



Examining the Theories of Entrepreneurial Behaviour

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Abstract: *The theories of entrepreneurship are a psychological approach, necessary to understand entrepreneurship. It argues that any theory of entrepreneurship should use active actions as a starting point — entrepreneurship is the epitome of an active agent in the market (rather than a reactive agent). Entrepreneurship theories and research remain important to the development of the entrepreneurship field. This paper examines the following entrepreneurship theories. (1) Schumpeter theory on innovations (2) Psychological entrepreneurship theory (3) Sociological entrepreneurship theory, (4) Opportunity-Based entrepreneurship theory, (5) Resource-Based entrepreneurship theory, (6) the discovery theory of entrepreneurship and (7) the creative theory of entrepreneurship. These theories offer us a fairly good opportunity to refocus our efforts at integrating the diverse viewpoints.*

Key words: *Schumpeter theory on innovations, Psychological entrepreneurship theory, Sociological entrepreneurship theory, Opportunity-Based entrepreneurship theory, Resource-Based entrepreneurship theory, the discovery theory of entrepreneurship, the creative theory of entrepreneurship.*

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INTRODUCTION

Several theories have been put forward by scholars to explain the field of entrepreneurship. These theories have their roots in economics, psychology, sociology, anthropology, and management. The theories of entrepreneurship are a psychological approach, necessary to understand entrepreneurship. It argues that any theory of entrepreneurship should use active actions as a starting point — entrepreneurship is the epitome of an active agent in the market (rather than a reactive agent). The term entrepreneur originally meant an owner-manager, often the founder of business, the man who combined land, labour and capital for productive use. It is now sometimes used to refer to the innovative manager, who may or may not be the owner, or for the manager who makes crucial decisions for the company (Dale, 1987). According to Petrin (1997) entrepreneurship is defined variously so that to some, entrepreneurship means primarily innovation, to others it means risk-taking, while to others, a market stabilizing force and to others still, it means starting, owning and managing a small business. Quoting from Tyson, Petrin and Rogers (1994), Petrin (1997) adds that the entrepreneur is viewed as a person who either creates new markets, finds new sources of supply and new organizational forms; or as a person who is willing to take risks; or a person who, by exploiting market opportunities, eliminates disequilibrium between aggregate supply and aggregate demand, or as one who owns and operates a business. EO therefore encompasses creation of new combinations of production factors, new markets, and new sources of supply and new organizational forms.

LITERATURE REVIEW

1. Schumpeterian Theory on Innovations

Schumpeter's (1934) theory of innovative profits emphasized the role of entrepreneurship (his term was entrepreneurial profits) and the seeking out of opportunities for novel value and generating activities which would expand (and transform) the circular flow of income through risk taking, pro activity by the enterprise leadership and innovation which aims at fostering identification of opportunities through intellectual capital of entrepreneur to maximize the potential profit and growth. Schumpeterian growth theory goes beyond economist theory by distinguishing explicitly between physical and intellectual capital, and between saving, which makes physical capital grow, and innovation, which makes intellectual capital grow. It supposes that technological progress comes from innovations carried out by firms motivated by the pursuit of profit, and that it involves what Schumpeter called "creative destruction". That is, each innovation is aimed at creating some new process or product that gives its creator a competitive advantage over its business rivals; it does so by rendering obsolete some previous innovation; and it is in turn destined to be rendered obsolete by future innovations (Schumpeter, 1934).

Endogenous growth theory challenges this neoclassical view by proposing channels through which the rate of technological progress, and hence the long-run rate of economic growth, can be influenced by economic factors. It starts from the observation that technological progress takes place through innovations, in the form of new products, processes and markets, many of which are the result of economic activities. For example,

because firms learn from experience how to produce more efficiently, a higher pace of economic activity can raise the pace of process innovation by giving firms more production experience. Also, because many innovations result from R&D expenditures undertaken by profit-seeking firms, economic policies with respect to trade, competition, education, taxes and intellectual property can influence the rate of innovation by affecting the private costs and benefits of doing R&D (Dinopoulos & Thompson, 1998).

