THIS IS HOW WE TAKE RISK: A CASE OF A SOUTH-ASIA

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Abstract

Risk taking is fundamental to entrepreneurial activities and a central theme of the entrepreneurship literature. However, research on the risk taking propensity of entrepreneurs has met with virtually no empirical evidence on how socio-cultural factors influence on taking entrepreneurial risk in the context of South Asia where entrepreneurs consistently face challenges of high uncertainty due to socio-cultural and politico-economic complexity and instability. Purpose of this paper is to address this paradox by examining entrepreneurial risk through the lenses of socio-cultural, politico-economic and decision making.

Given the self-evident that nature of complexity, irrationality and uncertainty in this context, a sophisticated exploration of entrepreneurial social reality of risk taking and management requires the fundamental philosophy of subjectivism and therefore this study adopts qualitative inductive case study methods in a sample of Sri Lankan entrepreneurs. The study found that entrepreneurs do indeed use their social and cultural understanding to a great extent in their decision making.

Keywords: Entrepreneurial Risk, South-Asian Entrepreneurialism, Socio-Cultural Impact On Entrepreneurship, Uncertainty, Rational Risk Taking Model

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1. Introduction

Entrepreneurial risk as a fundamental element of most entrepreneurial decision making, it has been appeared from the time when the word ‘entrepreneurship’ originated from the French verb ‘entreprendre’ in Europe in the 1100s. Risk-taking has been persistently associated with entrepreneurship ever since 1848 when Mill proposed that the bearing of risk was what differentiated entrepreneurs from managers (Carland et al 1984) and this is still the case (Stevenson 1999; Gamage 2004). Risk taking behaviour of the entrepreneur has been observed by economists (Knight 1921; Schumpeter 1936) and psychologists (McClelland 1961). All these conventional theories, models and ideologies of entrepreneurship embrace that risk can be calculated and moderated through knowledge and the process of rational decision-making (Haley & Stumpf 1989; Miner et al 1994). Most of theoretical and practical reasons promote for generating greater knowledge about the effect of situational and personal characteristics on decision-making under risk (Blais and Weber, 2001). Even though the effects of risk, risk perceptions, and risk propensities of entrepreneurs on entrepreneurial choices have not been explicitly examined in empirical research (Forlani and Mullins, 2000). Sitkin and Pablo (1992) in their model of risk behaviour argue that the available research on risk taking have been focused on a single determinant of risk behaviour, which can yield contradictory empirical findings and produce inaccurate conclusions about determinants of risk behaviour. There is a gap in our knowledge about the link between risk taking, risk propensity, and risk perception in the context of social, cultural and political and risk (Gamage 2004), which required entrepreneur’s social wisdom to manage risk in a context sensitive approach. In this paper, socio-cultural values are of particular relevance to understanding entrepreneurial risk in the South Asia as a social phenomenon. The philosophy of empowering entrepreneurs in Sri Lanka is largely based on the theories and models that have arisen, predominantly, from western paradigm and are largely based on rational scientific approaches to analysis, which are not directly appropriate to the cultural perspectives necessary for entrepreneurship in South Asian countries.

2. Critics on the Mainstream Perspectives of Entrepreneurial Risk

From the 13th century onwards permissible free competition emerged in western society (Gay 1923 cited in Aitken 1965) and this developed further with the growth of international trade. Large-scale enterprises in industrialisation involved risk bearing, capital accumulation, and psychological and organising abilities to approach and enhance unknown international markets. The pioneers of entrepreneurship, the classical economists Richard Cantillan (1734), Adam Smith (1805), J.B.Say (1834),

Entre’ stand for ‘between’ and ‘prendre’ being for ‘to take’ or ‘to undertake’ (Bolton et al. 2000).
and J.S. Mill (1848) focussed on the normal flow of economic activities under conditions of rational individuals with ideal information in new, unknown states of economy. According to Schumpeter (1936) the entrepreneur is in a position to carry out new economic combinations while Hirschman (1958) emphasizes their importance in mobilising resources. This market-exchange economy required psychological and material resources to organise large-scale, mass production effectively and rationally. These terms referred to functions and qualities which were an exciting and unknown experience taken at one's own risk (Greenfield & Strickon 1981). In this institutional process entrepreneurship has been defined as a factor of production that carries risk and uncertainty in the process of organising other factors of production (Cole 1949). These conventional western ideologies have given emphasis to the process of rational decision-making in calculating and moderating risk factor in relation to the process of organising factors of production in market-exchange economy.

