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THEORETICAL EVIDENCES FROM PSYCHOLOGY FOR ENTREPRENEURIAL SUCCESS

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Abstract

Entrepreneurship is not a cognitive enterprise of perceiving and interpreting the world. Rather, entrepreneurship implies that people act to change the world and this often comes about by not just "catching" opportunities but by establishing them. The paper covers the theoretical underpinnings that could lead to becoming a successful entreprenure.

Introduction

Entrepreneurship is defined by the action of the entrepreneur — starting an organization(Gartner, 1989), or by the more elaborate definition that entrepreneurship involves discovery, evaluation, and exploitation of opportunities(Shane and Venkataraman, 2000).

Entrepreneurship is the process of designing, launching and running a new business, which is often initially a small business.

Entrepreneurship is both the study of how new business are created as well as the actual process of starting a new business.

Psychology is needed to Understand Entrepreneurship

Entrepreneurship research often equated psychological research with personality effects and found a personality approach wanting(Aldrich and Widenmayer, 1993; Gartner, 1989). Thus, there was little interest in the psychology of the entrepreneur. Lately, this picture has changed:

First: There is more and more evidence that personality may play an important role in entrepreneurship anyhow (Carter et al., 2003; Chell et al., 1991; Rauch and Frese, 2007; Zhao and Seibert, 2006).. Of particular importance is meta-analytic evidence that underlines the importance of personality factors.

Second: More and more psychologists started to work in the field and inform the field of the empirical importance of psychological variables (Baron, 2002; Baron et al., 2007; Baum et al., 2007; Baum and Locke, 2004; Foo et al., 2009; Frese, 2007; Rauch and Frese, 2000).

Third: Psychology itself moved away from a purely personality trait based approach and started to emphasize other variables(Baron, 2002; Baum et al., 2007; Foo et al., 2009; Shaver and Scott, 1991).

Finally, psychology asserted itself and argued eloquently that actions need to be studied from a psychological perspective — and actions are necessary to be successful.

Psychology has traditionally defined itself to achieve an understanding of people's perceptions, cognitions, emotions, motivation, and behaviour, it makes sense to turn to psychology to study such important categories of entrepreneurship research as decisive actions (behaviour), perceptions, and implementation of opportunities (perception, cognition, emotions, motivation).

Similarly, organizational psychology has started to be interested in entrepreneurship again. Organizational psychology needs to understand the process of starting and growing of an organization. Not only do the founders of an organization have an enormous role in shaping the structure and culture of the organization, but the dynamics of growing, keeping a certain organizational size, or the death of organizations needs to be a centrepiece of any organizational psychology.

Active Entrepreneurial Actions

Entrepreneurs are most frequently the most active performers — more active than rank and file employees and also more active than managers.

Facets of active performance of entrepreneurs:

Action sequence	Self-starting	Proactive	Overcome barriers
Goals/ redefinition of tasks	- Active goal, - Not just goals that are taken over from others - Setting higher goals (growth goals)	- Anticipate future opportunities and problems and convert into goals	- Protect goals when frustrated or taxed by difficult environment or complex goals structure
Information collection and prognosis	- Active search, i.e., exploration, active scanning	- Search for potential problem areas and opportunities before they occur - Develop knowledge on alternatives routes of action	- Maintain search in spite of lack of resources, problems, complexity, and negative emotions
Plan and execution	- Active plan - High degree of self-developing a plan - Don't imitate, don't just follow advisors	- Back-up plans - Have action plans for opportunities ready - Proactivity of plan and detailedness	- Overcome barriers Return to plan quickly when disturbed
Monitoring and feedback	- Self-developed feedback and active search for feedback	- Develop pre-signals for potential problems and opportunities	- Protect feedback search

Table distinguishes different steps in the action sequence and three aspects of being active self-starting, long-term proactivity, and persistence in the face of barriers and obstacles that need to be overcome.

Self-starting implies that a person does something without being told, without getting an explicit instruction, or without an explicit role requirement. This is in contrast to assigned tasks. In contrast to entrepreneurs, employees and managers usually work within some organizational hierarchy; there is usually some superior present who tells the employee what to do or not to do. There is also usually a developed structure of a company, both in terms of its history and its long-term visions that may prescribe role requirements (sometimes these are formalized explicitly). All of this does not exist for the entrepreneur he or she has to be self-starting. Being self-starting is related to being innovative an innovation implies that a new idea for that context is developed and implemented: Innovative products, services, production, or marketing strategies, all help to make firms to be successful.

