

Introduction to Entrepreneurship

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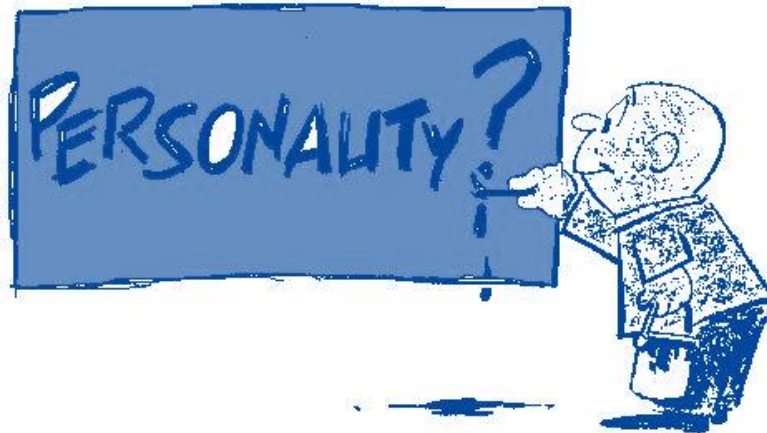
The Entrepreneurial Personality

In this video you will learn:

- Why we need to understand psychology to understand entrepreneurship
- What psychological characteristics make an entrepreneur
- Why it does not matter how entrepreneurial your own personality is for starting a business
- Why it is a good and a bad thing that the entrepreneurial journey is often highly emotional

Personality

- Personality traits: dispositions to (re)act in a certain way across various situations
- High degree of stability over time, in particular after adolescence
- Influenced by genetics and environmental factors, mainly experiences in childhood
- Personality can be decomposed into broad personality factors
- These dispositions may facilitate or restrain managers from undertaking entrepreneurial activities.



Why is a psychological perspective on entrepreneurship helpful?

“At firm foundation, the entrepreneur is the firm and the firm is the entrepreneur.”

Strauss (1944)

Central questions:

- Why do some persons but not others choose to become entrepreneurs?
- Why do some persons but not others recognize opportunities for new products or services that can be profitably exploited?
- Why are some entrepreneurs so much more successful than others?

Baron (2004)

“Probing entrepreneurship phenomena from just an economic perspective leaves us less than complete.”

Busenitz (2007)

What do these people have in common?



Broad personality factors – The “Big Five”

Norman & Goldberg (1967), Goldberg (1982 & 1992), McCrae & Costa (1987)

Openness

Conscientiousness

Extraversion

Agreeableness

Neuroticism

Broad personality factors – The “Big Five”



conventional, down-to-earth,
likes routines

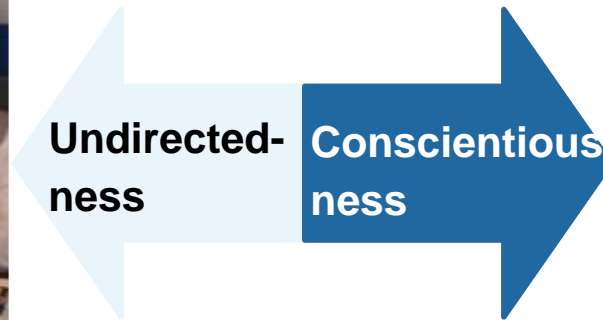


curious, creative, artistic

Broad personality factors – The “Big Five”



disorganized, sloppy,
unambitious



organized, trustworthy,
dependable

Norman & Goldberg (1967), Goldberg (1982 & 1992), McCrae & Costa (1987)

Broad personality factors – The “Big Five”



reserved, quiet, task oriented



outgoing, talkative, energetic

Norman & Goldberg (1967), Goldberg (1982 & 1992), McCrae & Costa (1987)

Broad personality factors – The “Big Five”



self-centered, skeptical,
unsympathetic



friendly, non-competitive,
compassionate

Norman & Goldberg (1967), Goldberg (1982 & 1992), McCrae & Costa (1987)

Broad personality factors – The “Big Five”



emotional instability, lack of self confidence, difficulties in adapting to new situations

Neuroticism

Emotional Stability



even-tempered, hardy, self-satisfied

Norman & Goldberg (1967), Goldberg (1982 & 1992), McCrae & Costa (1987)

Your task (10 minutes)

- Take a sheet of paper and a pencil
- Choose a famous entrepreneur (e.g., from the previous slide or one you know from other sources)
- Use the internet (e.g., youtube) to find one or two videos where this person talks (e.g., in an interview or TED talk)
- Write down how you would rate (e.g., on a scale from 1 to 7) this person with respect to his or her Big Five personality traits. For example, in your opinion this person may score 6 on openness, 3 on conscientiousness, and so on.
- After you are done, continue with the video and compare your results with the profile of an average successful entrepreneur introduced on the following slides

