
ENTREPRENEURSHIP THEORY

Oleh:

Y. Lilik Rudianto

Academic Staff Faculty of Economics Airlangga University

ABSTRACT

The objective of this paper is to assess the basis of the entrepreneurial theories. It discusses the process of entrepreneurship, and models of entrepreneurship are also assessed. These are the simple Hollenbeck–Whitener model, Sanberg’s model, and the preliminary VCP model. Additionally, it explores the abilities, skills, aptitudes, and entrepreneurial competencies from a process perspective. The process of entrepreneurship can be illustrated as being central to the duties performed to maintain the progress of the economic sector. This process is supported by people who search for new and more efficient ways to achieve their business objectives. There is a belief concerning the creation of entrepreneurship that is focused on the inherent, personal characteristics of the entrepreneur. That it is not a new thing for entrepreneurs to display several universal characteristic and knowledge related to their community, and this makes them different from others. New venture performance (NVP) is a function of the characteristics of the entrepreneur (E), the structure of the industry in which the venture competes (IS), and its business strategy (S).

Keywords: Process of entrepreneurship, entrepreneurial traits, new venture performance (NVP), value creation performance (VCP).

BACKGROUND

An analysis of entrepreneurship is closely related to the subject of economics. In line with this opinion, Fass and Scothorne (1990) stated that the process of entrepreneurship can be illustrated as being central to the duties performed to maintain the progress of the economic sector. This process is

supported by people who search for new and more efficient ways to achieve their business objectives. Based on the above reality, the desire to fulfill the individual's needs by means of the actions done in the economics sectors becomes the main objective of economic development. The achievement of this objective implies that it is common to have cooperation between policy-makers and the entrepreneurs in order to develop the economy and so benefit the welfare of the people. However, there is no universally accepted definition of what constitutes entrepreneurship, and traditionally attempts have been made to describe it relative to the following criteria: an economic function; ownership structure; degree of entrepreneurship; size and life-cycle of firm; and as a resource base. Table 1 summarizes the different definitions and features which are generally identified with the process of entrepreneurship.

TABLE 1
PROCESS OF ENTREPRENEURSHIP: DEFINITION APPROACHES AND FEATURES

Approaches	Features
Economic function	<ul style="list-style-type: none"> • Personal initiative of entrepreneur • Risk-bearing function • Harnessing of factors of production
Ownership structure	<ul style="list-style-type: none"> • Creation of business with entrepreneur as founder
Degree of entrepreneurship	<ul style="list-style-type: none"> • Size of firm • Personal financial risk • Creativity and innovation • Growth realization
Resource base	<ul style="list-style-type: none"> • Primordial to potential production process
Size and life-cycle of firm	<ul style="list-style-type: none"> • Association with young start-up firm
Consolidation approach	<ul style="list-style-type: none"> • Conditions of uncertainty and competition • Entrepreneurial management and strategy • Initiation of change • Innovatory process • Ownership, structure and size of firm irrelevant • Personal initiative through the spirit of enterprise

Sources: Kirzner (1979); Kirzner (1980) Curran and Burrows (1986); Drucker (1986); Dale (1991)

ENTREPRENEURS ARE BORN NOT MADE?

In relation to the above statement, it was suggested by Morrison (1998) that there is a belief concerning the creation of entrepreneurship that is focused on the inherent, personal characteristics of the entrepreneur. It is recognized by this point of view that entrepreneurial flair, the willingness to deal with problems, as well as the need to build a business is innate in each person – a reality that every body automatically possesses this natural feature. The assertion that entrepreneurship is part of each person's inherent character can be illustrated in Table 2 below.

TABLE 2
ENTREPRENEURIAL TRAITS GENERALLY ASSOCIATED WITH
ENTREPRENEURS

Alert to opportunities
Anxiety/Neuroticism
Creativity
Decisive
Easily bored
Flair and vision
Independent nature
Inner locus of control
Innovatory tendency
Leadership aspiration
Need to achieve
Risk-taking propensity
Self-confidence
Self-motivation
Self-realization through action
Versatile

Sources : Baty (1990); Brockhaus and Horwitz (1986); Chell, Haworth and Brearley (1991)

FORMED THROUGH EXPOSURE TO SOCIAL INFLUENCES?