Schumpeter, as cited by Swedberg (2000), pointed out economic behavior is somewhat automatic in nature and more likely to be standardized, while entrepreneurship consists of doing new things in a new manner, innovation being an essential value. As economics focused on the external influences over organizations, he believed that change could occur from the inside, and then go through a form of business cycle to really generate economic change. He set up a new production function where the entrepreneur is seen as making new combinations of already existing materials and forces, in terms of innovation; such as the introduction of a new good, introduction of a new method of production, opening of a new market, conquest of a new source of production input, and a new organization of an industry (Casson, 2002). For Schumpeter, the entrepreneur is motivated by the desire for power and independence, the will to succeed, and the satisfaction of getting things done (Swedberg, 2000). He conceptualized 'creative destruction' as a process of transformation that accompanies innovation where there is an incessant destruction of old ways of doing things substituted by creative new ways, which lead to constant innovation (Aghion & Howitt, 1992).

The entrepreneur's crucial significance to the dynamics of the capitalist system flows from the fact that it is the entrepreneur's innovations that disrupt the economy and move it forward from one equilibrium to the other. Rather than adapting to external pressures, the entrepreneur destroys the static equilibrium from within the system by inventing new products, processes or behaviors that contrast the routine systems and activities (McDaniel, 2005; Drejer, 2004).

2. Psychological Entrepreneurship Theories

The level of analysis in psychological theories is the individual (Landstrom, 1998). These theories emphasize personal characteristics that define entrepreneurship. Personality traits need for achievement and locus of control are reviewed and empirical evidence presented for three other new characteristics that have been found to be associated with entrepreneurial inclination. These are risk taking, innovativeness, and tolerance for ambiguity.

2.1 Personality Traits Theory

Coon (2004) defines personality traits as "stable qualities that a person shows in most situations". To the trait theorists there are enduring inborn qualities or potentials of the individual that naturally make him an entrepreneur. The obvious or logical question on your mind may be "What are the exact traits/inborn qualities?" The answer is not a straight forward one since we cannot point at particular traits. However, this model gives some insight into these traits or inborn qualities by identifying the characteristics associated

with the entrepreneur. The characteristics give us a clue or an understanding of these traits or inborn potentials. In fact, explaining personality traits means making inference from behavior. Some of the characteristics or behaviors associated with entrepreneurs are that they tend to be more opportunity driven (they nose around), demonstrate high level of creativity and innovation, and show high level of management skills and business know-how. They have also been found to be optimistic, (they see the cup as half full than as half empty), emotionally resilient and have mental energy, they are hard workers, show intense commitment and perseverance, thrive on competitive desire to excel and win, tend to be dissatisfied with the status quo and desire improvement, entrepreneurs are also transformational in nature, who are life long learners and use failure as a tool and springboard. They also believe that they can personally make a difference, are individuals of integrity and above all visionary. The trait model is still not supported by research evidence. The only way to explain or claim that it exists is to look through the lenses of one's characteristics/behaviors and conclude that one has the inborn quality to become an entrepreneur.

2.2 Locus of Control

Locus of control is an important aspect of personality. The concept was first introduced by Julian Rotter in the 1950s. Rotter (1966) refers to Locus of Control as an individual's perception about the underlying main causes of events in his/her life. In other words, a locus of control orientation is a belief about whether the outcomes of our actions are contingent on what we do (internal control orientation) or on events outside our personal control (external control orientation). In this context the entrepreneur's success comes from his/her own abilities and also support from outside. The former is referred to as internal locus of control and the latter is referred to as external locus of control. While individuals with an internal locus of control believe that they are able to control life events, individuals with an external locus of control believe that life's events are the result of external factors, such as chance, luck or fate. Empirical findings that internal locus of control is an entrepreneurial characteristic have been reported in the literature (Cromie, 2000, Ho and Koh, 1992; Koh, 1996; Robinson et al., 1991). In a student sample, internal locus of control was found to be positively associated with the desire to become an entrepreneur (Bonnett & Furnham, 1991). Rauch and Frese (2000) also found that business owners have a slightly higher internal locus of control than other populations. Other studies have found a high degree of innovativeness, competitive aggressiveness, and autonomy reports (Utsch et al., 1999). The same is reported of protestant work ethic beliefs (Bonnet and Furnham, 1991), as well as risk taking (Begley & Boyd, 1987).

