

Entrepreneurs
personal
characteristics and
influence on growth
commerce essay



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Baron's (2002) definition of entrepreneurship indicates that entrepreneurship involves a complex process in which specific individuals recognize opportunities and then act to convert them into tangible economic benefits by setting up a new business. This corresponds with Schumpeter's (1934, from: Elliot, 1983) early definition of entrepreneurship and entrepreneurs. He states that an enterprise is "a carrying out of new combinations" and entrepreneurs are the individuals whose function it is to "carry them out". According to Schumpeter everyone is an entrepreneur only when he is actually "carrying out new combinations, and he loses that character as soon as he built up his business. The entrepreneur then becomes only a small business owner (Carland et al., 1984). In this report I use Schumpeter's definition of entrepreneurs and with that focus on entrepreneurs that started a business recently.

Several meta-analyses have shown that entrepreneurs differ from other groups in terms of a broad range of personality (Zhao et al., 2010). The five-factor model (FFM) of personality provides a meaningful and generalizable taxonomy for studying these differences. The FFM consists of five relatively independent dimensions: Extraversion, Neuroticism, Conscientiousness, Agreeableness, and Openness to Experience (Wang and Erdheim, 2007). Each dimension reflects certain personal characteristics.

Small businesses are different from large organizations. Their characteristics are that they are reactive, fire-fighting mentality, have resource limitations, informal strategies and flexible structures (Terziovski, 2010). While small firms' opportunity-seeking skills may be strong, their limited knowledge stocks and lack of market power inhibit their ability to enact the competitive

advantages necessary to appropriate value from opportunities the firms choose to pursue (Ketchen et al., 2007).

This paper consists of a literature study on the personal characteristics of entrepreneurs and their influence on small business' growth. Scientific literature will be consulted to study this relationship. I have chosen to investigate the relationship between an entrepreneur's personal characteristics and their influence on small business growth because I am interested in entrepreneurship and because I am working on setting up my own small business. It is an interesting topic because there are not many articles written about it and I think it can give entrepreneurs insights in how to use certain personal characteristics to make a positive contribution to the growth of their small business.

The research question of the paper is:

To what extent are an entrepreneur's personal characteristics of influence on small business' growth?

The sub questions are:

How can personality be defined?

Which personal characteristics are according to the literature specific for an entrepreneur?

What are the characteristics of the small business sector?

What kind of challenges will an entrepreneur face after starting up a business?

The paper will be structured as follows. In the next section I will put up a definition of personality and review the Five Factor Model. Some insights about personal characteristics of entrepreneurs that are written about in the literature are also being discussed. After that a section is dedicated to the characteristics of the small business sector and what kind of challenges entrepreneurs face after starting up their business. Section 4 consists of an analysis where the insights from the foregoing two sections are combined. I will also analyze and discuss the results of an interview with an entrepreneur in this section. In the last section a conclusion will be given with a concrete answer to the sub questions and the research question. I will also discuss the limitations of this study and some recommendations for future studies.

Figure 1 summarizes the paper structure.

Figure 1: Paper structure

An entrepreneur's personal characteristics

In this section an overview is given of an entrepreneur's personal characteristics that are elaborated on in the literature. First a definition of personality will be given. In the same section The Five Factor personality Model (FFM) is explored because in this model certain personal characteristics are grouped together into five different personality dimensions. After that other personal characteristics that are quoted in the literature are being discussed. The goal of this section is to derive a set of

personal characteristics from the literature that are typical for entrepreneurs and match them to the dimensions of the FFM.

Personality and the Five Factor Model

This paragraph starts with a definition of personality. After that I will explain the FFM model and specify an amount of personal characteristics that are typical for the five dimensions of the model.

Personality can be defined as enduring dispositions that cause characteristics patterns of interaction with the environment (Parks and Guay, 2009). Personality consists of personality traits that are endogenous basic tendencies tied to underlying biophysiological response systems. They are strongly heritable, immune to social and parental influences and quite stable throughout maturity (Olver and Mooradian, 2003). In the 1990s consensus was reached about five broad categories of personality. These five categories together are called the Five Factor personality Model.

