



# ***"KYE"- KNOW YOUR ENTREPRENEUR: AN ALTERNATIVE APPROACH IN VOLATILE TIMES***

**Champal de Costa**

Assistant Vice President  
DFCC Bank

## **1.0 Introduction**

Having successfully defeated the 3-decade old war, the country started implementing gigantic development programmes to raise the once troubled economy two years ago. The primary focus had been to achieve a sustainable economic growth through industrial, infrastructural and agricultural development. However, the impact of prevailing global economic shake-ups seemed to have almost jeopardised the endeavours to realise our dreams. Volatility has devoured the efforts of all who drew up plans to make Sri Lanka the next financial hub, leaving adverse movements of exchange rates, rising interest rates, increasing rate of inflation and widening trade deficits the talking points. In order to manage the situation, diverse groups of personalities have collectively and individually started formulating strategies. Among these groups, the Bankers and Entrepreneurs are considered important cogs in the economic wheel of the country which transmits power to the national engine to reach safer and stable destinations till the tide of volatility recedes. The Banker is responsible for financial intemeditation whilst the latter is entrusted with the task of improving the standard of living of the nation. The success of this exercise hinges on the banker's knowledge and understanding of the entrepreneurs and their characteristics. This paper attempts to enlighten the bankers on these two aspects and throw light on an integrated course of action to face volatility.

## **2.0 Volatility In The Eyes Of A Banker**

Dictionary definition of "Volatility" refers to nature of a situation or a substance which is liable to change rapidly and unpredictably. Adverse movement of exchange rates by more than 15%, increase in Prime Lending Rate by 40% and significant increases of Non Performing Ratio on loans to a 2-digit figure, within a period of 6 to 9 months, are more than adequate for one to ascertain the volatility of an economy. Furthermore, investors start showing reluctance to pursue long-term projects. Depositors start crossing over from one to another institution for interest rate differential of even 10 basis points. Demand for short-term financing on the other hand starts increasing. The importers start lamenting over inadequacy of existing limits for Import Facilities while the exporters continue expressing concerns over dwindling demand for products in overseas markets. Apart from that, the bankers may hear customer grievances over rise in prices of



commodities, labour, energy and other utilities too which would ultimately result in non-payment of dues. Situation may further aggravate towards corporate and personal bankruptcies which might result in foreclosure of facilities, acquisition and auctioning of properties pledged as collateral, interest plus capital waivers, write-offs and initiation of recovery action on bad loans.

Outside the periphery of banking industry, one may observe closure of business entities, retrenchments and increase in unemployment together with vast deterioration of values in the society. The true nature of volatility is such that all incidents occur within a very short period of time and creates an irreparable damage to the country's economy even before its symptoms are recognized.

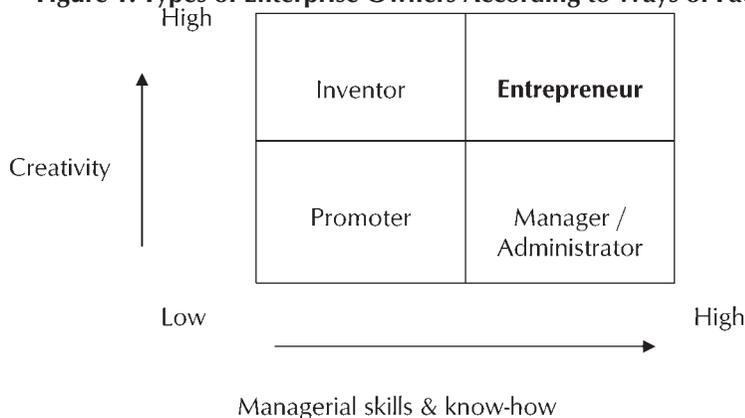
### **3.0 Mitigating The Effects Of Volatility**

Ensuring some form of stability in a volatile environment is crucial and it is undoubtedly the collective responsibility of Policy Makers, Administrators, Financial Intermediaries, Owners of Business Enterprises and other Professionals in the society, no sooner slightest signs start surfacing. The banker, who falls into the category of Financial Intermediaries, is expected to play a pivotal role in buttressing the economy by harnessing the competence of Owners of Business Enterprises, *the* group of people which knows how to deal with new permutations and combinations of products, services, processes and markets that may find a breakthrough to have a glimpse of stability in volatility. However, the Owners of Business Enterprises need financial assistance coupled with a deep understanding, great patience and trust from the banker till their imaginations become realities. The banker's task at this juncture encompasses, not only making meticulously analysed recommendations, backed by Professional Advice, to Policy Makers and Administrators to support the formers' effort, but also and most importantly to identify the Owners of *successful* Business Enterprises since all members in this group do not possess such cutting-edge competencies.

