

Entrepreneurial Behavior

Introduction

There are literally dozens and dozens of different definitions of 'the entrepreneur' and the concept of 'entrepreneurship'. Researchers and writers often seem to pick the definition that best fits the area they are discussing. We have explicitly linked entrepreneurship to the capability for exploiting successfully innovative ideas in a commercially competitive market. Leaving to one side the fact that individuals working in the public and non-profit sectors can be very enterprising, in historic and policy making terms entrepreneurship refers to business behavior related to innovation and growth. For our purposes, entrepreneurs may be broadly defined as people who manage a business with the intention of expanding that business by applying some form of innovation and with the leadership and managerial capacity for achieving their goals, generally in the face of strong competition from other firms, large and small. The overall aim of this unit, therefore, is to provide you with opportunities to consider and reflect on the personal aspects involved in transforming an innovative idea into an entrepreneurial product.

Learning Outcomes

After studying this unit you should:

- understand the nature of entrepreneurship;
- understand the function of the entrepreneur in the successful, commercial application of innovations;
- confirm your entrepreneurial business idea;
- identify personal attributes that enable best use of entrepreneurial opportunities;
- explore entrepreneurial leadership and management style;
- Identify the requirements for building an appropriate entrepreneurial team.

1 Economic Function of the Entrepreneur

Broadly, entrepreneurs have two vital roles to play in the economy (1) to introduce new ideas and (2) to energize business processes. Strictly speaking, the term *entrepreneur*, which derives from the French words *entre* (between) and *prendre* (to take), referred to someone who acted as an intermediary in undertaking to do something. The term was originally used to describe the activities of what today we might call an *impresario*, a promoter or a deal maker. The entrepreneur first made an appearance as a distinct economic concept in France, twenty years before the ‘father’ of economics, Adam Smith published his *Wealth of Nations* in 1776. Richard Cantillon, an Irishman living in France, suggested in 1756 that the entrepreneur was someone prepared to bear uncertainty in engaging in risky *arbitrage* buying goods and services at a *certain* (fixed) price in one market to be sold elsewhere or at another time for *uncertain* future prices, usually in other market (though, throughout economic history, hoarders or traders who try to ‘corner’ a market have sought super-profits in the same markets when short supplies send prices rocketing upwards). This concept of entrepreneur as arbitrage is still relevant today but was clearly influenced by the dominance at that time of trade as the chief means for accumulating new wealth and capital. Manufacturing and trade dominated Britain's heyday in Victorian times whereas today, as the case studies show, it is technology, knowledge and services that provide most, though by no means all, new entrepreneurial opportunities. In other words, entrepreneurship exists in its context as Figure 1.



Figure 1 Business competition chain

Here, the role of the entrepreneur is to conceive a business idea in terms of an innovation to be brought successfully to the market and to find the wherewithal to make this happen. The entrepreneur does not necessarily need to have the design, production or delivery skills (this is the function of the firm) nor to shoulder all or most of the risk (this is often assumed by the providers of finance or investors). Indeed, the notion of the entrepreneur as a risk-taking trader began to be challenged early on by the view of the entrepreneur as an adventurous self-employed manager capable of

combining, to personal advantage, capital and labor. It is interesting to note that in France today the entrepreneur is a more generic term mainly referring to small property developers and owners of small construction firms. It would be wrong to state that the element of risk-bearing has completely disappeared from the modern concept of the entrepreneur. The successful management of risk is an important entrepreneurial attribute. However, it does seem true that a swift perception of opportunities and the ability to coordinate the activities of others emerge as the more central economic skills of the modern entrepreneur.

Austrian economist Joseph Schumpeter (1934), who has had a seminal influence on entrepreneurship, as well as innovation, placed the entrepreneur at the center of his theory of economic development. Schumpeter defined the entrepreneur simply as someone who acts as an agent of change by bringing into existence a '*new* combination of the means of production'. New combinations include process, product and organizational innovations. The means of production includes capital, equipment, premises, raw materials, labor and, in recent times, information. Currently, knowledge has been added to the list as the indispensable ingredient for business success in the new millennium.

The essence of Schumpeter's approach is that entrepreneurs are competitive and always strive to gain an edge over their competitors. When they begin to consolidate and slow down, they revert to being ordinary managers and, in Schumpeter's terms, are no longer entrepreneurial. Thus attitudes to growth and the actual attainment of growth are essential elements of the concept of entrepreneurship. The attainment part of the concept, of course, implies a high level of managerial competence in all the five stages in [Figure 1](#) and a high competence in social and commercial interactions outside the firm with other firms, regulators and, above all, customers and consumers. This implies that entrepreneurial firms that innovate successfully and encourage new innovations are likely to be different from most other firms. They appear to be more open and supportive of different opinions and ideas. If you are developing your own idea as part of an organization (or if you feel that your idea will need the combined efforts of a firm for its implementation), [Activity 1](#) will help you identify where you need to develop and

negotiate support both inside and outside the firm. The art of negotiation is a key entrepreneurial skill.