Enhancement of entrepreneurial performance has been seen historically as possible through the extensive acceptance of western ideologies. Therefore, the influence of the west on ideas and practices in non-western countries has been strong (Sinha 1999). The rational risk moderation process has been utilised in entrepreneurship development programs in the South Asia (Sinha 1999; Gamage 2004). However, the aim of economic and industrial development through application of western ideologies has not remained unchallenged in developing countries (Hofstede 1994; Kao et al. 1999; Wickramasinghe & Hopper 2000; Gamage 2004). This issue has been examined from different perspectives. These include an examination of the validity and transferability of knowledge (Leonard 1985; Sexton 1987), the utility and impact of such knowledge (Kao et al. 1999; Sinha 1999) and cultural diversity (Hofstede 1980; 1984; 1994; Nanayakkara 1999; Adler 1997; Kao et al. 1999; Ratnasiri 1999; Wickramasinghe & Hopper 2000). If culture supplies the initial social conditions under which entrepreneurial practices emerge, then the behaviors and practices that constitute current notions of entrepreneurship should be expected to fit the values of the cultures that generated and shaped the phenomenon (Mehdi and Ali 2009). From these perspectives, management and work activities in an enterprise depend critically on socio-cultural values and indigenous management practices, therefore, without considering the complexity of indigenous society and culture, which hinders attempts to understand entrepreneurial risk.

3. Exclusiveness of the Sri Lankan Socio-cultural Setting and Entrepreneurial Culture

Sri Lankan culture demonstrates various complex and unique behavioural patterns. It has had its own civilization for millennia, although from the 12th century it was subjected to several invasions. The last and the most dominant colonization was by the British who ruled from 1796 until 1948. The British influence caused significant changes to the original socio-cultural setting (De Silva 1981; Mowlana 1994; Jayawardena 2000). British colonialism was central to the economic, political, and cultural construction of modern Sri Lanka. The imposed British administrative, religious, judicial and education systems retain their influence (De Silva et al. 1973; De Silva 1981). In particular the total education and training system has been influenced in terms of objectives, design, content, and methods by the west (Ruberu 1962; Nanayakkara 1999a).

Sri Lanka received its independence in 1948, and now embraces Asian, Western and other cultural influences. After independence, Sri Lankan society blended traditional culture with European social structure (Ludowyk 1966; Jayawardena 2000). Sri Lankan entrepreneurial culture can be said to have evolved through two different routes. One can be traced to the origins of Sri Lankan civilisation and the other to the western influence, originating from the Industrial Revolution, and imposed through colonisation which systematically destroyed the indigenous feudal system. Entrepreneurship literature available in Sri Lanka both by way of imports or local production is almost exclusively western in origin and character (Nanayakkara 1999a) and has influenced academic and professional systems. Similarly, the personnel involved in bilateral and multilateral assistance programmes have also spread western ideology through training programmes. It is clear that western knowledge in Sri Lanka is influential. However, observations from India show the heart and the mind of such a system often do not work together and this conflict is apparent (Khare 1999).

4. The Research Approach and Design: Holism and Qualitative Methodology

The dynamic interaction between the social context of entrepreneurial activities (including risk) and the complexity of the South Asian culture invites an alternative approach to understand its entrepreneurial risk. The emerging research philosophy outlined above built on a set of beliefs and feelings about the world (ontology) and how it should be understood (epistemology) and studied (methodology) (Denzin & Lincoln 2000). The exploratory nature of this culture-based research embraced the fundamental philosophy of subjectivism. Hence this paper attempts to understand and document whether entrepreneurial risk...
in South Asia is critically dependent on social values and indigenous business practices.

The exploratory nature of this culture-based research embraced the fundamental philosophy of subjectivism. A qualitative research methodology and inductive holistic case study approach including grounded theory analysis were selected to explore people's experiences and behaviour. This paper analyse entrepreneurial risk factor in the Asian entrepreneurs through a case study approach that focussed on ten entrepreneurs who started up home-based businesses and which have grown to become significant in Sri Lankan society. This allowed context sensitive theoretical understanding of entrepreneurial risk taking reality in Sri Lanka to emerge. Hence, this study used purposive sampling to select informative case studies.

The study sought to understand the subjective realism rather than to impose objective rationalism (Mason 1996). Therefore, the researcher did not have preconceived beliefs in exploring social realities. Interpreting and understanding the meanings of social reality through close interaction with the knower and the known (Denzin & Lincoln 2000) required active interaction between the researcher and the individual or community experiencing the phenomenon.