### **4.0 Approach by Entrepreneuers in Times of Volatility**

The approach of enterprise owners is usually two dimensional namely the managerial dimension and the creative dimension. Former is the choice of an ordinary man who concentrates on "stick to knitting" behaviour in an economic calamity. His rules of the game would be downsizing of organization, cutting down costs, reduction of resource utilization, not trying to experiment on products and markets, being a follower than a leader and expecting powerful external elements to provide a way out of the crisis. In his course of action, he relies on general management skills, business know-how, experience and strength of networks. One can consider this as left-brain biased. Creative dimension is seen in people with firm determination to find new things, methods and ideas. They dare stepping on undiscovered territories deploying imaginative ability with great enthusiasm. This is right-brain biased. With respect to above two dimensions those who own and operate business entities can be further classified as follows:

**Figure 1: Types of Enterprise Owners According to Ways of Facing Volatility**



Source: Adapted From Timmons J A & Spinelli S. (2004)

Out of the four types shown above, the *Promoter* appears as a low-profile person who gets creative ideas but with limited managerial capabilities. Promoter serves relatively less lucrative but stable niches in the market and functions for survival till the volatility fades away. In the bottom-right quadrant we see a person who is rich in managerial dimension but with low level of creativity. He is the ideal *Manager* who is well aware of nature and outcomes of volatility. He monitors the effects of volatility at regular intervals and adopts control-oriented strategies in running the organization. He too is in a position to create stability and displays the potential to survive in a volatile environment. The person who is rich in creativity but poor in managerial dimension, the *Inventor*, can transform the innovative ideas to meaningful products and services, influencing the customers' decision making process to an extent that assures his survival in volatility.

The primary objective of the three groups mentioned above is survival in a volatile environment which they strive to fulfil by adopting various techniques. However, this may be short-lived and due to unpredictable nature of volatility, unexpected threats can attack their weaker dimension and destabilize the once stable surroundings. The person who falls into the top-right quadrant, the *Entrepreneur*, is equally strong in both dimensions. He is capable of injecting imagination, out of the box thinking and passion to excel on one hand. On the other hand he attempts to strengthen functions of planning, organizing, leading and controlling together with sharpening of various skills associated with successful operation of his enterprise, based on experience and knowledge, in a more dynamic manner so that he is equipped with means to withstand unpredictable changes in the environment to a greater extent. In other words, the Entrepreneur is assumed to be a person who is going beyond the objective of survival and reaching higher levels of comfort in any environment.



Hence it is understood that when confronted with threats of volatility, the promoters, the inventors and the managers would succeed only up to short term survival. No one knows how long the volatility will prevail. The country's mission is to take great leaps forward passing the stage of mere survival. Therefore, "trying to understand the *Entrepreneur*" is inferred as something extremely urgent and rewarding to all including the bankers.

## 5.0. Who Are Entrepreneurs?

The term "Entrepreneur" is derived from the French verb "Entreprendre" which means "to undertake" (Cunningham & Lischeron, 1991). Those who undertook the risk of starting and running a new enterprise were named Entrepreneurs. Apart from that in early 16<sup>th</sup> century, the French military leaders too were called Entrepreneurs probably due to their innovative approaches and the risks associated with the war-related expeditions they undertook (Chantimath 2006).

The definition of the term "Entrepreneur" and "Entrepreneurship" still remains vague and elusive despite the fact that these subjects have been the focal points for discussion at many academic and commercial forums for the past few decades. The role of Entrepreneur has been viewed by Adam Smith as a risk bearer and a source of capital. Another economist Frank Knight described the Entrepreneur as a manager of uncertainty. If perfect knowledge prevailed, as in models of perfect competition, uncertainty would not exist. Because of the inexactness of organizations and imperfections of markets, one has to decide what to do and how to do. The Entrepreneur earns profits by undertaking this responsibility creating an economic change in his surroundings (Sandberg, 1986).