Activity 1

Referring to the characteristics of successful innovation, complete the Characteristics of the entrepreneurial firm checklist.

Before starting this activity you should determine where you are going to record your notes. You may choose to maintain a paper notebook. You may, however, prefer to record your thought electronically either by using a word processing program or by using the Honchos Academy.

Consider the ideal firm for bringing your idea to market (or if your ideas have not yet crystallized, an enterprising group or firm of at least two other people you know). Make a note about the purpose of the firm or team before you answer the questions.

Try to answer the following questions (pausing for reflection if you need to.) If the answer is 'Yes' write a brief example. If the answer is 'No', write the main reason. Go to

<http://www.open.edu/openlearn/money-management/management/business-studies/entrepreneurial-behaviour/content-section---learningoutcomes> and complete Activity 1, while there is you have any questions click on the “?” and see the information provided.

If you answered 'Yes' to five or more questions and were able to give clear examples it is most likely that the firm you have in mind is innovative and encourages both creativity and a sound approach to business. If you answered 'No' to five or more questions, your proposed innovation may not receive sufficient support from such an organization.

The characteristics of entrepreneurial firms that are successful at launching innovations have been widely studied and are reflected in the questions asked in [Activity 1](#).

However, at this stage you may be a long way off starting, or helping to start, your own firm. The checklist should serve as a useful tool for gauging the innovative support from your current situation and as a guideline for the sort of atmosphere that needs to develop in a firm in order to maximize its entrepreneurial potential. When faced with very real resource constraints, maintaining motivation to set up and run such a firm can

be very tough. The main motivation for entrepreneurs to overcome the barriers of economic pressure and uncertainty, according to Schumpeter (who was writing in the 1930s), were the prospects of upward social mobility into the capitalist class. At the start of the 21st century, with the almost universal dominance of market-based economic systems and a hugely increased middle class, the need to cope with the direct and indirect threats of 'globalization' is now often cited as the spur to innovation. For others, economic survival or the chance to create something of value are the driving motivators. Whatever the personal ambitions of entrepreneurial small firm owners, their role in introducing innovations and in improving overall economic development and efficiency is important.

Basically, the concept of *development* from an economic viewpoint means the growth of goods and services in an economy usually measured in total or *per capita* rates of growth in all goods and services, known as the Gross Domestic Product (GDP) or the Gross National Product (GNP) when nationally owned overseas goods and services are included. In advanced industrial economies such as Britain, France, Germany and so on, policy objectives tend to be targeted on improving economic performance rather than development *per se*. As an alternative to an economic approach, one of the best known psychologically based economic development models that is still very influential, David McClelland's achievement motivation model pays less attention to structural factors while the psychological determinants of economic behavior are more strongly emphasized:

Some wealth or leisure may be essential to development in other fields the arts, politics, science, or war but we need not insist on it. However, the question why some countries develop rapidly in the economic sphere at certain times and not at others is in itself of great interest, whatever its relation to other types of cultural growth. Usually, rapid economic growth has been explained in terms of 'external' factors favorable opportunities for trade, unusual natural resources, or conquests that have opened up new markets or produced internal political stability. But I am interested in the *internal* factors in the values and motives men have that lead them to exploit opportunities, to take advantage of favorable trade conditions; in short, to shape their own destiny.

(McClelland 1968, p. 74)

McClelland's preferred entrepreneurial motivator, the *need for achievement* or nAch as it is usually abbreviated – 'a desire to do well, not so much for the sake of social recognition or prestige, but to attain an inner feeling of personal accomplishment' – is a more psychologically-based theory. McClelland himself summarized an alternative economic development theory as 'a society with a generally high level of nAch will produce more energetic entrepreneurs who, in turn, produce more rapid economic development'. However, McClelland was quite disparaging about the profit motive as the mainspring of entrepreneurial activity:

Since businessmen had obviously shifted their concern from intrinsic worth to money worth, Marx and other economists endowed man with a psychological characteristic known as the 'profit motive'. The capitalist, at any rate, was pictured as being driven by greed, by the necessity of making money or keeping up his rate of profit.

That such an assumption is a typical oversimplification of rational or armchair psychology has recently begun to be realized by historians in particular who have studied the lives of actual business entrepreneurs in the nineteenth century. Oddly enough, many of these men did not seem to be motivated by a desire for money as such or by what it would buy.

(McClelland 1961, p. 233)

Box 1 Wall Street (1987) Gordon Gekko: Address to Teldar Paper Stockholders

Teldar Paper has 33 different vice presidents, each earning over \$200,000 a year. Now, I have spent the last two months analyzing what all these guys do, and I still can't figure it out. One thing I do know is that our paper company lost \$110 million last year, and I'll bet that half of that was spent in all the paperwork going back and forth between all these vice presidents.

The new law of evolution in corporate America seems to be survival of the unfittest. Well, in my book you either do it right or you get eliminated.

