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# ENTREPRENEURSHIP: OVERCOMING THE RISK INERTIA

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## ABSTRACT

*In the Nigerian context unfortunately, entrepreneurial spirit is low among many individuals. Even where it is present, it may be latent. Worst still, many suffer from an inertia (i.e. lack of desire or ability to move or change) to unleash their entrepreneurial abilities, principally due to perceived risk associated with doing so. Consequently, this paper examined the absence of the requisite risk-taking behaviour as being the one of the main factor responsible for the slow entrepreneurial development in Nigeria. However, this paper aimed at breaking or helping the reader overcome those inertia created as a result of the wrong perception or wrong attitude towards business risk-taking. To achieve the foregoing objective, the author identified numerous road blocks or factors responsible for risk-taking inertia in individuals. These included: lack of belief in yourself and others; desire to avoid conflict; fear of failure; playing safe, among others. In addition, risk management strategies were proffered as tools for curbing associated risk, thereby evolving a positive attitude towards risk-taking in individuals. Three strategies were identified, which include: reduce the risk; avoid the risk and; buy insurance against the risk. It was concluded that individuals should look beyond the present, come out of their shells, unleash their talents, abilities, and take necessary risk. While encouraging risk taking, the author emphasized and recommended only moderate, positive, disciplined, ethical, calculated and rational risk and not just "anyhow" risk.*

## Introduction

Entrepreneurship is the process of creating something different with value, devoting the necessary time and efforts, assuming the accompanying financial, psychic and social risk and receiving the resulting rewards of monetary and personal satisfaction and independence (Hisrich and Peters, 1995). For the person who actually starts his or her own business, the experience is filled with enthusiasm, frustration, anxiety, and hard work. There is high failure due to such things as poor sales, intense competition, lack of capital or lack of managerial ability. The emotional risk can also be very high. All these have, perhaps, created in individuals and institutions an inertia, that is the lack of desire or the ability to move or change from their current state even where the change is absolutely necessary. The risk notwithstanding, business must be engaged into; therefore, to be successful, associated risk must be taken.

Life itself is replete with risk. Clearly, risk is intrinsically and extrinsically part of entrepreneurship. Therefore, to succeed, an entrepreneur must have the attitude of taking risk. He must be a risk taker. This paper seeks to dwell heavily on the risk-taking attributes of an entrepreneur; helping to break the inertia, the barriers. The main thrust being to galvanize



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the reader from inaction to action as well as help sustain the quality of moderate, creative risk-taking behaviour.

### **Who is an Entrepreneur?**

Etymologically, the word entrepreneur is French and literary translated, means "between-taker" or "go-between". In the 17<sup>th</sup> century, an entrepreneur is considered a "person bearing risks of profits (loss) in a fixed price contract with government". Beaudean (1977) cited by Keratko (1996) maintained that an entrepreneur is "a person bearing risks, planning, supervising, organizing and owning..." Moving a step further from Beaudean's observation, Joseph Schumpeter (1934) cited by Williams et.al (1999) stated that an "entrepreneur is an innovator and develops untried technology". Defining it from risk-taking perspective, as cited by Hisrich and Peters (1995), David McClelland (1961) sustained that "an entrepreneur is a moderate risk-taker". Peter Druker (1964) observed that an entrepreneur is that person that maximizes business opportunities. In his words, Albert Shapero (1975) cited by Hisrich and Peters (1995) stated, "an entrepreneur takes initiative, organizes some social and economic mechanisms and accepts risk of failure".

However, for the purpose of this material we shall adopt the definition as posited by Hisrich and Peters (1995). They defined an entrepreneur as "a person who undertakes the process of creating something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychological and social risks and receiving the resulting rewards of monetary and personal satisfaction."

Clearly, the entrepreneur organizes and operates an enterprise for personal gain. He pays current prices for the materials consumed in the business, for the use of the land, for the personal services he employs, and for the capital he requires. He contributes his own initiative, skill and ingenuity in planning, organizing and administering the enterprise. He also assumes the chance of loss and gain consequent to unforeseen and uncontrollable circumstances. The net residue of the annual receipts of the enterprise after all costs have been paid, he retains for himself.

