

## ENTREPRENEURSHIP: EVALUATING THE POTENTIAL

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### **ABSTRACT**

There is no denying the fact that it is their entrepreneurs who played the basic role in bringing America and Japan to their present state of development. It is also crystal clear that the key to economic progress and economic independence lies in indigenous investment as opposed to foreign investment. At the same time, the ground reality is that Pakistan being a developing country is facing scarcity of capital. Therefore, panacea for her economic miseries lies in promotion of small and medium scale business. That's why each successive government in Pakistan continued the policy of patronizing small and medium scale business by providing easy loans, tax incentives and other inducements.

Findings of this paper aim at providing assistance to the Government in its pursuit to bring about an entrepreneurial revolution and thus giving a possible forward push to the economy. These will be beneficial for prospective businessmen and motivate all those who are at present working for others but have the potential to become successful self-employed persons. The paper is expected to be equally beneficial for the persons not possessing the required traits by refraining them from entering the business arena.

## INTRODUCTION

During the last decade, trend among youth towards self-employment has been increasing. Some people consider self-employment as an alternative to unemployment, some people think it as a way to getting rich and some ambitious young people cherish to become entrepreneurs because in our society a person who is running his/her own business generally enjoys more respect than a man who is working in a business for someone else. There are also some religious minded people who argue that had there been any profession better than business, Holy Prophet (P.B.U.H) would have chosen that for himself. Moreover, the present day trend toward merger, rationalization, right-sizing etc. has negated the concept of safe-job and making people more inclined to self-employment. Almost all of the political governments, during the last decade, had been promoting the idea of self-employment by providing business loans to those who can dare to take risk of being entrepreneurs. Governments regard self-employment as a solution to the problem of unemployment and as a way to give boost to the depressed economy.

### Working for Others

People argue that employers want "organization men" who can fit nicely into any niche and be content not to overstep the predetermined boundaries. This is a disappointment to someone who would like an opportunity to exercise all the faculties of a well-trained and educated person. To be successful as an employee one must be a "yes man" and "pleasing the boss" in one way or the other must be the policy, whereas, this can be done for sometime but not always. Moreover, changes in top management are frequent in many big organizations and

such changes often initiate a chain reaction involving the security of numerous other executives down the line. So far as salaries and wages are concerned, no doubt employment offers higher initial income but self-employment means a very high income in the long run.

On the other hand, working for someone else also has merits worth consideration. Some of the advantages are: larger initial income with more regular intervals, no risk of personal savings, shorter working hours, less worries after working hours, regular vacations, old age benefits, security and the prestige that goes with working for a well-known company.

Holy Prophet (P.B.U.H.) had chosen business as profession for him, does not necessarily mean that business is a suitable option for everyone. It may be taken as an indication towards the need of superior abilities to be possessed by an entrepreneur. No doubt, one who owns a business is 10 times more likely to become a millionaire as compared to one who works for someone else yet not all business owners make a lot of money. Freedom of enterprise is more than the freedom to succeed. At the core, it is the freedom to fail. Adequate intelligence, creative thinking, analytical ability, initiative, enough finances, sufficient experience, willingness to work for long hours and capabilities to face difficult situations etc., of course, contribute to success in business but neither any one nor all of them can guarantee one's success in business.

### **Risks Involved in Self-employment**

It is hard to find unsuccessful businessmen because generally they do not identify themselves as an entrepreneur. Success has glory and appeal for others but failures are seldom heard and that's why the world is full

of examples of successful and wealthy businessmen. Present economic conditions are posing threat to survival of many existing enterprises and many large business houses, in order to maintain their profitability, are resorting to the policy of merger and consolidation. In such a situation viability of a new business becomes more questionable. It means, the decision to become an entrepreneur requires very careful thinking. It is very easy to jump into business as an entrepreneur but if unluckily the adventure proves unsuccessful it is generally very difficult to get off after paying all business debts.

The attractive idea of managing a self-owned business involves many risks. These risks can be classified into three groups: (1) Financial Risks, (2) Career Risks and (3) Personal Risks.

### **Financial Risks**

Real implications of financial risks for a prospective entrepreneur are much more than their numerical projection because these risks involve loss of personal savings, even the mortgage or eventual sale of house property as well as the irreparable loss of time if the venture fails.

Starting a new business means a meager income in the beginning or if you are already employed it means an immediate drop in the income level that may be a permanent one. Since all businesses are subject to continuous ups and downs, therefore, interval and amount of income may be irregular.

Although some of the financial risks may be covered by insurance but most of them cannot be so covered e.g. error in estimating demand and price changes, obsolescence,

inventions and new ideas launched by competitors, changes in government policy etc.