2.3 Need for Achievement Theory

While the trait model focuses on enduring inborn qualities and locus of control on the individual's perceptions about the rewards and punishments in his or her life, (Pervin, 1980), need for achievement theory by McClelland (1961) explained that human beings have a need to succeed, accomplish, excel or achieve. Entrepreneurs are driven by this need to achieve and excel. While there is no research evidence to support personality traits, there is evidence for the relationship between achievement motivation and entrepreneurship (Johnson, 1990). Achievement motivation may be the only convincing

personological factor related to new venture creation (Shaver & Scott, 1991). Risk taking and innovativeness, need for achievement, and tolerance for ambiguity had positive and significant influence on entrepreneurial inclination Mohar, Singh and Kishore (2007). However, locus of control (LOC) had negative influence on entrepreneurial inclination. The construct locus of control was also found to be highly correlated with variables such as risk taking, need for achievement, and tolerance for ambiguity. The recent finding on risk taking strengthens earlier empirical studies which indicate that aversion to risk declines as wealth rises, that is, one's net assets and value of future income (Szpiro, 1986). In complementing Szpiro's observation, Eisenhauer (1995) suggests that success in entrepreneurship, by increasing wealth, can reduce the entrepreneur's degree of risk aversion, and encourage more venturing. In his view, entrepreneurship may therefore be a self perpetuating process. Further evidence suggests that some entrepreneurs exhibit mildly risk-loving behavior (Brockhaus, 1980). These individuals prefer risks and challenges of venturing to the security of stable income.

3. Sociological Entrepreneurship Theory

The sociological theory is the third of the major entrepreneurship theories. Sociological enterprise focuses on the social context. In other words, in the sociological theories the level of analysis is traditionally the society (Landstrom, 1998). Reynolds (1991) has identified four social contexts that relates to entrepreneurial opportunity. The first one is social networks. Here, the focus is on building social relationships and bonds that promote trust and not opportunism. In other words, the entrepreneur should not take undue advantage of people to be successful; rather success comes as a result of keeping faith with the people. The second he called the life course stage context which involves analyzing the life situations and characteristic of individuals who have decided to become entrepreneurs. The experiences of people could influence their thought and action so they want to do something meaningful with their lives. The third context is ethnic identification. One's sociological background is one of the decisive "push" factors to become an entrepreneur. For example, the social background of a person determines how far he/she can go. Marginalized groups may violate all obstacles and strive for success, spurred on by their disadvantaged background to make life better. The fourth social context is called population ecology. The idea is that environmental factors play an important role in the survival of businesses. The political system, government legislation, customers, employees and competition are some of the environmental factors that may have an impact on survival of new venture or the success of the entrepreneur.

4. Resource- Based Entrepreneurship Theories

The Resource-based theory of entrepreneurship argues that access to resources by founders is an important predictor of opportunity based entrepreneurship and new venture growth (Alvarez & Busenitz, 2001). This theory stresses the importance of financial, social and human resources (Aldrich, 1999). Thus, access to resources enhances the individual's ability to detect and act upon discovered opportunities (Davidson & Honing, 2003). Financial, social and human capital represents three classes of theories under the resource – based entrepreneurship theories.

