

1. Introduction

1.1 INTRODUCTION

This book is about what motivates individuals to form the intention to become an entrepreneur. This is an important question, because the practice of entrepreneurship contributes to the economic and social welfare of any nation, and by extension, to global prosperity and human wellbeing. Entrepreneurs practise innovation, and innovation is the source of new profit and social opportunities. New commercial ventures introduce new technologies and provide new employment opportunities and company tax revenues, making entrepreneurship a key objective of politicians globally. Similarly, new social ventures introduce new ways to solve social problems and to relieve the suffering of the needy, complementing the work of governments to help solve the “market failure” problem (whereby profit-seeking firms will not undertake unprofitable ventures).

Accordingly, entrepreneurial behaviour can be regarded as a renewable resource that provides economic and social welfare. The supply of new entrepreneurs needs to be replenished continuously as prior entrepreneurs fail, tire, or grow complacent and conservative. Given the high failure rate of new ventures, an ongoing supply of newly minted entrepreneurs, launching new business and social ventures or taking over the reins of existing companies and social organisations, is important for the economic and social welfare of nations. If firms exiting the marketplace are not replaced by the next crop of new and repeat entrepreneurs, the consequences for economic and social wellbeing are potentially disastrous.

The formation of entrepreneurial intention (and subsequent entrepreneurial behaviour) is just as important for the managers of existing business firms and organisations as it is for individuals contemplating starting a new business or social venture. Within individual business firms, relentless product innovation is required as their previously new products are driven out of the market by newer products that render the earlier products obsolete or unprofitable to produce. For social entrepreneurship, the ongoing persistence of social and economic inequity calls for new social entrepreneurs to arise and add their energies and empathy to the solution of those wicked problems.

Moreover, the human cost of new venture failure (Shepherd, 2003; Ucsbasaran, Shepherd, Lockett, & Lyon, 2013) behoves us to better understand entrepreneurial intentions, because some significant proportion of new ventures are started without the would-be entrepreneur possessing the necessary entrepreneurial attitudes and abilities that would allow them to survive and thrive as “babes in the woods” amongst more experienced incumbents in the marketplace. If entrepreneurship educators can better enunciate and develop the attitudes and abilities that foster successful entrepreneurship, then hopefully the supply of successful entrepreneurs will be increased, or at least the failure rate of new ventures will be reduced as new ventures that are doomed to fail will not be started. Instead, intending entrepreneurs may be encouraged to wait until they are suitably equipped, with a sufficient armoury of entrepreneurial attitudes and abilities, and subsequently start new ventures with a higher probability of success.

There are many differing views of entrepreneurship, and of entrepreneurs, such that communication about that behaviour and those individuals can easily be at cross purposes unless we start by defining terms to ensure that we are all talking about the same phenomena. Accordingly, in this introductory chapter we will lay a foundation for understanding entrepreneurial attitudes, abilities, and intentions, by introducing and clarifying the meaning of important terms and concepts necessary for the discussion of this subject.

1.2 WHAT DO WE MEAN BY ENTREPRENEURSHIP?

Over 30 years ago, as research into the practice of entrepreneurship blossomed and scholars debated what is and what is not entrepreneurship, Gartner (1988) circuitously stated that “Entrepreneurship is what entrepreneurs do” to emphasise that entrepreneurship is a behaviour. It is not an attitude, and not an ability, but rather is the consequence of possessing entrepreneurial attitudes and abilities. In this book I shall adopt what I believe to be the mainstream definition of entrepreneurship, namely that it is proactive, risk-taking, innovative behaviour, intended to create new wealth, involving the introduction of new products, new processes, and/or new business models (see, e.g. Covin & Slevin, 1991; Lumpkin & Dess, 1996; Shane & Venkataraman, 2000). That definition contains several jargon words that deserve further examination.