Second, **proactivity** means to have a long-term focus and not to wait until a demand is explicitly made to which one must respond.A long-term focus can be related to future opportunities and to stressors; preparing for opportunities now implies that one assembles resources now so that one is able to quickly make use of future opportunities. Similarly, preparing for future problems and stressors now is consistent with being active preparation is probably helpful when confronted with stressors. Empirically, proactiveness has been of particular importance to explain organizational success of business owners.

Persistence has been conceptualized to be an important part of entrepreneurship since Schumpeter (1935) described entrepreneurial industrialists. Whenever new ideas are pursued, adversity needs to be overcome; this is particularly so under resource constraints. A situation that is frequently present in business owners.

Persistence in the face of obstacles implies two self-regulatory processes.

First, protecting self-regulatory processes; this implies to protect goals, plans, and feedback seeking when competing goals, plans, and feedback appear or when goals, plans, and feedback seeking are frustrated or taxed by difficult situations.

Second, using self-regulatory processes to overcome external barriers; thus, when an active approach runs into difficulty, these difficulties are dealt with in an effective and persistent manner.

The Process of Organizing Opportunities

Table helps us to understand the process by which an entrepreneur (or a group of entrepreneurs) detects (or develops) an opportunity, thinks of organizing the exploitation of this opportunity (this is the start-up phase).

Phases of entrepreneurship:

(1) Pre-launch phase: dependent variables: Assemble resources to make launch possible
(a) Wishing a start/motives
(b) Intending a start, setting goals
(c) Perceiving an opportunity and evaluation
(d) Finding resources, e.g., opportunity, money from family, friends and banks, networks
(e) Dealing with setback, errors, barriers
(2) Launch phase: dependent variables: starting the organization, first sale, survival
(a) Opportunity exploitation
(b) Dealing with multiple diverse demands
(c) Dealing with errors, setback, barriers
(d) Setting goals

(e) Developing strategy
(3) Success: growth and stagnation: dependent variables: growth of sales, profits, employees, size, revival, and recovery
(4) Decline and organizational death: dependent variables: getting out in time and gracefully

Action Theory Building Blocks

Action is goal-oriented behaviour. There are three aspects that are important to understand how humans regulate their actions: sequence, structure, and focus.

Sequence:

The following steps can be minimally differentiated in the action sequence: goal and intention, processing of information about the environment, planning, monitoring of the execution, and feedback processing. Psychology uses these terms slightly different from economics: All of these terms relate to all actions. Thus, the time that an action takes may be seconds, hours, weeks, months, or years (and longer).

Action Structure:

The action structure is concerned with the hierarchical cognitive regulation of behaviour. The notion of hierarchy is needed to understand well-organized behaviours that achieve higher level goals (e.g., launching a new product) by using lower level behaviours (e.g., uttering a sentence, typing a word, or using the appropriate muscles to strike a key). The higher levels of the hierarchy of action regulation are conscious, thought oriented, and more general; the lower levels consist of routines; they are specific, and they frequently involve muscle movements.

The Focus: Task, Social, and Self:

All actions are situated that means they are responding to the situation, they take up situational cues, they deal with situations, they are adjusted to situational requirements, and they attempt to stamp the effects of the action on the situation.

The Task as Focus of Regulation

The task at hand is the major focus of regulation the task may be a social task (e.g., persuading a customer to buy a product), a creative task (thinking of alternative marketing approaches), or a specific task at hand (giving the correct change back). The task focus is of obvious importance and any diversion from the task probably leads to lower success.

The Social Context as Focus of Regulation

Most tasks are done within a social setting (even if done alone, a social entity may still be the focus)—this is particularly true of entrepreneurship that is oriented toward the market. Therefore, next to the task the social environment needs to be focused on as well. If the social context is the only focus and becomes more important than the task, people cannot finish tasks and, therefore, will be ineffective. However, if there is no social focus at all, tasks become insular and people again are ineffective in the social environment.Entrepreneurship is a social endeavour as a matter of fact; starting an organization is per se a social endeavour because it implies that other people are involved.

