

CHAPTER 2

Literature Review

2.1 Introduction

This chapter introduces the field of entrepreneurship, presents relevant definitions and typologies, models and frameworks as well as influencing factors driving people to behave entrepreneurial and gives an overview of entrepreneurship. For many years, researchers have studied the characteristics associated with entrepreneurship in order to find out about the differences between entrepreneurs and non-entrepreneurs (Gartner, 1985). Many authors looked for the existence of certain personality features or traits that could be associated with the entrepreneurial activity (McClelland, 1961; 1985). Research has strongly supported psychological attributes, not perception and awareness, as the theoretical cornerstone for predicting adult entrepreneurial behavior and potential

A number of psychological attributes have been suggested as predictors of entrepreneurial characteristics in the literature of entrepreneurs, with some degree of concurrence. Some of the earlier work conducted by McClelland (1961) looked at the needs of achievement, affiliation and power in entrepreneurs versus others. Gorman (1997) maintained that propensity towards entrepreneurship is associated with several personal characteristics such as values and attitudes, personal goals, creativity, risk-taking propensity and locus of control. Of the personality traits, McClelland (1961, 1985) proposed achievement motivation, risk taking and locus of control as important characteristics. Among these characteristics, risk assessment and risk taking are considered the primary elements of entrepreneurship.

Researchers suggested that entrepreneurs possess some key psychological attributes or characteristics, and that these in turn produce specific personality traits. Need for achievement,

tolerance for ambiguity, risk taking and locus of control were analyzed with respect to entrepreneurial characteristics and were identified as correlates of being or desiring to be an entrepreneur.

As this research will be based not only on the personal entrepreneurial characteristics of university students but also on how the economic condition of their country of residence can affect the tendency to be an entrepreneur, an important literature review had to be executed in order to understand each of these specific characteristics and the economic condition of their country. There are there are seven personal entrepreneurial characteristics that need to be review in the literature review.

2.2 Entrepreneurial characteristics

Biographical literature of entrepreneurs approves that their individual characteristics are a crucial and influencing aspect if a company is successful or fails, Shane (2003). The entrepreneurial characteristics have relevant influence on the entrepreneurs and their consecutive achievements. Factors that have been significant are for instance the admission to job-related education connected with religious breeding that form non-personal ideas on morality rather than the individual's status as basis for earthly leadership.

2.2.1 Achievement motivation

Achievement motivation can be defined as behavior towards competition with a standard for excellence (McClelland, 1961). People who have high levels of achievement motivation tend to set challenging goals, and try to achieve these goals. These people value feedback and use it to assess their accomplishments. They have a strong desire for self-efficacy and persist on a task only if they believe that they are likely to succeed. Achievement motivation is accepted as an important characteristic of the individual and influences work behaviors to a great extent. Achievement motivation also refers to desire to outperform other people. People with

achievement motivation find satisfaction in comparing themselves to others and are motivated by this comparison.

Achievement motivation is a trait that is prevalent among entrepreneurs. It is believed that individuals with a high need for achievement have a strong desire to be successful and are consequently more likely to behave entrepreneurially. Certain characteristics of individuals with high need for achievement may lead to different levels of entrepreneurial styles. Furthermore, evidence indicating significant association between need for achievement and entrepreneurship has been widely documented in the literature. For example, Johnson (1986) reported that despite variability among studies regarding samples and the operationalization of need for achievement, a fairly consistent relationship between need for achievement and entrepreneurship can be found in 20 out of 23 major studies in the entrepreneurship literature.

In a student sample, achievement motivation was positively correlated with proactiveness. Research also linked achievement motivation to creativity suggesting that in a highly intelligent group of children, achievement motivation explained high levels of variance in creativity (McClelland, 1967). In an entrepreneurial sample, achievement motivation was correlated with personal innovativeness. McMullan (2002) proposed that innovativeness and creativity are important variables. As suggested by Robinson (1991), innovativeness is the focal point of entrepreneurship and an essential entrepreneurial characteristic.

