

## Online Assignment Submission

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**Assignment Title:** Do entrepreneurs have traits or cognitive biases that make them different from other individuals?

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# **Do entrepreneurs have traits or cognitive biases that make them different from other individuals?**

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This essay analyses and critically evaluates alleged characteristics of entrepreneurs and offers insights on how they differ from others. To do this, these characteristics are each challenged, with the aid of contemporary literature, from an organisational theorist approach. In the processes, it is argued that neither these traits and cognitive biases, nor using them to identify entrepreneurs, is absolute. Whether the source of these traits is nature or nurture is beyond the scope of this essay, however either way, the answer to this question is invaluable to entrepreneurs, investors, and the government alike for development and support.

For the purpose of this essay, an entrepreneur is defined as an individual who has the capability to take advantage of any arbitrage to increase their utility under uncertainty. This includes the unproductive and destructive entrepreneurs of Baumol's typology. In the past, a whole range of studies were conducted with the aim of identifying an entrepreneurial personality profile, yet most results remain empirically weak to this day (Gartner and Katz 1988).

To begin, Chell's (2008) three traits are examined. The first, the need for achievement, stipulates that an entrepreneur must be motivated to reach formidable goals, and take responsibility. This seems intuitive at first, but the need for achievement means nothing on its own. Simply wanting to achieve does not imply the ability to achieve (Breidebach 2012).

Secondly, having an internal locus of control makes a person more likely to become an entrepreneur, which is a more compelling argument. It still suggests however – along the same lines of entrepreneurs being over-optimistic – that you need to be delusional in order to become an entrepreneur. Surely delusion can only cloud and distort true strategic thinking? As a matter of fact, there is evidence that general internalisation of locus of control decreases with age (Johansson et al. 2001), (Aldwin and Gilmer 2004). Incidentally, *successful* entrepreneurship is positively correlated to age (Ressi 2011). One could argue that as a person get older and wiser, they adjust their perception of just how much control they have to a more realistic one and as a result are able to make better strategic decisions.

Finally, it is suggested that entrepreneurs have must have a higher risk-taking propensity due to the inherent riskiness of entrepreneurship. Once again this can be misleading; of course an entrepreneur will be more successful if they are able to take calculated risks and make strategic decisions, but risk-seeking behaviour is often a misapprehension of opportunity-seeking. In fact, if risk-taking propensity is to be any indication of entrepreneurship at all, then it should be risk aversion (Cramer et al. 2002), (Forbes

2012).

It is however undeniable that there exists a positive correlation between entrepreneurship and Chell's three traits (Ahmed 1985). However, this is not enough to distinguish between entrepreneurs and, say, managers (Chen, Greene, and Crick 1998). Indeed, there is an extremely distinct correlation between Chell's three traits and narcissism in entrepreneurs (Mathieu and St-Jean 2013). It would be a mistake to assume however that that means that narcissism is a good indicator of entrepreneurship simply because "entrepreneurship" encompasses so many things.

Take for instance a successful founder of a small hair salon; they decided that taking advantage of identified "arbitrage" will increase their utility. Are they not an entrepreneur? What if their demand is steady, they have no ambition to expand their firm, and all they want to do is clock in, do their job, and feed their family? They have no NAch, no internal locus of control, and no risk-taking propensity (little uncertainty). The three traits can no longer distinguish them from others.

One might suggest that other traits play a role here like the desire for autonomy for example, but these do not apply to other would-be entrepreneurs. The only thing stopping an office worker, for example, from switching into self-employment, may be that their office job pays too well. Otherwise, they would have an incentive to switch and increase their utility that is *not* the desire for autonomy. In other words, utility can come from a whole range of sources and not just autonomy. This becomes even more evident when examining cultural differences such as the Japanese favouring stability over autonomy, and yet still having higher rates of entrepreneurial activity when compared to the U.S.A., the land of opportunity (Figure 1).

