

CAN ANYBODY BECOME AN ENTREPRENEUR?

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BUILDING AN ENTREPRENEURIAL CULTURE

Entrepreneurship is a dynamic process which requires certain qualities and skills, especially in strategic planning, and marketing. But these **entrepreneurship** capacities are not innate qualities, it can be created by competence and capability enhancement through training and experience.

Capabilities can be acquired, in an organizational context, through collective (team) learning by – doing, failing, changing, and practicing within current constraints. This kind of experience-based learning helps goods producers and/or service providers increase their efficiency (doing things right) by reducing cost of rework and waste, and by using better (alternative) inputs. **Capability** is acquired through deliberate learning by reactive and preventive approaches to problem solving through: identifying problems; prioritizing problems; treating problems; and preventing problems. On the other hand, competencies can be elevated, in an organizational context, through planned interaction with stakeholders by listening, observing, imitating, and emulating best practices and shifting constraints. This kind of expertise-based intelligence helps customers' or clients' value addition effectiveness (doing the right things) through: increased quality and improved attributes of outputs; and by meeting special requirements. **Competency** is acquired through deliberate intelligence gathering for proactive and productive solution-seeking using information technology and networking in: defining requirements; finding solutions; improving solutions; and promoting credibility. (Prof. Nawaz M Sharif)

In addition to skills development, to be an entrepreneur you have to have thorough and updated knowledge on the unreliable business behavior of the partners -especially their insolvency, the fluctuating market needs and the aggressive competition in the international market.



Then most importantly you have to change your mentalities creating an entrepreneurial risk taking culture, as the act of risk-taking is an essential part of being an entrepreneur. Let us see the characteristics of risk and how it affects business. Knowing the ways to deal with risk will help you to reduce uncertainties in the business, and that would speed you to make your mind to be an entrepreneur.

WHAT IS RISK?

Risk is part of our personal and corporate life. Types of risks can be categorized as personal safety, health, accident and employment to corporate asset depreciation, production, inflation, foreign exchange rates, etc. Risk is an essential element in business, risks exist in each and every piece of decision making step, e.g. regarding an investment, the purchase of goods or services, an advertisement, a promotional program, a new product, or any other business decision.

Most of the companies are used to view risk as the potential of loss or failure. But why we cannot see risk as an opportunity to take profits. What is needed is to take preventive steps to avoid or mitigate potential losses and we call them as pure risk or hazard risk, and then take actions to achieve positive gains, can be categorized as **opportunity risk or speculative risk**. In addition to that there can be unknown events which lie ahead; we call them as **uncertainty risk**.

Uncertainty exists when the probability of outcomes has to be subjectively assigned since there is no historical data. Common reasons for uncertainty are inflation, changes in technology, productivity and prices, false estimates of the rated capacity, time to needs for the construction and running-in periods, political, social, and business environment. Sometimes managers face risks with no chance of profit and the best they can hope in these cases is not loss. This kind of risk is called **pure risk**. Natural disasters like earthquakes, dry seasons etc. are considered as pure risks. Other times the decision taken could lead to additional profits or alternatively could deal with non profit or losses. This kind of risk is called **speculative risk**, when risk involves the chance of making a profit or taking a loss. Speculative risk is often taken by people operating in stock exchange markets.

Risk can be assessed, awarded and managed through **proper analysis and planning**. Speculative risk can be used in business, but it is important that entrepreneurs properly plan and monitor the risk. Good managers try to reduce speculative risk through careful study and planning, but many companies are highly tempted to carry out with speculation. A successful speculative operation brings large profits, but these kinds of events are very dangerous for the company because high speculation could bring either high losses.

WHY IS RISK AN IMPORTANT MATTER FOR AN ENTREPRENEUR?

Taking and managing risk is at the heart of your personal life and professional growth. It

involves an awareness of past events, a desire to live in the present and take the necessary risks to achieve your goals in the future. When you decide to invest a certain technology, your decision is based on the analysis of the past. However, when your new technology will start to operate in the future, you will not be sure whether your customers will maintain their desire to buy it or whether your competitors have made a similar investment sharing the promising market possibilities.