In the last seven deals that I've been involved with, there were 2.5 million stockholders who have made a pre-tax profit of \$12 billion. Thank you.

I am not a destroyer of companies. I am a liberator of them!

The point is, ladies and gentleman, is that greed – for lack of a better word – is good.

Greed is right.

Greed works.

Greed clarifies, cuts through, and captures the essence of the evolutionary spirit.

Greed, in all of its forms – greed for life, for money, for love, knowledge – has marked the upward surge of mankind.

© Copyright 2001–2004.American Rhetoric.HTML transcription by Michael E. Eidenmuller.All rights reserved.

Activity 2

1. Do you think that profit maximization is the main motivation to entrepreneurial behavior?
2. Does profit have to be the main motivation of a successful business owner?
3. What alternatives or additional motives can you identify?

Answer

Clearly, the 'oversimplification' of the profit motive determining economic development has survived longer than McClelland believed it would and remains a central pillar to current business and economic analysis. Other motives include the need for autonomy, to 'be my own boss', to support a preferred lifestyle, to provide security for the family, to achieve social status and so on. Nevertheless, earning profits and making money also feature as important motives and the potential profitability of a new product is still usually the acid test of its likely viability. And well know entrepreneurs to the press and public are usually very successful and very rich business owners.

2 Entrepreneurial Qualities

It is now widely accepted that, apart from the startup phase, most small firms in Europe are more concerned about survival rather than growth and relatively few are especially entrepreneurial (Gray 1998). Consequently, a lot of research in this field has focused on

finding the characteristics that set entrepreneurs and their firms apart from others. Elizabeth Chell (1985, 1999), a social psychologist, has examined numerous psychological trait-based approaches and concluded that, whilst psychological aspects such as 'entrepreneurial intention' and the 'ability to recognize opportunities' are strongly linked to entrepreneurial behavior, the context in which the entrepreneur operates is also very important. Entrepreneurship reflects complex interactions between the individual and the situation, which has to be dynamic because business situations are always changing.

Perceptions and judgments are, therefore, key elements in this process. Indeed, more than 20 years ago, Mark Casson (1982) identified 'judgments' as one of the qualities that distinguishes the successful entrepreneur from the much larger group of non-entrepreneurial SME owners. As mentioned before, business judgments can reflect an innate ability but most frequently it directly derives from experience (or, more accurately, *learning* from experience). However, past experience can also filter out our ability to spot new opportunities or threats. Cultural effects related to family, locality and friends can help us interpret the world but they can also color what we see. The same may be true of the influences from various networks that business owners often belong to (ranging from business associations such as Chambers of Commerce, business clubs and so on, to more social links related to, say, sport or leisure activities). And, of course, our own expectations and motivations of what we hope for in life, at work and in terms of a career will affect both judgments and business behavior. The Open University Business Schools (OUBS) has conducted research in this area over the years. The findings from many different entrepreneurial firms, which reveal various influences and feedback loops on the owner-manager's decision-making, are summarized in [Figure 2](#). Apart from the effects of the various influences that can affect business judgments, the main points to note are:

1. Business situations consist of real challenges, constraints and opportunities that directly impact on the business performance of a firm.

2. However, it is how entrepreneurs *perceive* these that guide their judgments and actions (which is why accurate market information, the ability to learn and experience are so important).
3. Business perceptions are also influenced by personal and business motivations, peer pressures and cultural influences (it could be argued that entrepreneur's perceptions are more closely aligned with reality).
4. Entrepreneurial behavior is guided by the entrepreneur's expectations rather than a rigid set of strategic objectives (again, it may be that the entrepreneur's expectations are more realistic and, maybe, more ambitious than those of other business managers).
5. The process is not static but very dynamic with feedback and signals from the market consciously and indirectly affecting later decisions and actions.

As each context and set of market signals reflect industry, regional and life-cycle influences, it is difficult to believe that each entrepreneur needs the same set of skills in order to achieve success. The model in [Figure 2](#) reflects the uniqueness of the business situation facing each entrepreneur and the key areas where superior judgments will make a difference.