Achievement motivation is one of the entrepreneurial characteristic, which is very often discussed in the field of entrepreneurship. It is described as an engagement “in activities or tasks that have a high degree of individual responsibility for outcomes, require individual skill and effort, have a moderate degree of risk, and include clear feedback on performance” (Shane et al., 2003, pp. 8 quoted from McClelland, 1961). Individuals with a high achievement motivation want to deal with a problem by themselves and will compete for their aim. They do its best

performance and are innovative and creative to search for new and better ways to achieve a higher outcome (Littunen, 2000; Utsch, Rauch, 2000). The achievement motivation is appropriate on a cultural base, not biologically determined and it represents one of many key attributes in the field of entrepreneurship (McClelland, 1978). McClelland (1965) reasoned a high value of achievement motivation as a predictor of entrepreneurship and achievement motivation's level of shaping is affected by experience of live in childhood and adult age. Numerous studies pointed out that there is a difference between entrepreneurs and non-entrepreneurs. The results show that people who become self-employed have a higher need for achievement than others (Shane, 2003).

For instance, the review of 23 studies of Johnson (1990) comes to the conclusion that a connection between entrepreneurial activities and achievement motivation exists – there is a difference among entrepreneurs and the general population. Collins, Locke and Hanges (2000) investigated 63 studies relating to achievement motivation and in the end they pointed out that achievement motivation is a significant characteristic of entrepreneurs. Okhomina (2010) analysed 300 mailed questionnaires, which were sent to small business owners who are located in a south Standard Metropolitan Statistical area in the United States of America. He found a positive as well a significant relationship among achievement motivation and entrepreneurial traits. The study of DeCarlo and Lyons (1979) investigated the differences between female entrepreneurs and general women and they came to the result that entrepreneurs have a higher value of achievement motivation than non-entrepreneurs. But there is also a study, which failed to find any relations between entrepreneurial activities and the factor achievement motivation. The research of Koh (1996) evaluates 54 returned questionnaires of MBA students in Hong Kong. The result of this study shows no significance relation among achievement motivation and the entrepreneurial tendency of an individual.

2.2.2 Need for affiliation

The need for affiliation refers to a desire to be close to other people in order to feel reassured that the self is accepted (McClelland, 1961). People with high levels of need for affiliation tend to spend a significant amount of time socializing with other people. These people try to maintain harmonious relationships with others and may sometimes sacrifice work success to protect these relationships. People with high levels of need for affiliation have a strong desire to be liked by their coworkers and subordinates, and this may influence their performance in a negative manner.

Need for affiliation is also described as the desire to establish a friendly and warmth interpersonal relationship (Robbins and Judge, 2010). Individuals with a great need for affiliation require a harmonious relationship with other people and need to feel accepted by other people. They work in obedience to the norms of their work group, strive for friendship, prefer cooperative situations, and expect a relationship which involves great mutual understanding.

2.2.3 Locus of Control

Locus of control theory has had a central position in personality research since the 1960s. Locus of control refers to the perceived control over the events in one's life (Rotter, 1954). People with internal locus of control believe that they are able to control what happens in their lives. On the other hand, people with external locus of control tend to believe that most of the events in their lives result from being lucky, being at the right time, and the behaviors of powerful individuals. People's beliefs in personal control over their lives influence their perception of important events, their attitude towards life, and their work behaviors. In a student sample, internal locus of control was associated with a desire to become an entrepreneur (Robinson, 1991).

Rotter (1954) hypothesized that those with an internal locus of control would more likely to strive for achievement compared to those with an external locus of control. Brockhaus (1982) found that entrepreneurs have greater internal locus of control than the general population; therefore entrepreneurs believe that the outcome of a business venture will be influenced by their own efforts. Brockhaus (1982) further suggested that locus of control could distinguish entrepreneurs who are successful from those who are unsuccessful. Generally, it is believed that entrepreneurs prefer to take and hold unmistakable command instead of leaving things to external factors. Analogous to locus of control, Robinson (1991) also found that internal personal control will lead to a positive entrepreneurial attitude.

Locus of control is a further important aspect of entrepreneurial decisions. This aspect is about the individual's belief if she/he has an impact on their outcomes or not. It is classified in internal and external locus of control. Individuals with an internal locus of control believe that they can influence the results of their action and people with an external locus of control believe that they have no control of the outcomes (Rotter, 1966; Shane, 2003; Shane et al., 2003).

Having luck, doing the right things in the right moment at the right place, and the performance of strong people are the explanations for events of individuals with an external locus of control (Okhomina, 2010). A significant interpretation of locus of control studies, entrepreneurs and the surrounding is from Gilad (1982). He has the theory that the influence of locus of control on the competence to notice possibilities in the environment explains the influence of locus of control on entrepreneurial active people. This statement has a comprehensive review of psychological research as basis, research which came to the result that individuals with internal locus of control are more likely to recognise opportunities in their surroundings (Gilad, 1982).