The function of the entrepreneur is to reform or revolutionize the pattern of production by exploiting an innovation or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, opening a new source of supply of materials or a new outlet for product. Undoubtedly, the concept of innovation is an integral part of entrepreneurship. Indeed, innovation, the act of introducing something new, is one of the most difficult tasks for the entrepreneur. It takes not only the ability to create and conceptualize but also the ability to understand all the forces at work in the environment.

### **Risk: Definition and types Encountered by Entrepreneurs**

Risk exists whenever the future is unknown. According to Arthur Williams and Richard Heins (1985) they defined risk as "the variation in the outcomes that could occur over a specified period in a given situation". They further explained that if only one outcome is possible, the variation and hence the risk is zero. Thus, they conclude that the greater the variation in outcome, the greater the risk. According to Nickel et.al (1999) risk refers to the



chance of loss, the degree of probability of loss, and the amount of possible loss.

It is important at this juncture to distinguish between risk and chance as we see that chance is mentioned in our definition of risk. There will probably be a difference of opinion as to the precise meaning of the words: "chance" and "risk", but we may take it that they both relate to uncertainty. As pointed out by Hansell (1979), risk, in the insurance context, is generally referred to in a somewhat pessimistic sense, in that one has in mind the possibilities of loss or misfortune (compare with "crossing the road without looking is a very risky business" is common speech). Chance, on the other hand, is regarded more from an optimistic viewpoint (compare with "what are my chances of getting that job").

### **What is Risk-taking And Who is a Risk-taker?**

Before any attempt to define and examine the concept of risk-taking, it is important to remind that, in life, almost everything we do has element of risk, therefore risk-taking is free: to laugh is to risk appearing the fool; to weep is to risk appearing sentimental; to reach out is to risk involvement; to expose feelings is to not risk exposing true-self; to place your ideas, your dreams before the crowd is to risk their loss. Also, to love is to risk not being loved in return; to live is to risk dying; to hope is to risk despair; and to try is to risk failure.

Therefore, risk must be taken, because the greatest hazard in life is to risk nothing. The person, who risks nothing, does nothing, has nothing, and is nothing. He may avoid suffering and sorrow but he simply cannot learn, feel, change, grow, love, live chained by his certitude, he is a slave, he has forfeited freedom. Only a person who risks is free. The greatest is not to risk at all.

**What then is risk-taking and who is a risk-taker?** Risk-taking is opening yourself to change. It is the accepting of the need for change and it is taking the behavioural steps that will result in that change. According to Wordweb dictionary of definition, a risk-taker is someone who risks loss or injury in the hope of gain or excitement. Risk-taking is the honest appraisal of a situation in life requiring your action; understanding the risk involved in taking such action; weighing the pros and cons of taking the action with full consciousness of the risk, pros and cons, and potential outcome; and accepting the consequences of such action.

A risk-taker is that person who has the ability to ignore his/her need for others approval in order to take the most appropriate action for himself/herself. He is that person who pursues the required actions despite the fear that it will effect others negatively, resulting in their efforts to make him/her feel guilty about taking such action. He is that person who undertakes a behavioural process involving the gamble that he/she may experience rejection from others for the action he has to take.

Risk taking is deciding to make a personal sacrifice of time, energy, ability and knowledge as an investment to better circumstances. It is hoping your circumstances will improve as a result of your personal sacrifice, but making it anyway.

Risk-taking is "now" oriented action. It is the direct confrontation of a problem. It is the



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absence of procrastination and denial in dealing with a problem. It is responsible, creative, and moderate action taken to pursue the resolution of a problem.

### **Road Blocks to Effective Risk-taking**

The following accounts for the many reasons individuals and corporate bodies dread risk and evolve the risk taking inertia: fear of rejection; need for approval; need to avoid guilt; need to always be right; need for certainty; lack of belief in yourself and others; desire to avoid conflict; fear of failure; unwillingness to accept possible negative consequences; playing it safe; a need for security; fear of hurting others; denial that a problem exists and action need to be taken; relying on others to resolve your problems; over concern for everybody but yourself.

Other inertia causing factors and road blocks are: fear of pain (no pain, no gain); absence of desire to change; irrational belief that it is impossible to change the situation; over-sentimentality for the need of others; enjoying the sympathy you receive from others for the problem you face; inability to let go of an old belief in a person or institution; a belief that life should always be fair; change being avoided; maintenance of the status quo, even if it is negative; over dependence on others to take care of you; lack of creativity in problem solving; loss of physical health; being isolated and ignored by others as you wallow in self-pity; your self-destructive, self-overcome these road blocks is sure to become a successful risk-taking entrepreneur.