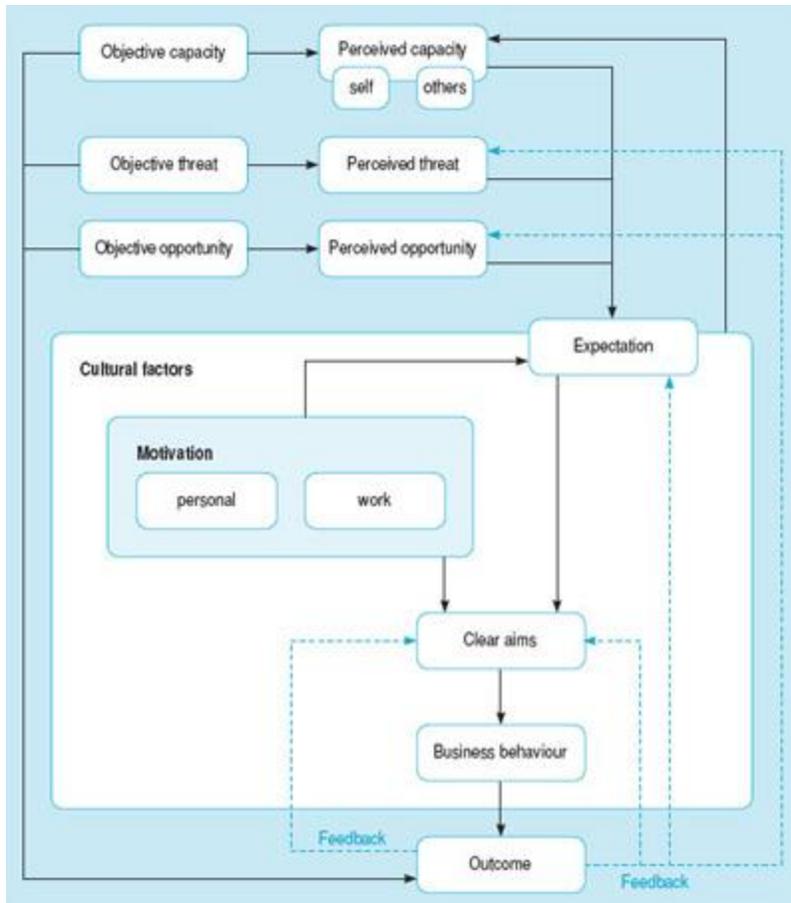


Figure 2 Model of entrepreneurial decision making

The influences and processes depicted in the model are complex but so too is the reality of entrepreneurial business. To date, researchers have not been able to identify a core and necessary bundle of attributes, characteristics or qualities that mark out successful entrepreneurs unerringly from the large crowd of business owners. However, a commonly quoted empirical and desk research study of new venture start-ups, that has stood the test of time over the past quarter-century, was conducted through the Massachusetts Institute of Technology by Jeffrey Timmons and colleagues (Timmons et al. 1977). They identified 14 important entrepreneurial characteristics of successful enterprise owners (see Box 2) which still frequently crop up in entrepreneurship research.

Box 2 Behavioral characteristics of entrepreneurs

- drive and energy

- self-confidence
- high initiative and personal responsibility
- internal locus of control
- tolerance of ambiguity
- low fear of failure
- moderate risk taking
- long-term involvement
- money as a measure not merely an end
- use of feedback
- continuous pragmatic problem solving
- use of resources
- self-imposed standards
- Clear goal setting.

Timmons admitted that few entrepreneurs would possess all traits but felt that strengths in one might compensate for weaknesses in others. Many of these characteristics are self-explanatory (such as high personal drive and energy, self-confidence and setting clear goals) and some appear to be linked. Others may be less obvious or well-known, such as money and profits being used as a measure of success compared with others but less as an end in itself. Helping you to develop the last quality in the list, the ability to set clear goals, is the ultimate objective of this unit.

Activity 3

1. How many of the entrepreneurial qualities listed in Box 2 do you feel already, in the main part, apply to you?
2. Which ones do you feel a need to find out more about?
3. Which ones have you already identified as needing more development?

Answer

These characteristics appear consistently in other entrepreneurial research studies. For example, more than 20 years ago in a study of Irish entrepreneurs, Cromie and Johns (1983) identified achievement, persistence and self-confidence as general successful business characteristics as well as internal locus of control and commitment to the business, as the characteristics peculiar to entrepreneurs. Some of the qualities that people often find a bit obscure include *tolerance of ambiguity* (which basically refers to the ability to accept contradictory or unexpected evidence of something while keeping an open mind) and *fear of failure* (which can lead to pushy, goal-dominated behavior but, in fact, is the opposite of need for achievement – nAch – mentioned in [Section 1](#); the anxiety caused by the fear can sometimes be strong enough to cause the individual to deliberately bring about the failure that is feared). Low fear of failure means that the entrepreneur is prepared to risk things going wrong and can handle setbacks without being deterred (which is associated with but not quite the same thing as high nAch, where failure can lead to severe disappointment and loss of confidence). High achievement motivation is a great driving force but low fear of failure may be very useful in times of business chaos and uncertainty.

Activity 4

1. Do you feel you are highly motivated to achieve?
2. Are you competitive and get above average satisfaction from success in non-business areas such as, say sport or academic studies?
3. Are you able to take setbacks without becoming too discouraged?

Answer

There is a tendency for high nAch people to come from very supportive backgrounds and for them to be motivated to achieve in different areas. In contrast, high fear of failure people tend to come from disrupted or non-supportive backgrounds and focus more obsessively on areas where they are more likely to achieve their goals (Kets De Vries 1977) (though they often set goals well below their actual potential in relation to the decision-making model in [Figure 2](#), high fear of failure people would have

comparatively low perceived capabilities and expectations whereas high nAch people may be a bit over-confident about their own capabilities and stretch their expectations by setting challenging targets). However, these tendencies are not set in stone and the actual experience of business can have a big effect in inducing either more caution or more confidence. Still, if you are uncertain of your own drive to succeed or your ability to persist, the wisest course of action is to consider pushing your idea as part of a team. Small groups not only provide support, they also have a wider range of abilities and skills and often come up with more considered decisions.

