

BBM 221

THEORIES OF ENTREPRENEURSHIP

1. PSYCHOLOGICAL THEORY

- The central focus of this theory is that entrepreneurs have unique values, attitudes and need which drive them.
- People behave in accordance with their values irrespective of the different situations they might be in.
- The psychological school focuses on personality factors believing that entrepreneurs have unique values and attitudes towards work and life.
- Entrepreneurs are different from non-entrepreneurs by personality characteristics.
- Among the most frequent traits of entrepreneurs include the following:

a. The Need for Achievement (n-Ach)

- The entrepreneurial n-Ach was first identified as a personality trait by McClelland (1961), in his work on economic development.
- People with high n-Ach
 - ❖ have a strong desire to solve problems,
 - ❖ enjoy setting goals and achieving them through their own efforts
 - ❖ like receiving feedback on how they are doing.
 - ❖ are moderate risk-takers.

b. Locus of Control

- There are 2 types of these:
 - i. External-Those who believe that what happens to them is as a result of fate, chance, luck or forces beyond their control.
 - ii. Internal-Those who believe that for the most part, the future is theirs to control through their own effort.

People who undertake entrepreneurship must believe that their effort will have something to do with the businesses' future performance

c. Risk Taking Propensity

- This is the perceived probability of receiving rewards associated with success of a proposed venture which is required by individuals before they subject themselves to the consequences associated with failure (1980).
- Entrepreneurs portray intuition, vigour, energy, persistence and self-esteem
- According to this theory, entrepreneurs are born and they have natural abilities where training cannot influence them in any way.

2. Motivation Theory

- Motive may be defined as drives or impulses within an individual.
- It implies something within a person which prompts him/her into action
- They are factors that energize behavior and give it direction.
- The following are types of motivation:
 - a. Internal Motivations and Drives
- This refers to personal traits and desires that induce a person to become an entrepreneur.
- Different persons could be motivated by different forces. For example:
 - i. **Employment Creation Need**

Despite ones level of education and training, one may fail to get a form of salaried employment.

This is because the rate at which jobs are being created is far below the rate at which labour force increases at any given time.

In these circumstances, the need for a person to engage in entrepreneurial ventures is a great motivation.

- **ii. Need for Independence or Self-reliance**
 - Wanting to be own boss especially if he/she does not like taking orders from others.
 - Wanting to be in control of own destiny
 - Making own decisions
 - etc
- **iii. Need for Power**
 - Could be need to exercise power over others and need to control other people.
 - If power is not misused, this can help other people by creating jobs for them.

- Abuse of power should be avoided because productivity of workers depend on how the entrepreneurs handles them.
- **iv. Need for Recognition**
- If you strive to be recognized by your peers, family and society, this is an important drive to get into entrepreneurship.
- For some families, traditionally, the members don't stay in salaried employment but open own businesses.
- The entrepreneur may want to sustain this family tradition
- **v. Need for Security**

Most people strive to be free from anxiety:

- Anxiety about our very survival
- Survival of our close family members
- Anxiety about the future.

Entrepreneurs therefore strive to maximize their returns where wage employment may not meet this anxiety especially if the job is not permanent and pensionable.

Entrepreneurship may provide an avenue through which a person may achieve a greater measure of such security.

- **vi. Self-Actualization Need**
- This refers to the need to accomplish that which a person is capable of achieving and the need to be unique.
- Through entrepreneurial activities and with dedication and commitment, this need can be realized.
- This need can be difficult to achieve in formal employment.

b. External Motivations and Drives

These refer to those motivations provided by others including legal authorities and the society in general.

They provide an enabling environment for entrepreneurship.

They provide a conducive environment for the entrepreneur to realize his/her internal motivations.

Some of these factors include:

I. Infrastructure

To operate efficiently, any enterprise requires the provision of basic facilities such as:

- Power
- Water
- Communication
- Structures allowing accessibility

II. Credit Facilities

This refers to the provision of money through loans to be used in starting as well as expanding an enterprise.

An entrepreneur rarely has enough funds to start or expand a business so relies on finances from external sources such as:

- Government agencies
- Banks and non-bank financial institutions
- Non-governmental organizations.

III. Information Support

Entrepreneurs need information related to the market for their products . They need information on aspects such as:

- Viable foreign markets
- The nature of competition
- Financing requirements of trade
- Documentation requirements
- Legal requirements
- Foreign exchange requirements
- Barriers to trade

- Etc.
- **IV. Pricing Policy**
- Government pricing policy should be an incentive to an entrepreneur.
- It should motivate more people to venture into entrepreneurial activities
- Should take into account all material facts such as costs of production and a reasonable margin of profit.
- When venturing into a particular business, the entrepreneur should assess the pricing policy applied in such an industry and determine how it will affect his/her earnings and the survival of the business.