The inductive and holistic study of human experience required qualitative methodology to explore the inward and outward interactions of entrepreneurial experience. Using a qualitative case study approach, the problems of questionnaire-based scientific studies (cf. Perera 1990; Turner 1993; Chetty 1996; Gummesson 2000; Wickramasinghe & Hopper 2000; Gamage et al. 2003a; b) could be overcome. These problems include: a reliance upon the logic of sampling for statistical generalisation by testing hypotheses derived from predetermined theory; belief in an objective reality ascertainable through a ‘falsification process’; and an erroneous belief that ‘scientific’ methods enable researchers to be objective and neutral recorders of events (Wickramasinghe & Hopper 2000).

In this study, timeframes of the case study subjects were between 13 and 41 years. Therefore, these entrepreneurs had up to 41 years of experience of the phenomenon (see Table 1.1). The long period of experience in business revealed how entrepreneurial activity changes over time.

Table 1.1. Age of the businesses selected in this thesis

<table>
<thead>
<tr>
<th>Case study</th>
<th>One</th>
<th>Two</th>
<th>Three</th>
<th>Four</th>
<th>Five</th>
<th>Six</th>
<th>Seven</th>
<th>Eight</th>
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<tr>
<td>Age in years</td>
<td>21</td>
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<td>41</td>
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Ten entrepreneurs were interviewed and all these businesses were based in Western Province in Sri Lanka. This study is longitudinal and first round of interviews conducted in 2002 and second round of same study conducted in 2012.

Using detailed stories of small rich informative case studies enabled the researcher to gain a relatively complete picture (Eisenhardt 1989a) of the range of entrepreneurial experiences. This study applied a grounded theory technique of constructive thematic generation to provide a language to describe the findings (Strauss & Corbin 1990). Themes emerging from the empirical data required further iterative processes to explore the foundation value sets (social meanings) underpinning particular actions. The foundation value sets discovered were interpretations of socio-cultural realities in the context, based on understanding how entrepreneurial behaviours fit in the society and culture. The literature about the historical origins of religions and politics also contributed to understanding the deep-rooted reality of behavioural patterns and actions within society. This led to insights into entrepreneurial performance in Sri Lanka.

The amount of data generated by qualitative methods was extremely large. Organizing and analysing the data could have appeared to be an impossible task (Patton 2002). The data analysis software tool, ‘Nvivo, Qualitative Data Software’ was used to manage data efficiently throughout the course of the research project (Silverman 2001; Patton 2002). Credibility and reliability of data were achieved through data triangulation (Denzin 1989; Yin 1994; Silverman 2001). Multiple sources of information were sought, and the interview scripts were presented back to participants for verification.

The research output was described using words and illustration rather than numbers (Penrose 1990; Miles &Huberman 1994). This style of analytical presentation of output in terms of storytelling has attracted a number of management and entrepreneurship researchers (e.g. Turner 1993; Chetty 1996; Gummesson 2000; Greenhalgh 2000; Workman 2001). The research methodology and methods went beyond those previously employed within the culture and entrepreneurship area in Sri Lanka, to capture insights of entrepreneurship in the Sri Lankan context.

5. Empirical Evidence: Uniqueness of Sri Lankan Culture and Entrepreneurial risk

In this exploratory study it has been found that with the socio-cultural environment in Sri Lanka, the
contextual reality of managing risk challenges the underlying assumptions of rational risk management processes. In cultures that are different from the west, as in Sri Lanka, conventional theories of rational risk taking process are inconsistent with the national and local cultures. For example, Sri Lankan businesses try to preserve their paternalistic system, and emphasise socially bounded relations, and rightness, trust, loyalty and collectivism (Nanayakkara 1999a; Gamage 2004). These are the pillars of the Sri Lankan cultural system. In this context, five main themes have emerged in entrepreneurial decision-making on risk taking. These themes involved:

5.1 Entrepreneurial risks shape from socially driven uncertainties

The data suggest that social uncertainties in Sri Lanka are critical in influencing entrepreneurial risk. Evidence is provided by the cases; all were emphasised that "we are making business decisions in the dark environment due to political instability, lack of reliable information and violence of youth organisations". Periodic promises given by politicians about reducing power-cuts had disrupted entrepreneurial activity as they were not realistic promises. These situations influenced to close down their business activities and also profitable international business lines. Some cases indicated that as a result of these circumstances, international customers have approached other country suppliers. One of the entrepreneurs expressed his disappointment:

How can we predict our business? More than three to four months continuous power limitations (at least two hours in daytime and another two or three hours evening or night) have occurred each year in the last six years. Productivity and achieving targets have been affected. Furthermore, unrealistic promises given by politicians about ending power-cuts have disrupted entrepreneurial operational activity.