The five FFM dimensions are: Conscientiousness, Emotional Stability/Neuroticism, Extraversion, Agreeableness, and Openness to experience (Parks and Guay, 2009; Wang and Erdheim, 2007; Zhao et al., 2010). Conscientiousness refers to making deliberate choices and being reliable. The personal characteristics that belong to this dimension are being careful, thorough, responsible, motivated, organized and efficient. Emotional stability/neuroticism represents the individual differences in the tendency to experience distress and the typical behaviors that are associated with it.

According to Parks and Guay (2009) emotional stability refers to the characteristics self-confident, resilient and well-adjusted. According to Wang <https://assignbuster.com/entrepreneurs-personal-characteristics-and-influence-on-growth-commerce-essay/>

and Erdheim (2007) neuroticism is the opposite of emotional stability and is being anxious, depressed, emotional, worried and insecure. The third dimension, extraversion, refers to being ambitious, talkative, assertive, and sociable. Agreeableness consists of the social aspect of personality, that is being friendly, cooperative, loyal, courteous, good-natured and tolerant. Finally, openness to experience refers to the characteristics curious, imaginative, open-minded and artistically sensitive. This dimension reflects the creative side of personality. According to Zhao et al. (2010) these five dimensions do not cover all personality traits, so they expanded the model with the dimension Risk propensity. Risk propensity can be defined as the willingness to pursue decisions or courses of action involving uncertainty regarding success or failure outcomes.

This was a short explanation about personality and the FFM. In the next paragraph I will discuss several personality traits of entrepreneurs that were elaborated on in literature.

An entrepreneur's personal characteristics

In this paragraph I will start with Schumpeter's theory about the psychology of the entrepreneur. After that several personal characteristics of an entrepreneur that are reviewed in the literature will be discussed.

Schumpeter (1934, from: Elliot, 1983) was one of the first to discuss the personal characteristics of the entrepreneur. He argues that " there is the dream and the will to found a private kingdom, usually, though not necessarily, also a dynasty. Then there is the will to conquer: the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the <https://assignbuster.com/entrepreneurs-personal-characteristics-and-influence-on-growth-commerce-essay/>

fruits of success, but of success itself. Finally, there is the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity" (p. 93). After Schumpeter several other researchers investigated the psychology of the entrepreneur.

Entrepreneurs differ from the rest of the population in a number of ways (Beugelsdijk and Noorderhaven, 2005; Brandstätter, 1997; Zhao et al., 2010). Entrepreneurs can be characterized by an incentive structure based on individual responsibility and effort, and a strong work ethic (Beugelsdijk and Noorderhaven, 2005). This means that they think that the state should not take more responsibility, private ownership should be increased, that unemployed should not have the right to refuse a job and success is not a matter of luck and connections but of hard work.

Brandstätter (1997) attaches an entrepreneur's personal characteristics to some situational characteristics that are common to all entrepreneurs. First, it is the absence of people who give orders, set goals and control the outcome. This means that entrepreneurs are more individually oriented than other people (Beugelsdijk and Noorderhaven, 2005). A second aspect is the insecurity. There is always the risk of economic failure that entrepreneurs have to deal with. They don't need to be upset or worried very easily, so emotional stability is a prerequisite for entrepreneurs. This corresponds with the vision of Zhang et al. (2009). They mention that the level of neuroticism was a key predictor of centrality in advice and friendship networks. People that score low on the level of neuroticism tend to obtain central positions in advice and friendship networks and people high in neuroticism tended to

become the center of adversarial networks. Because social networks are very important for

entrepreneurs, these results suggest that entrepreneurs have to be emotional stable.

The third characteristic Brandstätter (1997) defines is the demand for social contact. Entrepreneurs have to convince their customers of the usefulness of their product and they have to keep in touch with them to fulfill their needs. Finally, entrepreneurs have to be ready to try out new ideas and respond quickly to changes around them. This means that entrepreneurs have to be more innovative than others.