### **Thought Provoking Risk-taking Quotes**

"He who risk and fails can be forgiven. He who never risk and never fails is a failure in his whole being." Paul Tillich (1886 - 1965).

"The person who risks nothing, does nothing, has nothing, is nothing and becoming nothing. He may avoid suffering and sorrow, but simply cannot learn how to feel and change and grow and love and live". Leo F. Buscaglia (1924 - 1998).

"Yes, risk-taking is inherently failure-prone. Otherwise, it would be called sure-thing-taking" Jim McMahon (1959).

"If you're not making mistakes, you're not taking risks, and that means you're not going anywhere. The key is to make mistake faster than the competition, so you have more changes to learn and win." John W. Holt, Jr.

"You have to take risks. We only understand the miracle of life fully when we allow the unexpected to happen." Paulo Coelho.

"People who don't take risks generally make about two big mistakes a year. People who do take risks generally make about two big mistakes a year." Peter Drucker (1969).

"Risk! Risk anything! Care no more for the opinions of others, for those voices. Do the hardest thing on earth for you. Act for yourself. Face the truth." Katherine Mansfield (1888 - 1923)

"If you're not a risk-taker, you should get the hell out of business!" Ray Kroc (American pioneer of the fast food industry founder of McDonald's 1902 - 1984).

### **The Entrepreneur as a Risk-taker**



The connection of risk with entrepreneurship developed in the 17<sup>th</sup> century, with an entrepreneur being a person who entered into a contractual arrangement with the government to perform a service or to supply stipulated products. Since the contract price was fixed, any resulting profits or losses reflected the efforts of the entrepreneurs.

One entrepreneur in this period was John Law, a Frenchman, who was allowed to establish a royal bank, which eventually evolved into an exclusive franchise to form a trading company in the New world the Mississippi company. Unfortunately, this monopoly on French trade led law's downfall when he attempted to push the company's stock price higher than the value of its assets; this eventually led to the collapse of the company.

Richard Cantillon, a noted economist and author in the 1700s, understood law's mistake. Cantillon developed one of the early theories of the entrepreneur and is regarded by some as the founder of the term: entrepreneur. He viewed the entrepreneur as a risk-taker, observing that merchants, farmers, craftsmen, and other sole proprietors "buy at a certain price therefore operating at as risk" (Hisrich, 1995).

Risk-taking is, therefore, inherently an integral characteristic of an entrepreneur; supporting this view, Victor Klam (1989) cited by Williams et.al (1999) asserts: "entrepreneurs are risk-takers, willing to roll the dice with their money or reputation on the line in support of an idea or enterprise. They willingly assume responsibility for the success or failure of a venture and are answerable for all its facets".

As a risk-taker, the entrepreneur sees every obstacle as an opportunity and thrives to make something worthwhile from it. The business barriers never perturb him, instead he creatively finds strategies to overcome them. In this regard, Niccolo Machiavelli (1469-1527) stated, "entrepreneurs are simply those who understands that there is a little difference between obstacles and opportunities and are able to turn both to their advantage".

Granted, every activity in life is risk-prone. True, the entrepreneurial process is inherently characterized with risk, however it is worthy of mention that the entrepreneur ought to be inclined to taking calculated, moderate, intelligent, and creative risks. A creative entrepreneur tends to avoid both excessively high-risk situations and low-risk situations. Inherently the entrepreneur's work involves in gambling in the real sense of the word. Deliberately, they avoid high-risk situations or they may engage in high-risk situations creatively because of the passion to succeed. On the other hand, they avoid low-risk situation because of their crave for challenging situations.

Situation of risk occurs when the entrepreneur is faced with a situation whereby he/she has to make a choice between two or among more alternatives whose potential outcomes are not known and must be objectively evaluated. Decision as to which alternative will yield the best result depends largely on the entrepreneur's analytical skills, forecasting ability, private information and dumb luck. Every risk situation contains element of potential success as well as elements of potential loss. This, therefore, calls for risk analysis.

