

**EXPLORING THE IMPACT OF PSYCHOLOGICAL CHARACTERISTICS
ON ENTREPRENEURIAL INCLINATION: A STUDY OF MANAGEMENT
UNDERGRADUATES' INCLINATION TOWARD ENTREPRENEURSHIP IN
SRI LANKAN UNIVERSITIES**

LITERATURE REVIEW

B.S Habaragoda

Department of Industrial Management
Faculty of Applied Sciences
Wayamba University of Sri Lanka
Sri Lanka

ABSTRACT

Increased emphasis on the importance of entrepreneurship is mainly due to its significant contribution to a country's economic development and generation of new job opportunities. Entrepreneurship has emerged as one of the most popular research domains in academic fields to study the importance and contributions of entrepreneurship. Entrepreneurship education has been increased in schools, universities and other educational institutions throughout the world. The main objective of entrepreneurship education should aim at enhancing and developing certain psychological characteristics of undergraduates that change their state of behavior, even their entrepreneurial inclination and finally resulted in the formation of new businesses as well as new job opportunities. This study attempts to investigate the Sri Lankan university students' inclination towards entrepreneurship and the influence of psychological characteristics on entrepreneurial inclination is examined too.

Key words: Entrepreneurship, Entrepreneurial Inclination, Entrepreneurship Education, Psychological Characteristics

INTRRODUCTION

Though the importance of entrepreneurship has gained a significant recognition in the recent past, it has a long history even back to the late 17th and early 18th century. However, it was largely ignored theoretically until the late 19th and early 20th century and empirically until a reflective resurgence in business and economics in the last 40 years. One factor that has contributed to this increased interest is its significant contribution to the economic growth and development of a country (Yusof, Sandhu & Jain, 2007). The importance of entrepreneurship has further increased since it has been identified that entrepreneurial activity is a means of coping with unemployment problem by providing new job opportunities (Gurol and Atsan, 2006). Next, entrepreneurs contribute towards greater market efficiency by increasing the competitive offering of new products and services (Bosma & Harding, 2006). Hence, the importance of entrepreneurship and small business to any economy is now widely recognized and is provided with national incentives by prevailing governments. Not only as a means of stimulating economic growth and wealth creation, entrepreneurship is gaining increased recognition as an important and interesting research field among scholars and academia. Nowadays, entrepreneurs are viewed as mildly heroic figures, despite having been reviled from classical antiquity until fairly recent times (Montanye, 2006).

Despite the substantial interest and research in entrepreneurship and entrepreneurs, defining and understanding both remain difficult and challenging (Mitton, 1989). Entrepreneurship and entrepreneurs are defined in a variety of ways by various people using different parameters such as personal characteristics, behavioral attributes, economic factors, cultural factors etc. Not only different countries apply different definitions on the concept of entrepreneurship or entrepreneurs, even within countries, different regions and different institutions adopt varying definitions in this regard.

Ba Peabody an entrepreneur, millionaire and founder of internet business defined entrepreneurs as “a person who habitually creates and innovates to build something of recognized value around perceived opportunities” (Bolton & Thompson, 2000). Burns (1999 cited in Bolton & Thompson, 2000) defines entrepreneur as “anyone who applies four key principles can become a successful entrepreneur”. His four key principles are belief (in one’s personal ability to succeed), focused knowledge (prioritized relevant learning), a proactive approach (evaluating information deliberately and acting on the conclusions) and perseverance (working through rough periods). According to Schumpeter (1934 cited in Holt, 1999) an entrepreneur is a person who gathers resources, organize talent, and provide leadership to make a new product a commercial success.

A recent definition by writer Robert Ronstadt (1995 cited in Holt, 1999) is “entrepreneurship is the dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risks in terms equity, time and/or career commitment of providing value for some product or service. The product or service itself may or may not be new or unique but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources.

The National Action Plan for Youth Employment, (YEN-NAP Sri Lanka, 2006) defines entrepreneurship as a set of skills, knowledge, attitudes and values that can generally increase employability, whether seeking self employment and operating a micro or small enterprise, or working in the private sector, the public sector, an NGO or any combination as part of a productive livelihood pathway.