It is very important to carefully consider the opportunity cost of doing business. If after many years of struggle the entrepreneur is forced to close down the business due to continuous losses or due to low profits, he or she, in order to calculate his or her total loss, must add those savings that would have resulted had he or she been working for someone else during this period.

However, while you must be prepared to make financial sacrifices, there is a very good chance that you will never actually have to make them.

### **Career Risks**

To a new entrepreneur career risks sometimes seem more significant than the financial risks. Career risk means the risk that after having stepped out of one's profession for few years, one may find it very difficult to re-enter. For example, a senior executive must relinquish seniority and old age benefits in pursuit of his own business and similarly a student who does not join an employer even after a few years of obtaining his or her degree has few chances to get a lucrative employment. However, there are certain professions, such as law, that permit an interruption of a few years in one's career without heavy penalty. But this is not the case with most of the professions.

Thinking optimistically about the career risks, the other side of the coin may be that a person who has shown the courage to leave and start a new business, will, if the new business unfortunately fails, return to the former employer as a broader and tougher person. At least some organizations seem to believe this, and if one's old employer doesn't, its competitor probably will. Moreover,



those who start new business are probably more inclined than others to find new and different uses for their talents, and thus are among the least likely candidates to sit wondering if their old desks are still waiting for them.

### **Personal Risks**

In almost all of the cases a new entrepreneur cannot escape the commitment of all of his or her leisure time and energies to the newly established business. Working day of a new entrepreneur may be from 10 to 12 hours or even more. Weekends disappear from the calendar. Most of the social invitations remain unattended and consequently unrepeatd. Meals get cold. Low income in the beginning may cause a drop in standard of living. All these factors put a strain upon family and other social relations of the new entrepreneur. How these factors will affect you is a question that deserves serious deliberation. It is difficult to lay down a general rule to determine the level of personal risk because it involves one's own family and friends and other human beings whose reaction is very hard to predict.

### **Rewards of Self-Employment**

When you are working for someone else, no matter how successful you are, there is a limit to the rise in your income, but for an entrepreneur sky is the limit. There is no other way to accumulate wealth except by being self-employed. One can clearly observe that they are the entrepreneurs that constitute our wealthy class whether they are traders or manufacturers or service providers like doctors, lawyers, chartered accountants, transporters etc. There is a famous saying, "money is not every thing, but it is sure better than whatever is in second place".

By working for oneself one gets an opportunity to utilize one's energies in all directions and try all of one's creative

ideas, which gives a satisfaction that remains unmatched in any other profession. An entrepreneur also enjoys the pride of being one's own boss. Moreover, generally society ranks an owner-manager at a higher level in the work status hierarchy.

### Does Business Suits You?

If after going through all of the above lines you are still ready to start a new business, you may be one of those who can prove themselves as successful entrepreneurs because determination and endurance are the two important qualities needed for success in business. At this point you must make an analysis of yourself to determine how well you are equipped to start a new business and make it a success. This analysis can be divided into two aspect i.e. (1) financial considerations and (2) personal considerations.

### Financial Considerations

Of course, the most practical question is, do you have enough finances. You need money to finance your business project as well as to finance your household expenses. While calculating the financial needs it is important to carefully work out the time it will take before your business starts earning profit i.e. the gestation period. A simple rule of thumb stated in a famous *Punjabi kahawat* (saying) is "the first year is to lose, the second is to recover and the third is to earn. (*pahla saal chatti, dusra saal hutty, teesra saal khatti*). This saying originated in old golden days. Gestation period of a new business in an economy facing depression may be much longer than two years as stated in the saying. Never forget to include your own pay cheque while calculating the total finances required for the enterprise.

Most of the successful entrepreneurs never put over twenty five percent of their savings into the venture. Probably the rational behind the limit of twenty five percent is that in most of the cases a business success is preceded by a few business failures.

Lower and uncertain income after irregular interval during the gestation period will certainly cause hardship and household problems. In the beginning you and your family may be willing rather determined to face the hardship but financial hardship over a long period of time can easily break the will and creates business and domestic problems and consequently frustration. Years of hardship after they are gone by seem to have finished like a wink of eyes but remember that each year consists 12 months, each month has 30 days and in each day there are 24 hours and one must meet expenses of each moment of one's life.

### **Personal Considerations**

First of all, ask yourself the question why you want to start a new business. Possible answers to this question may be the following:

1. To manage own business is the family tradition.
2. To make a lot of more money.
3. To utilize my creativity and initiative.
4. To enjoy the freedom of being one's own boss.
5. To prove myself (to my: father, spouse, ex-boss etc.).
6. To show up to someone with whom I intend to compete.
7. To advance science and technology.
8. To promote art, literature, or some other social service.