4.1 Financial Capital/Liquidity Theory

Empirical research has showed that the founding of new firms is more common when people have access to financial capital (Blanchflower et al, 2001, Evans & Jovanovic, 1989, and Holtz-Eakin et al, 1994). By implication this theory suggests that people with financial capital are more able to acquire resources to effectively exploit entrepreneurial opportunities, and set up a firm to do so (Clausen, 2006). However, other studies contest this theory as it is demonstrated that most founders start new ventures without much capital, and that financial capital is not significantly related to the probability of being nascent entrepreneurs (Aldrich, 1999, Kim, Aldrich & Keister, 2003, Hurst & Lusardi, 2004, Davidson & Honing, 2003). This apparent confusion is due to the fact that the line of research connected to the theory of liquidity constraints generally aims to resolve whether a founder's access to capital is determined by the amount of capital employed to start a new venture Clausen (2006). In his view, this does not necessarily rule out the possibility of starting a firm without much capital. Therefore, founders access to capital is an important predictor of new venture growth but not necessarily important for the founding of a new venture (Hurst & Lusardi, 2004). This theory argues that entrepreneurs have individual-specific resources that facilitate the recognition of new opportunities and the assembling of new resources for the emerging firm (Alvarez & Busenitz, 2001). Research shows that some persons are more able to recognize and exploit opportunities than others because they have better access to information and knowledge (Aldrich, 1999, Anderson & Miller, 2003, Shane 2000, 2003, Shane & Venkataraman, 2000).

4.2 Social Capital or Social Network Theory

Entrepreneurs are embedded in a larger social network structure that constitutes a significant proportion of their opportunity structure (Clausen, 2006). Shane and Eckhardt (2003) says "an individual may have the ability to recognize that a given entrepreneurial opportunity exist, but might lack the social connections to transform the opportunity into a business start up. It is thought that access to a larger social network might help overcome this problem" (pp.333). In a similar vein, Reynolds (1991) mentioned social network in his four stages in the sociological theory. The literature on this theory shows that stronger social ties to resource providers facilitate the acquisition of resources and enhance the probability of opportunity exploitation (Aldrich & Zimmers, 1986). Other researchers have suggested that it is important for nascent founders to have access to entrepreneurs in their social network, as the competence these people have represents a kind of cultural capital that nascent ventures can draw upon in order to detect opportunities (Aldrich & Cliff, 2003, Gartner et al, 2004, Kim, Aldrich & Keister, 2003).

5. Human Capital Entrepreneurship Theory

Underlying the human capital entrepreneurship theory are two factors, education and experience (Becker, 1975). The knowledge gained from education and experience represents a resource that is heterogeneously distributed across individuals and in effect central to understanding differences in opportunity identification and exploitation (Anderson & Miller, 2003, Chandler & Hanks, 1998, Gartner et al, 2005, Shane & Venkataraman, 2000).

6. The Discovery Theory of Entrepreneurship

This theory, also known as the Individual/Opportunity Nexus Theory focuses on the existence of discovery and exploitation of opportunities and is grounded on the suggestion that opportunities are objective; individuals are unique, and entrepreneurs are risk-taking (Avarez, n.d.). The theory has three assumptions: “objectives and opportunities”, “individuals are unique”, and “entrepreneurs are risk-bearing”. Opportunities have an objective component and they exist whether or not they are recognized. They are derived from the attributes of the industries or markets within which an entrepreneur contemplates action. If an entrepreneur understands the attributes or structure of an industry, he or she will be able to anticipate the kinds of opportunities present in that industry, e.g. the primary opportunity in fragmented markets is consolidation in order to exploit economies of scale. The primary opportunity in mature industries is to refine products and undertake process innovation to improve quality and lower costs (Porter, 1980). Understanding entrepreneurial opportunities is therefore important because the characteristics of an opportunity influence the value they are likely to create.