- ❖ **Risk is a challenge and not an obstacle**, taking risks could be a good way to discover your own abilities, you will become better in controlling your own future and you will become more self-assured. If you are unwilling to take risks, you will never realize your potential for self-fulfillment and self-realization.
- ❖ **Entrepreneurship asks for a risk taking culture**, it is essential to realize your own potential as an entrepreneur. Experiences in risk-taking in personal relations with family, and friends will help you to gain experience in judging the odds, risking what is necessary and avoiding risks which have little potential reward.
- ❖ **Think about risk as a natural and integral part of business activities** - Security should therefore be more completely defined under the headings of assurance, integrity and avancement. Rather than being a state of total security of mind, security should mean risks have been reduced to an acceptable level.
- ❖ **The possibility of failure is always present** - As the size of your business expands, your problems and opportunities become more numerous and complex.

Business growth and development require that you are not afraid to make decisions and are willing to want to be safe and avoid failure. You have to work under the pressures and conditions of risk-taking.

The decision to choose a “risky” alternative or a “conservative” one will depend on:

- the attractiveness of each alternative;
- the level of loss you are able to accept;
- the probability of success or failure that each alternative imply; and
- the degree to which your efforts could minimize the probability of failure or maximize the probability of success.

Risk taking culture does not mean that entrepreneurs have to become gamblers. There is a big difference between gamblers and entrepreneurs.

The essential differences are:

- an entrepreneur will systematically and thoroughly assess the probability of the enterprise’s success and the extent to which his efforts could influence the outcome; and
- an entrepreneur’s approach to risk-taking situations is characterized by the willingness to accept personal responsibility for the consequences of the decision, regardless of whether the consequences are favorable or unfavorable.

Risk taking culture does not mean that people related with illegal or high speculative activities are entrepreneurs, even if there are high risk takers. Entrepreneurs collaborate with society welfare. Ethics and honesty are two essential characteristics of entrepreneurs, their activities involves the creation of value and benefits to society. Entrepreneurship skills directed toward wild speculation discourage wealth accumulation and the raising of living standards.

The risk taking ability and characteristics of entrepreneurs is enhanced by:

- ability to understand their business;
- self-confidence;
- willingness to use their capacities to the fullest extent to move to odds in their favour;

- capacity to assess realistically the risk situation and their ability to alter odds; and
- look at the risk situation in terms of their established goals.

WHAT KINDS OF RISK ARE ENTREPRENEURS EXPOSED TO?

The transition from centrally planned to market economy is not easy. Entrepreneurs are exposed to many different kinds of risks. The past years of isolation from international business, the lack of entrepreneurship culture, difficult access to credit, and the inhospitable policies and bureaucratic regulations, in some of these countries, make this process even more difficult and risky to start up and beginner entrepreneurs.

CREDIT RISKS

The risk identification is a complicated task, as well as a fundamental element of business success or failure. Some of the most important risk that beginners could be identified in the following categories:

OPERATIONAL RISKS

- **Lack of entrepreneurship skills** - Problems include inadequate managerial, organizational, planning, marketing, accounting, and vocational skills.
- **Poor understanding of market dynamics** - Lack of information and knowledge about business possibilities, lack of capabilities for identifying and determining business opportunities and risks.
- **Poorly available consultancy services and information systems** - Lack of business and technological infrastructure to support entrepreneurs.
- **Poor understanding of how to prepare a business plan** - The business plan is of fundamental importance for presenting the enterprise and the project plan in the best possible light and to its maximum advantage. It is essential to better

understand your business, for obtaining credit and for embarking on an investment project.