Carter and Cachon (1988) pointed out that it is not a new thing for entrepreneurs to display several universal characteristic and knowledge related to their community, and this makes them different from others. For instance, they assert that characteristics are common to such sectors of society as ethnic minority groups, family business, and female self-employed. These are termed as antecedent influences and this thinking contributes to the social development model of the entrepreneur. Table 3 summarizes the influences that are generally associated with the social development mode of entrepreneurial behavior.

TABLE 3
SOCIAL INFLUENCES ON ENTREPRENEURIAL BEHAVIOUR

Availability of appropriate role models
Career experience over life-cycle
Deprived social upbringing
Family background
Family position
Inheritance of entrepreneurial tradition
Level of educational attainment
Negative/positive peer influence
Social marginality
Uncomfortable with large bureaucratic organizations

Source : Kets de Vries (1977); Chell et al. (1991); Timons (1994); Deakins (1996).

THE AGENT OF ECONOMIC CHANGE – BORN AND MADE?

Cooper (1966) assists in this consolidation by bringing together the various factors which have been identified as contributing to entrepreneurial behavior. He classifies them into three distinct groups: antecedent influences; incubator organization; and environment factors. Those factors are clearly illustrated in Table 4 below:

TABLE 4
FACTORS CONTRIBUTING TO ENTREPRENEURIAL BEHAVIOUR

Category	Factors
Antecedent influences	<ul style="list-style-type: none"> • Genetic • Family • Educational choices • Previous career experience
Incubator organization	<ul style="list-style-type: none"> • Geographic location • Nature of skills and knowledge acquired • Contact with possible fellow founders • Experience within a 'small business' setting
Environment factors	<ul style="list-style-type: none"> • Economic conditions • Accessibility and availability of venture capital • Examples of entrepreneurial action • Opportunities for interim consulting • Availability of personnel, supporting services, and accessibility of customers

Source: Cooper (1996).

CHARACTERISTICS, FEATURES, ATTITUDES AND BEHAVIOURS

Apart from the above discussions, there is another view suggested by Timmons (1994) which has helped in comprehending the formulation of an agreement of six primary topics, discussed below. In this case, Timmons has argued that those topics can be classified as 'desirable' and 'acquirable'. These are presented in Table 5. Timmon's approach represents an evolving view that variables might be more usefully studied in clusters or constellations.

TABLE 5
DESIRABLE AND ACQUIRABLE ATTITUDES AND BEHAVIOURS

Theme	Attitude Or Behavior
Commitment and determination	<ul style="list-style-type: none"> • Tenacity and decisiveness, able to recommit/commit quickly • Discipline • Persistence in solving problems • Willingness to undertake personal sacrifice • Total immersion
Leadership	<ul style="list-style-type: none"> • Self-starter; high standards but not perfectionist • Team builder and hero maker; inspires others • Treat others as you want to be treated • Share the wealth with all the people who helped to create it • Integrity and reliability; builder of trust; practices fairness. • Not a lone wolf • Superior learner and teacher • Patience and urgency
Opportunity obsession	<ul style="list-style-type: none"> • Having intimate knowledge of customer's needs • Market driven • Obsessed with value creation and enhancement
Tolerance of risk, ambiguity, and Uncertainty	<ul style="list-style-type: none"> • Calculated risk-taker • Risk minimiser • Risk sharer • Manages paradoxes and contradictions • Tolerance of uncertainty and lack of structure • Tolerance of stress and conflict • Ability to resolve problems and integrate solutions
Creativity, self-reliance and ability to adapt	<ul style="list-style-type: none"> • Non-conventional, open-minded, lateral thinker • Restlessness with status quo • Ability to adapt and change; creative problem-solver • Ability to learn quickly • Lack of fear of failure • Ability to conceptualize
Motivation to excel	<ul style="list-style-type: none"> • Goal-and-results orientation; high but realistic goals • Drive to achieve and grow