Once the above definitions of entrepreneurs put together, entrepreneur can be identified as a person who creates and innovates to build something of recognized value around perceived opportunities. This recognized value can be economic, social or aesthetic capital. There is nothing to say that entrepreneurial behavior is confined to the general world of business only (Thompson, 2003). Therefore entrepreneurs can be classified as economic, social and aesthetic entrepreneurs.

The concept of entrepreneurship is versatile and used in a wide variety of contexts. And the factors affecting the entrepreneurial behaviour are extended in the fields of economics (Schumpeter, 1934 cited in Petrakis 2005), sociology (Weber, 1930 cited in Petrakis 2005), and psychology (McClelland, 1961 cited in Petrakis 2005). The entrepreneurial behaviour is the combined result of macro level environmental conditions (Aldrich, 2000), which have economic or social origin, the characteristics of entrepreneurial opportunities (Christiansen, 1997), and of human behaviour that are related to entrepreneurial motives (Shane, Locke & Collins, 2003) and cognitions (Mitchell, Smith, Morse, Seawright, Peredo & McKenzie, 2002) (cited in Petrakis 2005).

From last few decades many countries have experienced that governments themselves can no longer create a net increase in employment (Davidsson, 1995). This has resulted in high levels of unemployment and an increasing relative importance of small and new firms as creators of new job opportunities (Davidsson, 1995). This is the background to the current great political interest in the small firm sector, and the widespread hopes that small and new firms will solve problems of unemployment and economic development. The responsibility of initiating and developing an entrepreneurial culture is mainly rest with the government and entrepreneurship education plays an important role in promoting and developing that type of culture (Gurol & Atsan, 2006). Today there is a great deal of interest in the field of entrepreneurship education in universities and colleges throughout the world (Koh, 1996; Hansemark, 1998; Thompson, 1999; Gurol & Atsan, 2006).

Sri Lanka too cannot get rid of this pressing problem and meanwhile over the last few years graduate unemployment has become a major problem. Its severity further strengthens by the fact that the graduate output has been increasing since last decade (University Grants Commission of Sri Lanka, 2006). There are more than 30, 000 unemployed graduates in the country according to the latest statistics issued by the Department of Census and Statistics. In addition, the current graduates are too pampered and depend on the government and the private sector for employment. Though most of the graduates rely on the government it cannot provide employment opportunities for all. Entrepreneurship training is increasingly seen as an important need, and it is recommended that it is

offered in schools and universities as well. All young people need to be exposed to basic values of entrepreneurship in school curriculum and training programs (YEN-NAP Sri Lanka 2006).

Understanding the factors impacting on an individual's desire to become an entrepreneur is a very critical aspect of cultivating an entrepreneurial culture. Previous studies on successful entrepreneurs show that certain psychological characteristics have motivated them to become entrepreneurs and these set of characteristics can be used to differentiate them from non entrepreneurs (Honday, 1982 cited in Davidsson, 1995). Earlier the study of entrepreneurship was focused on the process rather than on the person. However the focus in entrepreneurship shifted from the act to the actors (Kanungo, 1998) with the study of McClelland (1961). The impact of personal/ psychological characteristics is central to the study of entrepreneurial behaviour and performance. The essence of psychological or personal theory is the difference in individual characteristics. According to this theory the differences in personal characteristics lead a man to become a successful entrepreneur.

Cunningham and Lischeron (1991) have identified six different major schools of thought. The "great person school" views an entrepreneur as a person who is born with intuition, vigor, energy, persistence and self-esteem. The "classical school" identifies entrepreneurship with innovation, creativity and discovery while the "management school" describes an entrepreneur as one who organizes, owns, manages and assumes risk. The "leadership school" views an entrepreneur as one who motivates, directs and leads. In contrast, the "intrapreneurship school" focuses on skillful managers within complex organizations. The final one, the psychological characteristics school of entrepreneurship is more relevant for this study. This school of thought views entrepreneurs as individuals with unique values, attitudes and needs which drive them and differentiate them from non-entrepreneurs. Its argument is that individual's needs, drives, attitudes, beliefs and values are primary determinant of entrepreneurial behavior. As such, this focuses psychological factors and characteristics. Lachman (1980 cited in Koh 1996) proposed that people who possess the same characteristics as entrepreneurs will have a higher tendency to perform as entrepreneurs than people who do not possess such characteristics. Mitton (1989) has described entrepreneurs as those who have certain psychological characteristics such as a total commitment to their cause, a need for total control, a utilization view of what is right and a liking for uncertainty and challenge.

