# RISK CONTRIBUTION TO ENTREPRENEURIAL SUCCESS

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## Abstract

*The success of an entrepreneur depends largely on the level of risk he can take and how he has been able to use different strategies to minimize its negative consequence. Risk is inevitable in business. Risk is considered to be the uncertainty that is associated with business. Hence, to succeed in business, an entrepreneur must be ready to make sacrifices that are associated with risk-taking. For an entrepreneur to have a chance of success, he/she must have to take significant risk. This paper examines the contribution of risk to entrepreneurial success. It examines the factors that are attributed to the success or otherwise of an entrepreneur which include ability to take risk. Risk, therefore, cannot be neglected in business irrespective of the size or financial status. The paper concludes that, for an entrepreneur to succeed his/her stated objective, various types of risk that are associated with business must be examined by experts if the entrepreneur lacks adequate knowledge and competency, with the hope of yielding fruitful results.*

**Keywords: Risk, Entrepreneurial Risk,Entrepreneurial success**

## Introduction

Risk is inevitable in business. It is an integral part of entrepreneur success. Risk-taking has been considered to be one of the personality traits of an entrepreneur and therefore there is no approach that will make risk to go extinct in business environment (Ossai,2009). Entrepreneur bears substantial risk (Hopenhayn and Galina, 2002) and any entrepreneur operating a business is exposed to the risk of loss even where profit is much anticipated (Ogunaka, 2014). Risk is considered to be an uncertainty that faces new or existing business. Some areas of possible risk are changes in government policy, fire incident, natural disaster, shortage of raw materials, machinery breakdown, and competition, to mention few.While some of these risks are insurable or transferable, some are not. It is, however, extremely important for an entrepreneur to consider risk as a challenge and device strategies of controlling it to an appreciable level. It is against this background that the paper examines risk contribution to entrepreneurial success.

## Entrepreneurial Risk

Entrepreneur's success depends on the level of risk he/she takes and how he/she has been able to manage it. Sengupta (2004) states that businessmen are willing to take risk because they are aware that without risk there is no gain in business. Risk is considered to be the degree of an uncertainty of an event. It is the possibility of getting returns on your investment (Ogunaka, 2014). Xu and Reuf (2004) view risk as a function of the variation to the distribution of possible outcomes, the associated outcome likelihood and their subjective values. Antonites and Wordsworth (2009) describe risk as the possibility of innovation having an unwanted result. Entrepreneurial risk on the other hand, has been defined by Casson (1990) as the result of insecurity that exits due to the fact that the market penetration can never really be determined beforehand. In summary, risk is the uncertainty that is associated with entrepreneur's business success.

An entrepreneur that is determined to succeed in business cannot take risk for granted. This is because risk-taking determines the success or otherwise of business. It is however, important for an entrepreneur to have a careful study of all risk variables with regard to possible outcome. Successful entrepreneur is not afraid to take calculated risk with clear determination. Successful entrepreneur is one who capitalizes on the constructive effect of the conflicting situation that originates when a certain risk is taken. This includes a degree in the negative

reaction that could develop from the accompanying exhaustion and frustrating that result from continuous failure (Antonites and Wordsworth, 2009).

## Who is a Successful entrepreneur?

The success of a business can be attributed to many factors, but the greatest determinant of a business success is the entrepreneur himself/herself (Driessen and Zwart, 2014). An entrepreneur is a person that is ready to make sacrifices of his resources in order to realize his determined objectives. Nazir and Ranzan (2012) view an entrepreneur as anyone who can perceive an economic disequilibrium, evaluate its attributes and if it is found to be worthwhile to act, reallocate their resources. In a related view, Oteje (2013) citing Drucker (2005)describes entrepreneur as someone who actually searches for change, responds to it, and exploits change as opportunity. An entrepreneur searches for a slight opportunity with hope of exploiting it to maximum advantage.

