

Entrepreneurial perspectives

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“Entrepreneur’s characteristics and their impact on the business performance”

Introduction

“Entrepreneurship is the backbone of our economies and the mandate for the wealth of our nations. It is at the very core of our existence.” (Carland Jr. and Carland 1997: 33).

The world’s economy is based on entrepreneurship. It can be found everywhere around us, from the smaller shops to big organizations.

In the past years, there are many studies and researches that have been conducted on entrepreneurship. Nevertheless, recently the concept of these studies has changed and raised to another level, where entrepreneurship can be involved in anyone’s ordinary life. Nowadays successful entrepreneurs such as Steve Jobs, Bill Gates and Mark Zuckerberg, can be seen even on red carpet and global newspapers. Which makes it hard to concentrate on the characteristics and attitudes of small-scale entrepreneurs, stand for every individual and should be studied.

Entrepreneurship has usually been related to the financial and economical perspectives, as a source that creates wealth. Which also limits the studies that have been conducted on entrepreneurship. This report focuses on the entrepreneur as an individual and investigate the impact of the personality and characteristics of an entrepreneur on a new business venture.

Despite the fact that this report focuses on the entrepreneur as an individual, it is necessary to admit the success of a business is not only related to the entrepreneurship psychological factors but to environmental ones as well considering that the environment produces threats and opportunities. (Dollinger 1995).

However, this topic will mainly focus on the role of the entrepreneur’s psychology in the business performance.

I. Literature review

1. “Entrepreneur and entrepreneurship”

“Entrepreneurship is one of the oldest established processes of human society, and it has been a driving force in the world since the first humans began to develop specialization of labor at the dawn of history. As the centuries pass, the importance and role of entrepreneurship grow.” (Carland Jr. and Carland 1997: 37).

Although, entrepreneurship is a significant field in our lives and our economy depends on it, it was not yet considered as an academic field until recently. (Kuratko and Hodgetts 2007) in 1800, J.B Say referred to the term “entrepreneur” as someone who shifts the productivity from a lower level to a higher one. (Zimmerer and Scarborough 1996: 2)

Nowadays the concepts of entrepreneurship and entrepreneur have changed the world’s markets and economies (Ahmad 2010: 203) a country’s development is directly related to businesses growth and success due to employment creation and GDP. (Hisrich et al. 2013: 6)

2. Definitions

“To provide a conceptual framework for something, a researcher must first define it and put some boundaries around it.” (Shane 2003: 4)

The term “entrepreneur” was invented by I.B Say in 1800. However, there has been a lot of difficulties and confusions around its definitions, claiming that there is no unique standard definition of “entrepreneur” and “entrepreneurship” (i.e. Butler 2006, Westhead et al. 2011, Carland Jr. and Carland 1997)

Some authors define entrepreneurship as “the creation of an innovative economic organization (or network of organization) for the purpose of gain or growth under conditions of risk and uncertainty.” (Dollinger 1995: 6-7) In the same context, Scarborough (2012) affirms that entrepreneurship is inventing something uncertain in order to generate profit. Many definitions of entrepreneurship are related to monetary gain. Whereas, Barringer and Ireland (2008) confirm that entrepreneurship is not about generating profit but perusing opportunities and exploring new ideas and putting them into practice.

It has been as difficult to define the term entrepreneur as well. The Oxford English dictionary defines the term entrepreneur as “a person who attempts to profit by risk and initiative”. (Mariotti and Glackin 2012: 3) Scarborough (2012) states that “an entrepreneur is someone who creates a new business in front of risk to be able to achieve profit and growth”.