Social uncertainties had been transformed into different forms of risk in entrepreneurial activity. For example, risks in decision-making on production, continuation of business activities and exporting products in time, and approval and smooth production processes resulted from social, political and economic instability, which has turned the entrepreneurial environment into a more uncertain realm. More than 20 years of continuous ethnic civil war and youth unrest due to poverty, unemployment and imbalances in income distribution have led to the uncertain socio-political milieu. Moreover, changing weather conditions in the last few years resulted in disruptions to the hydroelectric power system which was unable to cope with the increasing usage of electricity by household, commercial and industrial sectors. Most entrepreneurs get used to such uncertainty because they see no other alternative as they are uncontrollable and unpredictable and could not be seen through the rational process of forecasting and moderating risk.

5.2 Generating risk: the social disorder matters

Most entrepreneurial challenges were derived from the disorder of the social system in Sri Lanka. The cases exemplified a lethargic social system where things just do not move efficiently, be it in banks or government departments, creating delays, time-consuming practices, and the need for political and personal favours or conversely, knocks to business activity. Time management is a top concern of entrepreneurial success as they have to use their time more efficiently. Several entrepreneurs expressed their disappointment on the time factor; higher waiting period for getting things done. Entrepreneurs’ experiences in several respects:

Within the last two months three times, tax department people came to the company and asked for the same bundle of files and they took all those files and brought them back. Three times office people traced files and replaced files. Taking time of the workers directly affected to the productivity and achieving production targets.

The Bank asked us to come several times to discuss our loan. Every day they told us something and discouraged us. This was the initial experience of getting a loan to start my business.

Another entrepreneur’s experience on discrimination on issuing bank loan at the setting up stage of the business:

For a Rs. 500,000 bank loan, bank requested a securities for the loan. Finally two guarantors were found but one higher officer in the bank has refused to approve the loan by saying that, who is giving a loan for this kind of man ThelBeheethkarayawhol produces traditional oil treatments (this has a very sarcastic meaning). Again loan was rejected.

Afterwards entrepreneur had to argue with the Chairman of the Bank to show him the rules and regulations that indicate no bank facilities are available for oil treatment businesses. The reality is, there was no such regulation in the process of issuing loans but personal subjectivity/biases were involved in making decision on loan to grant or not.

This has created stress, uncertainty and risk not in business aspect but also health aspect of the entrepreneur. In the absence of an adequate legal framework, informal constraints play a large role in the society. In Sri Lanka, political influence especially often greatly helped in getting permission to access resources and enters local and international markets. This was evident in Cases, the entrepreneur’s political relational power was used to handle threats to the existence of their businesses. In the political context of Sri Lanka, government authorities and politicians often acquire power by which they override some rules and create situations that are governed not by
rules but by the power of particular individuals. These discretionary and personalised favours generated entrepreneurial risks on the one hand or eliminated on the other. The entrepreneur, who operates in such an environment of frequent social disturbances and constraints derived from inadequate social, political and legal structures, is unable to readily manage risk through rational planning (Nanayakkara & Ranasinghe 1984; Nanayakkara 1999a; Gamage 2004). Entrepreneurial risks associated with time, favouritations, biases, stress, disappointment, changing promises and letting entrepreneurs down could not be even calculated and moderated through the rational process of entrepreneur risk.

The data also suggest that dishonesty and bureaucracy of most government authorities was a formidable challenge to entrepreneurial activity. This was supported by the statement of entrepreneurs.

"...Everything needs follow up actions. If we wait until they do it, it will not happen. We have to push them to get things done by government authorities".

Because the political and public system and organisations often did not incorporate commitment, honesty and respect, the opportunity existed for opportunists to set up monitors and controls as necessary requirements from the social system. Evidence from one of the entrepreneurs who had experience on influence of multinational companies.

"Some multinational companies wanted me eliminated from the market. ... They never allowed me to use the Sri Lankan name for my product. I thought, my product is a Sri Lankan product, why can’t I use a Sri Lankan name for it. So without approval I had to stop my business for two years.

Multinational companies havedistracted indigenous entrepreneurial activities.

Another case highlighted that bribery was demanded in order to continue the order for the product.

'While I was producing the order one officer asked for a bribe and I thought, why should I give a bribe to sell my product? I refused to give a bribe. Then suddenly they stopped my production while I was continuing my production process. My business totally collapsed.'

In these cases, the entrepreneur’s high social morality increased his exposure to risk within such disorder of the social context.