Another characteristic of entrepreneurs is that they score high on the extraversion dimension (Zhang et al., 2009). This seems logical because extraverted people tend to have more social skills and this is important for entrepreneurs because they have to persuade different stakeholders. Baron (2002) supports this vision. He states that entrepreneurs who are successful in generating enthusiasm in others, may be significantly more successful than those who are not.

Smith-Hunter et al. (2003) defined the most researched personal characteristics from the traditional school, that is a group of researchers who focused on the personality characteristics of the individual. These characteristics are locus of control (Poon et al., 2006), risk-taking (Zhao et al., 2010), achievement motivation (Poon et al., 2006), and problem solving style and innovativeness (Beugelsdijk and Noorderhaven, 2005; Schumpeter, 1934, from: Elliot, 1983).

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Locus of control can be defined as people's perception of their ability to exercise control over the environment (Poon et al., 2006). People with an internal locus of control believe that their own effort determines certain outcomes in life, whereas people with an external locus of control believe that outcomes are determined by external factors they can't influence. Locus of control is one of the classical themes in the entrepreneurial trait research that differentiate entrepreneurs from non-entrepreneurs (Beugelsdijk and Noorderhaven, 2005; Poon et al., 2006). Entrepreneurs are characterized by a more internal locus of control (Dvir et al., 2010).

Many recent studies have focused on the relationship between the locus of control and an entrepreneur's level of self-efficacy (Smith-Hunter et al., 2003). Entrepreneurial self-efficacy is the degree to which people perceive themselves as having the ability to successfully perform the various roles and tasks of entrepreneurship (Hmieleski and Baron, 2008). Hmieleski and Baron (2008) investigated that self-efficacy is moderated by the degree of optimism and the industry conditions. The results of their study indicate that (1) in dynamic environments, entrepreneurial self-efficacy exerts positive effects on performance for firms led by moderately optimistic entrepreneurs, but exerts negative effects on performance for firms led by entrepreneurs who are highly optimistic and (2) in stable environments, the effects of entrepreneurial self-efficacy on firm performance are less clear and not moderated by the degree of optimism.

The opinions about the characteristic risk-taking are diverse. Some researchers found that entrepreneurs are high risk takers (Zhao et al., 2010), but others mention that entrepreneurs are moderate risk takers (Xu and <https://assignbuster.com/entrepreneurs-personal-characteristics-and-influence-on-growth-commerce-essay/>

Ruef, 2004). There are two forms of risk tolerance that may lead individuals to entrepreneurial activity, strategic and non-strategic (Xu and Ruef, 2004). In strategic risk tolerance rational actors actively prefer low-probability, high payoff outcomes. In non-strategic risk tolerance rational actors need not have active risk preferences, but only appear to prefer low-probability, high payoff outcomes because their information on the distribution of outcomes is based on conditions of imperfect knowledge.

The need to achieve refers to a desire to do well in order to achieve a sense of personal accomplishment (Poon et al., 2006). The need to achieve can be related to the characteristics desire for independence (Dvir et al., 2010; Poon et al., 2006) and risk-taking propensity (Zhao et al., 2010). People who have a high need for achievement possess five critical attributes (Smith-Hunter et al., 2003). High achievers like situations where they can take responsibility. They like rapid feedback on their performance, so they can criticize their own improvements. They avoid very easy or very difficult tasks and they dislike succeeding by chance. They prefer striving to achieve targets and the last characteristic is that they are interested in concrete knowledge about the results of their decisions.

Finally innovation and problem solving capabilities are expected to be the core of the entrepreneurial capability of an entrepreneur (Smith-Hunter et al., 2003). Schumpeter (1934, from: Elliott, 1983) mentioned that “creative destruction”, whereby new products and processes replace old ones, is more important than price competition among existing firms and products. This means that entrepreneurs are more innovative than non-entrepreneurs (Beugelsdijk and Noorderhaven, 2005).