MARKET RISKS

- **Unforeseeable inflation and exchange rates change** - The risk of losses due to adverse movements in either the price of the commodity or in the exchange rate in which the commodity is quoted. Inflation risk represents a big risk when company's operations run with a settlement date different from that of the underlying physical transaction.
- **Customer behaviors to buy foreign goods** - Decades of commercial isolation and the experience of foreign companies in publicity and marketing techniques to influence customer purchases and make foreign goods especial attractive. This may lead to low demand for national products and services.
- **Inadequate infrastructure** - Following market liberalization, much of the industrial structure was rendered economically obsolete, and the lack of developed networks leads to difficulties in obtaining supplies and to assuring the delivery of products and services. Agricultural and manufactured products, for example, suffer delays and poor handling, which cause shortages and reduce the quality of delivered goods.
- **Shrinking market because of foreign competitors** - The underdeveloped local infrastructure and obsolete techniques give great advantage to foreign companies, which come with better skills and more experience, even if some times this is not followed by high quality goods.
- **Lack of cheap and reliable access to credits and wrong selection of partners** - The end main obstacle facing by beginners in obtaining financial sources, and the lack of the initial capital necessary to obtain initial credits so as to

start their operations, is one of the major risks small business have to face. This sometimes forces entrepreneurs to start their business with the wrong partners.

- **Black or grey economy** - Rules imposed entrepreneurs by Government, such as tax laws, safety regulations, environmental regulations, establishment requirements, land-use planning rules, permits, etc. are all burden for small firms, bringing up their costs.
- **Defaulting or insolvency** - The risk that counterparts are unable to fulfill legal obligations. There is a higher risk of default in commodity markets than in most other financial markets. In the international market there is also the transfer risk. Beginners in economies in transition characterized by high volatility, and inflation rates are highly exposed at this kind of risk. It is important carefully evaluate the company cash flow in order to prevent the lack of liquidity generated by this type of risk situation.

CULTURAL RISKS

Refers to the risk of failure coming from serious inconsistencies or clashes between a transnational company's products, services, or any other elements of its operations, and deep-rooted values, customs, beliefs, and attitudes of people in a given country, region, or economic community.

ECONOMIC AND POLITICAL RISKS

These kinds of risks have to be evaluated at time to identify company risk exposure. Even if companies can not do anything to prevent them, beginners have to have strategies to survive them. Some risk of this type could be the scarce financial resources and the absence of capital markets, difficulties in attracting know-how and investment, poor transportation and communication infrastructure, large government and balance of payment deficits, recessions, rapid rise in production costs, sudden increase in import rates, etc.

The above factors of risk are common to companies of every type and size, but the exposure vulnerability varies substantially. Experience also demonstrates that identifying the risks to which a company is exposed can be quite difficult. Some risks are not directly related with the normal operations of the company. For example, if most of a company's oil sales are to an aluminum refinery, the company may well be exposed to aluminum price risks even if neither buys or sells aluminum itself.

HOW TO DEAL WITH RISKS?

An essential early step in reducing risk is to build a **RISK POLICY**. The risk policy must identify the ways in which the potential threats may be eliminated or reduced to an acceptable level. The risk policy starts some way down the company policy. A key component of the risk policy is therefore risk analysis. It is a management tool used to determine risk exposure in any given area or undertaking, strike an economic balance

between the impact of risk on the enterprise and the cost of protective measures.

Risk analysis provides information on which to base decision to deal with risk by questioning Is prevention required? And at what point should potential hazardous situations be addressed? Risk analysis has been developed by experience and takes account of local information, or it may be the result of specific research. The risk analysis process is conformed by two different steps i.e. **RISK ASSESSMENT** and **RISK MANAGEMENT**.

Note: The views expressed in this article are those of the author and do not necessarily represent those of National Science Foundation or the Ministry of Science and Technology. Further Mr. Antal Szabo, Regional Adviser on Entrepreneurship and SMEs, United Nations Economic Commission for Europe and Prof. Nawaz M Sharif, University of Maryland University College, Maryland 20783 USA should be acknowledged for their views.

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- ✦ Standards Related to Hygiene

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