This list can be extended further. Your answer could be anyone or a combination of more than one of the above



possible answers. To the extent that you are concerned with rebelling against your employer, proving yourself, advancing a social cause, etc. you are, from a statistical point of view, allying yourself with less successful entrepreneurs. Keep in mind that the central objective of the business enterprise is to make money for its owners. To the extent that you are seeking to maximize a number of other effects, you are diverting your energies away from the central objective.

Secondly, those who are planning to start a new business for themselves should be aware of the personality characteristics required for success as an entrepreneur, and they should then rate themselves objectively in terms of those traits. A thriving business is built on its founder's creativity, initiative, foresight, ability to plan and organize, perseverance, endurance, leadership, good physical and mental health to withstand long hours etc.

What causes many business failures? Although the reasons frequently given are: too much competition, lack of capital, poor location, lack of experience, premature expansion, etc., but in reality, it is the unsuitability of the entrepreneur himself that causes the failure.

What personal qualities or traits are indispensable for one's success as entrepreneur? Research attempts to correlate various personality traits to entrepreneurial success have generally failed to give a decisive conclusion. However, the special personality traits of successful entrepreneurs as revealed by a few important studies are stated below:

Kenneth Lawyer in his research report titled as "Small Business Success: Operating and Executive Characteristics" describes these characteristics as:

order to summarize, a frequency distribution analysis of

1. A successful entrepreneur is a *moderate risk-taker*, not a gambler.
2. His *motivation for independence* of action is stronger than his need for security.
3. He is a *good decision-maker*. He faces problems as they come, is not afraid to make decisions, in fact, prefers to do so.
4. He is *versatile* i.e. rather than being confined in his scope of activities to one area of the business he constantly strives to become competent in all areas.
5. He is a *finisher* i.e. he has a strong motive to achieve and equally strong motive to endure and to finish the task at hand.
6. He is *self-confident*. This indicates a person with a strong belief in his own capabilities.
7. He is *benevolent despot*. His subordinates view him as generally friendly, willing to listen to suggestions but not always accepting them. He is not concerned with rigid conformity. His expectations are for productivity and competence.

One such study titled as "Personality and Success: An Evaluation of Personal Characteristics of Successful Small Business Managers" conducted by Hal B. Pickle points out the following:

1. *Drive*: It comprises of such personality traits as responsibility, vigor, initiative, persistence, and ambition.
2. *Mental Ability*: It consists of overall intelligence (IQ), creative (original) and critical (analytical) thinking.

3. *Human Relations Ability*: Personality factors, such as emotional stability, personal relations, sociability, cheerfulness, consideration, cooperation, tactfulness etc. constitute human relation ability.
4. *Communication Ability*. It means the ability to communicate effectively both in writing and verbally.
5. *Technical Knowledge*: It includes such aspects as production, equipment, materials, suppliers, marketing etc.

Hall B. Pickle concludes that an entrepreneur-manager who has high levels of above personality characteristics stands a much better chance of success than his counterpart who possesses low levels of these characteristics.

W. L. Megginson, M.J. Byrd, C.R. Scott and L.C. Megginson in their book "Small Business Management: An Entrepreneur's Guide to Success", after referring to a number of research studies conclude that the characteristics of successful owners of small businesses are that they:

1. Desire independence.
2. Have a strong sense of initiative.
3. Are motivated by personal and family considerations.
4. Expect quick and concrete results.
5. Are able to react quickly.
6. Are dedicated to their business.
7. Enter business as much by chance as by design.

A number of such studies can be quoted here. However, in order to summarize, a frequency distribution analysis of

personality traits that contribute to an entrepreneur's success as mentioned by twenty five sources is presented below. (Source: Hall B. Pickle and Royce L. Abrahamson, "Small Business Management", John Wiley & Sons, Inc. New York).

Trait	Times mentioned
Technical competence.	9
Initiative.	8
Personality.	7
Good judgment, intelligence, leadership characteristics, understanding.	6
Appearance, courage, responsibility, restraint, self-confidence, training ability.	5
Energy, friendliness, ability to organize.	4
Attitude, communication ability, creativeness, education, fairness, honesty, sincerity, tactfulness, emotional maturity.	3
Administrative skill, ambition, cheerfulness, character, ability to delegate authority	2
Ability to criticize, readiness to accept criticism and suggestions, aggressiveness, balance, breadth, calm, interest in civic affairs.	1
Compatibility, confidence in employees, conservative, considerate, convictions, cooperativeness, ability to coordinate activities.	1
Courtesy, curious, decision ability,	1

dépendability, efficient, emotional stability, enthusiasm, exacting, executive attitude, executive caliber, experience, expression, flexibility.

Foresight, generous spirit, health, helpful, high morals, hopeful, human relations ability, humility, imagination, incentive, individuality, industry, influential friends, ingenuity.