Joseph Schumpeter conceptualised Entrepreneur as an innovator. His analysis started with a general equilibrium, where all markets are perfectly competitive with known customer-preferences and given producer-technologies. The Entrepreneur, as explained by Schumpeter, breaks this equilibrium by introducing new combinations of the means of production and capital. This situation brings profits to Entrepreneur but after sometimes the environment becomes "normal" where many new players would follow suit, share portions of the same pie, resulting in equilibrium once again. At this moment the Entrepreneur gets activated again, shatters the newly formed equilibrium and creates a situation which brings profits to him within a different set of variables. Schumpeter further elaborated that such a process would continue one after another episode owing to the Entrepreneur's inner state of mind which energises him to savour the joy of creating and fulfilling something by harnessing his own ingenuity (Sandberg, 1986).

According to David McClelland, Entrepreneurship is "doing things in a new and better way and decision making under the condition of uncertainty". This definition throws light on a person's creativity and drive towards achieving something new and meaningful (Sandberg, 1986).

Peter Drucker had explained that "Entrepreneurship" is neither a science nor an art and the key person, the Entrepreneur, searches for change, responds to it and exploits opportunities using innovation as the specific tool (Charantimath, 2006). A different approach is followed by Francis A

Walker who identified the Entrepreneur as a pioneer and a captain of industry, one who is endowed with more than average capacities in the task of organising and coordinating various factors of production. This definition partially touches the managerial qualities of the person under study (Chantimath 2006).

In addition to above, the scholars in the new millennium had attempted to forward their interpretations with reference to research initiated under their supervision. Zhao and Seibert (2006) defined an Entrepreneur as “someone who is the founder, owner and manager of a small business and whose principal purpose is growth”. This statement holds the premise that all Entrepreneurs always start as small business owners, run the enterprises and achieve growth through managerial knowledge and skills. Eckhardt and Shane (2003) defined “Entrepreneurship” as the discovery, evolution and exploitation of future goods and services by creating or identification of new ends and means previously undetected or unutilized by market participants. Stephen Spinelli Jr had summarized Entrepreneurship as a way of thinking, reasoning and acting that is opportunity-obsessed, holistic in approach and with a balanced leadership (Cited by Brandstatter, 2011).

All such definitions revolve around certain characteristics and behaviours of a group of people engaged in diverse forms of business activities. However, the researchers who have explored more in this subject have inferred that all who engage in any form of business activities cannot be categorized as “Entrepreneurs” and hence had introduced another group named “Ordinary Businessmen”. The primary intension of the latter is simply to carry out commercial transactions for net monetary gains whereas the former is driven by multiple objectives which need not always be monetary. Hence it is worthwhile trying to understand not only “who the Entrepreneurs are” but also “what Entrepreneurs really do”

## **6.0. What Do Entrepreneurs Do?**

The definitions of “Entrepreneur” are broad and usually expressed as conceptual statements capturing one or more dominant characteristics or behaviours or thought processes of individuals engaged in enterprising activities. Although the researchers and academics are comfortable with such definitions, the bankers and public administrators often get trapped in vicious cycles when they attempt to connect Entrepreneurs to business plans and policy documents. The definitions exclude proprietors, individuals of private limited liability companies with less dynamic activities, other small business owners albeit with acceptable returns on investments (ROIs) from the domain of Entrepreneurs. In order to clarify this paradox three clusters of attributes are identified (Timmons & Spinelli, 2004) namely Core Attributes, Desirable Attributes and Non-entrepreneurial Attributes as shown in Figure 2.

### **6.1 CORE ATTRIBUTES OF ENTREPRENEURS**

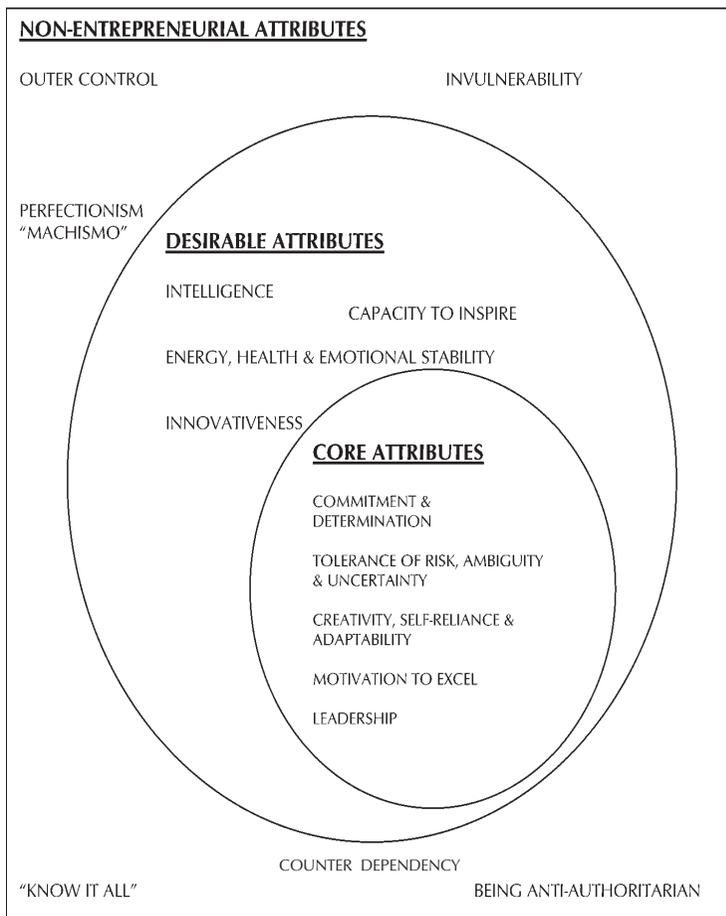
These are treated as the most significant attributes which separate entrepreneurs from other types of businessmen. As per findings of various scholars and practitioners, Timmons & Spinelli (2004) listed out following major core attributes of entrepreneurs:



