

## Personal Characteristics of an Entrepreneur and its influence on Performance

A.Pushpanathan\*  
Prof.Zhiyang Lin\*\*

### Abstract

*"This article explores the personal characteristics of an entrepreneur and its influence in performance. In our paper we mainly discussed, how personal characteristics of an entrepreneur influence on performance in the entrepreneurship."*

**Keywords:** Personal Characteristics, Entrepreneur, Performance

### Introduction

The word Entrepreneur comes from the French Language (entre – prendre) and means literally to undertake or to take between. Among the earliest economic uses (16<sup>th</sup> and 17<sup>th</sup> centuries), it referred to government contractors for military or public works projects. Later a Scottish Economist, Richard Canillon defined an entrepreneur as one who buy factors of production at certain prices, thereby bearing a non insurable risk. At this time the classic entrepreneur was the "Farmer" who plants and tends to crops without any certainty of whether or not they will survive the harvest or the price they will bring (Hubert & Link, 1982). The term has come to be applied to any risk - taker any merchant, or any promoter.

The entrepreneur holds a prominent position in the folklore of any society. He is the hero of their dream moving from rags to riches through hard work and resourcefulness. He is not a capitalist although he needs capital to do many activities. He is not an investor, although he takes risks. He is also not an employer but can be and often is an employee or some one who works alone and entirely by him. An entrepreneur may or may not be an inventor. Henry Ford was not an inventor whereas Thomas Edison was an inventor entrepreneur.

Moreover, to the extent that the entrepreneur is an "individual" of some type, he / she is a situated individual working within social as

well as economic constraints and fully subject to the framing, instituted rules of the game. Baumol (1993), in his extended discussion of the topic, includes "the use of imagination, boldness, ingenuity, leadership, persistence and determination" as relevant characteristics of those who engage in novel activities, a list that adequately warns of difficulties that lie ahead in finding an adequate frame of analysis for these troubles some individuals.

### Understanding the definitions of Entrepreneur.

Entrepreneurship can be defined as the process of using private initiative to transform a business concept into a new venture or to grow or diversify an existing venture or enterprise. There are various definitions of an entrepreneur.

An entrepreneur is variably defined as one who assumes the financial risk of the initiation, operation and management of a business or undertaking; a person who assumes the risk to start a business with the idea of making a profit; an individual who organizes and manages labour, capital, and natural resources to produce goods and services to earn a profit, but who also runs the risk of failure; a business person who accepts both the risks and the opportunities involved in creating and operating a new business venture. In line with these different definitions, risk-taking, and treading a fresh path are essential features of entrepreneurship.

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\* A.Pushpanathan is a lecturer at Vavuniya Campus of the University of Jaffna, Srilanka.

\*\*Prof.Zhiyang Lin,Associate Dean,School of Management Xiamen University,China

Baumol's (1990) definition of entrepreneur as "persons who are ingenious and creative in finding ways that add to their own wealth, power, and prestige. From this follows the idea of the entrepreneur as the agent responsible for conceiving and implementing new business plans, plans to create wealth, power, and prestige. Since plans require resources for their activation, we find an easy transition to definitions such as that provide by Mark Casson, who defines the entrepreneur as, "Someone who specializes in making judgmental decisions about the allocation of scarce resources (Casson, p.15). If it is the nature of the judgmental decisions that matters, then, as Ripsas (1998) suggests, they have three principal attributes: their innovative nature, and by implication their connection with new knowledge, and thus their dependence on partial knowledge; and finally the extra ordinary profit rewards that can follow from implementing these decisions and thus their connection with radical knowledge.

Further Cantillon (1755) described the entrepreneur as one "who assumes the risk of buying goods, or parts of goods, at one price and attempts to sell them for profit, either in their original states or a new products". Say (1852) saw "the entrepreneur as a person who judges, combines factors of production and survives crises." Knight (1921) views the entrepreneur as "an economic pioneer who initiates change or innovation by managing uncertainty and risk". Hayek (1948) noted that the entrepreneur never has the benefit of perfect knowledge and therefore must have the ability to adapt quickly. Liebenstein (1968) suggests, "Successful entrepreneurs are those that are able to overcome market inefficiencies."