Perhaps a little less familiar is the quality that successful small business owners are said to have – high internal *locus of control*. This means that they believe that their behavior determines what happens to them and that they can control their own behavior. This is linked to the need for autonomy and personal independence expressed by many entrepreneurs as their prime motivation for setting up their own firms (Gray 1998). Internal locus of control has featured fairly consistently in studies on the psychological characteristics of entrepreneurs. Essentially the concept implies three separate beliefs on the part of individuals that:

1. the outcome of events and situations are susceptible to intervention
2. individuals can intervene and influence the outcome of situations positively from their perspective
3. They themselves have the skills and capacity to intervene effectively in certain situations or to influence certain events.

The self-confidence, energy flexibility and opportunism associated with entrepreneurial behavior suggests that entrepreneurs are individuals who are accustomed to getting involved and that they expect positive results from their involvement. In other words, they are prepared to expend energy and mental effort because they expect and often receive appropriate or, in their terms, valuable rewards. Also, they are flexible and opportunistic because they believe they have the capacity to become involved across a broad range of situations. Internal locus of control beliefs are essential to the success of self-motivated behavior and form a central core of the entrepreneur's self-concept.

However, it is equally clear that entrepreneurs will not be the only people sharing these beliefs.

Most reasonably successful students at all levels realize that their own efforts in studying have a lot to do with passing. Most people for whom sport is more than just an occasional leisure activity know the value of expending their own efforts on training and the importance of self-confidence. And in business, most chief executives and reasonably able mid-level to senior managers will be accustomed to obtaining positive responses from their personal interventions. It seems clear that people who believe that outcomes basically depended on their own behavior and that they can control their own behavior will generally believe that the control of events of importance to them ultimately rested internally in themselves. This is clearly linked to self-confidence and the ability to self-motivate. However, people with internal locus of control beliefs are in the minority. For many people, their lives are deeply affected by the decisions of people in more powerful positions than themselves which, in business, can include strong partners, customers and suppliers (as Porter's five-forces model has identified). Even more pervasive than the belief that powerful others exert a determining control or influence are widespread beliefs that events are determined by chance or luck. Activity 5 provides you with an opportunity to see where you currently stand (but note that locus of control beliefs are also influenced by context and can vary over time, especially if success breeds success).

Activity 5

Complete the Entrepreneurial attributes: locus of control questionnaire (clicking on 'Launch in a separate player' will allow you to enlarge text). This will give you an estimate of your own locus of control belief profile and what dominates – internal, external or chance.

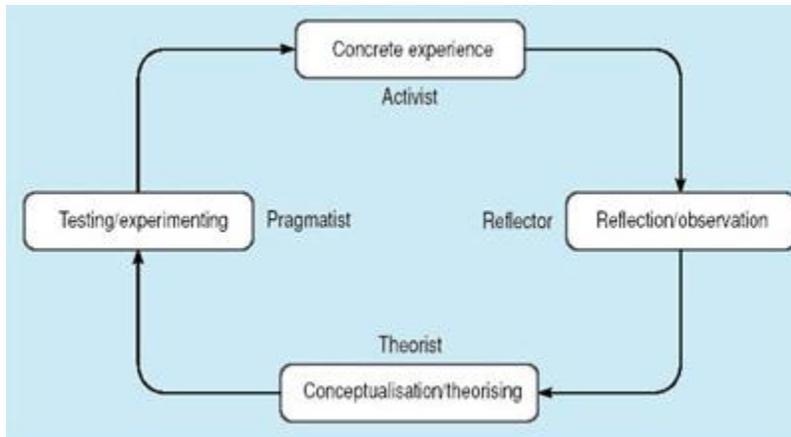
Click on one of the three choices, depending on whether you agree or disagree with each statement, and your scores for *Internal*, *External* and *Chance* will appear in the respective boxes.

These concepts have been found to be useful in analyzing the behavior and beliefs of successful entrepreneurs. If you feel you scored too low for your own liking, this is

another indication that a team approach may be best. Indeed, Activity 5 could also be useful in developing a balanced entrepreneurial team (not everyone can be leader with a firm belief in their ability to control destiny; opportunity often springs from being open to luck and chance happenings and most good teams rely on some members being prepared to follow more powerful others). If you want to boost your feeling of internal locus of control, one suggestion would be to set yourself attainable objectives and push yourself to achieve them. However, it is important to bear in mind that psychological scales and tests of this kind only ever measure tendencies (not absolute and immutable behavior that holds in all circumstances) and never attain anything like 100 per cent accuracy. And, in any case, personal belief and motivation is only one part of the entrepreneurial equation.