3. “The different approaches of entrepreneurship”

“Entrepreneurs think differently from nonentrepreneurs [sic]” (Hisrich et al. 2013: 7)

The studies that have been conducted on entrepreneurship showed that, there are three factors that can determine this field, individual, environmental and organizational factors. (Bulut, et al. 2010)

Studies started focusing on the individual’s characteristics in entrepreneurship since 1961. Mainly on psychological, demographic and personal traits. (McClelland, 1961) This approach claims that, individuals who are focused and independent are more likely to be entrepreneurs in the future. (Bulut, et al. 2010) Meaning the people psychological, sociological and demographic characteristics have a direct impact on their abilities to become successful entrepreneurs. (Dollinger 1995)

Littunen (2000) states that “entrepreneurship has two schools of thought; the trait model and contingency thinking”. The “trait model” depends on the ability of an individual to succeed as an entrepreneur. Whereas, the “contingency thinking” depends on the business’s current situation and environment. (Littunen 2000)

4. “Entrepreneurial characteristics”

Personality characteristics are known to be one of the most important psychological theories that studies use to explain and interpret humans’ behavior. (Ahmad 2010)

When McClelland’s (1961) invented the term entrepreneurship in 1960, he associated the need of achievement of entrepreneurial characteristics, because he revealed that entrepreneurs have more need of achievements than non-entrepreneurs do, as well as the will of taking risk. (Zhang and Bruning 2011) Chell (2008) states that the most discussed characteristics in entrepreneurship are “the need for achievement, locus of control and risk-taking propensity. On the other hand, (Littunen 2000) claims that the most applied theories in entrepreneurship characteristics are the need of achievement and the locus of control, without taking the risk-taking in consideration.

Kuratko and Hodgetts (2007) state that “the individual approach consists of need for achievement, locus of control, risk-taking propensity, job satisfaction, former work experience, entrepreneurial parents, age and education”. (Kuratko and Hodgetts 2007: 45). On the other hand, Westhead affirms that there are few other characteristics that have been added to the three main ones such as, “the need for autonomy, decisiveness, initiative, creativity, self-confidence and trust”. (Westhead, et al. 2011). Contrariwise, Wickham claims there are six approaches that define every entrepreneur as an individual:

- ✓ “The great person”. The entrepreneur was born as someone who is special and who will achieve greatness.
- ✓ “Social misfit”. The entrepreneur wants to create his own environment, as he cannot fit into the existing one.
- ✓ “Personality type”. Entrepreneurs are categorized according to their reactions towards certain situations.
- ✓ “Personality trait”. As the individual’s traits keep changing, psychologist have determined three of them, temperamental, dynamic and ability.
- ✓ “Social development”. The same thing applies to social development approach, it changes continuously, and therefore phycologist have differentiated three main ones, innate, acquired and social.
- ✓ “Cognitive approach”. This approach means the ability of individuals to receive, absorb, process and utilize information to understand the world better. (Wickham 2006).

The majority of studies acknowledge, there are three main characteristics that distinguish entrepreneur as an individual.

A. “Need for achievement”

This theory claims that entrepreneurs with a strong need of achievement have the ability to perform higher than those who do not. (Littunen 2000). Westhead states, “High achievers typically choose situations that are linked with responsibility, moderate risk-taking, knowledge of results of decisions, new instrumental activity and anticipation of possibilities in the future. An entrepreneur might be driven by the possibility of achievement satisfaction and not financial gain”. (Westhead et al. 2011: 60-61). This need of achievement depends on the individual, for some entrepreneurs achievement is monetary gain but for some others, achievement is recognition. (Burns 2005).

Entrepreneurs who have the need of achievements tend to take risks and set higher goals, as they do not want to stay in their comfort zone, they rather seek self-development. (Fine, et al 2012). The key driver in this approach is motivation and enthusiasm.

B. “Locus of control”

Locus of control theory is one of the most important characteristics in entrepreneurship. It was created by Rotter around 1960. (Chell 2008). The concept of this theory is to define the impact of an individual’s perception of control on their behavior. It also studies the person’s understanding of external environment, and the knowledge learned from different situations from different angles. (Littunen 2000). Studies have shown that individuals, who acquire an internal locus of control, are more likely to become entrepreneurs. (Westhead et al. 2011). Entrepreneurs with a high locus of control tend to have more power and be more innovative and successful. (Zhang and Bruning 2011). There are two types of locus of control; internal and external ones. The internal locus of control is related to the individual’s characteristics, whereas, the external one is related to the environment and forces beyond the person’s control. (Littunen 2000). Entrepreneurs with internal locus of control believe that they can have control over future situations, by their efforts and through logical thinking and reasoning. (Dollinger 1995). On the other hand, entrepreneurs who have external locus of control believe that future situations are controlled and influenced by external factors and circumstances. (Chell 2008).