Apart from these definitions, the understanding of the term entrepreneur differs in the developed and the developing countries.

The Americans consider an entrepreneur as one who owns and manages a business, the Englishs identify the entrepreneur with new small business and the Germans identify it with power and property, and in the developing countries, the entrepreneur is one who is self-employed, earns his living, establishes his business, and has a status in society.

Joseph Schumpeter (1934) work on entrepreneurship is considered to be importance in his book "The theory of Economic development (1934)". He described the entrepreneur as an innovator, who actually innovates the process of economic development. Such individuals innovate by foreseeing the potentially profitable opportunities and attempt to exploit such instances, thus positively impacting the effectiveness of an organization.

Schumpeter distinguished wished and differentiates between an investor and an innovator. An inventor produces ideas, and an innovator implements them and gets them done. Schumpeter also established a distinction between a manager and an entrepreneur as former dealing with day to day affairs of an on-going concern while the later attempts the changing the factor of combinations and thus increasing productivity and profit. Schumpeter therefore, every rightly saw the role of entrepreneurs as innovators in the process of achieving organizational effectiveness and thus, consequently enhancing economic development. Among these studies, a series by David McClelland has become prominent.

McClelland's studies, which have extended over a period of twenty five years (beginning in 1947), indicate that entrepreneurs are distinctive in that they have a high need to achieve and accomplish – and because of this they prefer to work with experts rather than friends when faced with a problem. An individual's achievement motivation appears to be set at an early age in life. Entrepreneurs tend to be long-range thinkers and planners, focusing on overall vision of the enterprise rather than more immediate practical problems. According to McClelland, the entrepreneur is neither a low or high-risk taker, but rather, an intermediate risk taker. The entrepreneur seems to be a self-confident loner who can withstand the criticisms of his associates.

Shapiro (1975) has research findings to the effect that entrepreneurs have a firm belief in their skills and abilities. They feel their actions can change events. An entrepreneur is the master of his or her own life and refuses to believe that outside forces can decisively

influence his or her success. Orvis Collins and David Moore (1964) in their study suggest that entrepreneurs frequently have difficulty forming close emotional attachment and this may be due to poor psychological relationships they developed with their parents and in particular, with their fathers. Because of the entrepreneurs difficulty in forming close relationships, he or she becomes deeply involved in work and transfers all hopes and feeling from human beings to his or her own business. Thus the entrepreneur treats the business almost as a living, breathing creature and is emotionally involved with it. The long hours of work are not burden some but exciting and enjoyable.

Collins and Moore suggest that the entrepreneur cannot maintain a close emotional attachment over an extended period even with a business – thus they unconsciously make one business to fall and start another. From this minimal relationship with others, entrepreneurs treat subordinates in an autocratic fashion. The entrepreneur's word is law, and he will typically brook no opposition (Fillee, House, and Kerr 1976 - as quoted in martin J.Gannon, 1977).

Finally many entrepreneurs are not loyal or trustworthy – they have fired their industrious and loyal subordinates for unjustified reasons. Entrepreneurs are not critically influenced by the reactions and criticism of their peers and their relationship with other human beings.

### **Characteristics of the Entrepreneur**

The characteristics of the entrepreneur fall under two broad headings: one is the entrepreneur's experience, and second is the entrepreneur's psychology.

#### **The Entrepreneur's Experience**

According to Buchele, one of "the three main mistakes made in starting new firms" is that "the key persons do not have rounded managerial experience in the particular line of business." Nearly all the discursive writers and much of the research on new entrepreneurs deem "experience" important. Exactly what is meant by the word varies, though. Broadly interpreted, it comprises experience as a manager, in major functional

disciplines, in a particular line of business, and as a startup entrepreneur, as well as education or training. The following experiences are discussed below.

