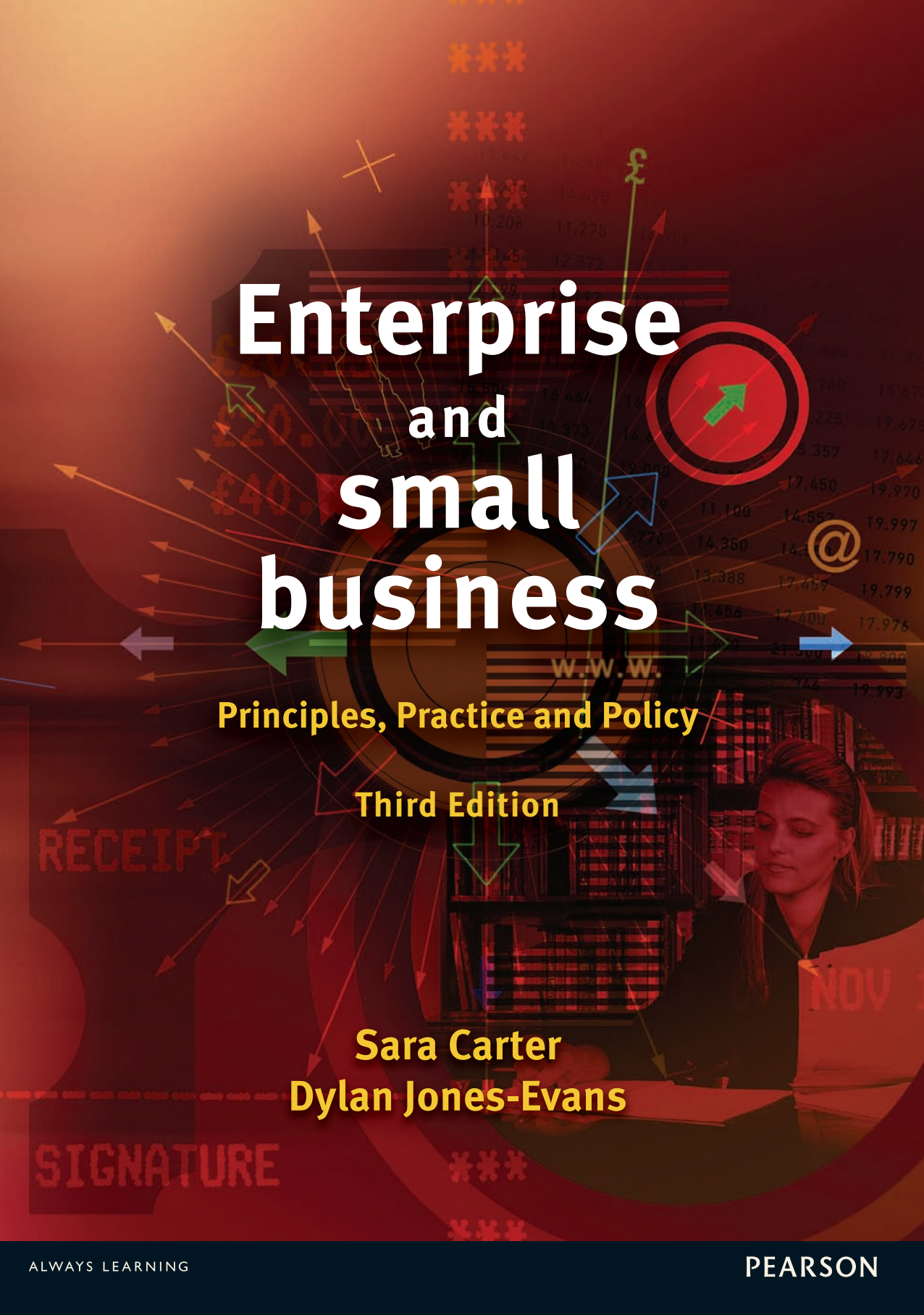
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CHAPTER 9

The psychology of the entrepreneur

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9.1 Introduction

It is often believed that entrepreneurs are psychologically different from ordinary people. In this chapter, we review the research on the psychology of the entrepreneur to examine the validity of this belief.