- **Commitment and Determination**

Commitment is an agreement or pledge to do something in the future and loyalty to a system of thought or action. Determination is firmness of purpose and an act of establishing something exactly. Entrepreneurs live under tremendous pressure, initially at start up stage, to stay alive, and then in growth stage, to rise against competition. Only the committed and determined persons pass through all stages of the life cycle successfully. If one is willing to invest substantial portion of his net worth in the enterprise, does not resist personal sacrifices, disciplined to solve problems and complete jobs, he can be rated as high in this attribute. Although they advocate persistence, they do not hesitate giving up and quickly putting themselves in to an alternative track when unsolvable tasks are encountered because of their determination to ensure continuous growth.

**Figure 2 : Entrepreneurial Attributes**



Source: Adapted From Timmons J A & Spinelli S. (2004)

- **Leadership**

Entrepreneurs differ from ordinary businessmen in styles of Leadership. The former's style is "Visionary" in most of the situations and the latter shows mixture of styles characterized by task-orientation with a little inclination to democracy. Entrepreneur's vision of building a substantial enterprise that will contribute something lasting and relevant to the world while realizing a capital gain requires his patience to stick to the task (Timmons & Spinelli, 2004). Patience is a mandatory attribute when confronted with any volatile situation. Ordinary businessmen seldom display such patience when they chase after targets. Some scholars explained that the patience is associated with "Locus of Control" which is another characteristic to measure entrepreneurial effectiveness. The Entrepreneurs are said to have an "Internal Locus of Control" which describes his belief about own ability to determine the outcome of events in his life (Sandberg 1986). Hence he faces the volatility with patience, clearly keeping ultimate objectives in mind. They share wealth with all who helped creating it and therefore display honesty, fairness and team spirit.

- **Opportunity Obsession:**

Successful entrepreneurs are oriented to the goal of pursuing and executing an opportunity for accumulating resources with added and enhanced value. Their obsession is manifested in immersion in an opportunity which is revealed through familiarity with their industries, customers and competition (Timmons & Spinelli, 2004). They possess the ability to scan any environment to detect opportunities which others tend to ignore. Though the rate of success is less than even 5%, they feel uncomfortable if refrained from this discipline.

- **Tolerance of Risk, Ambiguity and Uncertainty**

Although the entrepreneurs risk money, they do not risk reputation. Successful entrepreneurs are not gamblers; they take calculated risks. Like parachutists they are willing to take risk; however, in deciding to do so, they calculate carefully and thoroughly and do everything possible to get the odds in their favour. Entrepreneurs also tolerate ambiguity and uncertainty and are comfortable with conflict (Timmons & Spinelli, 2004). They realise that they have to hit at a moving target when the ground they stand too changes the position in a three dimensional space constantly and randomly. They tend to find some form of a pattern in these movements and develop the ability to make predictions to some accuracy which can be treated as guides to grope in the darkness of ambiguity. In doing so, they develop few alternatives simultaneously so that they never succumb to threats of uncertainty.