1

Initiative, inspiration, integrity, intensity, interest in people, loyalty, management knowledge. manners, moral character, morale builder, motivation, objectivity, optimism, originality.

1

Perception, perseverance, persistence, personal drive, perspective, persuades, planning ability, realistic, reasonable, receptiveness, reliable, religious training, resourcefulness, scientific mind.

1

Self-sacrifice, sense of justice, skill in interpersonal relations, sociable, sympathetic, tenacity, thoroughness, virtue, vision, willingness to learn, worried.

1

### **Evaluate Your Potential as an Entrepreneur**

Throughout this research it is emphasized that in spite of all its charisma, starting a business for oneself involves a high risk. Therefore, the decision to go into self-employment needs much deliberation. After a careful study of a number of self-evaluation questionnaires for



prospective entrepreneurs, two of them are presented below. Your score as determined by these questionnaires is a valuable guide before you jump off the springboard. In order to be objective and realistic get your evaluation by your parents, wife, friends and others who can comment on your abilities. After your personality appraisal by many evaluators, you can get your average score that is more representative of you.

Following personality appraisal sheet for prospective entrepreneurs is prepared by Sherron Bone and Lisa Aplin. It contains twenty personality traits. Consider each carefully and then score yourself by placing a check under the appropriate number with 0 being the lowest and 7 being the highest. Tally your score and find out what kind of entrepreneur you would make, using the key given at the end.

Personality Traits	0	1	2	3	4	5	6	7
I have ability to communicate.	-	-	-	-	-	-	-	-
I have the ability to motivate others	-	-	-	-	-	-	-	-
I have the ability to organize.	-	-	-	-	-	-	-	-
I can accept responsibility.	-	-	-	-	-	-	-	-
I can easily adapt to change.	-	-	-	-	-	-	-	-
I have decision-making capability.	-	-	-	-	-	-	-	-
I have drive and energy.	-	-	-	-	-	-	-	-
I am in good health.	-	-	-	-	-	-	-	-
I have good human relations skills.	-	-	-	-	-	-	-	-
I have initiative.	-	-	-	-	-	-	-	-
I am interested in people.	-	-	-	-	-	-	-	-
I have good judgment.	-	-	-	-	-	-	-	-
I have planning ability.	-	-	-	-	-	-	-	-
I am persistent.	-	-	-	-	-	-	-	-
I am resourceful.	-	-	-	-	-	-	-	-
I am self-confident.	-	-	-	-	-	-	-	-
I am a self-starter.	-	-	-	-	-	-	-	-
I am a good listener.	-	-	-	-	-	-	-	-
I am willing to be a risk taker.	-	-	-	-	-	-	-	-
I am open-minded and receptive to new ideas.	-	-	-	-	-	-	-	-

Key:

110 --- 140

Very  
strong

85 --- 109

Strong

55 --- 84

Fair

54 or below

Weak

Clifford M. Baumbach and Kenneth Lawyer develop following self-evaluation questionnaire. It contains 21 test statements. If a statement is only rarely or slightly descriptive of your behavior, SCORE 1. If the statement is applicable under some circumstances, but only partially true, SCORE 2. If the statement describes you perfectly, SCORE 3.

Statements	Score
1. I relish competing with others.	_____
2. I compete intensely to win regardless of the rewards.	_____
3. I compete with some caution, but will often "bluff".	_____
4. I do not hesitate to take a calculated risk for future gain.	_____
5. I do a job so effectively that I get a definite feeling of accomplishment.	_____
6. I want to be among "tops" in whatever I elect to do.	_____
7. I am not bound by tradition.	_____
8. I am inclined to forge ahead and discuss later.	_____
9. Reward or praise means less to me than a job well done.	_____
10. I usually go my own way regardless of others' opinions.	_____
11. I find it difficult to admit error or defeat.	_____
12. I am self-starter --- I need little urging from others.	_____
13. I am not easily discouraged.	_____
14. I workout my own answers to problems.	_____

15. I am inquisitive. \_\_\_\_\_
16. I am not patient with interference from others. \_\_\_\_\_
17. I have an aversion to taking orders from others. \_\_\_\_\_
18. I can take criticism without hurt feelings. \_\_\_\_\_
19. I insist on seeing a job through to the finish. \_\_\_\_\_
20. I expect associates to work as hard as I do. \_\_\_\_\_
21. I read to improve my knowledge in all business activities. \_\_\_\_\_

Total \_\_\_\_\_

A score of 63 is "perfect"; 52 to 62 is "good"; 42 to 51 is "fair"; and under 42 "poor".

Scoring high in the above evaluations does not offer any guarantee of success as an entrepreneur because success in business also depends on many factors beyond personal qualities including luck. However, a high score is a positive sign to induce you to pursue the matter further.

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