**Managerial Experience:** The value of undifferentiated managerial experience is dubious, according to most observers. Buchele stated that an entrepreneur's management skills are not transferable from one line of business to another because small firms cannot afford the staff specialists necessary to help a generalist learn the unique aspects of his new business. Others deprecated the value of experience in unrelated businesses, while stressing the importance of experience in the same line of business.

Supporters of the value of undifferentiated managerial experience have been unable to furnish convincing evidence. Smith reported greater success among entrepreneurs who had managerial skills and orientation rather than those of an artisan. Hoad and Rosko argued that management experience, even in an unrelated business, is important. However, their own data failed to indicate any relationship between entrepreneur's performance and years of experience as a business owner-manager.

**Functional Area Experience:** Buchele stated the consensus view when he explained that the necessary "rounded managerial experience" implied enough experience in selling, design, production, accounting, and finance "to appreciate the subspecialties in each." Support for this view has been anecdotal for the most part, although Hoad and Rosko showed that good performance was associated with good accounting records and seeking the advice of outside accountants. In studies of technology-based entrepreneurs, multifunction management backgrounds have been reported as characteristics of successful entrepreneurs and as a factor that distinguishes higher from lower performers.

**Experience in the Line of Business:** Hoad and Rosko reported that entrepreneur success was positively related to experience as an owner or manager in a similar business. The performance differences in their data have been found not to be significant, although the

observed differences are in the reported direction. An interesting pattern appears in Hoard and Rosko's data. The proportion of both successes and failures increase with increased experience, while marginal firms are much less frequent. Two explanations seem plausible.

First, a highly experienced entrepreneur may be more likely to gamble heavily on a potential breakthrough in product design or market segmentation. Someone with less experience in the business may be less likely to devise such a bold stroke, whether good or bad. Thus the experienced entrepreneur is more likely to win big or to lose big.

A second possibility is that the more experienced entrepreneurs include relatively more of the veteran craftsmen. Smith reported that craftsmen's inflexibility impaired the growth of their firms. Such inflexibility could also be expected to jeopardize the early survival and growth of a new entrepreneur.

**Startup Experience:** Many researchers have concluded that a prior startup provides invaluable experience. Collins and Moore portrayed the entrepreneur as spending several years trying to establish a business, all the while learning how to "jell" deals. The entrepreneur learns, some times at great personal cost, "the basic technique of entrepreneurship: the bringing together of ideas, people, and money in a profitable arrangement." Along the way, one of more attempts is likely to fail, yet the entrepreneur may profit from the experience.

Lamont confirmed, entrepreneurs had prior startup experience showed superior sales growth, profitability, and financial strength. These firms had a clearer product-market orientation and had hired more management talent in key functional areas than the other new entrepreneurs. Lamont believed the experienced entrepreneurs had learned the importance of these factors and that this learning from experience implied that would-be entrepreneurs could learn from the experiences of successful entrepreneurs. It seems reasonable, then, to consider formal education as an alternative to experience.

**Education and Training:** Efforts to establish the value of education for entrepreneurs have yielded mixed but generally positive results. In technical fields it is often a virtual prerequisite. Even in non-technical areas, education appears to help. Whereas some early studies questioned the importance of a college education, more recent data show entrepreneurs to be more highly educated than the general adult population but less so than corporate executives. Hoard and Rosko found that "education makes a difference when it extends a year or more beyond high school." They found higher rates of both success and failure among educated entrepreneurs and a higher rate of marginal entrepreneurs among uneducated entrepreneurs.

Hoard and Rosko cross-tabulated, education and managerial experience in a similar line of business. The educated-experienced entrepreneur performed best, but the least likely to fail was the uneducated-inexperienced entrepreneur. The latter type's success rate was lower than any other, but a high proportion of these entrepreneurs were marginal. Hoard and Rosko concluded that these were probably skilled craftsmen seeking wage-substitute returns as entrepreneurs rather than hire out as employees.

### **The Entrepreneur's Psychology**

The entrepreneur's psychology and personality have been studied mainly to determine what leads a person to entrepreneurship. Less attention has been devoted to their effects on success or failure as an entrepreneur. The following review will include both types of study, but will give greater emphasis to entrepreneurial performance. Three types of entrepreneur's psychology discussed below.