- **Creativity, Self-Reliance and Adaptability**

Creativity is defined as the ability to bring something new into existence. This emphasises the "ability", not the "activity" involved and therefore a person may conceive of something new and envision how it will be useful, but not necessarily pursue action to make it a reality (Charantimath, 2006). What is central to these attributes is the entrepreneur's non-conventional



thinking patterns which always question the status quo. They have historically been viewed as independent and highly self-reliant innovators in a free enterprise economy. They willingly put themselves in situations where they are personally responsible for the success or failure of the operation. They like to take initiative to solve a problem or fill a vacuum where no leadership exists. Successful entrepreneurs are adaptive and resilient. They display an insatiable desire towards self-assessments and actively seek feedback to learn and renew their capabilities. They are not afraid of failing and always learn from failure experiences. They better understand not only their roles but also the roles of others in causing the failure, and thus are able to avoid similar problems in the future (Timmons & Spinelli, 2004).

- **Motivation to Excel**

This attribute has been identified as “Achievement Motivation” in most of the literature. The entrepreneurs have a high need for achievement and are guided by their inner self, motivating their behaviour towards accomplishments (Chantimath 2006). Achievement motivation is a prominent characteristic, in particular of entrepreneurs who are the founders of their business and who are oriented towards growth of their enterprise (Stewart & Roth, 2007, Cited by Brandstatter, 2011). Entrepreneurs are self-starters who appear driven internally by a strong desire to compete against their own self-imposed standards and to pursue and attain challenging goals. Setting high but attainable goals enables entrepreneurs to focus their energies, be very selective in sorting out opportunities, and know what to say no to. Having goals and direction also helps define priorities and provides measures of how well they are performing. They are not motivated to excel in status and power but it is important to recognize that they receive those as a result of their activities. They also insist on the highest personal standards of integrity and reliability which are treated as the glue and fibre that bind successful personal and business relationships (Timmons & Spinelli, 2004).

## **6.2 OTHER DESIRABLE ATTRIBUTES**

These attributes are identified as important to all aspiring entrepreneurs. However, it is possible to find entrepreneurs who have reached success without such characteristics and therefore excluded from the cluster of core attributes. These can also be treated as traits which can be learnt, developed and sharpened to a certain extent. Table 1 gives a brief description on five such attributes.



**Table 1: Other Desirable Attributes**

ATTRIBUTE	DESCRIPTION
Energy, Health & Emotional Stability	Physical fitness, ability to work under harsh circumstances, awareness of what creates stress and how to cope up with it, amount of attention paid to eating and drinking habits and devotion to relaxation
Innovativeness	Some scholars consider this as a core attribute. However, here it emphasizes one's mindset towards finding new and different solutions to issues come across in his general life. A person who has developed such a practice would continue it in his entrepreneurial life as well.
Intelligence	It's a great advantage to entrepreneurs. It involves abstract thinking, problem solving ability, adaptation to different environments, capacity to learn and memorize.
Capacity to Inspire	This is usually treated as a leadership characteristic in a leader-follower relationship. However, the entrepreneurs want to inspire their customers under different circumstances probably to attract attention to his products and services.
Values	These include both personal & ethical values which are displayed through entrepreneur's behaviour in different environments. Desirable values such as respecting other's opinions, spending a portion of income for social work etc always bring greater confidence to entrepreneurs.

*Source: Adapted From Timmons J A & Spinelli S. (2004)*



### 6.3 NON-ENTREPRENEURIAL ATTRIBUTES

Since these attributes pose obstructions to entrepreneur developments and create counter-productive outcomes, it is considered important to note some of those as given below:

- **Invulnerability:**  
A thought pattern of people who feel nothing disastrous could happen to them. They are likely to take unnecessary chances and unwise risks.
- **Machismo:**  
Describes people who try to prove they are better than others. They may get involved in unnecessary competition taking dangerous risks
- **Anti-authoritarian:**  
These people resent feedback or advices of others assuming that outsiders are going to control them.
- **Impulsiveness:**  
This attribute tempts people to take irrational decisions, without considering even the obvious outcomes. They are doing it purely for the sake of taking a decision.
- **Outer Control:**  
Entrepreneurs' locus of control is "internal". This is the opposite of that trait where the person places reliance on luck, chance, fate or any divine power in his behaviour.
- **Perfectionism:**  
Concerned with less effective variables and inappropriate criteria result in loss of opportunity but the perfectionist keeps on following pre-determined rules and remains contented over his attitude.
- **"Know it All":**  
This is a modified version of perfectionism where one tends to think that he has the answers to all issues.
- **Counter-dependency:**  
This is a mindset which opposes dependency but does not hold the meaning of independence. These people are determined to accomplish things by themselves, without assistance from others and finally end up at achieving very little after exerting a big effort.