Entrepreneurship requires differences in people and these differences manifest themselves in the ability to recognize opportunities (Shane, 2003). Individuals are alert to existing opportunities (Kirzner, 1973). Entrepreneurial alertness is an attitude of receptiveness of available but currently overlooked opportunities in a market (Kirzner, 1997). This assumption recognizes the entrepreneurial nature of human action taken and the human agent that is at all times spontaneously on the lookout for unnoticed market imperfections. The recognition of these market imperfections might inspire new activity (Alvarez & Barney, 2007). Entrepreneurial alertness is not a deliberate search, but is the constant scanning of the environment by the entrepreneur who notices market imperfections. The recognition of these imperfections is accompanied by a sense of 'surprise' of the imperfection that had not previously been recognized. The alert individuals are on the lookout for imperfectly distributed information about potentially mispriced resources that they may have access to before others. These opportunities exist independent of actors but the economic actor must act on the opportunity to earn profits. Risk-bearing is a necessary part of the entrepreneurial process (Shane, 2003). The Individual/Opportunity nexus assumes conditions of risk. The economic actor does not know with certainty whether the opportunity discovered will be successful; it has a probabilistic chance of being so. Thus, the entrepreneurial process is about risk, not certainty. This theory is applicable to this study as it relates to a number of the dimensions of entrepreneurial orientation - opportunity identification and development and entrepreneurial risk-taking.

7. The Creative Theory of Entrepreneurship

This theory is focused on the entrepreneur and the creation of the firm (Schumpeter, 1934; Venkataraman, 2003). The theory is grounded on three major assumptions: opportunities are subjective; opportunities are not recognized, they are created; and entrepreneurs bear uncertainty. Opportunities are created through a series of decisions to exploit a potential opportunity. They are created by economic actors; they do not exist independently. Their existence holds the potential for profit generation. The theory assumes uncertainty, not risk. Under conditions of uncertainty, the attributes of an industry are either knowable, or

are changing in ways difficult to predict. Opportunities must therefore be created and refined through a process of hypothesizing what the opportunity might be; testing the hypothesis, until it roughly correlates with what turns out to be objective opportunities in an industry. Examples are to be found in many industries, for example, the electronics or the motor vehicle industries - firms like Samsung or Toyota cannot ask customers for guidance on how to create new products. Any new products they develop will be 21 beyond the experience or potential of customers. These firms must therefore go through a process of generating new products, trying them with customers, discover which of them are reasonably accepted or successful; refine them to improve marketability.

Opportunities are discovered by analyzing market and industry structures - "opportunity creation" - through hypothesis testing and learning. Opportunities do not exist independent of the actions of the entrepreneur but are created by the entrepreneur. People are not different; there are only differences in decision-making under entrepreneurial decision-making and under entrepreneurial uncertainty conditions. The entrepreneur is not autonomous but the creator of the opportunity. Decision-making occurs in the absence of correct procedures for exploiting existing resources. Uncertainty, not risk, is a necessary condition for entrepreneurship, hence reliance on assumptions of uncertainty. Risk refers to the situation when two conditions exist: 1) when possible future outcomes of a decision are known and when the probability of each of these outcomes are also known (Wald, 1950), hence, three positions: all possible future outcomes are known before decision-making; the probability of any one of these outcomes occurring is ≤ 1 , but > 0 ; the probability of all outcomes occurring = 1.

Uncertainty exists when possible outcomes of a decision and the probability of those outcomes are not known (Knight, 1921); decision-makers do not know that they do not know possible future outcomes (Shackle, 1972). This theory is relevant to entrepreneurial risk-taking and innovativeness, i.e. creativity.

CONCLUSION

The purpose of this paper was to examine the theories and research outcomes of entrepreneurship. From the above discussions it is clear that the field of entrepreneurship have some interesting and relevant theories (ranging from psychological, sociological, anthropological, opportunity-based, to resource-based) which are underpinned by empirical research evidence. This development holds a rather brighter future for the study, research, and practice of entrepreneurship.

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