The Self as the Focus of Regulation

High performance requires regulating oneself effectively self management (including personality management), self-efficacy, and switching from self to task.

Self-management implies that the own self is managed and regulated. This implies that one knows one's weaknesses and works consciously (and with time automatically) against them and that one knows one's strengths and capitalizes upon them.

The self-system is regulated on the Metalevel. However,attendingto the self implies often that one is consciously thinking about whether or not one is doing well. Reflection on the self is, therefore, an additional load on the working memory.

Cognitive and Motivational Factors:

Cognitive Factors

- **Knowledge:**

  Knowledge provides the cognitive and mental structures that determine how people perceive and integrate newinformation (Fiske & Taylor 1984). People's prior knowledge creates mental corridor that influence e the way new information is interpreted. Entrepreneurs interpreted the same information, in different ways based on their prior knowledge; the different interpretations then led to the discovery of different types of business opportunities (Shane2000).

- **Practical intelligence:**

  The construct of practical intelligence has recently gained attention(Baum& Bird 2010, Baum et al. 2011). Practical intelligence encompasses knowing and doing; it reflects entrepreneurs' experience-based skills and tacit knowledge as well as their abilities to apply these skills and knowledge to accomplish entrepreneurial tasks. This construct can be thought of as "streetsmarts" (Baum&Bird2010).

Motivational/Affective Factors

- **Growth goals/visions:**

  Although goals and visions are conceptually different, growth goals and growth visions because both refer to a future state (a desired end) that people seek to achieve (Kirkpatrick & Locke 1996). Goals are the objects or aims of an action, that is, intentions to achieve a certain standard within a specified time frame (Locke & Latham 2002). Goal-setting theory proved (Locke & Latham 2002) that goals have important action-regulating functions. Setting specific and challenging goals leads to greater effort and persistence and ultimately to higher performance than setting none challenging or unspecific goals does. Indeed, entrepreneurs who are specific and challenging growth goals for their ventures achieved higher growth rates over period soft and six years.

- **Entrepreneurial passion:**

  Entrepreneurial passion is defined as an intense positive feeling toward entrepreneurial tasks and activities that are relevant to the entrepreneur's self-identity (Cardon et al. 2009)..Passion implies strong feelings and high motivation. Thus, entrepreneurial passion should be a driver and source of energy to work hard, long hours with high levels of effort and persistence (Baum & Locke 2004, Cardon et al. 2009).

- **Positive and negative affect:**

  Affect (including feelings, moods, and emotions) is a hot topic in entrepreneurship (Cardon et al. 2012). Baron et al. (2012) focused on positive affect and argued that positive affect has positive effects on cognitive performance, accuracy of perception, task motivation and self-regulation. Positive affect is associated with costs, such as increased susceptibility to cognitive errors, inappropriate long-term goals, or increased impulsivity. Negative affect serves as information that progress toward the goal is inadequate and slower than expected.

Characteristics of Active Performance and Entrepreneurial Success

Active Goals and Visions

Goals and visions will be called active if there are self-set (instead of assigned or expected), if they are longterm (in the sense of proactivity), and if they imply that one should not give up a goal in case of problems (persistent).

Entrepreneurial Orientation

Personality

- Need for achievement
- Locus of control, self- efficacy
- Innovativeness
- Stress tolerance
- Risk taking
- Passion for work
- Proactive personality