We start by explaining what the kinds of problems that can be addressed by a psychological perspective on entrepreneurship. Next, we describe the historical development of this field, concentrating on different problems and criticisms related to the subject. Thereafter, entrepreneurial traits are reviewed, such as the need for achievement, locus of control and risk-taking propensity. The chapter then continues with an overview of current research into entrepreneurial behaviour, with a focus on cognitive (how people process information) models, which have the ability to address individual differences in entrepreneurial behaviour and performance. This chapter also addresses the training and education of potential entrepreneurs.

9.2 Learning objectives

There are four learning objectives in this chapter:

1 to understand how entrepreneurship can be promoted from a psychological perspective
2 to explore the historical development of the field
3 to understand the strengths and limits of cognitive models
4 to learn how to understand the challenges of developing knowledge about the psychology of entrepreneurs.

Key concepts

■ **personality characteristics** ■ **proximal and distal processes** ■ **cognition**
■ **motivation** ■ **entrepreneurial behaviour**

9.3 The challenges of a psychological approach

Figure 9.1 shows the challenges we face when we try to explain why some people, such as Richard Branson or Coco Chanel, tend to excel as entrepreneurs. We here chose throwing darts to illustrate how you can understand differences in human behaviour and performance. Not everyone plays darts and those who do differ in how well they play. It is the same for entrepreneurship. Not everyone recognises a good opportunity, even fewer engage in entrepreneurship and only small minority of them excel at this task, but the outcome is not random.

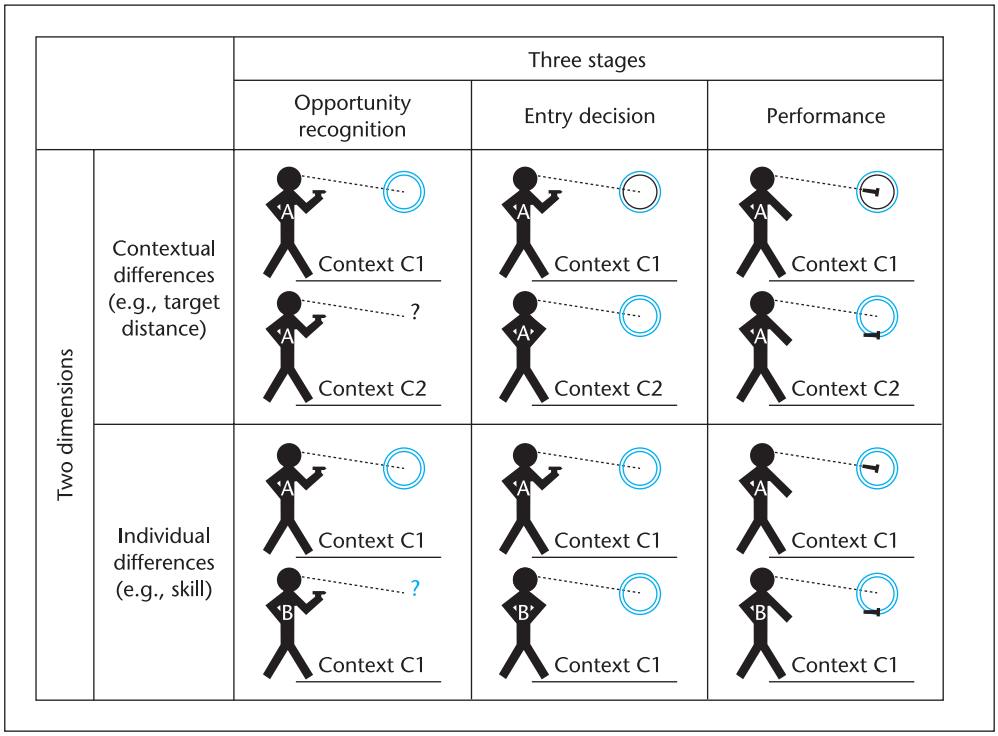
From a psychological point of view, differences in behaviour and performance in tasks such as darts and entrepreneurship have two sources of explanation:

- individual differences
- contextual differences.

