

IMPACT OF RISK TAKING CAPABILITY ON ENTREPRENEURSHIP

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ABSTRACT

The first goal to study entrepreneurship seeks to explain the prevalence of entrepreneurs in terms of innate psychological competencies or how special characteristics enable entrepreneurial development.

The entrepreneur who implements 'new combinations of means of production' plays a crucial role in disturbing the status quo through innovation — or 'creative destruction' — and thereby becomes an agent of change. As such, the 'dynamic equilibrium' achieved by a constantly innovating entrepreneur could generate the conditions for:

- a. increasing opportunities for employment (comprising various competitive skill sets);
- b. additional wealth creation;
- c. introduction and dissemination of new methods and technology; and
- d. overall economic growth.

It is in the creation of more wealth, and the risk appetite for constant innovation from prevailing to the next best practices, that the significance and importance of Entrepreneurial development lies.

As such, the Entrepreneurial development in a particular milieu depends not on a single overriding factor but rather on 'a constellation of factors' at the individual, societal and national levels. Entrepreneurship depends on individual motivations, individual experiences, socio-cultural (including family) traditions, educational opportunities, availability of relevant skills and attitudes, supporting financial institutions and access to credit, existence of commercial trading centres, supporting infrastructure including trade routes with efficient transport and communication facilities, macro-economic environment and overall political stability. It has also been argued that Innovation and Entrepreneurship flourish best in decentralized systems by empowered people, who are willing to take risk and explore new ideas as well as willing to deal with exogenous influences.

INTRODUCTION

Entrepreneurial development in India occurs in 'far more encompassing and far reaching ways than in developed countries', and could therefore be far more complex, 'for there is so much more that needs to be done'. Commentators today celebrate the ubiquitous Indian attitude of 'Jugaad' (a Hindi word roughly translated as 'creative improvisation...a tool to somehow find a solution based on a refusal to accept defeat, and calling on initiative, quick thinking, cunning and resolve...to quickly fulfil market demands at the lowest possible prices as an entrepreneurial trait) that has been as much a part of everyday Indian living as its rich tradition of philosophy and speculation.

In this situation, India enjoys enormous potential for the creation of wealth through knowledge. Entrepreneurship and Innovation are the key drivers for generating wealth from knowledge, supported principally by the availability of skilled human resources, access to finance and the ability of the State to create an enabling environment.

In India in term of sectors and numbers of people engaged is made up of the following:

1. Agriculture and allied activities: Plantation, forestry, livestock, fishing, mining and quarrying.
2. Trading: Wholesale and retail; hotels and restaurants.
3. Old economy or traditional sectors: Manufacturing, electricity, gas and water supply.
4. Emerging sectors: IT, finance, community, social and personal services, construction, insurance and business services, supply chain, transport-storage-communications etc.

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Given the increasing significance and visible impact of Entrepreneurial development in wealth-creation and employment generation, the researcher considered the subject to be of immense importance in India's growth and development. This study explores the behavioural factors that have advanced Entrepreneurial development in India as also various others that could further encourage and facilitate even greater growth. The methodology adopted for this exploration includes structured one-on-one interviews with entrepreneurs and other stakeholders in the entrepreneurial ecosystem (such as educational institutions, incubation centres, the banking and financial sector, including angel investors and venture capitalists, as well as chambers of commerce, entrepreneurial associations, etc.) across the country. For the survey 100 entrepreneurs and employees are interviewed.

This study also refers to relevant literature on the topic, both at the academic and policy levels. Successful Entrepreneurship ecosystem is the function of a number of factors working in tandem. These are classified as 'Entrepreneurial Triggers'.

While there are various definitions of Entrepreneurship, there are some common themes. Entrepreneurship involves risk taking, being innovative as well as using knowledge and leadership skills to set up new ventures or diversify from existing ones. Entrepreneurial development adds significant value to the economy by creating wealth and generating employment. India has a rich tradition of Entrepreneurship, practiced in diverse ways. Entrepreneurship is embedded in the Indian mindset. After economic liberalization, there has been increased salience of Entrepreneurial development in India, particularly in the high growth and knowledge intensive sectors.

The researcher examines Entrepreneurial development across a range of parameters to identify and understand the principal enabling and hindering factors. Entrepreneurial development flourishes as a combined result of a number of key triggers such as individual motivations, socio-cultural attitudes, access to early stage finance, education and incubation as well as the overall business environment. The behavioural factors are specifically referred to in this study.

OBJECTIVES OF THE STUDY

In this study an attempt is made:

1. To study whether the attribute, Risk Taker (Ability to Grab Opportunities) belongs to entrepreneurs or to employees placed in leadership positions.