Miscellaneous studies concerning the investigation of locus of control have different results. On the one hand, Ward (1993) evaluated 88 data which were gathered by interviews in Michigan and he found out that there is a difference in the internal locus of control between entrepreneurs and non-entrepreneurs – entrepreneurs have a higher value of internal locus of control. Another research of Evans and Leighton (1989), who examined data from the National Longitudinal Survey of Youth, came to the conclusion that internal locus of control increases the probability to be entrepreneurial active. The same result – a difference relating to locus of control between entrepreneurs and non-entrepreneurs – obtain the studies of Koh (1996), Ward (1993) or Bowen and Hisrich (1986). On the other hand, the research of Begley and Boyd (1987) came to the conclusion, that there is no significant difference between managers and entrepreneurs.

2.2.4 Risk Taking Propensity

Another factor that influences entrepreneurial acting of individuals is risk taking. The factor of risk taking decides about the willingness of a person to take risks. Having a high risk affinity, increases the likelihood to think about entrepreneurial activities and to notice entrepreneurial possibilities (Shane, 2003). An individual who takes risks is someone who takes the chance of a business idea even though the opportunity to be successful is low (Smith-Hunter et al., 2003).

The entrepreneur does not know if it works until he takes the chance to create a new company and to find out how successful it will be. Handling risks is one of the main and essential tasks of being an entrepreneur (Shane, 2003).

As early as the 18th century, Richard Cantillon was calling the entrepreneurs risk-takers. Ever since, the idea of taking risks appears in many of the definitions describing entrepreneurs. J. Hills (1988) defines entrepreneurship as the dynamic process of creating incremental wealth by individuals who assume the major risks in terms of equity, time, and career commitment. In other

words, entrepreneurship requires a willingness to take calculated risks both personal and financial.

Risk-taking propensity is defined as the perceived probability of receiving rewards associated with the success of a situation that is required by the individual before he will subject himself to the consequences associated with failure, the alternative situation providing less reward as well as less severe consequences than the proposed situation. A high propensity to take risks is also considered to be an important characteristic of entrepreneurs (Shane, 2003).

2.2.5 Tolerance for ambiguity

When there is insufficient information to structure a situation, an ambiguous situation is said to exist . A person who has a high tolerance for ambiguity is one who finds ambiguous situation challenging and who strives to overcome unstable and unpredictable situations in order to perform well. Entrepreneurs do not only operate in an uncertain environment; according to Bowler (1995), entrepreneurs eagerly undertake the unknown and willingly seek out and manage uncertainty.

McClelland (1967) defines intolerance for ambiguity as a tendency to perceive ambiguous situations as source of threat. From this definition, we can infer that tolerance for ambiguity refers to the tendency to perceive ambiguous situations in a more neutral way. People who have low levels of tolerance for ambiguity tend to find unstructured and uncertain situations uncomfortable and want to avoid these situations. Tolerance for ambiguity is found to be related to personal creativity (Zimmerer, 1998) and the ability to produce more ideas during brainstorming. These findings suggest that creativity and innovativeness require a certain level of tolerance for ambiguity.

The tolerance for ambiguity is also an essential characteristic for entrepreneurs because prospects of success and defiance are incalculable when starting a business (Schere, 1982). An

ambiguous situation is characterized by an inadequate or incomplete level of information; it is an uncertain state (Ullah et al., 2012). An individual with a high score on tolerance of ambiguity senses unclear circumstances as challenging, interesting and desirable. An entrepreneur acts in a positive way regarding to ambiguous situations in contrast to other individuals who have a lower value of tolerance for ambiguity, feeling uneasy in uncertain situations and refrain from these ones (Busenitz et al., 1997; Mitton, 1989; Ullah et al., 2012).

Another view on this factor offers Budner (1982) describing it as an affinity to evaluate uncertain situations as pleasing instead of threatening. In comparison to managers, entrepreneurs have to deal with a greater extend of uncertainty in their daily business environment (Budner, 1982). Many further studies reveal that tolerance of ambiguity constitute an important factor in the entrepreneurial field. The research of Dollinger (1983) evaluating 79 entrepreneurs found that they valued high in the factor tolerance for ambiguity. The attribute has a positive relationship to entrepreneurial activities. Carland et al. (1989) study shows also that individuals who are more likely to accept uncertainty are more innovative. Furthermore, this factor regards to personal creativity (Tegano, 1990) and amplifies the idea out coming during a brainstorm (Comadena, 1984).