The following statements indicate another social disorder that is the lack of implementation of proper customer protection in the legal system and unethical behaviour of some business groups in the society. Entrepreneurs are willing to take challenges and risk related to the business activities but they believe that socially driven unethical and illegal influences are very challenging and create big risk for entrepreneurial activities.

'One competitor made the same product and used a similar type brand name. Anyway, customers complained about our products. We had to find this unhealthy competitor and we found his production system was totally outside hygiene requirements. The lack of implementation of proper customer protection in the legal system is a big risk for entrepreneurs'.

'One very popular product suddenly was rejected by the customers. The whole production was stopped and the raw materials were examined by sending them to another country. Then we realised some fraud was happening to our imported raw materials. It could not be traced at the quality control as that chemical was activated in a couple of days. So we had a big loss; however, those are some experiences and business is difficult in such an unethical environment. Otherwise business is a challenge that can be taken'.

Organisational corruption and political influences are prevalent. As a result, unethical transactions and actions are usual in day-to-day social life. Most cases provided evidence that in their entrepreneurial journey, the entrepreneur’s personal and political relations, respectability and also willingness to give bribes were forceful. The legal and social security system is still need to be improved in Sri Lanka in order to avoid unnecessary risk for the entrepreneurs.

The following cases were exposed that businesses were frequently influenced by the actions of government organizations.

'Six months after increasing my workers’ salary, the government announced a general salary increase and asked all private companies to follow the same rule. So if we do not follow the general rule workers make problems. Fortunately, I could afford that because the Dollar exchange was positive at that time. Socially driven risks were more harmful and more powerful than market driven risk in entrepreneurial activity. This uncertainty and risk in the Asian context has been studied by Hofstede (1980), he asserted that uncertainty is rooted in culture and reinforced through basic institutions such as family, school, and the state. Business uncertainty and risk initiation were therefore often critical, and social and cultural, and could not be separated, as business is a part of society.


In Sri Lankan society and culture, people are concerned and inquisitive about others’ behaviour and performance and this builds negative or positive attitudes to which they react. This includes jealousy, frustration, resentment, anger and personal politics, all of which potentially operate against the entrepreneur’s wellbeing and piliganeema (SP). These confrontations were understood as either politically motivated (often resulting from opportunistic political forces) or due to human emotions.

The data suggest a range of perceptions on entrepreneurial risk taking behaviour within the social cultural context. Some risks were seen as personal and are kept covert; others were seen as social and
collective, and made overt, were managed collectively.

6.1 Failures as social confrontation and accepted as a personal risk

The data shows that most failures and social confrontations were kept at a personal level. The following statements provide evidence:

When my product was suddenly refused by the Department ... I met a minister several times ... but he was deaf to me. I went to Japan but nobody knew the reason. ... when I came back I saw unsold production was stocked in the factory. What I did without telling my workers was to remove it all to my house at night. As a leader I should maintain my respect and try not to create a feeling of my incompetence among workers.

Once our product was upset due to fraud happening to our imported raw materials. We had a big loss. It is very unethical in business perspective. However, we (certain Directors) kept this incident a secret. I know they (who did the fraud) wanted to eliminate our social and business dignity.

Socially unethical challenges such as creating frauds against the entrepreneur because of anger and jealousy were often taken personally and therefore entrepreneurs tried to manage them individually. It was assumed that personal challenges are aimed at the pilifiqueema (SP) of the entrepreneur; in turn entrepreneurial dignity would be damaged by the loss of confidence of workers, buyers, suppliers, supportive organisations and society. For example, if subordinates’ confidence, respect and loyalty were lost, work commitment seemed to disappear from workers.

The entrepreneurs interviewed seemed to perceive the necessity to take into account both personal and business risks (Osborne 1995) and also social and psychological risk (Gasse 1982; Ray 1986) which had been identified as typically involved in an entrepreneur’s risk-taking. According to the data, in Sri Lanka, the entrepreneur felt shame (embraced social concerns and feelings) in relation to a particular fault or error. According to Bradshaw (1988), with shame, there are painful feelings of alienation, self-doubt, loneliness, isolation, perfectionism, inferiority, helplessness and hopelessness. Entrepreneurs were ashamed to show their powerlessness (especially those who held some power and dignity) and they kept social confrontation covert to protect their SP with a motivation of securing workers’ and other stakeholders’ confidence, loyalty and commitment. This was different from guilt which is determined by objective criteria (Kaufman 1996) in an individualistic context (Bradshaw 1988).