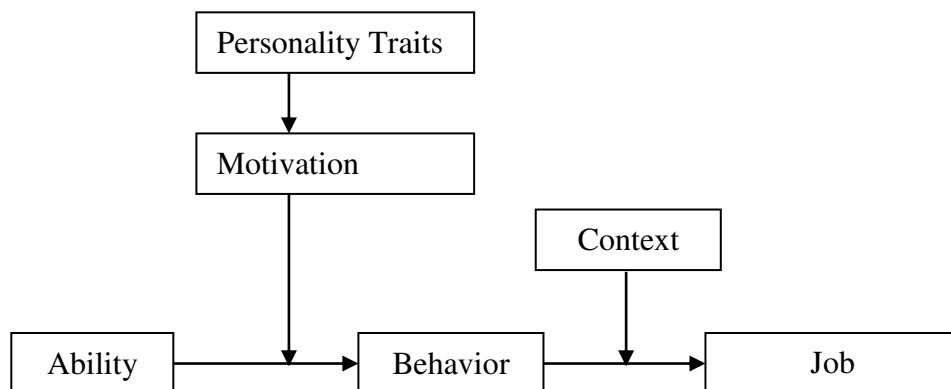
- Low need for status and power
- Interpersonally supporting
- Aware of weakness and strengths
- Having perspective and sense of humor

Source : Timmons (1994, p.191)

THE SIMPLE HOLLENBECK-WHITENER MODEL

An understanding of the nature of the causal linkage between personality traits and performance may be obtained by reference to a model published by Hollenbeck and Whitener (1988). This model simply states that the effects of personality traits on job performance are mediated by motivation and moderated by ability. The model is based on a theoretical formulation by Maier (1965) that job performance is a multiplicative function of ability and motivation. In Maier's formulation, job performance is taken to be a normative variable: the evaluated result of a set of behaviors. This more detailed formulation leads to the enhancement off the Hollenbeck-Whitener model displayed in figure 1.

FIGURE 1
ENHANCED HOLLENBECK-WHITENER MODEL

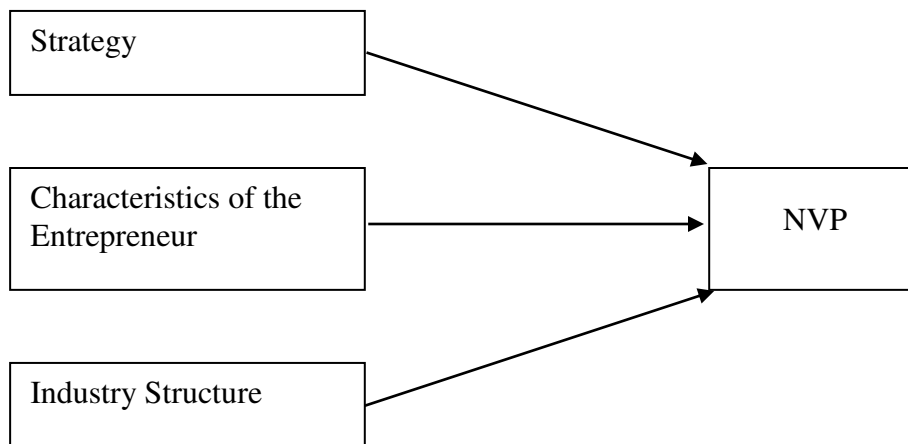


Source : Hollenbeck, J., and Whitener, E. (1988)

SANDBERG'S MODEL

Sandberg (1986) developed a model of new venture performance and tested it empirically. His model stated that new venture performance (NVP) is a function of the characteristics of the entrepreneur (E), the structure of the industry in which the venture competes (IS), and its business strategy (S); [NVP = f (E, IS, S)]. This model is represented graphically in Figure 2.

