work entitled *Die Lehre Von Unternehmengewinn* recalls the failure of a machine in the production for which

it was intended: a consequence that may be due to facts of a static nature, such as in the case of faulty construction or accidents that damage or destroy the machine. , or to facts of a dynamic nature, when the machine is of new construction and the company has not been able to accurately assess the extent of the sale of the products it manufactures. Kleinwaechter he reiterated in his works that economic risks and commercial risks arise as a result of exchanges, but this only occurred within companies that accumulated lots waiting for a future placement on the market. It is clear, however, that the risk of both categories is also inherent in the companies that operate on the basis of orders promptly transmitted by the recipients of the consignments. Alongside these distinctions, one can certainly compare that of the Emery (Speculation on stock and produce exchanges of the United States) which distinguishes the investment risk from that of speculation, the latter depending, according to the author, on the variations of market. Another definition was proposed by Hoffmann in his paper entitled: *Wirth chafftlehre der Kaufmannischen Unternehmung* highlighted the causes of the damage, in the context of the interest-bearing capital, and affirmed that they were of an exogenous and endogenous nature, the first developed outside, the others within the company. Among the exogenous causes, he places natural events and some social events - economic and financial policy measures -. Among the endogenous causes, he highlighted the accidents in the production processes, technological deficiencies, deteriorations and, in general, decreases in the value of the assets available to the company. Events of a disparate nature are welcomed in the classes formed by the Leintner (*Die Unternehmungsrisiken*), which concern the risks caused by natural events and the economic risks: economic-individual and economic-social. As regards the risks produced by natural events, the Scholar included all those events in which there was no competition from business operators. Instead, with regard to the individual, subjective and objective economic risks, Leinter reiterated that they concerned the behavior of third parties with whom the company had contractual relations, the nature of the batches of goods, materials or products and of the plants and their susceptibility to deterioration, the obsolescence of the plants, the irrational determinations of the size of the capital, the ineffective predispositions regarding the processing of materials and, in general, the internal organization. The economic and social risks were attributable to the various market trends and other political and social circumstances that affected the extent of consumption. In this context, the Author, among the purchase risks, states the quantity risks, including the insufficient supply of materials to initiate an industrial production, required by the market. Instead, he defined as quality risks both stock risks - loss, deterioration, damage - as well as the uncertainty deriving from the heterogeneous constitution of the consignments. In the composition of these homogeneous groups, Leinter reiterated, the close and continuous connections between the factors to which they referred had to be kept in mind. From the above, it can be inferred that the individual economic risks of Leinter have close analogy with the commercial ones of Hoffmann, inherent in the buying and selling activity. In his work entitled: *The business risk system*, dwelling on the various aspects of the risk system - which is inspired by the unitary and dynamic vision of company factors. Sassi highlights the coordinative nature that informs these aspects: of an organizational nature (personal, dimensional, financial and environmental aspect in the strict sense) and a central aspect in the dynamics of management, in relation to the gainful and numerical current. Instead, Corsani - after examining the studies

proposed by the various scholars highlighted above - identified the formation of risk in the difference between forecasts made and results achieved He affirmed, that in the aspect of his research, rather than the formation of broad content classes such as those cited so far, it was instead necessary to identify the specific factors from which the risk originates, in such a way as to be able to group them according to their nature and effects of their occurrence. This way offered the basis for the evaluation of risky events in terms of economic-company convenience, and allowed to identify the means and ways to eliminate or mitigate the risks of management, when such procedures were deemed appropriate by the operators.

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