A research conducted by the Hawaii Entrepreneur Training and Development Institute (HET ADI), one of the world's leading entrepreneur training organizations, has identified 25 psychological characteristics as entrepreneurial characteristics. Within the field of entrepreneurship research, various characteristics of entrepreneurs have been identified and understanding of psychological characteristics that are unique to them is logical first step in studying entrepreneurship (Koh, 1996). Six main psychological characteristics are included in this study since they are the most frequently enumerated as entrepreneurial characteristics.

Need for achievement

McClelland's (1961) theory on need for achievement is the most important one of the various psychological theories on entrepreneurship. In his theory McClelland emphasized the relationship

of achievement motivation or need for achievement (symbolically written as N-Ach) to economic development via entrepreneurial activities. According to McClelland, one would expect a relatively greater amount of entrepreneurship in a society if the average level of need achievement in a society is relatively high. Because having a high n Ach encourages an individual to set challenging goals, work hard to achieve the goals and uses the skills and abilities needed to accomplish them (Alam & Hossan, 2003). Moreover, it is the inner drive of individuals that drives them to work more and to achieve something for their own interest by taking personal risk. Need for achievement then, reflects a strong goal orientation, an obsession with job or task to be done. Therefore, entrepreneurship becomes the link or intervening variable between need achievement and economic growth. McClelland also suggests that the N- Ach level can be increased in an individual through training and by creating appropriate culture (Okhomina, 2008). Achievement motivation can be inculcated through training in self reliance, rewarding hard work and persistence in goal achievement, and creating interest in excellence. Although McClelland's findings are important, it would be wrong to conclude that people with a high degree of need for achievement would necessarily make good entrepreneurs. There is no clear correlation between achievement motivation and the level of performance achieved (Littunen, 2000). Other factors too have to be there.

Innovativeness

Existing literature on entrepreneurship frequently cites innovativeness as a distinguishing characteristic of the entrepreneur (Jun & Deschoolmeester, 2005). Joseph Schumpeter, a noted economist, stressed the innovative role of the entrepreneur --- doing new things by recombining parts of what is already being done (Schumpeter, 1961). As Peter Drucker (1998) defines innovation as a means by which entrepreneurs may exploit change in order to create new service and business opportunities. Innovation is the "brand" specially owned by entrepreneurs. Innovativeness is the most prominent attribute consisting of the essence of being an entrepreneur. Thus innovation, creativity, and discovery are the vital core subjects defined by the innovation-oriented scholars headed by Schumpeter and Drucker. As all the entrepreneurship researchers agree, innovation is at the heart of entrepreneurship. A study of entrepreneurial inclination and psychological characteristics by Hian (1996) shows that entrepreneurially inclined students had greater innovativeness than as compared to those that were not entrepreneurially inclined.

Locus of Control

The concept of locus of control, although relatively new (Rotter, 1966), has received considerable attention in the study of psychological differences (Lefcourt, 1976; Phares, 1976). Locus of control refers to a person's belief about control over life events (Findley & Cooper, 1983). Some people feel personally responsible for the things that happen to them. These people are labeled internals. Others feel that their outcomes in life are determined by forces beyond their control such as luck, fate, power of other people and etc. These people are labeled externals (Findley & Cooper, 1983). Obviously, most people fall between these two extremes, forming a continuous distribution of locus of control beliefs. Locus of control is thought to be a relatively enduring dispositional characteristic, although certainly modifiable through experience (Findley & Cooper, 1983). Empirical findings that

internal locus of control is an entrepreneurial characteristic have been frequently reported in the literature (Ho & Koh, 1992; Robinson *et al.*, 1991 cited in Yusof, Sandhu & Jain, 2007; Koh, 1996; Cromie, 2000). In a student sample, internal locus of control was found to be positively associated with the desire to become an entrepreneur (Bonnett & Furnham, 1991 cited in Yusof, Sandhu & Jain, 2007).