Overview of meta-analytic findings of the Big Five in entrepreneurship

Table 1 Overview of relevant meta-analytic findings^a

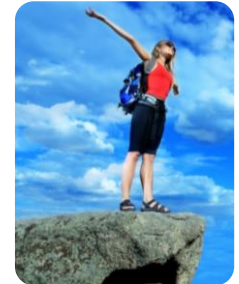
Constructs	Effects on business creation	Effects on business performance
Conscientiousness ^c	Entrepreneurs higher than managers: $r_c = .22$; $K = 20$; $N = 3,480$ (Zhao & Seibert 2006)	$r_c = .19$; $K = 24$; $N = 3,193$ (H. Zhao et al. 2010)
Neuroticism ^c	Entrepreneurs lower than managers: $r_c = -.18$; $K = 14$; $N = 2,305$ (Zhao & Seibert 2006)	$r_c = -.18$; $K = 29$; $N = 4,446$ (H. Zhao et al. 2010)
Openness to experience ^c	Entrepreneurs higher than managers: $r_c = .18$; $K = 10$; $N = 2,115$ (Zhao & Seibert 2006)	$r_c = .21$; $K = 15$; $N = 2,461$ (H. Zhao et al. 2010)
Agreeableness ^c	Entrepreneurs lower than managers: $r_c = -.08$; $K = 7$; $N = 1,350$ (Zhao & Seibert 2006)	Not significant (H. Zhao et al. 2010)
Extraversion ^c	Not significant (Zhao & Seibert 2006)	$r_c = .09$; $K = 9$; $N = 1,476$ (H. Zhao et al. 2010)

Note: Interpretation of correlation coefficients in the social sciences according to Cohen (1988):
small effect $r = .1$; medium effect $r = .3$; large effect $r = .5$

A typical entrepreneur's Big Five profile

However, please note:

- These are tendencies and most effects are small to medium-sized.
- In different situations also the opposite traits can be relevant. For example, agreeableness is helpful for collaboration in entrepreneurial teams and introversion helps to focus on relevant tasks.



- Knowledge on strengths and weaknesses connected to one's personality help entrepreneurs/ entrepreneurial managers to choose their role, their team mates, and their strategy/business model.

Motives

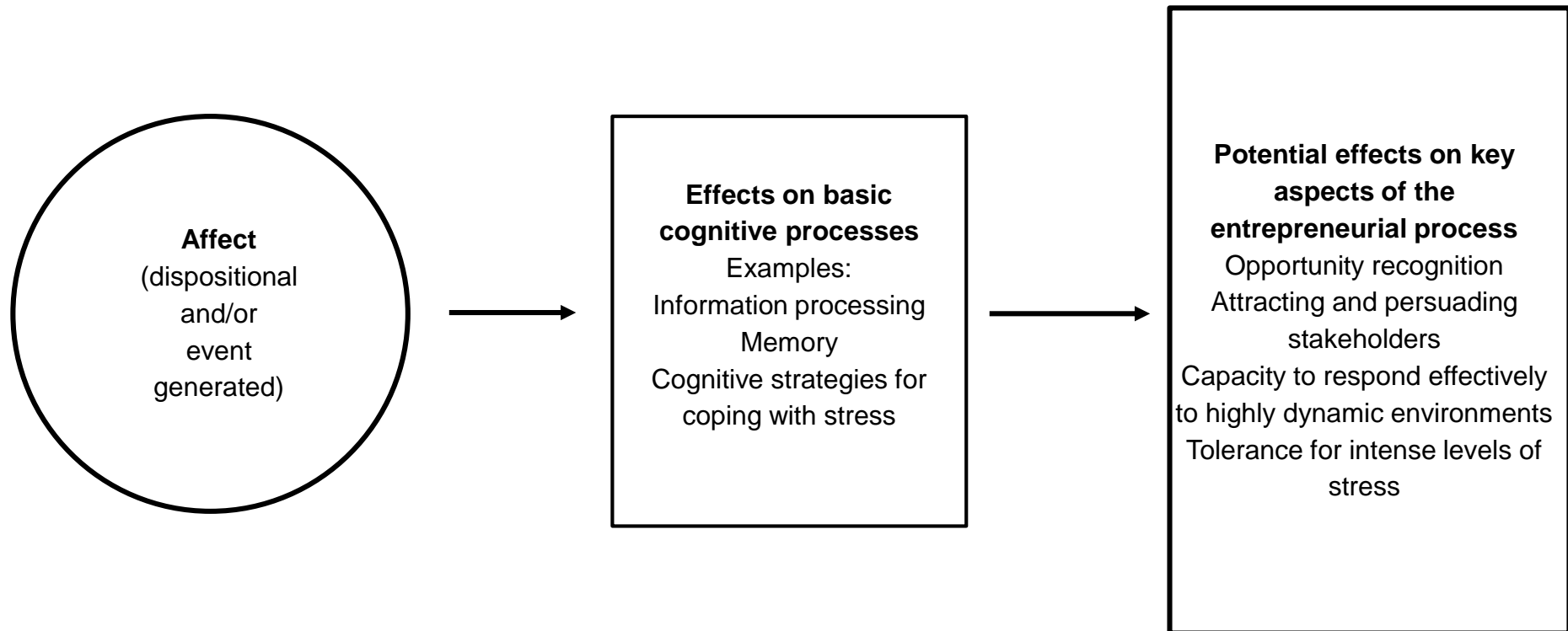
- Internal forces that push people into certain actions
- ***Need for achievement:*** Preference for high (internal or external) standards, desire for success, engagement in task oriented behavior
- ***Need for autonomy:*** Preference for making decisions independently, setting one's own goals, being in control, avoidance of restrictions