V. Tax policy

- This should act as a motivator to entrepreneurship
- Often, the authorities in their endeavor to raise revenue resort to increasing indirect taxes such as VAT and custom duty.
- This could be counter productive in the long-run especially if the tax burden cannot be passed to the consumers.
- This erodes the entrepreneurs' profit margins.
- Further, the welfare of the consumers who the business depends on for its success needs to be considered.

VI. Legal Control

- This can be manifested in the licensing requirements for establishing various types of businesses.
- Licenses should not amount to an added tax burden by being too many even for small and micro businesses.

VII. Political Climate

- The prevailing political climate should be conducive to smooth operation of business by having conducive law and order.
- There should be no discrimination
- Enterprises should be set up in any part of the country that provides a business opportunity without tribal barriers.

VIII. Technical technology Assistance

This covers giving advice on production aspects of the business and the projection studies for lending institutions.

An entrepreneur need to be offered such assistance in order to be motivated to engage in activities which otherwise would be considered to be very risky.

It includes:

- Engineering services
- Scientific research
- Quality control
- Product development
- Etc.

IX. Training and Consultancy Assistance

Government agencies such as Kenya Institute of Business Training (KIBT) offer assistance to entrepreneurs such as:

- Vocational training courses
- Counseling to help in problem solving

3. Maslow's Need Theory

- This theory is identified with the psychologist Abraham Maslow. The theory is based on three specific assumptions:

1. That human beings are never satisfied. Their wants are determined by what they have. When people are hungry or thirsty, the quest for food or water influences how they behave. However, if food and water is acquired, the same person will want something else, e.g. a safe place to live in or social status.
2. A satisfied need does not cause behavior. Once people satisfy their need for safety, they are motivated by yet unsatisfied needs,(not the ones that are satisfied)
3. Human needs are arranged in a hierarchy of importance. These needs range from low level biological (physiological) needs to high level needs such as self-actualization.



Maslow's hierarchy of needs

The five categories of needs according to Maslow

1. Physiological Needs

- These refer to basic physical needs like drinking when thirsty or eating when hungry.
- Maslow considered physiological needs to be the most essential of our needs.
- If someone is lacking in more than one need, they're likely to try to meet these physiological needs first.

- For example, if someone is extremely hungry, it's hard to focus on anything else besides food.
- Another example of a physiological need would be the need for adequate sleep.

2. Safety or Security Needs

- Once people's physiological requirements are met, the next need that arises is a safe environment.
- Our safety needs are apparent even early in childhood. Children have a need for safe and predictable environments and typically react with fear or anxiety when these are not met.
- Maslow pointed out that in adults, safety needs are more apparent in emergency situations (e.g. war and disasters),
- This can explain why we tend to prefer the familiar or why we do things like purchase insurance in case of illnesses and contribute to a savings account.
- For entrepreneurs, there's need to be free from the fear of loss of a job.

3. Love and Belonging Needs

- According to Maslow, the next need in the hierarchy involves feeling loved and accepted.
- This need includes both relationships as well as ties to friends and family members.
- It includes our need to feel that we belong to a social group. Importantly, this need encompasses both feeling loved *and* feeling love towards others.
- love and belonging needs impact well-being.
- For example, having social connections is related to better physical health and, conversely, feeling isolated (i.e. having unmet belonging needs) has negative consequences for health and well-being.
- Entrepreneurs need this as a source of comfort

4. Esteem Needs

- Our esteem needs involve the desire to feel good about ourselves.
- According to Maslow, esteem needs include two components.
- The first involves feeling self-confidence and feeling good about oneself.
- The second component involves feeling valued by others; that is, feeling that our achievements and contributions have been recognized by other people.
- When people's esteem needs are met, they feel confident and see their contributions and achievements as valuable and important.
- However, when their esteem needs are not met, they may experience "feelings of inferiority."

5. Self-Actualization

- This refers to feeling fulfilled, or feeling that we are living up to our potential.
- One unique feature of self-actualization is that it looks different for everyone.
- For one person, self-actualization might involve helping others; for another person, it might involve achievements in an artistic or creative field or in entrepreneurship.
- Essentially, self-actualization means feeling that we are doing what we believe we are meant to do.
- According to Maslow, achieving self-actualization is relatively rare, and his examples of famous self-actualized individuals include Abraham Lincoln, Albert Einstein, and Mother Teresa.
- For the entrepreneur, he/she aspires for standard of excellence.

NOTE; Assess how these needs relate to entrepreneurship