STATEMENT OF THE HYPOTHESES

H₁: The entrepreneurs and employees differ over the competency "Risk taking".

RATIONALE OF HYPOTHESIS

H: The entrepreneurs and employees differ over the competency "Risk taking".

The Relationship of competency Risk taking to Entrepreneur

Individuals who are not fearful of uncertainty and may even enjoy risky, speculative situations, will take a chance in hopes of winning or success in their venture.

Goal theory proposes that specific, challenging goals lead to higher performance than other types of goals. No other theory of motivation has deeper or broader empirical support at the individual, group, and unit level. Entrepreneurship researchers cite risky goals as an important factor in business success and innovation.

The higher the entrepreneur-CEO's risks to set high goals for venture growth, the higher the subsequent venture growth will be.

We believe that the motivation concepts studied here are interrelated. Specifically, we propose that communicated vision and self-efficacy affect goals. (Collins, 2001)ⁱ defined vision, in part, as an image of the future based on general, long-term goals. Because we define goals as near-term objectives, we suggest that entrepreneurs' near-term goals are based at least partly on their vision. Entrepreneurship texts prescribe this sequential tactic for entrepreneurs' creation of business plans (Timmons, 2000)⁸.

New venture financiers encourage nascent entrepreneurs to create their long-term vision for their new company, derive and present their business strategies, and finally, offer short-term goals or benchmarks as proof of their preparation for resource acquisition and systematization. Because goals mark the steps along the way to achievement of the vision, the researcher proposes that more challenging visions generate more challenging and risky goals. (Lashway, Jan 1997)ⁱⁱ

NULL HYPOTHESIS

H_0 : The entrepreneurs and employees do not differ over the competency "Risk taking". ($\mu_1 = \mu_2$)

ALTERNATE HYPOTHESIS

H_1 : The entrepreneurs and employees differ over the competency "Risk taking". ($\mu_1 \neq \mu_2$).

STATISTICAL TEST

Independent Sample t-test

LEVEL OF SIGNIFICANCE

$\alpha = 0.05$

Table 5.7: Descriptive Statistics for Employee and Entrepreneur for risk taking

Group Statistics					
	Designation	N	Mean	Std. Deviation	Std. Error Mean
Risk taking	Employee	60	2.97	.543	.070
	Entrepreneur	40	4.12	.645	.102

Mean for employee = 2.97

Standard deviation = 0.543

Mean for entrepreneur = 4.12

Standard deviation = 0.645

The table labelled Independent Samples Test shows statistics for Levene's test and t-test.

t-test is based on assumption of equality of variance. This assumption is tested using Levene's test.

Table 5.8:Independent Sample t-test Results for risk taking

Independent Samples Test					
		Levene's Test for Equality of Variances		t-test for Equality of Means	
		F	Sig.	t	Df
Risk taking	Equal variances assumed	2.101	.150	-9.650	98
	Equal variances not assumed			-9.322	73.651

Independent Samples Test					
		t-test for Equality of Means			
		Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference
					Lower
Risk taking	Equal variances assumed	.000	-1.153	.120	-1.391
	Equal variances not assumed	.000	-1.153	.124	-1.400

Independent Samples Test		
		t-test for Equality of Means
		95% Confidence Interval of the Difference
		Upper
Risk taking	Equal variances assumed	-.916
	Equal variances not assumed	-.907

Risk taking

In the current example for Levene's test $F = 2.101$, $P > 0.05$. Thus we fail to reject the Null and we conclude that $\sigma_1^2 = \sigma_2^2$ which further means that the assumption of equality of variance is tenable. We therefore read values in the row equal variances assumed for t-test.

OBSERVATION

$t(98) = -9.650$, p-value (0.000) This is less than level of significance 0.05. Thus the Null Hypothesis is rejected and we conclude that the competencies of being risk taking are dependent of the designation of entrepreneur. Based on the mean value for employee and entrepreneur we conclude that this quality is more seen in entrepreneurs than in employees.

CONCLUSION:

Reject the Null Hypothesis: The entrepreneurs and employees do not differ over the competency "Risk taking".

The data suggests that the entrepreneurs and employees differ over the competency "Risk taking". The competency "Risk taking" is a good predictor of entrepreneurs and not of employees.

So one of the basic characteristics of entrepreneur is, ability to take **Risk**. In any business there is an element of risk. It implies that a businessman may be successful or unsuccessful. However, an entrepreneur always volunteers to take risks to run a business and be successful.

ⁱHofstede, Geert, *Culture and Organizations* (London, UK: Harper Collins, 2001).

ⁱⁱ Larry Lashway, *Visionary Leadership*, ERIC Digest Jan 1997 Pg. 3