FIGURE 2
SANBERG'S BASIC NVP MODEL



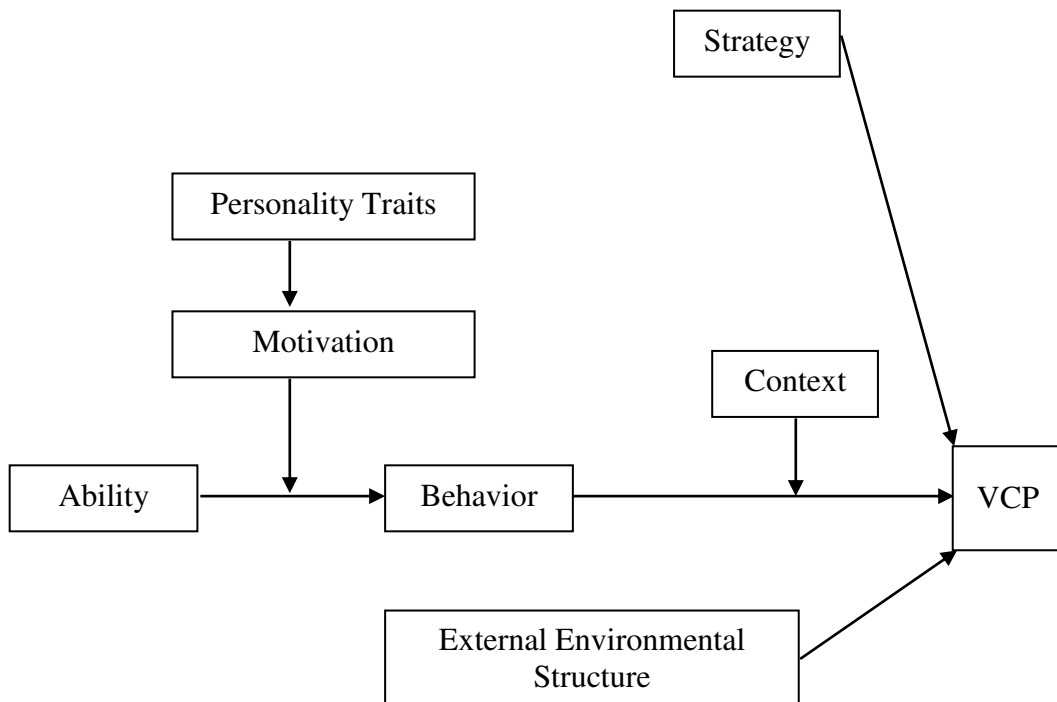
Source: Sandberg (1986)

THE PRELIMINARY VCP MODEL

NVP is a type of entrepreneurial performance that creates value through resource reallocation. Sandberg's full model could also be used as a more general model of value creation performance (VCP) within any entrepreneurial setting, for instance a complete reorganization of an existing firm to foster a new competitive advantage, as opposed to creation of a new venture per se. Also, since Schumpeter's (1934) entrepreneurship can in general be performed inside older organizations and in non profit or even governmental organizations

(Drucker, 1985, p. 23), the term “industry structure” proves too confining. Thus we use the term “external environmental structure”. With these terminology changes, and in combination with the enhanced Hollenbeck-Whitener model, Sandberg’s model provides the basis for a preliminary but more sophisticated model of VCP (see Figure 3).

FIGURE 3
PRELIMINARY VCP MODEL



Source : Hollenbeck-Whitener (1988); Sandberg (1986); Drucker (1985).

EXPLORING ABILITIES: SKILLS, APTITUDES, AND TRAINING

Maier (1965:286) defined abilities as being of two kinds: (1) aptitudes (abilities as they arise without training), and (2) achievement (abilities that contain the modifications that are induced by training or practice). In other words, aptitudes are latent or promised abilities whereas achievements are realized abilities ready for use at any point in time. In Maier's (1965:286) formulation, he dispenses with the equivocal word "ability" and explains the relationship between aptitudes and achievement as follows:

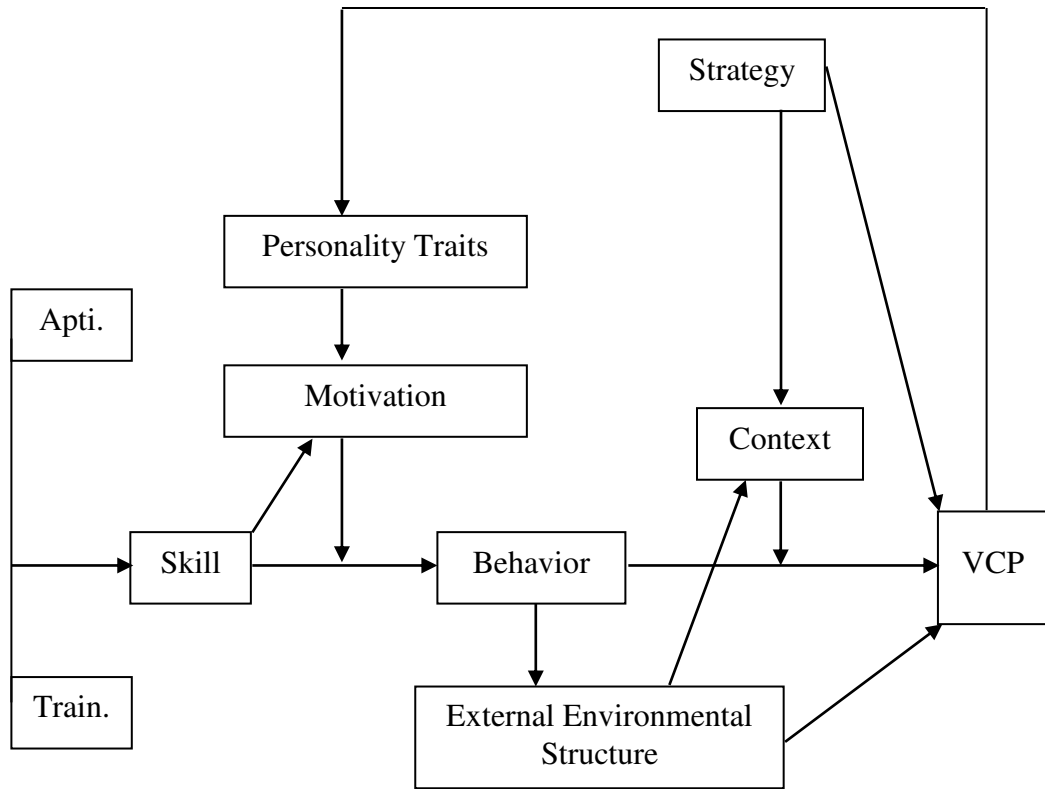
$$\text{Achievement} = \text{Aptitude} \times \text{Training}$$

Achievements are abilities as they exist for use at any point in time and thus are the clarification and more apt embodiment of the ambiguous "ability" used in the models in Figures 1 through 3. But achievements are exactly what Katz (1974) and Szilagyi and Schweiger (1984) refer to as skills in the strategy implementation literature when they refer to the ability of managers to perform various tasks. Thus in the context of management literature Maier's formulation may be displayed as follows:

$$\text{Skill} = \text{Aptitude} \times \text{Training}$$

The word 'ability' in Figure 3 will thus give way to the word 'skill' in Figure 4 below. Skills are the ready abilities that entrepreneurs bring to a situation. They are the result of both the natural aptitudes (such as intelligence) (Guilford, 1967) and of the training and practice which the entrepreneur has had in previously exercising these skills. In line with the usage of Maier (1965), 'training' may take place in multiple ways. It may mean either experience or formal training, and may take place in a variety of settings whenever a skill is exercised. Further, there is good reason to believe that this self-efficaciousness in regard to a skill depends on the actual possession of the skill (Bandura, 1982:126). Thus the final model of the effect of entrepreneurial characteristics on VPC is displayed in Figure 4.

FIGURE 4
ENHANCED VCP MODEL



Note: Apti.= Aptitude
Train.= Training

Source: Hollenbeck-Whitner (1988); Sandberg (1986); Drucker (1985); Maier (1965); Bandura (1982); Szilagyi and Schweiger (1984).