1.2.1 Proactivity

Proactivity implies that entrepreneurs tend to act first, before others do, in the pursuit of opportunities to create new wealth. To act first, one must first perceive the opportunity. Opportunity recognition is thus a foundational element of the entrepreneurial process. Some entrepreneurial opportunities

are discovered, while others are created (Davidsson, 2015). An opportunity might be sitting there waiting to be discovered by a person who recognises two things, first, the existence of a known but unserved need (i.e. market demand), and second, the existence of a way (i.e. the technology) to serve that need. Alternatively, the need may be unknown at first, but an entrepreneur might create the opportunity by developing a new product or service (such as WiFi) that serves a useful purpose that, once revealed to potential customers, is demanded by them because it saves them time, money, or pain, or because it brings them pleasure, health, or other personal benefits. This “demand–technology nexus” lies at the heart of the entrepreneurial opportunity.

The capability to recognise an opportunity is known as “entrepreneurial alertness” (Kirzner, 1999). This alertness can be understood as knowledge and creativity on both sides of the demand–technology nexus. Knowing and understanding what potential customers need (or might want) allows the individual to begin searching for a solution for that need or want. On the other side of this nexus, knowing the possibilities and capabilities of various technologies allows the entrepreneur to envision the technological solution that will solve a customer’s problem. Thus, entrepreneurial alertness underlies opportunity recognition, which in turn underlies proactive entrepreneurial behaviour.

1.2.2 Risk taking

A risk is the possibility that an event could happen which would have adverse consequences for the individual (or other entity). The offending event for the entrepreneur might include a lack of demand for the new product; the failure of the technology to solve the customer’s problem; the advent of rival producers who vigorously contest the marketplace; and regulations and legal restrictions imposed by governments. The adverse consequence might involve monetary losses and/or psychic costs including stress, upset, and the loss of physical and/or mental health. In the proactive pursuit of entrepreneurial opportunities the entrepreneur must necessarily bear the risks of such events, because these events cannot be perfectly predicted nor completely mitigated or insured against.

Entrepreneurship takes place in an environment of risk and uncertainty. Strictly, risk implies a known probability of the adverse event and known consequences of the adverse event. So if you and I agree to flip a coin to decide who pays for our \$40 lunch, the probability of the adverse event (i.e. not having a free lunch) is 50 per cent and the expected value of the event is a loss of $\$40 \times 50\% = \20 . But most entrepreneurship does not involve known probabilities and known losses. Instead, entrepreneurship is mostly concerned with “uncertainty” (Knight, 1921) where the adverse events include both predicted and unpredicted events, and neither the probabilities of these events occurring,

nor the magnitudes of the consequences, can be reliably estimated. Estimating the probabilities and magnitudes of adverse events requires a history of similar “trials” in which these events either did or did not happen, but since entrepreneurship involves proactive pursuit of innovative new products there is often no relevant prior experience from which to draw reliable estimates of probabilities or magnitudes of the adverse outcomes. The more radical the innovation, the less relevant prior information exists about its costs and demand situations. As a result, entrepreneurs necessarily face both risk and uncertainty when seeking to create new wealth. For convenience of exposition we tend to use “risk” to include both risk and uncertainty, but keeping the distinction in mind is important for clarity in many discussions.

Being exposed to risk (and uncertainty) is unpleasant for most people, meaning that they incur psychic disutility (or dissatisfaction) over the prospect of monetary and/or psychic loss. The prospect of these losses tends to cause people to avoid exposure to risk, to a greater or lesser extent according to their “risk tolerance” (Busenitz & Barney, 1997; Forlani & Mullins, 2000). Risk tolerance means one might choose to tolerate risk if that risk is necessary to achieve a reward that would be large enough (in terms of the psychic utility it generates) to more than compensate for the psychic disutility of the risk exposure. The flip side of risk tolerance is risk aversion – that is, a low degree of risk tolerance implies a high degree of risk aversion. We expect most entrepreneurs to be risk averse but risk tolerant (to a degree), but it is an oversimplification to assume that all entrepreneurs exhibit low risk aversion (Palich & Bagby, 1995; Simon, Houghton, & Aquino, 2000). Exposure to risk is just one of the issues underlying the formation of entrepreneurial intentions, such that even a highly risk-averse individual may want to become an entrepreneur if the monetary and psychic rewards of entrepreneurship are sufficiently high (Douglas, 2013).