A key challenge for people interested in understanding psychological differences in entrepreneurship is to find out how these two sources affect the entrepreneurial process and what their respective weights are.

When we consider individual differences, we are likely to think that some people have a psychological make-up that makes them more suited to dealing with certain tasks than others. For example, some people are more talented dart throwers, chess

Figure 9.1 Three stages of entrepreneurship and two sources of exploitation



players or violin players than others, despite having received the same training and practice as others. Here differences can be attributed to individual characteristics such as skills or personality. They can be innate or learned differences.

When we consider contextual differences, we will probably think that people perform better at certain tasks because they have been exposed to situations fostering such behaviour. For example, it is difficult to become a good skier if you have never had access to snow and mountains. Hence, one would expect people living in the Alps to be better skiers than people living in the UK or the Netherlands. Equally, you would expect someone who has a dart board and darts at home and plays regularly to throw better than somebody who doesn't have these facilities and doesn't play on a regular basis. Here, access to reinforcing or shaping behaviour is central.

Now, you will probably recognise that entrepreneurship is a little bit more complex than throwing darts, so trying to find explanations as to why some of us behave entrepreneurially and excel in it is also a little more complex because we are looking at a social process. Moreover, it is not obvious if and how entrepreneurship can be attributed to innate or learned differences, exposure to specific situations or a combination of them. However, the quest is the same: is it individual differences or contextual differences that lead people to engage and excel in entrepreneurship or a mix of the two? This chapter is our introduction to how the knowledge we have about the psychology of entrepreneurs has developed.

We see entrepreneurs as decisionmakers who actively change their environment (McClelland, 1961; Frese, 2007). From a psychological perspective, entrepreneurial actions are determined by the individual's background, environment, goals, values and motivations. Entrepreneurial ventures are made of men and women and there is a need to understand how they behave.

Gaining knowledge about entrepreneurial behaviour is essential, because it often represents the only available source of information for various stakeholders. For instance, early stage investors have to decide whether or not to invest based on entrepreneurs' past and expected future performance, which is a function of their entrepreneurial behaviour. To make well-informed decisions, those parties need to understand the characteristics of entrepreneurial behaviour and how they are related to entrepreneurial performance (Shepherd, 1999; Hisrich, Langan-Fox and Grant, 2007; Rauch and Frese, 2007).

9.4 Development of the research field: from traits to cognition

The field of entrepreneurial behaviour has seen several shifts in the last few decades, depending on the 'maturity' of the research questions. This section describes this evolution based on the four research questions shown in Figure 9.2. Hopefully, by studying these four questions, you will understand this evolution.

We show how the field has evolved from only examining personality traits to studying the interaction between the entrepreneur's perception, intention and ability, in combination with characteristics of the situation (Rauch and Frese, 2007). Research today focuses on malleable cognitive functions, instead of discussing sets of traits that never change (Busenitz, 2007).