ENTREPRENEURIAL COMPETENCIES FROM A PROCESS PERSPECTIVE

The characteristics of entrepreneurial competencies can be investigated from a process perspective, reflecting the actual behavior of the entrepreneur. They fit into the long-term orientated, dynamic, and controllable natures of SME competitiveness. They can be considered as higher-level characteristics, representing the ability of the entrepreneur to perform a job role successfully (Lau et al., 1999) and encompass personality traits, skills and knowledge which are, in turn, influenced by the entrepreneurs' experience, training, education, family background and other demographic variables (Bird, 1995; Herron and Robinson, 1993). Lau et al. (1999) has examined previous empirical studies in entrepreneurial competencies in an attempt to categories all of the identified competencies into relevant activities or behavior in an SME context. Consequently, six competency areas are grouped together (opportunity competencies, relationship competencies, conceptual competencies, organizing competencies, strategic competencies, and commitment competencies). Since the above six competency areas can represent the process dimension of SME competitiveness.

This model distinguishes between four major constructs. Apart from 'entrepreneurial competencies', there are also 'competitive scope', 'organizational capabilities', and 'firm performance'. The competitive scope and organizational capabilities represent the constructs of external environmental factors and internal firm factors respectively and together they make up the potential dimension of competitiveness. The construct of a firm's performance, on the other hand addresses the performance dimension. Central to the model are the relationships between entrepreneurial competencies and other constructs of competitiveness. These relationships are conceptualized as three principal entrepreneurial tasks.

In studies involving entrepreneurship and small business, a firm's performance is usually seen as possessing certain crucial factors (Dyke et al., 1992; Learner et al., 1997; Ibrahim and Goodwin, 1986; Barkham, 1994). This is also supported by Herron and Robinson (1993), Keats and Bracker (1987), and Hofer and Sandberg (1987). There are several points which basically influence the activities carried out by small and medium enterprises (SMEs), consisting of entrepreneurs' demographic, and psychological and behavioral characteristics. Their managerial skills and working techniques will also play important roles in shaping the performance of SMEs. Furthermore, Cooper and

Gascon (1992) suggest a comprehensive explanation through research involving several issues that can affect a firm's performance.

CONCLUSION

This paper has presented the main theories and models of entrepreneurship. These are the simple Hollebeck-Whitener model, Sanberg's model, and the preliminary VCP model. The paper has also considered the abilities, skills, aptitudes, and training that relate to the entrepreneurial competencies from a process perspective. It has been established that the process of entrepreneurship is essentially a human creative act, to which the entrepreneur is central. Furthermore, to a significant extent, entrepreneurs are products of their society. Thus, responses to events that affect them will be influenced by the value system of the host society, earlier formative experiences, and the entrepreneur's personal characteristics. Moreover, individuals may enter into entrepreneurship due to factors at work within their social context, such as unemployment, family tradition, need for independence, and/or lack of personal or financial security.

REFERENCES

- Bandura, A. 1982, 'Self-efficacy mechanism in human agency', *American Psychologist*, vol. 37 (2), pp. 122-147.
- Baty, G. 1990, *Entrepreneurship for the nineties*, Prentice-Hall, New Jersey.
- Brockhaus, R. and Horwitz, P. 1986, 'The psychology of the entrepreneur', In D. Sexton and R. Smilor, *The Art and Science of Entrepreneurship*, pp. 25-48, Ballinger Publishing Company, Cambridge.
- Carter, S. and Cachon, J. 1988, *The Sociology of Entrepreneurship*, Stirling University, Stirling.
- Chell, E., Haworth, J. and Brearley, S. 1991, *The Entrepreneurial Personality*, Routledge, London.