3 Entrepreneurial Work Styles

The need for supportive, open and communicative policies, structures and cultures in effective entrepreneurial firms as the optimal crucible for successful innovations comes through very strongly from studies of innovation and successful entrepreneurship. However, the strong internal locus of control of successful entrepreneurs suggests there may be a difficulty in accepting the influence of others, powerful or not. And, the strong need for autonomy does not suggest a personality open to sharing of ideas or knowledge. Indeed, the popular image of a successful entrepreneur can sometimes be that of a determined autocrat who lets nothing stand in the way of success. How can these two conflicting pictures of successful entrepreneurship be reconciled? The answer is that, just as there is no one 'entrepreneurial personality' and people have different styles of learning, so too are there different management and leadership styles that vary between particular entrepreneurs, in their particular firms facing their own particular set of circumstances.



[Figure 3 Course learning cycle](#)

Looking more closely at learning styles based on the Lewin/Kolb experiential learning cycle (Figure 3) that underlies this unit, it is likely that individuals will be drawn more strongly to one of the four stages than to others. David Kolb's model (1973) suggests that entrepreneurial success should be mainly determined by the individual's ability to adapt and dominate continual changes in the business environment through exploring new opportunities and learning from past successes and mistakes. In the context of business, the cycle starts with a concrete experience (say, the launch of a new product, landing or losing a major customer, unexpected poor staff performance, a delivery failure, and so on); moves on to the stage of observation and reflection on what has happened and why; then onto making sense of what has happened in the form of a rule or guide for repeating successes or avoiding similar mistakes; and, finally setting up a new situation to test the new insights or rules (thus creating a new experience for the cycle to start again). In practice, Kolb observed that most people display skills along a 'concrete – abstract' dimension and an 'action – reflection' dimension. This suggested to Kolb that there were basically four learning styles (outlined in [Figure 4](#)).

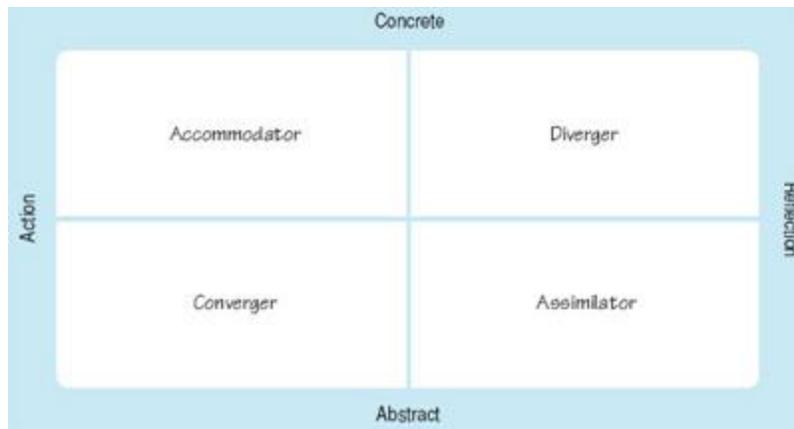


Figure 4 Kolb's learning styles

Following the flow of the cycle, the learning style in upper right quadrant Kolb labeled the *diverger*. The diverger is able to see concrete experience from different perspectives and to pull different meanings from experience. Kolb saw people who tend to this style of learning as inventive and creative. This could include entrepreneurs in the creative industries such as design and the media. In the lower right quadrant, the *assimilator* is attracted to creating models and concepts, an approach that would be strength in consultancies and marketing firms. The *converger* in the lower left quadrant has the learning style that prefers to apply rules and to test them. Kolb saw this as a style that appeals to engineers and technical people. It is also useful in innovations based on R&D. In the final quadrant *accommodators* are at ease in working with other people. They like to plan and carry out new activities. According to Kolb, accommodators are more prepared to accept risks and this may be the most entrepreneurial learning style. However, Kolb was at pains to point out that these are not pigeon-holes because people can move from one style to another depending on circumstances or context. Nevertheless, for many people there is a preferred dominant style.

Activity 6

1. Which style best reflects your own?
2. Where would you place yourself on Kolb's grid?
3. What sort of balance of learning styles do you think would best fit your needs?

Answer

In answering these questions, consider whether you really do think there is a dichotomy between creative thinking and critical thinking. Kolb's categories have been criticized because many people feel that successful managers should have a balance between the two and that, in any case, they are not mutually exclusive. And from our consideration of the characteristics of entrepreneurial firms and the qualities of successful entrepreneurs themselves, the ideal entrepreneurial learning style seems to be one rooted in both action and reflection. Indeed, the fact that business is a social process suggests also that well-developed social skills, such as that of the accommodator, are of prime entrepreneurial importance.