6.2 Collectivist or what? Business challenges as shared risks

The following cases best illustrate shared risks.

Through my experience (both failure and success) I know what to do in the operation of the business and the market. I use my experience with my workforce’s capabilities to face these challenges. I can give my knowledge but workers are important in carrying them out. So I shared my vision, business challenges and internal issues with my employees to face them. I always remind them if we take risk together we can easily win. Then we will be better off.

I told my workers, this is yours. If you are committed to grow this business, there are no problems for us to face business challenges and to grow. We have to work together to win business challenges.

Ethically driven business challenges such as healthy business competition were accepted collectively in Sri Lanka. Both management and the workforce were encouraged by collective obligations to face business risks. Verbally and visually, the entrepreneur always moralized collective norms by experientially creating a collective risk-taking culture and displaying posters on the strength of togetherness.

Observations revealed that, in several challenging situations, most entrepreneurs addressed their subordinates very colloquially. The expressions: Umbala (you), Kollani (boys), Putha (son), Duwara (daughter), Daruwo (child), Nubala (you) and Lamai (child), represent closeness, togetherness and familiarity. These words give a different sense of relationships. Putha, Duwara, Daruwo, Nubala and Lamai indicate familial (parent and child) relationships, love and caring; Kollani and Nubala always represent a feeling of an advisory relationship between an adult and a young person; and Umbala and Nubala show friendship. In general, people in Sri Lanka show strong friendliness and closeness by using specific colloquial words in conversation with friendly facial expressions.

The system had a built-in resistance to individualism. Familial emotions had been built up, developing a real sense of belonging to the entrepreneur or to the company in which caring, obligation and taking risks together operated between subordinates and superiors through paternalistic approaches.

We understood that there was no specific demarcation between social confrontations and business challenges. The entrepreneur in Case Six considered business fraud against his product as a social confrontation. The entrepreneur in Case Five considered the business fraud of another business producing a similar product with a similar brand name.

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\(^6\) With guilt, the response is a desire for atonement, to make amends, to correct a mistake, or heal a hurt (Bradshaw 1988: Healing the shame that binds you)

\(^7\) ‘Paternalism’ or ‘paternalistic approach’ in this study is used to signify caring and obligations which operate between subordinates and superiors.

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as a business challenge. This provides evidence that entrepreneurial risk was perceived and interpreted subjectively within an individual context.

6.3 This is how we manage risk: through social power and conceptualisation skill

The data indicate that loyalty and respect from supportive authorities were derived from entrepreneurial reputation, professionalism, and trust. As a result, personal favours were highly possible. Interviewed had with third parties revealed that:

We (fruit sellers at the Nugegodapola) always give him (the entrepreneur) our fruits. We do not allow our new people to sell to others first. If we want we can sell our fruits very easily to hotels and retailers for higher prices, but we never do it. We can still remember how kind he was to us in the very early stages of our business. If we ask for personal help, he never says ‘No’. Sometimes, he helps us financially. We take money from him in advance until fruits are supplied. He helps our urgent situations like funerals. He is really a gentleman. (Some fruit suppliers to the business)

We encourage customers to buy “(name of the company)” products because this Mudalali (the owner of the business) gives remarkable service to the society. He is also very concerned about us. He looks after us. He wants us to grow. We appreciate his caring for us and the country. (Some retailers in the business)

According to Case below, the entrepreneur appeared to take an unnecessary risk by not doing sufficient research or analysis before acting.

I do not know anything about theories of planning: I don’t do any market research or formal systematic analysis before acting.

However, this was not the reality. The data suggest that his key skills in managing risk were based on a social capacity for value judgements. The following case evident more on this social and value judgment on entrepreneurial decision making.

I learned everything by painful experience in this society, their behaviour (good and bad), political situations, ... I have a good vision towards the future of this business and alternatives though we do not have more business information. These come from my painful experience. Experience is not really the business techniques but about people and society. It is difficult me to explain but my social insight give me wisdom, vision and directions. These cannot be put into a written document. I cannot give my experience to anybody, even for my son. They have to earn such painful experience by their own and learn.

The entrepreneur often processed myriad bits of information available to him and conceptualised several alternatives, in depth, through his social wisdom before he acted. The only market-related factor of any importance was personal knowledge of the market. The entrepreneurs’ previous experience of failures had expanded their wisdom; giving them confidence they had the skills to avoid failure in future. Social knowledge and the insights gained through painful social experience emerged from most case studies relating to risk management and future planning.