C. “Risk-taking propensity”

What differentiate an entrepreneur from a non-entrepreneur is the will of taking risks (Ahmad 2010). Usually, a risk taker is the one who creates an idea even if the chance of success is low. However, many studies showed that most entrepreneurs are moderate risk-takers; they only take calculated-risks. (Chell 2008). Risk-taking depends on many factors such as, age, education, motivation and business experience. (Westhead et al. 2011). The fact of creating a new business idea is risky, and business owners have to live with uncertainty as they cannot control many aspects of the market they operate in. Therefore, in order to be a risk-taker it is necessary to have a strong need of achievement. (Westhead et al. 2011).

5. “Issues with the study of entrepreneurial characteristics”

Studying characteristics in entrepreneurship remains unclear and controversial. (Carland Jr. and Carland 1997). Researchers could not provide sufficient evidences on why some individuals engage in entrepreneurial behavior than others do. (Westhead et al. 2011). Wickham states, “Although the trait approach is conceptually powerful, it raises many questions. The trait approach is not enough evidence to advocate or to advise against a person willing to become an entrepreneur”. (Wickham 2006: 14). Many experts claim that, the individual’s characteristics in entrepreneurship stays irrelevant, due to many reasons, entrepreneurs back at the time did not have the same characteristics as the current ones. (Chell 2008). Gibb and Ritchie stated in their study in 1982 that, “to be able to fully understand entrepreneurship, it is crucial to understand the types of situation attained and the social groups to which the individuals relate”, considering that people develop and change throughout the course of their life. (Littunen 2000).

The major issue with the trait approach is that, entrepreneurs’ characteristics are variable and change continuously throughout life and experiences. Studies usually ignore situational factors such as, social, cultural and environmental ones. (Burns 2005). As Westhead stated, “The theories focus on who the entrepreneur is’ and not on ‘what the entrepreneur does”. (Westhead et al. 2011:

6. “Defining entrepreneurial success”

Entrepreneurial success can be measured either by financial or non-financial performance, it is generally defined as the profit generated by the business. (Ahmad 2010). Indicators of success differ from researchers to others, some claim that, turnover, growth and sustainability is what define a business success, whereas others believe that entrepreneurial characteristics are the key indicator of a business success. (Gupta and Muita 2013). Gupta and Muita state “A successful business is either able to quickly response to uncontrollable changes or it is so innovative that it promotes to change in the environment”. (Sahlman 1999: 8).

7. “Entrepreneurial characteristics and business venture performance”

According to Zhang and Bruning “The success of a small business depends strongly on the human capital of their owner-manager”. (Zhang and Bruning 2011: 82).

In the last few years, many studies have been conducted to study the link between entrepreneurial characteristics and the business growth. (Halim et al. 2011). Empirical studies confirm that the entrepreneur’s personal characteristics influence directly the business venture performance. (Zhang and Bruning 2011). There has been a study conducted by Baume and Lock in 2004, based on a sample of 229 entrepreneurs and 106 associates during six years. The results showed that indeed, the entrepreneurs’ personality has a direct impact on the business growth. (Baume and Lock, 2004). Many researchers came to support this approach such as, Wijewardena and Nanayakkara in 2008, De Zoysa in 2007, as well as Dickers, Jansen, de Lange, Vinkenburg and Kooij in 2010. Whereas McKenna stated, “occasionally entrepreneurs might affect business performance negatively through the ‘dark side’ of their personality”. (Gupta and Muita 2013: 88). Researchers proved that there is a strong link between the entrepreneur’s characteristics and the business performance; however, this may have either a positive or a negative impact on the business performance, depending on the individual’s personality. (Zhang and Bruning 2011). Studies showed that entrepreneurs having a higher need for achievement, internal locus of control and risk-taking, do have a positive impact on their business growth and performance. (Wickham 2006).