1.2.3 Innovation

The proactive, risk-taking, innovative behaviour that entrepreneurs “do” culminates in new products, new processes, and/or new business models. First, let us note that innovation differs in concept from *invention*. Invention is the creation or ideation of a new technology (e.g. Bluetooth near-field communication) whereas innovation is the embodiment of that technology in a new product, process, or business model (e.g. cashless payment using your smartphone). Inventors may become entrepreneurs of course, and subsequently innovate in that capacity, but more often entrepreneurs create innovative new business (or social) venture opportunities using the technologies invented by others.

New products

New products mean innovative new goods or services that are produced by individuals or firms. They are the end result of a production process, and for simplicity of communication we shall henceforth use the term “new products” to mean whatever new goods and services the firm produces. It may mean a new physical good, or a new intangible service, or a new combination of both goods and services supplied as a package. The question immediately arises “how new (i.e. how different) must a new product be, to be called a new product?”

A new product could be entirely different from anything that went before it, like the Segway personal transporter was back in 2001.¹ Such “radical” or “really new” products (Song & Montoya-Weiss, 1998) create a new product category in which the pioneer firm has an initial monopoly position until rivals arise to compete with imitative products in the new product category. These imitative products might be identical if the rivals can access all the necessary resources² to perfectly imitate the pioneer’s product, but more likely will be unable to copy the pioneer’s patented technology, registered trademarks, designs, and/or copyrighted materials, and will consequently be differentiated relative to the pioneer’s product.

This raises the question whether the entry of a differentiated product into an existing product category constitutes a “new product” if it is essentially similar to other products in the product category (e.g. tennis racquets) except for relatively minor differences. The answer is in the affirmative if these differences incorporate at least one innovation. Even a copycat product, similar in all technical aspects, can be regarded as a new product if it is differentiated by its brand (e.g. a new brand of milk introduced to food markets). So, new products include a new version of an existing product, or a new brand entering an existing product category, if that product incorporates innovations. Drucker (2014) called these “creative imitations” which are consistent with the general description of the product category but contain innovations that allow the product to be differentiated in the marketplace. Thus, new products include a new entry to an existing product category with a differentiated and innovative version of the generic product already sold in that market by existing firms. Such new products typically embody product or process innovations that are new to the market.

There is a substantial literature on the “innovativeness” of new products, with ongoing attempts to measure the degree of innovativeness of new

¹ See www.economist.com/science-and-technology/2001/12/06/is-that-it.

² For the “resource-based view” of competitive advantage, see Barney (1991, 2001).

products, since it is widely expected that innovation drives firm profitability and that more innovative products should mean more profitable outcomes (Ganbaatar & Douglas, 2018). The literature distinguishes between the “technical novelty” and the “market novelty” of new products. Technical novelty involves a difference in the style, the performance of, and/or the needs served by the new product. *Style differences* (such as new colours, shapes, and/or textures of a physical product, or new ways to present a given service, e.g. more flamboyant hairdressers) are purely cosmetic in nature, simply changing the appearance of the product or service, and not changing the performance or functionality of the product (e.g. a new container for milk, or a new process for the same haircut). Greater technical novelty (and hence innovativeness) is evident in innovations that provide *improved capability* for the product in particular product functions (such as more pixels in a smartphone screen allowing greater clarity, or greater battery capacity for electric cars allowing longer trips). Still greater technical novelty (and innovativeness) is exhibited by the addition of *new functions* embodied in the product (such as when a camera was first incorporated into the smartphone, or when automated parallel parking was incorporated into cars).