Most definitions of the entrepreneur also stress the ability to organize and combine as the key distinguishing features. This would emphasize the converter's learning style, a conclusion that should find support from influential management writer Peter Drucker (1985). He maintains that innovation no longer results from chance activities but needs to be managed – whether in a big or small firm – as an organized and systematic process. This suggests that preferred learning styles will be directly related to the learning and skills needs perceived at the time and where they work in the enterprise value-cycle. Thus, learning styles are also likely to be linked to preferred management and leadership styles.

Generally, management-orientation can be described in terms of three very broad, but not mutually exclusive areas – structure (organizational and bureaucratic), people (social and motivational) and change (entrepreneurial and innovative) (Ekvall, 1991). Management styles reflect the influences of the management orientation (the requirements of where they manage in the value chain and individual personality). Very broadly, two main categories are often used to distinguish the main approaches – *task-focused* and *people-focused* – and the associated leadership styles contrast *directive* with *participative* styles. In fact, a basic two-way classification is far too simple. The brief discussion above suggests at least five broad management behavioral styles – *structured* (rules and procedures), *delegative* (happy for subordinates to take some direct responsibility for their own work) *standards* (set or agree quality and

performance standards), *merit* (praise and reward good work) and *supportive* (helpful and enjoy the team's trust). Completing Activity 7 will automatically give you scores on each of these styles (with scores around 50 per cent representing the average, so that a score of above 60 per cent on 'structured' would indicate you like managing by rules or on 'delegative' shows you are comfortable in delegating responsibility).

Activity 7

Complete the Management styles questionnaire, noting your score on each of the five styles. (Clicking 'Launch in a separate player' will allow you to enlarge the text.)

Remember, there is no correct answer, only an answer that is right for you.

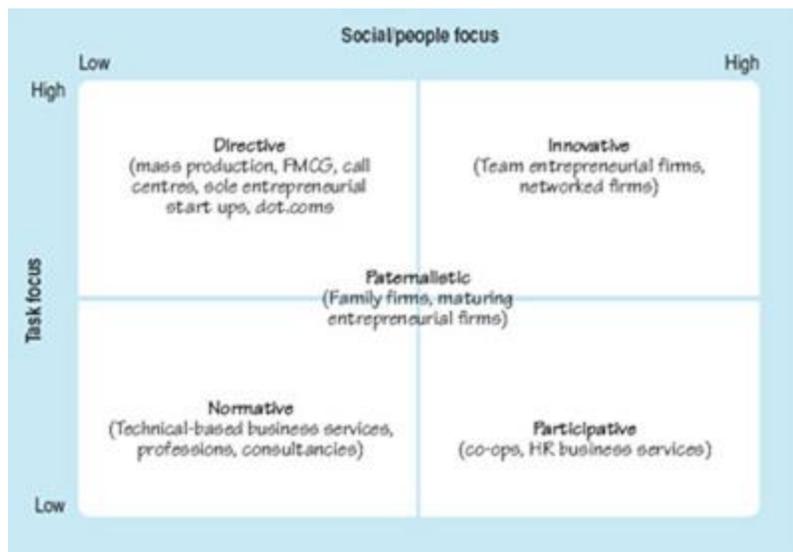
Answer

Like all tests of this kind, do not look for 100 per cent accuracy or a picture of yourself that is set in stone. They often reflect how you feel at the time you do the test. High scores on 'structured' and 'standards' would suggest that you tend to a directive management style while high scores on 'delegative', 'merit' and 'supportive' suggests a more participative management style (of the type recommended for more creative and innovative firms). However, if you have not yet had managerial experience, either in your own firm or working for someone else, it would be interesting to return to the management styles questionnaire after you have had some experience and see if your views have changed. However, there is one more point worth making. To the extent that a test like this can pick up differences in behavioral styles of management, it purports to do so across the board – junior managers, line managers, senior managers and entrepreneurial managers. It is not too difficult to see that any one or a mix of these styles could, in certain circumstances, be suitable for an entrepreneur (even having a structured approach could be essential for entrepreneurs launching a process innovation).

To get a better understanding of the sort of management style that might be the most suitable for the business that is to launch your idea, we need to go beyond different types of management and look to the role of the entrepreneur as leader. Many managers are mainly administrators or specialists in bounded areas whereas one of the

key functions of an entrepreneur is to motivate and coordinate the firm in achieving its goals. Accepting that the main management orientation of the entrepreneur must be to manage change and innovation, in some circumstances this means that the entrepreneur also has to be an extremely efficient manager of the day-to-day challenges of competition while, in other cases, administrative functions are delegated and the entrepreneur is required to be an ambassador and leader, with a longer-term perspective. Plotting against the other two management orientations task and people we can identify the five leadership styles in [Figure 5](#).

The firm that best fits the focus of this course clearly has an innovative leadership style where there is a high focus on both people and tasks. The firm is generally seen as a team and is open to collaborating and sharing with external firms or sources of capabilities. However, research conducted over the years among small firm owners suggest that most like to see themselves in command (especially very small firms with, say, less than ten employees) and having a directive style. Interestingly, growth-oriented small firms that have a history of growth, and slightly larger small firms, are much more likely to see themselves as being 'one happy family' (paternalistic style) or having a participative style. The firms that are governed by external rules and procedures, have a comparatively low people and task focus and generally have a structured management style that does not encourage innovation (though in some professions there can be a strictly limited delegation).