Profit has always been the major stimulant or motive why people may wish to establish a business. Since profit is not always realized, hence risk is then present. The anticipation or belief that there will be profit explains the reason why entrepreneurs must assume risk.



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Consequently, the greater the risk, the greater the reward or profit.

As a risk-taker, the entrepreneur must also be a good risk-bearer. Risk-taking and risk bearing are two sides of a coin. Having taken risks, in the event of failure, the entrepreneur must learn how to bear the losses resulting from the risk taken. They are viewed as part of business and as opportunity to improve. He therefore bears the uninsurable risk alone. Those risk that cannot be insured, which the entrepreneur must bear alone include fluctuation in demand, government policies, emotional risk, competition, among others.

Good entrepreneurs are expected to exhibit risk aversion. This means that you need to take realistic risks with high pay-off to succeed in business. Conservation individuals with high risk aversion behaviour do not make good entrepreneurs as they do not invest in innovative ventures. It is important to state that gambling is however discouraged because of the high cost associated with the event of failure.

Risky situation in business arises when one has to select between alternatives with known potential, which must be evaluated objectively. Two individuals are likely to behave differently when they are faced with the same risk situation. It is the degree of risk aversion that differentiates a good entrepreneur from others. The risk-taking characteristic of an individual is a function of both intrinsic and extrinsic factors. A good entrepreneur approaches risk by thoroughly assessing the probability of success and the degree to which he can influence the occurrence of success.

### **The Entrepreneur and risk Management Strategies**

Life itself is replete with risks. Inherently, risk is part of business. To succeed, an entrepreneur must take calculated, moderate, reasonable, and/or creative risks. Taking risk and bearing risk presupposes the management of risk. Thus, to be a good risk-taker the entrepreneur must not only understand the available risk handling or management strategies, but also be swift in utilizing the risk management strategies. The strategies advanced in this work are: reduce the risk; avoid the risk; and buy insurance against the risk.

#### **Reduce the risk:**

This is a risk management technique whereby some activities are designed and put in place to reduce the effect or severity of the occurrence of losses arising from the risk taken. An entrepreneur can reduce risk by establishing loss-prevention programmes such as fire drills, health education, safety inspections, attendance of motivational trainings, equipment maintenance, accident prevention programmes, and so on. The beginning of an effective risk management strategy is a good loss-prevention programme.

#### **Avoid the risk:**

This is a risk management technique whereby attempt is made to avoid the possibility of the loss occurring. This is the most effective way of coping with risk. Although many risks cannot be avoided such as fire, theft, accident, or injury, but some companies or entrepreneurs avoid risk by not accepting hazardous jobs and by outsourcing other functions. Risk avoidance may also mean not introducing a new product into a market. The use of cheques is a way of avoiding risk associated with cash.

#### **Buy insurance against the risk:**

Insurance is the amour individuals, businesses, and nonprofit organization use to protect



themselves from various financial risks. It may interest us to note that two types of risk for the purpose of insurance must be of interest to the entrepreneur. They are: uninsurable risk and insurable risk.

What risks are uninsurable? Not all risks are insurable, even risks that once were covered by insurance. An uninsurable risk is one that no insurance company will cover. Examples of things that you cannot insure include market risks (e.g. losses that occur because of price changes, style changes, changes in consumer taste, or new products that make your product obsolete); political risks (e.g. losses from war or government restrictions on trade); some personal risks (such as loss of a job); and some risks of operation (e.g. strikes of inefficient machinery).

What are insurable risks? An insurable risk is one that the typical insurance company will cover. Examples include flood, burglary, theft, fire etc.

### **Conclusion and Recommendation**

It was Ray Koe, America's pioneer of the fast-food industry and founder of McDonald's that once said: "if you're not a risk-taker, you should get the hell out of business." Today's successful blue-chips are products of entrepreneurs with sound risk-taking attributes.

One may not make the desired success or stride in life if risk is not taken. Recall the words of Paul Tillich: "He who risks and fails can be forgiven. He who never risks and never fails is failure in his whole being."

While the thrust of the paper is to engender in individuals the right attitude towards risk taking as key requisite to successful entrepreneurship; consequently, it is recommended that individuals and institutions embark on creative, moderate, rational, calculated, ethical, and intelligent risks.

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