- Cooper, A.. 1966, *Small Business Management: A Casebook*, Irwin, Homewood.
- Cooper, A.C., and Gascon, F.J.G. 1992, 'Entrepreneurs, processes of founding, and new firm performance, In: Sexton, D.L., Kasarda, J.D (Eds), *The State of the Art of Entrepreneurship*, pp. 301-340.
- Curran, J. and Burrows, R. 1986. 'The sociology of petit capitalism: a trend report' *Sociology*, vol. 20 (2), pp. 14-27.
- Dale, A. 1991, 'Self-employment and entrepreneurship', in R. Burrows (ed.) *Deciphering the Enterprise Culture*, Routledge, London.
- Deakin, D. 1996, *Entrepreneurs and Small Firms*, McGraw-Hill, London.
- Drucker, P. 1986, *Innovation and Entrepreneurship*, Heinemann, London.
- Dyke, L.S., Fischer, E.M. and Reuber, A.R. 1992, 'An inter-industry examination of the impact of owner experience on firm performance' *Journal small business management*, vol. 30 (4) pp. 72-87.
- Fass, M. and Scot home R. 1990, *The Vital Economy*, Abbey strand Publishing, Edinburgh.
- Guilford, J.P. 1967, *The Nature of Human Intelligence*, McGraw-Hill, New York.
- Herron, L and Robinson, R.B. 1993. 'A structural model of the effects of entrepreneurial characteristics on venture performance, ' *Journal Business Venturing*, vol. 8 (3), pp. 281-294.
- Hofer, C.W. and Sandberg, W.R. 1987, 'Improving new venture performance: some guidelines for success,' *American Journal Small Business*, Vol. 12 (1), pp. 11-25.
- Hollenbeck, J. and Whitener, E . 1988. 'Reclaiming personality traits for personnel selection,' *Journal of management*, vol. 14 (1), pp 81-91.

- Ibrahim, A.B. and Goodwin, J.R.. 1986, 'Perceived causes of success in small business,' *American Journal Small Business*, vol. 11 (2), pp. 41-50.
- Katz, R.L. 1974, 'Skills of an effective administrator,' *Harvard Business Review*, Vol. 52(5), pp. 90 - 102.
- Keats, B.W. and Bracker, J.S. 1987, 'Towards a theory of small firm performance: a conceptual model,' *American Journal Small Business*, vol. 12(4), pp. 41- 58.
- Kets de Vries, M. 1977, 'The entrepreneurial personality: a person at the crossroads,' *Journal of Management Studies*, February, pp. 34-37.
- Kirzner, I. 1979, *Perception, Opportunity and Profit Studies in the Theory Entrepreneurship*, University of Chicago Press, Chicago.
- Kirzner, I. 1980, *The primacy of entrepreneurial discovery. The Prime Mover of Progress: The Entrepreneur in Capitalism and Socialism*, Institute of Economic Affairs, London.
- Lau, T., Chan, K.F., Man, T.W.Y. 1999. 'Entrepreneurial and managerial competencies: small business owner-managers in Hong Kong,' In: Fosh, P., Chan, A.W., Chow, W.W.S., Snape, E., Westwood, R. (Eds.), *Hong Kong Management and Labour: Change and Continuity*, Routledge, London.
- Learner, M., Brush, C. and Hisrich, R. 1997, 'Israeli women entrepreneurs: an examination of factors affecting performance,' *Journal Business Venturing*, vol. 12 (4), pp. 315-339.
- Maier, N. 1965, *Psychology in Industry* (3rd ed.), Houghton Mifflin Co., Boston.
- Morrison, A., Rimmington, M. and Williamson, C. 1998, *Entrepreneurship in the Hospitality, Tourism and Leisure Industries*, Butterworth-Heinemann, Oxford.

Rosemberg, M.J. 1956, 'Cognitive Structure and Attitudinal Affect,' *Journal of Abnormal and Social Psychology*, vol. 53, pp. 367-372.

Sadler-Smith, E and Hampson, Y. 2003, 'Managerial behavior; entrepreneurial style, and small firm performance', *Journal of Small Business Management*, Vol. 41(1), pp. 47-67.

Sandberg, W.R. 1986, *New Venture Performance: The Role of Strategy and Industry Structure*, Heath & Co., Lexington.

Sandberg, W.R. and Hofer, C.W. 1987. 'Improving new venture performance: the role of strategy, industry structure, and the entrepreneur, *Journal Business Venturing*, vol. 2 (1), pp. 5-28.

Szilagyi, A.D. and Schweiger, D.M. 1984, 'Matching managers to strategies: A review and suggested framework,' *Academy of Management Review*, vol 9(4), pp. 626-637.

Timmons, J. 1994, *New Venture Creation*, Irwin, Boston.