## **7.0 Implications To Bankers**

No person or an organisation can reach 100% immunity against effects of volatility under prevailing circumstances. The banker is no exception to that statement since his survival hinges on existence of a healthy customer base. When the customer base gets infected by unexpected economic illnesses, which are contagious by nature, the banks too encounter difficulties. It was seen that the Entrepreneurs, the most important group in this customer base, have been independently working on certain strategies to face volatility. On a different platform the banker too seemed to be working on his own strategies to meet the same objective. These two independent approaches may work in isolation and produce some result, but one may wonder why both parties disregard the much proven concept of synergy in such a critical situation. Hence the banker ought to work jointly with the entrepreneurs and work out strategies to ensure stability together with mutual and long lasting benefits to all stakeholders.

Taking all those in to account, the author suggests that following steps be initiated by the banker to fulfil expectations of his role in the exercise:

### **7.1 Identification of the Entrepreneurs in the Portfolio**

There are accepted and proven tests to systematically identify entrepreneurial qualities of people. Such a comprehensive and accurate assignment requires a longer period of time but in the face of volatility the banker does not have the luxury of time. Hence he can refer to the definitions and interpretations explained in the 3<sup>rd</sup> Chapter and ascertain how well his customers fit into the profile of an entrepreneur.

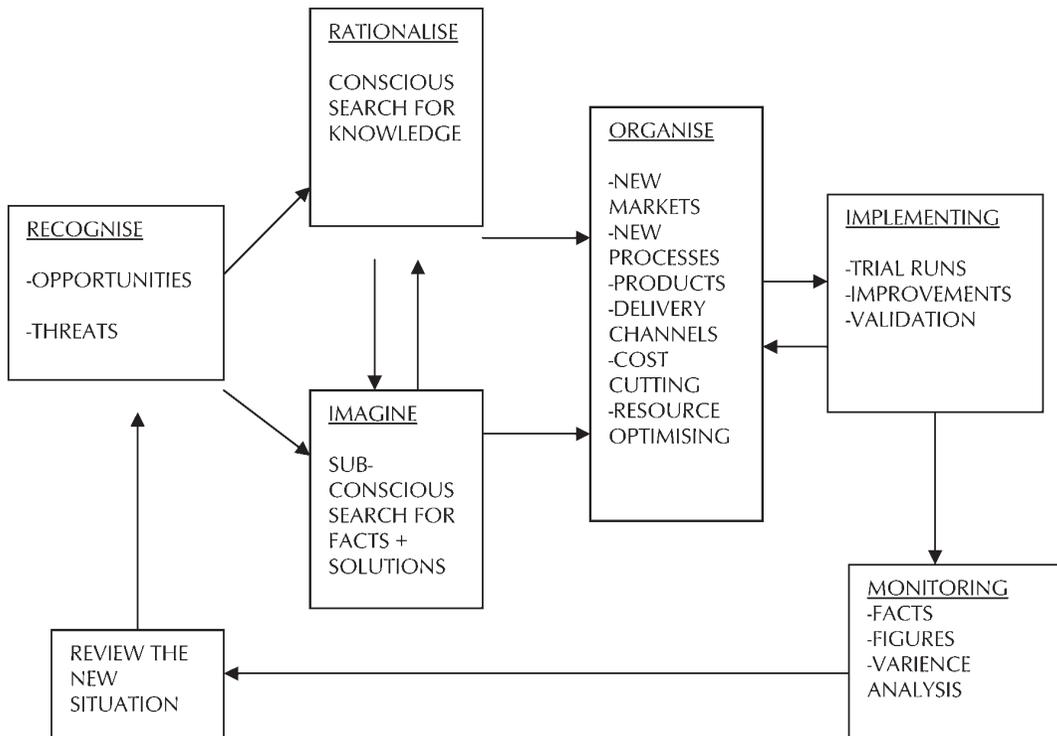
### **7.2 Introducing Synergy**

Once identified, the entrepreneurs, the generals of the battlefield, the banker has to initiate the lead role and invite the entrepreneurs to team up to meet the challenge. Both banker and entrepreneurs must meet and come to a common understanding on the situation. When formulating strategies independently, it is essential that both parties do their own ground work first with the understanding that finally a joint action plan would be laid down. The work done by one party together with the findings has to be kept open to the other party. Figures 3 & 4 represent the typical independent approaches of both parties.

As conceptualised in Figure 3, the entrepreneur follows a 7-step approach. Initially he “Recognises” the ground reality by identifying the obvious threats and hidden opportunities associated with volatility. Thereafter he utilises his both conscious as well as subconscious mind in a reversible way to get himself organised to face the situation resorting to new markets, products, processes, delivery channels coupled with techniques of cost cutting and resource optimising. These activities are reviewed few times after trial implementations with necessary improvements. After the implementation, the whole process is carefully monitored to detect new symptoms of volatility so that he would be well-prepared to repeat the entire cycle of the strategy to combat the new developments.