Figure 9.2 The field of applied psychology in entrepreneurship

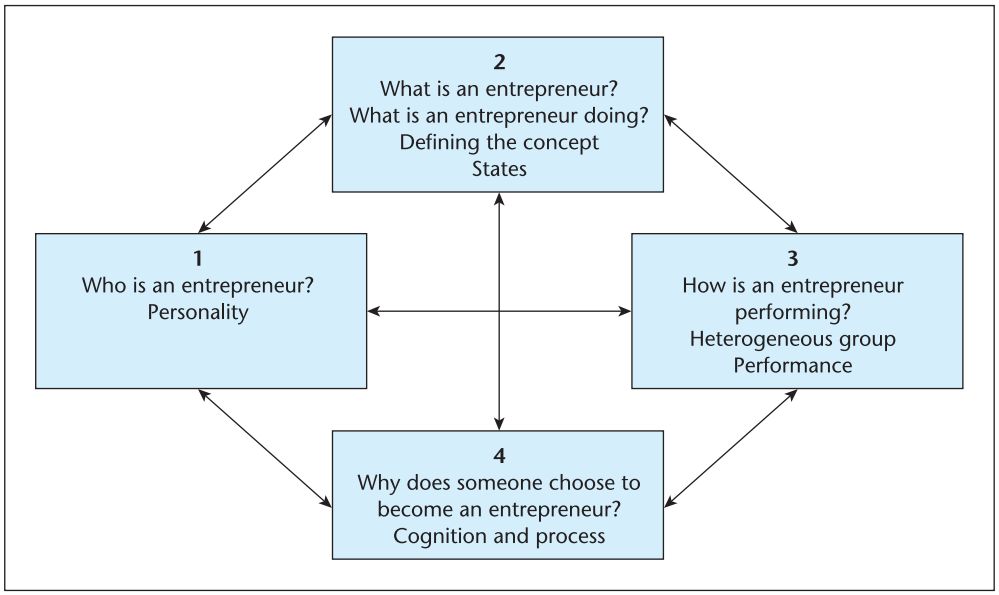


Figure 9.2 illustrates the complexity and inherent problems associated with the psychological perspective. The four boxes each contain a basic question related to the research field and are numbered from one to four. The numbers represent the approximate historical evolution of the field. In short, research started first by trying to find a personality profile for entrepreneurs and answer a question as old as entrepreneurship: are entrepreneurs born or made? It became clear that more conceptual work was needed to define who entrepreneurs are and what they do, hence the second box. This conceptual work increased awareness of how entrepreneurs act at different stages of the entrepreneurial process. Research then refocused to relate different personality traits to performance, so we have the question in the third box. However, traits theories delivered no viable explanations of entrepreneurial behaviour, so cognitive motivation models were adopted instead – shown in the fourth box. It is worth noting that current thinking assumes the boxes to be interrelated and one question cannot be answered without taking the other questions into consideration.

Early research attempted to identify a general personality profile for successful entrepreneurs. Research was based on the simplistic assumption that entrepreneurs belong to an homogenous group and possess distinctive characteristics. This research approach was designed to answer the question 'Who is an entrepreneur?' (in Box 1). Personality characteristics were examined mainly by concentrating on differences between entrepreneurs and other reference groups, such as managers or the general public (Low and MacMillan, 1988). An example is the study by Scheré (1982), who found that entrepreneurs were more tolerant of ambiguity than managers.

Researchers soon discovered that more conceptual work was needed to define entrepreneurial action. The basic realisation was that the category 'entrepreneur' could

be associated with many different *states*, such as self-employment, being a small businessowner and manager, starting a business or expanding one. The assumption that these states were similar just did not hold. Two research questions guided this second approach to entrepreneurial personality and behaviour: 'What is an entrepreneur?' and 'What is the entrepreneur doing?' (in Box 2).

One of the first studies that distinguishes between discernable groups of entrepreneurs and extends the basic notion presented in Box 1 is the work by Smith (1967). He differentiated between groups of entrepreneurs and assumed that action and performance were affected by the entrepreneur's personality. However, it was not until the beginning of the 1990s that this thinking had considerable impact on empirical research. The models evolved from simple trait–state models (of Box 1) to more complex models that took into account the individual's behavioural characteristics and their state (Box 2).

Yet, both approaches relied on simple characteristics to explain and predict entrepreneurial actions. Researchers soon conceded the impossibility of characterising entrepreneurs using simple traits and states. Even controlling for one single state, variation in performance is important. As a result, research then focused on how individual differences could be linked to entrepreneurial performance (see Box 3).

This research created a primary understanding of how entrepreneurs become who they are and extended existing concepts to better educate potential entrepreneurs (for a detailed discussion of Box 3, see the next section on personality traits). Therefore, scholars developed more complex models, treated entrepreneurs as a heterogeneous group and tried to explain the actions of specific entrepreneurs. At the level of the firm, researchers examined the link between different personality characteristics of entrepreneurs and related contingency variables such as the firm's age, industry affiliation and organisational structure (Miller and Toulouse, 1986; Miller, 1987). This conceptual development led to a framework where entrepreneurs are active decisionmakers at different stages in the venture-creation process and thereby affect performance.