8. “Issues with the study of entrepreneurial characteristics and business venture performance”

It is difficult to link the performance of a business of a business with the entrepreneur’s characteristics, as the business success depends on many other factors, the person’s traits is only one of them. (Burns 2005). Perry, Meredith and Cunningham, conducted a study using multiple regression analysis, reported that there was no direct relationship between entrepreneurs traits and the business economic performance. However, other factors had an impact on the business growth. From this study there has been concluded that a successful business might not be due to having “the right stuff” but rather “being in the right place, at the right time”. Some other researchers tried to measure the business growth based on comparing the traits of successful entrepreneurs with those of failed ones. They found out that some characteristics distinguish successful entrepreneurs,

such as the need of achievement and high risk-taking. Whereas it has been reported by Hay, Kash and Carpenter that the locus of control did not distinguish successful entrepreneurs from failed ones. (McNeil, et al. 1991).

II. Methodology

There has been few studies conducted in this area that could be used as trustworthy resources for this report. Therefore, it is not necessary to conduct a primary research; instead, the different previous studies from different cultures and periods will be utilized as an important part in this report. In other words, the research methodology will be based on secondary data such as, various books, e-books and articles, in order to give the reader a deeper understanding of the area in question.

III. Findings and analysis

After providing a theoretical framework on entrepreneurship and entrepreneur's characteristics, it is necessary to answer the main question for this topic; "what effect do the personality characteristics of the entrepreneur have on the performance of a new business venture" and the sub-question; "how do the characteristics of an entrepreneur differ from the characteristics of a non-entrepreneur". There are two hypothesis based on these questions:

- ✓ Hypothesis 1, "The characteristics of an entrepreneur differ from the characteristics of a non-entrepreneur".
- ✓ Hypothesis 2, "The characteristics of an entrepreneur influence the performance of a business venture".

This section aims to analyze the two hypothesis based on the theories mentioned in the literature review and the previous studies that have been conducted on the topic.

Analysis of hypothesis 1

In order to analyze the first hypothesis, we will rely on a study that has been conducted by Ahmad in 2010. This study aimed to compare if entrepreneurs characteristics are different from the non-entrepreneur ones, based on three main motivational factors; the need of achievement, the locus of control and the risk-taking. The study was carried out on small and medium businesses, by interviewing a sample of entrepreneurial and professional CEOs. The results revealed that entrepreneurial CEOs have higher need of achievement, locus of control and take-risk than professional CEOs. (Ahmad 2010). In this case the study of Ahmad supports the first assumption.

Analysis of hypothesis 2

The approve or reject the second hypothesis, we will rely on a study that has been established by Zhang and Bruning in 2011, about the influence of the need for achievement, internal locus of control and the need for cognition . The researchers used a survey where they targeted 2200 companies in Canada, and got 161 responses. The collected data showed that, the need for achievement and the locus of control had a positive impact on the business performance, unlike the need for cognition that had a marginal impact on the entrepreneur's performance. According to the study's results, the entrepreneur's characteristics has an impact on the business performance. Which supports the second hypothesis.

Discussion and conclusion

Entrepreneurship has been a highly considered topic in academic research over the years, there is a significant amount of literature on the topic. Therefore, it is obvious to find contradicting sources, including definitions of the terms entrepreneur and entrepreneurship, there is no specific and unique definition for the terms. As this report is based on secondary data, it was necessary to rely and cover the different viewpoints of different researchers and authors. This report discussed and analyzed the entrepreneur as an individual and the link between its characteristics and the business performance. Authors and researchers proved different approaches; some claimed that entrepreneur's personality has a direct impact on the business growth, either positively or negatively. Whereas others affirmed that the entrepreneur's characteristics are only one of the factors that might have an impact on the business, else, there are many other important factors that should be taken into consideration such as, cultural, social and environmental factors. However, most of the studies showed and agreed that there are three main characteristics, which have an influence on the business performance, the need of achievement, the risk-taking and the locus of control.

Therefore, we can conclude with the statement "the performance of a new business venture is affected by the personality characteristics of the entrepreneur" can be called true.

This report was based on a literature review that helped build a theoretical framework.

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