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For this end the most important characteristics of an entrepreneur that were cited in literature were discussed. Dvir et al. (2010) mentioned the most frequently cited personality traits of entrepreneurs. These are the desire to be independent (Beugelsdijk and Noorderhaven, 2005), internal locus of control (Poon et al., 2006), creativity or innovativeness (Schumpeter, 1934, from: Elliott, 1983), risk-taking propensity (Xu and Ruef, 2004; Zhao et al., 2010), need for achievement (Poon et al., 2006), and credible role models. In the next paragraph the above mentioned characteristic will be related to the FFM dimensions.

An entrepreneur's personality traits and their relation with the FFM dimensions

The characteristics mentioned in the foregoing paragraph can be related to the dimensions of the FFM. The five dimensions were Conscientiousness, Emotional Stability/Neuroticism, Extraversion, Agreeableness, and Openness to experience. The extra dimension added by Zhao et al. (2010) was risk propensity.

Because of the strong work ethic (Beugelsdijk and Noorderhaven, 2005) and the high need for achievement (Poon et al., 2006) entrepreneurs score high on the conscientiousness dimension. Conscientiousness has been found to be a consistent predictor of job performance across occupations involving managing others and sales performance (Ciavarella et al., 2004).

Emotional stability is a prerequisite for entrepreneurs because of the insecurity they have to deal with (Brandstätter, 1997). People that score high on the level of emotional stability tend to obtain central positions in advice <https://assignbuster.com/entrepreneurs-personal-characteristics-and-influence-on-growth-commerce-essay/>

and friendship networks (Zhang et al., 2009). An internal locus of control (Poon et al., 2006) and mostly a high level of entrepreneurial self-efficacy (Hmieleski and Baron, 2009) are specific for an entrepreneur's emotional stability.

Entrepreneurs also score high on the extraversion dimension (Zhao et al., 2010). The reason for this is that being extraverted should facilitate the development of social networks, ultimately resulting in stronger partnerships with suppliers and customers, which is very important for entrepreneurs (Ciavarella et al., 2004). The characteristics of extraversion are being ambitious, talkative, assertive, and sociable (Parks and Guay, 2009).

According to Ciavarella et al. (2004) agreeableness is an interpersonal factor that focuses on the quality of relationships through cooperation and trust. Entrepreneurs who establish trusting, flexible, and courteous relationships with their customers should expect to reap the profits of repeat business. Zhao et al. (2010) expected that, given the limited margin for unselfish behavior and the high likelihood of guarded and even conflictual interpersonal relationships associated with entrepreneurship, there would be a negative relationship between agreeableness and entrepreneurial intentions. However their results have shown that this is not true and that entrepreneurs do score high on agreeableness and with that are highly cooperative and reliable.

Openness to experience describes the extent to which individuals tend to be curious, creative, and open to new ideas, which relates to self-direction values, those are beliefs that individuals ought to be independent and self-

directed (Parks and Guay, 2009). Successful entrepreneurship is likely to require constant information monitoring and learning to keep up with changing tastes and market trends, competitor behavior, and new Technologies (Zhao et al., 2010). This indicates that entrepreneurs are more innovative than non-entrepreneurs (Beugelsdijk and Noorderhaven, 2005) and that they score high on openness to experience.

For the last dimension, risk propensity, the visions are not always the same. Zhao et al. (2010) argue that entrepreneurs are characterized by a high risk propensity, while Xu and Ruef (2004) argue that entrepreneurs are moderate risk-takers.

The goal of this second section was to derive a set of personal characteristics for an entrepreneur from the literature and relate them to the FFM dimensions. After first discussing the FFM model and after that, reviewing the personal characteristics of an entrepreneur, I attached the personal characteristics to the dimensions of the FFM. With this the second section is finished.

In the next section I will discuss the characteristics of the small business sector. Because of the focus on entrepreneurs that recently started their business, some challenges they face will also be reviewed.