Also the research of Koh (1996) finds that there exists a significant relationship between the factor and entrepreneurial activities – entrepreneurs have a greater tolerance for uncertain and unclear situations. Several other studies pointed out that company founders have in contrast to managers a tolerance for ambiguity which is significantly higher (Begley, Boyd, 1987; Schere, 1982; Miller, Drodge, 1986). In contrast to other findings, studies about company founders and managers in New England and Northern Florida found out that there are no significant differences in tolerance for ambiguity between these two groups (Babb, Babb, 1992; Begley, 1995). Inconsistent findings regarding the influence of the tolerance of ambiguity on the

entrepreneurial process and methodological research problems trigger uncertainty (Shane et al., 2003).

2.2.6 Self-efficacy

Another factor is self-efficacy which also has an effect on acting entrepreneurially. Self-efficacy is the belief of individuals about their skills to render determined performance levels, which have an effect on their outcomes that influence their lives (Bandura, 1997). So, if someone has a high self-efficacy it is more probable the person becomes an entrepreneur than a person with a lower self-efficacy. A study investigating the correlation between self-efficacy and the intention to found an own company has a positive correlation as a result (Chen et al. 1998). Also the study of Robinson et al. (1991) examined self-esteem and found that entrepreneurs have a higher score of self-esteem than managers.

2.2.7 Fear to Failure

Fear of failure is a similar factor like risk taking. It is to assume that the fear, to fail with a business, prevents people from becoming an entrepreneur (Koellinger et al., 2005). Koellinger et al. (2005) examined entrepreneurial behaviors and factors which are significant for the decision to become an entrepreneur. For this they used the population survey data 2001 of the GEM in 29 countries. The result of this study was that fear of failure decreases the likelihood to start with entrepreneurial activities. Entrepreneurs are as well less susceptible to declare that fear of failure would terminate the activity to found a new company (Koellinger et al., 2005).

Researchers have found support for the assumption that the emotional experience of fear of failure decreases an individual's probability to start a venture (Li 2011; Welp et al. 2011; Patzelt and Shepherd 2011). For example, Li (2011) suggests that fear of failure is a feeling about the outcomes of a new venture, which affects people's subjective judgment on the value and probability of founding a new venture. Similarly, Welp et al. (2011) report experimental

evidence for the hypothesis that experienced emotions, including fear, moderate the decision to exploit hypothetical entrepreneurial opportunities. Drawing on the literature on role requirements and role characteristics, Patzelt and Shepherd (2011) hypothesized that entrepreneurs more readily accept the negative emotional consequences of their employment choice and learn to cope with these emotional consequences, including fear of failure. Using a sample of 2700 US citizens, they found that entrepreneurs report less negative emotions than employees, but this is contingent on their self-regulatory coping behaviors. Ultimately, Ekore and Okekeocha (2012) reported that fear of failure leaves university graduates discouraged in starting a business even when the opportunity exists. In summary, empirical evidence from research focusing on fear of failure as an emotional experience influencing motivational process leads to similar conclusions to the previous literature: fear of failure serves to inhibit entrepreneurial behavior.