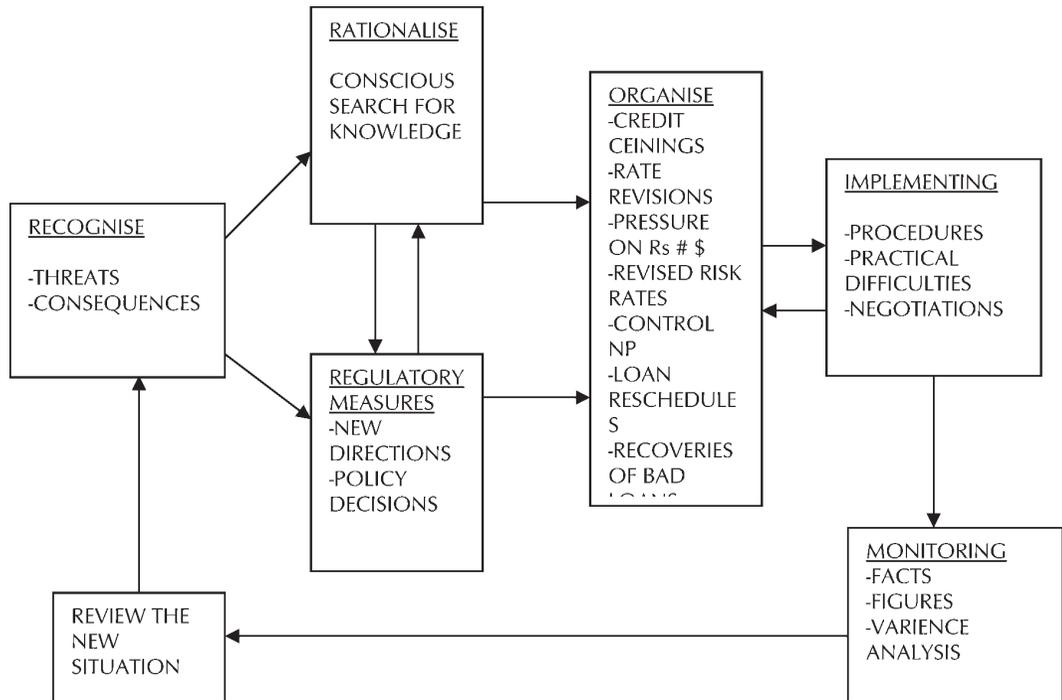


**Figure 3: The Independent Approach of the Entrepreneur  
(Conceptualised by Author)**



The banker's approach consists of same number of steps but with a slight variation, as per Figure 4. The banker usually does not advocate exploring opportunities and therefore focuses on recognition of threats and consequences of volatility in the first stage. Unlike the entrepreneur he is not at liberty to think more intuitively and therefore concentrates on available expertise and regulations. The outcome would obviously be control-oriented as shown in the box with the heading "Organise" in the same Figure. Once those are implemented, constant monitoring and reviews would enable him to prepare the bank's environment to meet the next cycle of volatility.