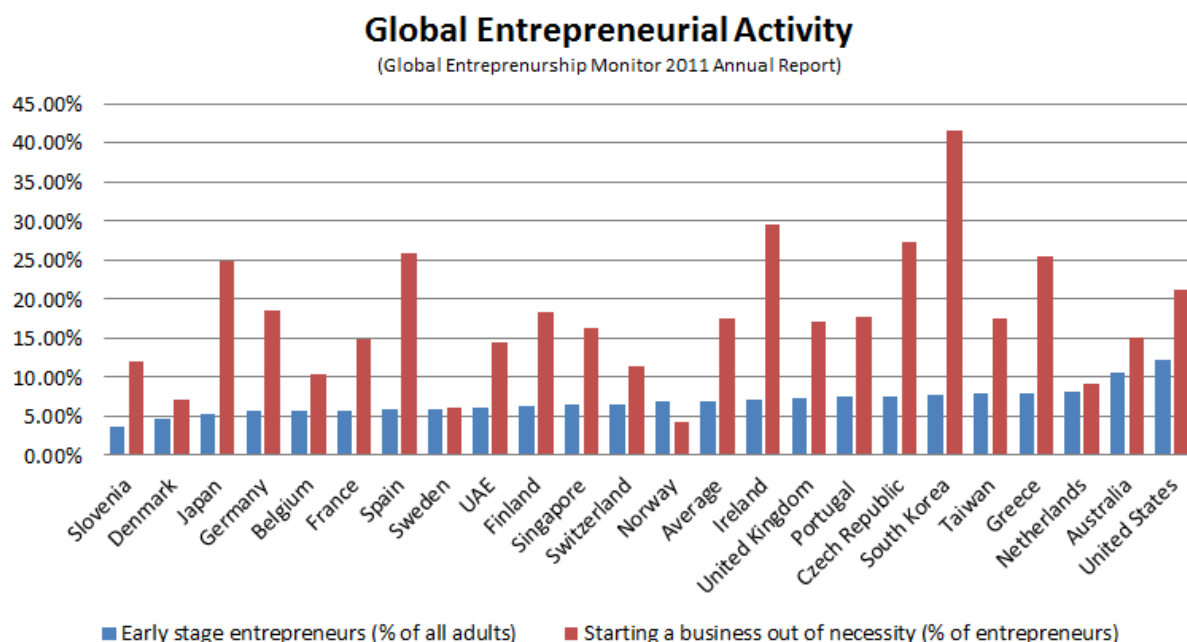


Figure 1: Source: OECD (Weissmann 2012)

Under uncertainty and a lack of information, people often do not make rational de-

cisions that one can measure the probability of, instead subconsciously taking mental shortcuts and act on intuition. It is for that reason that cognitive biases are considered as modes of differentiation. Once again there are three main cognitive concepts that are believed to be higher in entrepreneurs (Delmar and Davidsson 2000): self-efficacy, intrinsic motivation, and intentionality.

Self-efficacy, a situational locus of control, is appealing to many. It makes sense that people who believe in themselves more are more likely to be entrepreneurs and also that intrinsically motivated people, and those who actually intend to start a business, are more likely to succeed as entrepreneurs. However, with exception of the third, these are once again not unique to entrepreneurs. That is unless your definition of an entrepreneur includes a hard working employee who really wants to move up the career ladder.

The third cognitive trait presents another problem: humans change. Of course it is rare for a person to “accidentally” set up a business, but a year before doing so, none of these traits or cognitive biases may be detectable in any given individual. Sometimes a person’s transformation into an entrepreneur is rapid and usually an entrepreneur, with any give cocktail of characteristics, develops over time and learns as they go along (Littunen 2000).

In essence, personality is really not a good tool when it comes to differentiating between entrepreneurs and other individuals, *mutatis mutandis*. For example, the unemployed may lack skill and the employed may lack incentive. Even statistical “traits” are better used for identification and most of these cannot be taught or trained. These are things like gender, age, familial disposition, education, ethnicity, and financial state among many others.

To conclude, the answer to the question is much more complicated than it seems. Correlation does not imply causation and no two entrepreneurs are the same. There is no cookie-cutter recipe for an entrepreneur just as there is no formula for determining if somebody is, or has the potential to be, an entrepreneur. Some traits may work well together while others may cancel each other out. A combination of cognitive biases may present the ultimate synergy while another may help no more than raw luck. It can be more useful to look at measurable statistics and deduce causes from those. If it were not that way, then governments and venture capitalists would be having a field day.

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