2.2.8 Tendency to be Entrepreneur

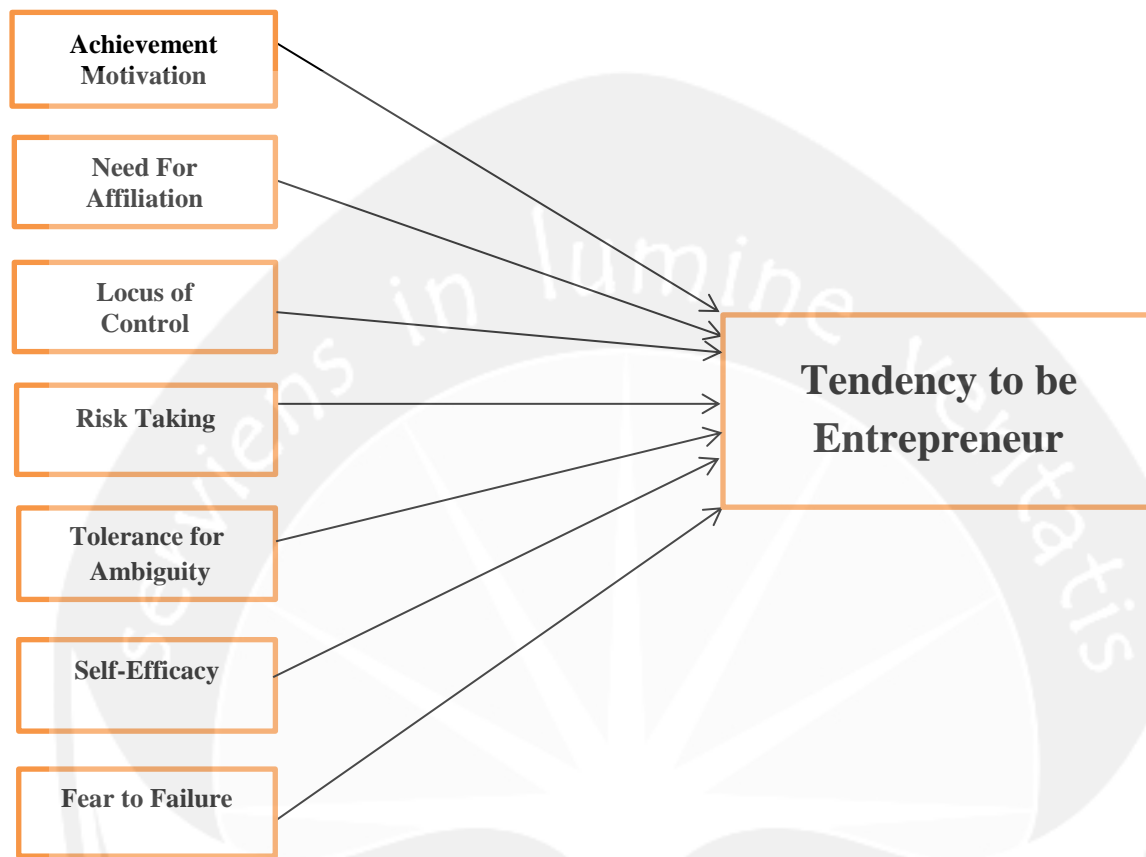
Entrepreneurship has become increasingly important to enhance a country's economy. This has also resulted in various academic departments offering courses in entrepreneurship. Entrepreneurship is no longer only offered by business schools and faculties of economic and management sciences, but also by faculties of natural sciences and engineering. The tendency of establishing a new business is based on the inspiration given to the person by the entrepreneurial characteristics he or she has, its sub-cultures, and his or her friends, family and teachers. A culture appreciating a person establishing a new business and becoming successful would pave the way for the establishment of more business in comparison with those which do not appreciate a person in this respect. If the values forming the general framework of entrepreneurship such as being own boss, individualism, being successful and earning money are given prominence in a culture, it means that the entrepreneurship is being substantially supported (Demirel & Tikici, 2004).

2.3 Theoretical Framework

After the consideration of the whole relevant literature that is necessary for getting closer to the topic and answering the research problem, this framework contains the theoretical aspects which are used for analyzing and interpreting the findings.

The research framework used in the study is adapted from the entrepreneurship model proposed by Martin and Gartner (1989) and most recently (Ullah et al., 2012; Cuervo, 2005; Shane, 2003). The model suggests, among other things, that certain entrepreneurial characteristics predispose entrepreneurs towards entrepreneurial activities and these characteristics make them different from non-entrepreneurs. The research framework employed in the study is presented in Figure 1. The variables selected for investigation will be reflected in the hypotheses development in the next section of this study. In particular, the independent variables included in the study are the achievement motivation, need for affiliation, locus of control, risk taking propensity, tolerance for ambiguity, self-efficacy and fear to failure. The justification for selecting these variables has been discussed in the literature review section and hence is not repeated here. The dependent variable in the study is the tendency to be entrepreneur. . Figure 1 explains the theoretical framework that will be use on this thesis.

Figure 1 Theoretical Framework



Source: Modified from Koh ,1996.

2.4 Hypotheses

After reviewing the relevant literature and with regard to the problem formulation and the development of the theoretical framework of this research, seven hypotheses will be formulated and tested with the help of empirical data to prove or reject them. Each of the seven hypotheses will be investigated with the respective sample of University Students of the selected countries; Indonesia and United States.

H₁: Achievement motivation has an influence on the tendency to be entrepreneur.

H₂: Need for affiliation has an influence on the tendency to be entrepreneur.

H₃: Locus of control has an influence on the tendency to be entrepreneur.

H₄: Risk taking propensity has an influence on the tendency to be entrepreneur

H₅: Tolerance for ambiguity has an influence on the tendency to be entrepreneur.

H₆: Self-efficacy has an influence on the tendency to be entrepreneur.

H₇: Fear of failure has an influence on the tendency to be entrepreneur.

H₈: Indonesian students' and United States students' entrepreneurial characteristics are significantly different.