Market novelty is concerned with the newness of the above technical novelties to the customer. The least degree of market newness (and innovativeness) is when a technical change embodied in the focal firm’s product is only new to that firm, because one or more other firms have previously introduced that innovation to customers in the firm’s marketplace. Such “new to the firm” innovation is indicative of catch-up, or copycat, behaviour by the firm involved. A greater degree of market newness (and innovativeness) occurs when a technical novelty is “new to the market” – that is, when the focal firm pioneers the introduction of the technical novelty to customers in a particular geographic market. The first-mover advantages associated with this greater degree of innovativeness should be expected to garner greater profits from that market, at least initially (Lieberman & Montgomery, 1988; Suarez & Lanzolla, 2007). An even greater degree of market novelty (and innovativeness) occurs when the technical novelty is “new to the world” – meaning it has not been introduced to any market (globally) previous to that point in time.

Note that any new product might have technical novelties of all three types (style, functional improvements, and new functions), each of which might be either new to the firm, new to the market, or new to the world, such that a combined measure of a new product’s innovativeness requires a complex calculation (see Ganbaatar & Douglas, 2018). The greatest degree of product innovativeness is exhibited by a “really new” product (Song & Montoya-Weiss, 1998) which effectively creates a new product category because it comprises a majority of technical novelties that are new to the world

and is thus quite unlike any pre-existing product (e.g. the Segway personal transporter; Facebook; YouTube, and other examples).

A new product might also be a “disruptive” product, in the sense that it has severe negative impacts on firms in another industry, potentially putting some or all of these disrupted firms out of business. For example, the printing industry, bricks-and-mortar travel agents, video-rental stores, and recorded-music stores have been disrupted by new products on the back of the IT revolution. But note that a radical new product might not be disruptive, while a creative imitation might actually be disruptive, in their respective markets. The Segway personal transporter was a radical new product but did not have a significant disruptive impact on any particular market category, since its sales grew relatively slowly initially (Day, 2007) and its impact was spread over a broad range of other people-moving markets, including bicycles, motorcycles, automobiles, taxis, buses, and walking shoes. On the other hand, a creative imitation product employing an innovative new technology might achieve a similar result for the customer at a substantially lower cost, or a consistently higher quality at a similar price, and thus disrupt the demand for other suppliers in the same market using older less-efficient technologies, as customers shift their purchases to the innovative new product. An example of a disruptive creative imitation is Uber, who used an innovative business model (and ordinary cars and drivers) to disrupt the taxi industry. A disruptive radical product is one that creates a new product category that attracts demand away from an existing product category, such that the latter product category withers and dies as customers transfer their allegiance to the new product category – perhaps an example of this will be delivery of goods by drones (quadcopters) that may disrupt the parcel delivery industry.

These are innovative new ways of production, marketing, and distribution of the firms’ products. These new technologies add value to either or both the producer and the consumer. IKEA disrupted the traditional furniture industry by mass producing items that are sold “fully knocked down” and enlisting the customer’s support for both the delivery and assembly of the items. Automated new processes allow IKEA to save production and shipping costs, and/or to produce a higher-quality product, and provide the consumer with a better-value proposition as the result of a higher-quality product and/or a lower price to purchase the product.

These are innovative new ways of organising and managing the business firm, such that the firm reduces its costs and thereby increases its profit, and/or allows the customers to gain greater value in terms of increased product quality, faster delivery, better service, and so on. Historic examples of new business models that deliver value to both producers and consumers include department stores disrupting independent butchers, bakers, and candlestick

makers; Uber people moving; Airbnb accommodation; Expedia travel services; and many others.

1.2.4 New wealth

The “new wealth” that entrepreneurs intend to create (but they may fail) can include personal monetary and non-monetary rewards for stakeholders of the firm, and/or societal benefits for others external to the firm. This dichotomy of new wealth gives rise to two main types of entrepreneurial behaviour observed, namely “commercial” entrepreneurship and “social” entrepreneurship.

1.3 COMMERCIAL VERSUS SOCIAL ENTREPRENEURSHIP

It has become conventional to dichotomise entrepreneurs as either commercial or social entrepreneurs, on the basis of whether their primary purpose is to make money or to create social impact. This recognises that an entrepreneur may have both commercial and social motivations, notwithstanding that some treatises portray the commercial entrepreneur as totally committed to profit making, while others portray social entrepreneurs as totally selfless individuals who eschew profit making in favour of maximising the social impact of their ventures. This derives from the classical (economic) theory of entrepreneurship that assumed a profit-seeking individual with little or no pro-social attitude, while early research on social entrepreneurship assumed only pro-social attitude (with little or no preference for profit). Hybrid models of entrepreneurship now recognise that both of these attitudes are likely to precede the intention to become either a commercial or a social entrepreneur.