Risk taking propensity

Risk taking propensity is defined as an individual's current tendency to take or avoid risk (Petrakis, 2005). Entrepreneurs usually are considered to bear risk while pursuing opportunities, and often are associated with creative and innovative actions (Koh, 1996). Therefore entrepreneurs are always confronted, either voluntarily or compulsorily, the challenges of uncertainties and potential financial and social losses while running their business. Entrepreneurs are risk takers because it is their risk-taking spirit that encourages them to have their attention and actions contributed in realizing profits. Literature on entrepreneurship shows that entrepreneurs are moderate risk takers but not wild risk takers. Further, evidences shows that they are also risk handlers who rationally measure risks, and deal with risks. (Longenecker & Schoen, 2001 cited in Petrakis, 2005). Much of the literature includes risk taking propensity as one of major entrepreneurial characteristics (Koh, 1996; Hian, 1996; Cunningham & Lischeron, 1991; Cromie, 2000; Petrakis, 2005).

Self confidence

Entrepreneurs typically have an abundance of self confidence in their ability to succeed. They tend to be optimistic about their chances for success. Given that an entrepreneur is generally regarded as one who prefers to own his own business, it can be expected that the entrepreneur must believe that he is able to achieve the goals that are set (Koh, 1996). Ho and Koh (1992) have suggested that self-confidence is a necessary entrepreneurial characteristic and that it is related to other psychological characteristics such as risk taking propensity, tolerance for ambiguity and etc. Empirical studies in the entrepreneurship literature have found entrepreneurs to have a higher degree of self-confidence relative to non-entrepreneurs (Ho & Koh, 1992).

Tolerance for ambiguity

In general, the term ambiguity is referenced as vagueness of words and uncertainty of conditions or situations where multiple interpretations or views, although at times contradictory, can be present (Visser, 2003 cited in Kjas & Mcollum, 2009). In everyday life, ambiguity can occur when one routinely interacts with numerous meanings, uncertainty, incompleteness, vagueness, contradictions, probability; as well as lack of clarity, structure, information, and consistency. In literature ambiguity tolerance has been described as the way people perceive, interpret, and react to ambiguous situations (Stoycheva, 2002 cited in Kjas & Mcollum, 2009). The way a person perceives, construes, and responds to uncertain situations determines one's level of tolerance for ambiguity (Stoycheva, 2002 cited in Kjas & Mcollum 2009). An individual with a higher tolerance for ambiguity tends to view uncertain situations as desirable, challenging, and interesting and

neither denies nor distorts their complexity of incongruity while an individual with low tolerance of ambiguity experiences stress, reacts prematurely and avoids uncertain situations (Budner, 1962). Many research studies evidence that the existence of tolerance for ambiguity in the context of business (Koh, 1996; Yusof, Sandhu & Jain, 2007; Kjas & Mcollum, 2009) and it has been identified that for organizations to survive in this complex business world with varying demands from different constituents, the managers/owners must be able to embrace uncertainty in order to be effective. In his study Dollinger (1983) found that entrepreneurs show a higher tolerance for ambiguity than non entrepreneurs. It has been frequently cited that tolerance for ambiguity is positively related with risk taking behavior, creativity and innovativeness of the entrepreneur. The findings (Tegano, 1990; Comadena, 1984) suggest that creativity and innovativeness requires a certain degree of tolerance for ambiguity. The ability to tolerate ambiguous situations may also be positively related to the risk-taking behavior of the entrepreneur. Risk-taking requires a certain degree of tolerance for ambiguity. In addition, research indicates that individuals with intolerance for ambiguity tend to perceive higher degrees of risk under the same circumstances (Tsui, 1993).

CONCLUSION

This paper presents a summary of many previous findings in entrepreneurship research especially pertaining to the impact of psychological characteristics on entrepreneurial behavior. The paper highlights the influence of psychological differences among other factors such as domain-specific attitudes, personal background, and situational variables. Though the existing literature reveals almost endless number of entrepreneurial characteristics, six were frequently used to differentiate entrepreneurs from the rest of others. These characteristics are need for achievement, innovativeness, risk taking propensity, internal locus of control, tolerance for ambiguity and self confidence. Due to its versatile nature, it is not possible to define a unique entrepreneurial profile. However, previous studies evidences that many successful entrepreneurs exhibit these six characteristics significantly. Therefore this study will adopt these six characteristics to investigate the Sri Lankan university students' inclination towards entrepreneurship.

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