Risk management through value bases and conceptual skill were best illustrated in worker recruitment policy. For examples:

When I recruit my workers I am so concerned about their family background. That means, the poor village type, and humble. I specially recruit the poor, disadvantaged group of people to work. There are many reasons.

a) If we help them they are very grateful and they do not want to leave the company, b) We have higher officers who were promoted from the very lower level and they are also from such family background. If I take high-class people then it creates internal unbalance and problems among workers. c) High class people have several opportunities in the society and they try to leave the company more often.

Entrepreneurs preferred workers who are loyal and reliable rather than technically qualified. This basically deviates from seeking work efficiency and higher productivity in the process of human resource management. Entrepreneurs were found to have set a priority for work harmony on the basis of social wisdom. In general, workers in Sri Lanka display strong collective behaviour in demanding rights. An issue related to one worker affects all workers’ productivity through strikes or ‘work to rule’ until the particular worker’s problem is resolved. Sometimes this issue leads to union actions and continues for months, potentially causing the total business to collapse. This requires the entrepreneur to consider the workers’ social behaviours and contrasts with a problem such as technical know-how, which could be handled through on- the-job training or external training. The ability to conceptualise possible social challenges allows him to deal with risk through social value judgments.

6.4 Luck and karma in risk tolerance behaviour: religion matters

Religious faith in Sri Lanka leads to ‘Luck’ and ‘Karma’. Cases illustrate this effect:

Buddhism believes in a systematic mental culture. To the question of how to eradicate problems, the answer given by the Buddha is ‘when a wise man, established well in morality (sila) has developed his mind and understanding (panna) which has been developed by moral and intellectual investigation rather than fixed by rational and economic figures. I always work according to Buddhist concept of sila and panna in relation to
business activities. This Buddhist guidance is the precaution of my business risk.

The entrepreneur understood that Buddhism teaches the way to penetrate to the root of the problem (similar to the western analytical approach) and find out the main cause of it within the social moral context (different context from western countries). Individuals were guided by their religious norms to become more skilled in managing human life and to promote more satisfactory living.

Suddenly my Sri Lankan buyer refused my product. My friend in Japan was able to help me. He is the first man in Japan going out of the country to buy such products. So I believe we should have luck also when doing business.

While...one officer asked for bribery and...my business collapsed, that is my karma. The garment industry has been introduced in Sri Lanka on a very large scale. And also imports of printing ink have been limited. This was my luck to come back to my business...I believe in karma, as I am a Buddhist. Some have got every human organ without imperfection, but some people are born with several problems, that is our karma. So I have to maintain behaving in such a way as to get good karma.

It was a big threat of multinational products like Coca Cola for us. I had a very hard time selling our natural fruit drinks. Some small boutique traders chased me when I brought my product. However, our luck came. Fortunately, television media came to Sri Lanka and fresh fruits and health care programmes were broadcasted. It was a new media and people were so interested to try to follow what it showed. This made a big impact for our business. So I believe we need to have luck also.

Lack of information and unforeseen conditions led to unavoidable uncertainties. In such situations where the entrepreneur had no power over exterior influences he resorted to religious faith. The entrepreneur was persuaded with luck and karma. Religious faith and values rooted in religious morality were part of the social behaviours and provided satisfactory compromises between unexpected failure and success.

In Buddhist values every material thing that exists is impermanent. But the good and bad points collected in life (Karma) are carried forward to the next life. Therefore, every living being has the results of its own past karma to work out, and any interference with his situation will not be anything more than a temporary alleviation of the suffering it is bound to endure (Pickering 1995). The impact of uncertainties was neutralised in terms of karma and luck. Therefore, any impact of uncertainties had been taken as tolerable. The majority of Sri Lankan entrepreneurs (86.6%) believe in Karma (Buddhadasa 1995). Entrepreneurs did not see uncertainty as something to be avoided or moderated in any particular rational model but to be expected and tolerated through social and religious faith and morals. This is the key difference from western thinking on risk management.

All four main components of entrepreneurial risk management described here: risk initiation, perceptions of risk, risk management and such tolerance indicated that business uncertainty was mainly derived from social, political and cultural settings. The business stakeholders and socially and politically influential actors, government authorities, their spouses, relations and friends were all involved (formally or informally) in the risk handling process in terms of creating personal favours. This is supported by studies of business risk in the Asian context by Hofstede (1980) who asserts that strategies for coping with uncertainty are rooted in culture and reinforced through basic institutions such as family, school, and the state. This does not mean that markets are not subject to risk, but that business risks in Sri Lanka were largely socially derived, were powerful, and demand widely developed conceptual skills for effective management.