#### **Need for Achievement:**

A good working definition of need for achievement (n Ach) is "a need to excel in relation to competitive or internalized standards." The concept owes its widespread recognition largely to the work of McClelland, who associated it with desires for personal responsibility for solving problems, moderate goals and risks, and concrete feedback on performance.

The link between n Ach and entrepreneurship remains controversial. McClelland found a clear relationship between high n Ach and the subsequent holding of "entrepreneurial" positions among male college alumni, but defined "entrepreneurial" far more broadly than in most research. Using a narrower definition, subsequent research has attempted to relate n Ach to entrepreneurial performance. Successful entrepreneurs were found to score higher than the general population on n Ach or similar achievement value measures. Efforts to inculcate or stimulate n Ach in current or would be entrepreneurs have brought unclear results. They have been declared successful of limited value in the absence of business skills or training, and of questionable effectiveness.

Researchers have reached conflicting conclusions in the case of high technology entrepreneur; too, Schrage found that high n Ach was associated with both high profits and large losses, whereas low n Ach was associated with more moderate results. He explained that the high n Ach entrepreneur strives harder to succeed, but this exceptional striving only worsens performance if the entrepreneur is misguided or receives poor feedback. Wainer and Rubin attributed Schrage's findings to poor scoring of research protocols; their own sample showed high n Ach associated with rapid company growth but no performance difference between medium and low n Ach entrepreneurs.

One impediment to the use of n Ach to understand or predict entrepreneurial behaviour and performance has been the need for psychologists to administer and score projective tests. Researchers have made only modest progress in developing or discovering standard tests to do the job more easily and more effectively. A more general impediment has been the inability of researchers to discover a link between n Ach and key aspects of entrepreneurial performance.

#### **Locus of Control Beliefs:**

Locus of control describes an individual's beliefs about his own ability to determine the outcomes of events in his life. A person with external beliefs thinks that luck, chance, fate,

or other people are in control of the outcomes or that events are simply unpredictable. Belief that one's own behaviour or characteristics determine outcomes is considered a belief in internal control. Internal-control beliefs affect the decision to start a business because that decision depends on an entrepreneur's belief that he will be able to control the entrepreneur's outcome.

#### **Risk Preferences:**

The concept of risk used in entrepreneurship research has become richly variegated. In addition to traditional financial risk, the concept has broadened to include opportunity costs and psychic costs of venturing and of failing. With risk defined as the probability of failure, entrepreneurs have been said to prefer moderate levels of risk and to be less risk averse than managers.

Brockhaus has challenged the general belief that moderate risk preferences distinguish entrepreneurs comparing his earlier sample of startup entrepreneurs to corporate managers who had changed companies and those who had changed positions within a company. Brockhaus found no significant differences in risk preferences. Nor were the entrepreneurs significantly different from the general population.

Brockhaus also compared successful and failed entrepreneurs on the basis of risk preferences measurements taken when they received their business licenses. No difference was found between the two groups. Brockhaus tentatively has concluded that risk preference "may not be related to either the entrepreneurial decision, or to the success of the enterprises." (Nilliam R Sandberg, 1986).

#### **Conclusions**

The management literature reminds us that the entrepreneur is more than the humanized calculator portrayed in static - state equilibrium analysis. The entrepreneur makes necessary compromises between conflicting objectives and sometimes prefers leisure or self - employment to financial returns. Only some entrepreneurs commence their venture with any intention of moving them become large.

The entrepreneur as conceived here is one who engages in purposeful activity undertaker to initiate, maintain. And aggrandize a profit – oriented business unit. The entrepreneur hopes his or her perception of an exploitable disequilibrium is accurate (or comes to pass) and that the venture becomes profitable and viable at its maturity. This conception of the entrepreneur excludes the founder of intendedly marginal firm.

The only slightly more advanced research on entrepreneurial characteristics and industry structure as related to new entrepreneur performance are of value in identifying, and perhaps in measuring, variables that could join or affect strategy in determining new entrepreneur performance.

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