Much research, has, however, been conducted into the characteristic of successful entrepreneur. Driessen and Zwart (2014) state that there are three main characteristicsof successful entrepreneurs and they are: need for achievement, internal locus of control and risk taking propensity. The five secondary characteristic on the other hand, are: need for autonomy, need for power, tolerance of ambiguity, need for affiliation and endurance. Successful entrepreneurs are people with determine mind, people who recognize need for change. The ability to take risk is an essential trait of an entrepreneur. Not many entrepreneurs possess the ability to do so and instead view risk negatively, associating it with possible danger and loss (Botes, 2014)

A deeper understanding of various aspects of risk that could be present to entrepreneur success is imperative. Scholars are of divergent view on the types of risk that entrepreneur may encounter.

## Types of Risk

There are various types of risk that are associated with success or failure of business. Antonites and Wordsworth (2009) state four different types of risk that an entrepreneur may encounter. They are: time risk, technical risk, investment risk,

competition risk. Dowd (2014), on the hand, summarizes the different types of Risk Company's face by placing them in five general categories.

i) Business risk, or those associated with an organization's market or industry,

ii) Market risks or those associated with changes in market conditions, such as fluctuations in prices, interest rates, and exchange rates,

iii) Credit risks, or those associated with the potential for not receiving payment owned by debtors, operational risks, or those associated with internal system failures because of mechanical problems (e.g., machines malfunctioning) or human errors (e.g., poor allocation of resources., and

iv) Legal risks or those associated with the possibility of other parties not meeting their contractual obligations.

Contributing to the categories of risk that should be carefully studies by the entrepreneur, info entrepreneur (2014) state the types of risk business faces include;

i) Strategic risk which deals with merger and acquisition activity, changes among customers or in demand, industries changes, research and development),

ii) Compliance risk deals with laws and regulations, ensuring proper corporate governance,

iii) Financial risk has to do with the way extend credit to customers, who owns you money, the steps you can take to recover them, insurance that can cover large and doubtful debt, and

iv) Operational risk which deals with recruitment, supply chain, accounting controls, I T system, regulations and board composition.

Successful entrepreneurs are recognized to be people with an initiative and innovative. Therefore, they recognized taking risk especially moderate one as their essential attributes. A successful entrepreneur would like to examine the business opportunity he has in mind and likewise assess any risk that is associated with the business before committing his resources into it.

## How Does Entrepreneur Evaluate and Manage Risk?

Once a risk has been identified, then it can bemeasured and controlled.Ossai (2009) buttresses this assertion that no matter what the sizes are, companies must have an approach to risk management since they can be easily managed when identified. Info entrepreneur (2014) states that risk evaluation allow you to determine the significance of risks to the business and decide to accept the specific risk or take actions to prevent or minimize it. Thomas (1996) observed that in

evaluating its potential value as business opportunity, it is important to identify all the relevant risks and to evaluate these risks in terms of (a) the possibility, that some risks may be eliminated through pro-active strategies (b) spreading the risks where possible and (c) managing risks that are considered worth incurring.Ogunaka (2014) opined that the strategies that could be used to reduce or overcome risk are:

i) accept it, that is you can accept to avoid cost for elimination which may be too high;

ii) transfer it to another party particularly insurance company;

iii)reduce it, that is by introducing safety measures, and

iv) eliminate it by ensuring efficiency in business processes and make quality goods and services

An entrepreneur can evaluate his risk by considering the consequence and probability of each risk. Swan and Scheld (2010) state that an entrepreneur can reduce risk by documenting everything, knowing the regulations, having insurance, keeping personal life out of the business, minimizing cash handling, incorporate and be active in the operation of the business. This however, cannot be realized without an entrepreneur possessing the necessary requisite that will make him takemeasures and control, and this can only be achieved through effective risk management strategies.

## Conclusion

Risk cannot be completely avoided by the entrepreneur but its negative consequence can be reduce to a barest minimal by examining various risk variables. A careful analysis and understanding of the various types of risk is essential for an entrepreneurial success. Risk analysis requires great knowledge and skills, hence an entrepreneur requires expert in the area of risk management.It is believed that the higher the risk entrepreneur takes, the higher the profits realized, all things being equal.But realizing this profit is not visible without the entrepreneur attaching much priority to risk contribution to the entrepreneurial success.

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