7. Irrationality of Entrepreneurial Risk Taking: Contrary to Western Entrepreneurial Paradigm

In the western models, entrepreneurial risk can be managed through knowledge of and entrepreneurial alertness to markets (Kirzner 1973; High 1986) and the process of rational decision-making. Classical economist Knight’s (1921) classification of entrepreneurial risk includes perfect knowledge, risk and uncertainty. Schumpeter (1936) asserts entrepreneurial risk-taking behaviour in innovative economic activities which implies risk taking in a rather uncertain condition of novelty. Research supports the idea that firms that innovate and are proactive also tend to take larger risks (Miller 1983; Covin 1989; 1991).

The neo-Austrian school believes entrepreneurial risk interacts with the internal situation of the business and with the economic, political and social circumstances surrounding the business (Cole 1949). The Harvard School considers the human factor in the production system as well as sensitivity to environmental characteristics that affect decision-making.

McClelland’s (1953; 1961) psychological theory also discusses business uncertainty and certainty based on availability of reliable information to the entrepreneur. He argues that risk involvement is essential in undertaking a venture and such risk can be moderated through logical analysis of information. Furthermore, in his theory of n Ach, a large incongruity between an entrepreneur’s aspirations and end results leads to avoidance motives (McClelland 1953) as far as personal achievement is concerned.

From this, if business risks are defined in terms of economic and psychological connotations, business risk is focused by (the western paradigm) only on a
firm or an individual entrepreneur. However, business uncertainty and risk are often socially and culturally interpreted and cannot be separated, as business is a part of society. The country’s social conditions and cultural values provide the ingredients for critical risks for the entrepreneur and lead to a definition of entrepreneurial uncertainty as ‘socially-derived doubts’. As a result, different issues emerged in entrepreneurial activity and were identified as entrepreneurial risk factors.

Risk calculated by predicting and forecasting economic effects was insignificant in the context of possible social challenges in Sri Lanka. This challenges Kirzner’s (1973; 1979) and High’s (1986) arguments of risk management through knowledge of markets and entrepreneurial market alertness. In Sri Lanka, entrepreneurial risk management was both defined by and managed in a social context rather than an objective cognitive context. Whether the entrepreneurs want to moderate, tolerate or avoid risk was rooted in their values and beliefs system. Conceptualisation of business risk was subjective and antithetical to the psychological theory (McClelland 1961) and to moderating risk and risk-avoidance (Miner et al. 1994) through rational approaches. The market mechanism in risk management therefore worked loosely in Sri Lanka (Gamage et al. 2003a)

Deep understanding from the findings led to a guiding model for business risktaking and management in Sri Lanka (Figure 1), which discriminates between the social and business implications of business risk. This indicates that the entrepreneur needs to build a wider risk-management circle through value base in response to entrepreneurial risk. This involves conceptualisation skills not limited only to analytical skills and approaches. Therefore, risk management requires the entrepreneurs’ social wisdom to screen social risks rather than simple knowledge creation of market alertness.

**Figure 1.** Entrepreneurial risks and the risk management circle

![Figure 1: Entrepreneurial risks and the risk management circle](image)

**8. Conclusion**

Socio-cultural values and beliefs, which direct social being, influence entrepreneurial risk behaviour in Sri Lanka. Sri Lankan businesses cannot survive by merely following entrepreneurial orthodoxy within the western paradigm, which does not lead to appropriate practices because conflicts and challenges are palpable. In this research work found that in the South Asian cultural context social wisdom and value judgment is prominent and essential in understanding, tolerating and managing uncertainty and risk which are driven from socially and culturally. Sri Lanka should not imitate a western system with its own
shortcomings. Sri Lanka should develop its own strengths in entrepreneurship development. It needs to understand how cultural values and practices are reflected in the unique organisation of business. Finally this study revealed that Socio-cultural-relativism in entrepreneurship*, may be more appropriate to understand entrepreneurial reality in its context.

The authors propose that the entrepreneurial risk may be explained by recognizing the fact that entrepreneurs use experience-derived knowledge including socio-cultural and politico-economic intuition and wisdom to a problem, which is likely to lead them to perceive multiple risks in a given decision situation.

These findings provide a new perspective for understanding how entrepreneurs deal with the unjustifiable amount of risk associated with the complexity of indigenous society and culture in the South Asian context, which challenges the western ideologies and practices of entrepreneurial risk. This context sensitive understanding sheds some light especially for policy makers, trainers and educational institutions to develop more integrated and context sensitive entrepreneurship development policies and training and educational programs.

References