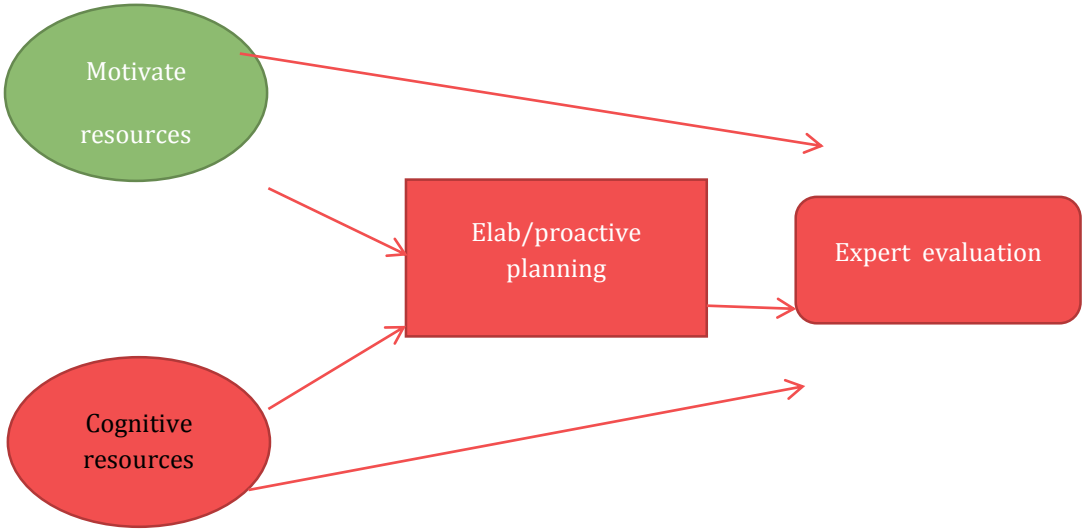
Human Capital

- Education (school, occupational)
- Experience
- Mental ability
- Knowledge

All these points are related to characteristics of active performance and which somewhere leads to **SUCCESS**.

Entrepreneurial orientation is characterized by autonomy, innovativeness, risk taking, competitive aggressiveness, and proactivity (Lumpkin & Dess 1996). The strategy literature construes an entrepreneurial orientation at the firm level. A top manager, most commonly the CEO or general director, describes the strategic stance of the firm. Firms with high entrepreneurial orientation outperform other firms because autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness help firms to seek and exploit new opportunities for growth.

Active Task Strategy and Active Action Planning



Elaborate and proactive planning as mediator

Effectuation, Improvisation, and Experimentation

In entrepreneurship research to be active is often equated with experimentation that is the attempt to try things out and keep what works and this is often contrasted with structured processes, particularly planning.

Effectuation implies that a world-entrepreneur attempts to achieve the best combination of what one has available (skills, money, material, access to market, and other resources). Effectuation is also an active process; effectuation does not mean that there are no goals, standards, and plans.

A somewhat similar concept is bricolage(Baker et al., 2003)"a construct frequently used to describe the resource set invoked by improvisation".

Active Social Strategy for Networking

There is a large literature that suggests that entrepreneurial success is increased by better and larger social networks(Hoang and Antoncic, 2003; Johannisson, 2002).Social networks can mean many things, such as network quality, network structure, etc.Entrepreneurs, as active agents, will also develop their networks if they find the networks to be useful in their endeavours. Central concept comprehensive social competency, which consists of three variables: social skills, actively enhancing and broadening networks and manipulating the social environment in one's interests (proactive and elaborate social strategies), and overcoming difficulties when there are problems to achieve social goals (relational perseverance).

Active Feedback Seeking and Active Approach to Mistakes

One prerequisite of active performance is a positive or neutral attitude toward errors. The more one deals with the environment in an active way, the more there is some likelihood that one also makes some errors. Those who anticipate errors and are very much afraid of them are often stifled in an active performance approach.

Errors appear more frequently in complex environment; entrepreneurship is done in complex environment, partly because there is no complete preparation for entrepreneurship and partly because entrepreneurship deals with new products, services, etc. in an uncertain context.

Active goal setting, active approach to understanding the situation, active planning, and finally active feedback seeking are parts of an active action sequence. Active feedback seeking has been shown to be important for performance in various domains.

The usual approach to errors is to attempt to prevent them. However, in a complex environment, attempting to prevent errors may not be the most effective or efficient approach because it may lead to procrastination. Attempting to prevent all errors beforehand reduces the chances to be active because too much time is lost deliberating.

Active Approach to Learning (Deliberate Practice)

Deliberate practice consists of individualized self-regulated and effortful activities aimed at improving one's current performance level this implies that there is a high degree of effort and that a person attempts to deeply think and deeply practice those aspects of skills that are particularly important for high expertise(Ericsson et al., 1993; Unger et al., 2009b).

Interventions: Training

Interventions are needed that change entrepreneurs' performance to become more active; this should have positive long-term effects on firms' success. Active performance is one instance of personal initiative; therefore, we developed personal initiative trainings for business owners. Such training is the "proof of the pudding", because if we can change personal initiative (active performance) in the entrepreneurs and this leads to changes in success, we have better evidence for such an approach.

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