Table 1 Overview of relevant meta-analytic findings^a

Constructs	Effects on business creation	Effects on business performance
Achievement motivation	$r = .21$; $K = 41$; $N = 5,814$ (Collins et al. 2004) $r_c = .22$; $K = 29$; $N = 8,698$ (Rauch & Frese 2007) Achievement facet of conscientiousness: $r_c = .28$; $K = 17$; $N = 3,005$ (Zhao & Seibert 2006)	$r_c = .30$; $K = 31$; $N = 4,115$ (Rauch & Frese 2007)
Autonomy	$r_c = .31$; $K = 11$; $N = 4,256$ (Rauch & Frese 2007)	$r_c = .16$; $K = 8$; $N = 843$ (Rauch & Frese 2007)

Note: Interpretation of correlation coefficients in the social sciences according to Cohen (1988):
small effect $r = .1$; medium effect $r = .3$; large effect $r = .5$

Affect in entrepreneurship

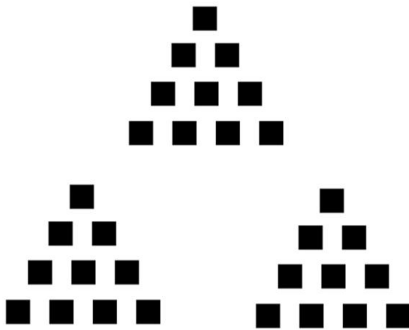


Based on Baron (2008)

How affect shapes entrepreneurial cognition

Information processing

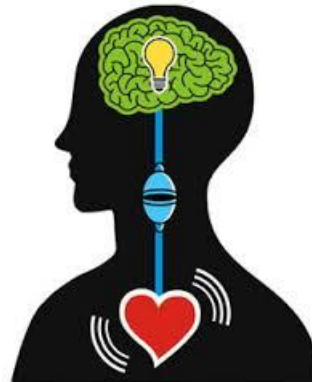
- Positive affect triggers global perception (seeing “big picture”)
- Positive affect leads to heuristics and less careful information processing.



Triangle or squares?

Memory

- Mood is filter for information storage (mood congruent memory)
- Recall is facilitated if mood is similar to encoding (mood-dependent retrieval)



Coping with stress

- Positive affect leads to health benefits in terms of the immune system
- Positive affect is connected to bigger network of supporters



Baron (2008)

Passion in entrepreneurship



“Passion should be the fire that drives your life’s work!”

Michael Dell



“If you just work on stuff that you like and you’re passionate about, you don’t have to have a master plan with how things will play out.”

Marc Zuckerberg



“If you love your work, pretty soon everybody around will catch the passion from you – like a fever.”

Sam Walton

Entrepreneurial passion and its effects

- **Entrepreneurial passion:** Intensive and enduring **positive affect** experienced while engaging in entrepreneurial activities

Effects for the entrepreneur

- Entrepreneurial passion as expression of personal identity
- Focus on activities that are object of passion
- Drive and persistence
- Harmonious vs. obsessive passion – passion can be a burden!

Effects on stakeholders

- Passion can help attract stakeholders
- Investors value signals of competence much higher
- For employees, object of passion is important. If object is not shared, effects are negative!
- Passion limits feedback

Breugst, Domurath, Patzelt, & Klaukien (2012); Cardon, Wincent, Singh, & Drnovsek (2009); Chen, Yao, & Kotha (2009)

Session summary:

- The psychological perspective is key to understand entrepreneurial cognition and behavior
- Entrepreneurs show specific profiles of personality traits and motives – these are, however only true for the average entrepreneur such that exceptions are common.
- Entrepreneurs experience often ups and downs and their affect and emotions shape many aspects of the entrepreneurial process
- Passion is a frequent emotion experienced by entrepreneurs and influences their own behaviour and the behavior of stakeholders

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