Today, the approach of uncovering stable traits to determine 'Who is an entrepreneur?' is again under consideration (Mitchell et al., 2002a). For a long time the personality traits approach was deemed infeasible, but more systematic research has emerged (Zhao and Seibert, 2006; Rauch and Frese, 2007).

Cognitive theories dominate current explanations of entrepreneurial behaviour (see Box 4). This completes the shift from searching for stable traits to the view of entrepreneurial behaviour as a process where each stage is characterised by its specific challenges (Baron and Markman, 2005; Johnson and Delmar, 2010). Box 4 describes the current dominant research approach, based on cognitive theories that make it possible to understand the interaction between contextual and behavioural characteristics. These models allow for a better explanation as to why some people are more likely to become entrepreneurs than others, which is because of greater sensitivity as a result of learned individual differences, greater exposure to entrepreneurship-friendly environments or a mix of both. Researchers are discovering more and more changeable cognitive processes that are involved in how entrepreneurs make decisions that lead to success (Haynie, Shepherd and Patzelt, 2011). Hence, it can be concluded that cognitive models have several advantages compared to previous trait-based models. For a detailed discussion of Box 4, see section 9.6.

9.4.1 Question 1 'Who is an entrepreneur?' and the personality traits approach

Now that you have reflected a bit on what is shown in Figure 9.1, you are likely to think that the success of various entrepreneurs can be explained as being a mix of both contextual and individual differences. However, had we asked you straight away why Bill Gates, Mark Zuckerberg or Anita Roddick (or her daughter, Sam Roddick) are successful entrepreneurs, you would likely have answered that it depended on their unique personality.

Students and practitioners often perceive the personality of the entrepreneur to be the most fascinating topic in the field of entrepreneurship because of a general tendency to explain the behaviour of others as being a consequence of their personalities rather than what the situation has to offer or down to pure chance. This bias is referred to as the 'fundamental attribution error' as personality traits can only explain a minor share of entrepreneurial behaviour and differences in business performance.

'Personality' is often loosely defined as a psychological system that mediates the relationship of the individual with the environment in terms of regularities in actions, feelings and thoughts (Snyder and Cantor, 1998; Caprara and Cervone, 2000). Research in entrepreneurship concentrated exclusively on personality traits for a long time, hoping to discover stable individual characteristics – *personality traits* – by relating a trait to the state of being an entrepreneur or the performance of the entrepreneurial venture. Traits are innate, so this would indicate that entrepreneurs are born, not made.

The underlying assumption was that there exists an individual trait, stable across situations and time, that determines the successful outcome of the entrepreneurial venture. The hope was to find an entrepreneurial personality profile so as to better understand which characteristics lead to success or failure. The promise it held was that then we would have an attractive explanation of direct practical relevance. For example, if a stable personality trait could be identified that had a direct relationship with successful entrepreneurial performance, investors could devise a selection instrument to identify 'success-type' entrepreneurs and limit their financial risk exposure (Shepherd, 1999). Furthermore, it would then be possible to encourage those with this 'success-type' personality and discourage those without it to engage in an entrepreneurial career. Psychology cannot offer (at the present time) such a test, but enterprises today are made of men and women and there is still a need to understand how they behave.

The disappointing results of the above approach can be explained by the theoretical as well as methodological problems characterising it (Sexton and Bowman, 1985; Gartner, 1989a; Carsrud and Johnson, 1989; Chell, Haworth and Brearley, 1991; Herron and Robinson, 1993; Delmar, 1996). The empirical search of trait research for the 'holy grail' of entrepreneurial personality stumbled upon several problems and we discuss six of these below. The inability to solve the problems has led researchers to abandon the traits approach in the field of entrepreneurial personality and behaviour until recently (Zhao and Seibert, 2006; Rauch and Frese, 2007; Shane, Nicolaou, Cherkas and Spector, 2010). They have developed more sophisticated models where cognition and motivation are given as the explanatory factors behind entrepreneurial behaviour instead of personality traits (Baum, Locke and Kirkpatrick, 1998; Baron, 2004; Baum and Locke, 2004).