**Figure 4: The Independent Approach of the Banker  
(Conceptualised by Author)**



### 7.3 Joint Review of Strategies and Introduction of an Integrated Approach

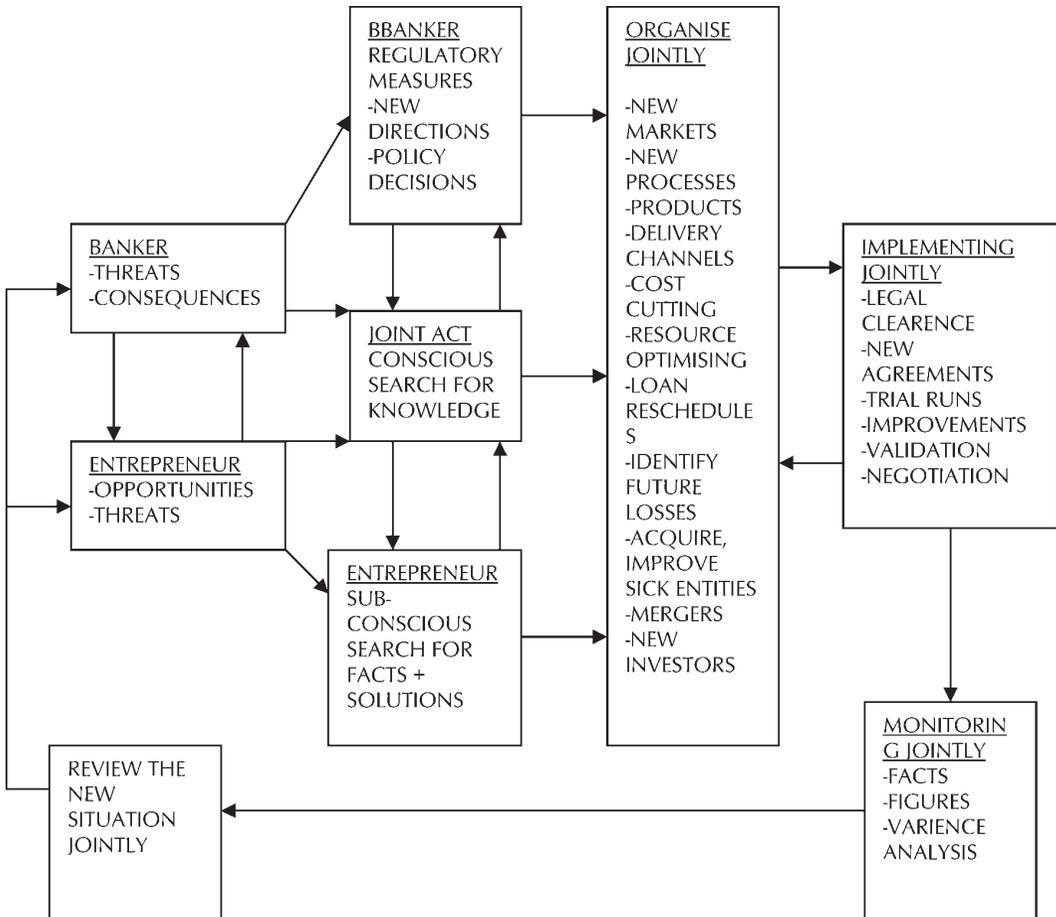
Once a decision to achieve a common understanding is made a joint review would be made on each other's strategy with the objective of maximising the benefits of synergy avoiding duplication of activities. Once each party's independent strategies are reviewed against predetermined success factors, the team may formulate a joint strategy to meet the objectives, which are now common to both entrepreneur and banker. However, it should be noted that the banker has to act within the usual regulatory framework when agreeing to any new courses of action. Figure 5 represents a typical model which illustrates such a collaborative activity.

In the Integrated Approach, both banker and entrepreneur disclose how they recognise the volatility and bring the identified threats, opportunities and limitations specific to each other. Entrepreneur's creativity is appraised by the banker and the entrepreneur would be cautioned about the pitfalls what only the banker sees. This would once again be a reversible exercise in which the outcome would be a well-organised set of activities comprised of strategies for both



parties. The implementation too would be done collaboratively with necessary modifications to yield the optimum benefits to both banker and entrepreneur. The process is reviewed constantly, so that both parties would be better-equipped to handle the next cycle of volatility.

**Figure 5: The Integrated Approach  
(Conceptualised by Author)**



## 8.0 Conclusion

Volatility is viewed as a significant occurrence by both developed and under-developed economies. However, it is regarded as something unavoidable in the changing world and there is no option other than facing it in such a manner that its outcomes make minimum damage to masses. Passive approach of meeting volatility is not usually advocated in an era where expertise

is available in abundance. Among those who strive to meet the challenge, the bankers and entrepreneurs are considered important and powerful to a greater extent. The banker is providing capital to entrepreneurs who use that with their know-how to create wealth. Hitherto both parties have acted independently implementing own strategies assuming that volatility would fade away soon. However, the assumption seemed to be far from reality. Therefore an attempt is made to explore possibilities of introducing a collaborative strategy by giving due consideration to knowledge, experience, imaginative power and all relevant traits of both banker and entrepreneur. It is not an act of trying to prove how true the principle of synergy is. The author has instead attempted to focus attention on distinctive characteristics of entrepreneurs with reference to studies of various scholars and to provide an insight to bankers to seek an alternative approach to exploit volatility and maintain stability.

### **Special Acknowledgement**

Author wishes to express his special gratitude and acknowledgement to Professor Chandana Perera, Professor of Management of Technology, Faculty of Engineering at University of Moratuwa for the valuable contribution and generous guidance provided in writing and editing the article.

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