Figurer 5 Leadership styles

Activity 8

1. Which leadership style best reflects your own?
2. Taking your scores on Activity 7 and your own reflections into account, where would you place yourself on the leadership grid?
3. Considering the needs of the firm that will launch your entrepreneurial idea, where do you feel you should be on the grid?
4. If they are different points on the grid, what do you think needs to be done in order to move you to where you feel you should be?

In looking ahead to the launch of a successful entrepreneurial idea, we have already highlighted the importance of social process in innovation so it is important to avoid getting too fixated only on the role and capabilities of the entrepreneur. As [Figure 2](#) (Entrepreneurial decision-making) in Section 2 implies, it is the overall *capacity* of firms, real and perceived, rather than just the individual abilities of their owners, managers or employees that determine the scope of their activities. Perceptions of their own and their staff's capabilities plus their perceptions of competitors' capabilities have an important part to play in determining small firm owners' expectations of success. However, there are also likely to be cultural factors of a more general nature which influence perceptions of desired abilities, resources and skills. Entrepreneurs may well be able to identify crucial skills and tasks more accurately than other small business managers. Entrepreneurs can also be defined in terms of their ability to perceive and to respond to these changes more quickly than other business managers. With reasonable feedback, it is relatively straightforward to discuss opportunities and to identify the gaps between reality and perception. However, customer and consumer needs are often ill defined, hidden from view and difficult to quantify certainly, the perception of many lower level needs (either the needs of entrepreneurs or of customers) are even more strongly determined socially through broad cultural or more immediate occupational influences.

It seems reasonable to hold that effective business judgments reflects the correspondence of an individual's perceived capacities, opportunities and threats to their objective possibilities and the individual's ability (*competence*) to act upon that information (as in [Figure 2](#)). It is not too difficult to then interpret the list of common entrepreneurial behavioral characteristics in [Box 2](#) in terms of business competence. The successful entrepreneurial firm needs the right balance of competences in the team as a whole rather than seeking them in a single individual. Modern management theory is certainly moving in this direction and away from older hierarchical, scientific management or management-by-objectives models. In reality, your leadership and management styles will be determined by what you feel most comfortable with and what you feel is the norm in the circumstances (but remember that the people you are dealing with also have their feelings about what is a 'normal' management or communications style for the circumstances). By now we shall assume that you have worked out many of these issues to your own satisfaction but, if you need more help, the following activity on teamwork issues may help you consider them more systematically.

Activity 9

Complete the Team working ability checklist.

Consider the last time you worked with or managed a group of at least two other people (preferably but not necessarily one related to business or work).

Write a brief 1–2 line description of the group or team.

Try to answer the following questions (pausing for reflection if you need to). If the answer is 'Yes', write a brief example. If the answer is definitely 'No', write the main reason but if you are uncertain about the question or answer 'Don't know' click the question mark to read an additional explanation of what is being asked.

Interactive content appears here. Please visit the website to use it.

Answer

If you answered 'Yes' to five or more questions and were able to give clear examples it is most likely that what you had in mind was a group (and not a very cohesive one) rather than a team. If you were able to answer 'No' to five or more questions and give

good reasons or examples, you have a good understanding of what is required for a team to work effectively.

This should help you identify both your own capacity for team working as well as areas in which you need to develop or delegate. As well as identifying internal strengths, efficient entrepreneurial firms require financial, physical and technical resources which they are increasingly drawing from external sources, as and when they are needed. In many industries, employment relations are giving way to contractual relations and the main function of core staff becomes servicing customers and ensuring contract compliance. Also, industrialized societies have seen a significant growth in the number of qualifications, regulations and standards that govern commercial life and require particular skills or abilities, often in response to the pressures of global competition. Thus a valuable entrepreneurial capability is having the leadership ability to maintain focus on the ends while at the same time to have the management ability to take into account the needs of the whole firm while addressing the means.

4 Key Points

The important points this unit has covered include:

- Defining the entrepreneur in terms of economic function and role.
- Identifying the key characteristics of successful entrepreneurs and entrepreneurial firms.
- Considering the role of entrepreneurial motivation in decision making and business behavior.
- Identifying leadership and management styles appropriate to an entrepreneurial firm
- Considering the entrepreneurial team needed to support your idea.

Acknowledgements

Except for third party materials and otherwise stated (see [terms and conditions](#)), this content is made available under a [Creative Commons Attribution-Noncommercial-Share Alike 2.0 License](#)

Unit Image

Esthr: www.flickr.com/photos/edyson/274977240/

Text

'Management Self-Development', © Crown Copyright, 1981, Food, Drink and Tobacco Training Board.