1.3.1 Commercial entrepreneurship

Commercial entrepreneurship is self-oriented, where individuals undertake entrepreneurship primarily for their personal gratification, which is received from both monetary and non-monetary rewards, the latter also being known as “psychic income” (Gimeno, Folta, Cooper, & Woo, 1997). Psychic income in this context refers to personal satisfaction derived from the practice of entrepreneurship, from sources such as decision-making autonomy (being one’s own boss); flexibility of when to work, where to work, and what products to produce; and work enjoyment derived from achievements gained and working with a hand-picked team of partners and employees. Monetary income (from salary and profit) also generates psychic satisfaction when spent on goods and services or saved for future spending.

There may also be negative psychic income (i.e. psychic costs) associated with the entrepreneurial process, such as risk taking and hard work, and these will detract from the overall psychic satisfaction derived. When the psychic income expected from both the monetary and (net) non-monetary sources are added together, this is either sufficient to cause the individual to decide to become an entrepreneur (i.e. to form entrepreneurial intention), or conversely is not expected to be as rewarding as being an employee within another firm or organisation (Douglas & Shepherd, 2000), such that entrepreneurial intention is not formed in the latter case.

1.3.2 Social entrepreneurship

Social entrepreneurship is undertaken primarily for “other-oriented” reasons, to provide benefits to others who are not involved in the ownership of the firm or organisation, and who may be economically and socially disadvantaged. This “pro-social” motivation of social entrepreneurs is driven by feelings of altruism, empathy, compassion, and guilt (see, e.g. Austin, Stevenson, & Wei-Skillern, 2006; Grant & Berry, 2011; Mair & Marti, 2006; Miller, Grimes, McMullen, & Vogus, 2012; Zahra, Newey, & Li, 2014). Observing the economic or social disadvantages faced by less fortunate people, social entrepreneurs are motivated to act to relieve the hardship and suffering of those people. That is, they are motivated to use innovative methods to produce goods and services needed by disadvantaged persons, and may or may not seek to make personal profit from that endeavour. Social entrepreneurs derive personal satisfaction from helping others in need (Bacq & Alt, 2018; Mair & Marti, 2006), and like commercial entrepreneurs may also be expected to gain at least some psychic satisfaction from the entrepreneurial process and from any profits and non-monetary income earned. Individuals form the intention to become a social entrepreneur if the sum of those satisfactions is expected to exceed the satisfaction to be gained by any other use of their time and energy (Douglas & Shepherd, 2000).

Hybrid social entrepreneurs (Battilana & Lee, 2014) seek to earn profits as a secondary purpose, subjugated to their primary purpose of providing social benefits. Similarly, commercial entrepreneurs, whose primary purpose is to make personal monetary and psychic income, may also seek (as a secondary purpose) to provide social benefits (from which good deeds they will derive additional psychic income). This secondary purpose may be driven by “corporate social responsibility” which in turn may reflect the innate preference of the entrepreneur and/or result from external pressure to provide social as well as private benefits, placed on the firm by investors, customers, and potentially other stakeholders.

1.4 THE ENTREPRENEURIAL MINDSET

A mindset is a way of thinking – it describes the way a person views and interprets the world around them, which in turn influences the decisions they make. Thus a mindset underlies the individual's behaviour, essentially motivating particular actions that appear to be “the best thing to do” after consideration of the things that matter most to that individual. The entrepreneurial mindset describes how entrepreneurs think, including what issues underlie their formation of entrepreneurial intentions and their decision to become an entrepreneur. Fundamental to the entrepreneurial mindset are the attitudes that the individual holds towards the outcomes of entrepreneurship and their perception of their ability to cope with and succeed at the tasks involved in the entrepreneurial process.

1.4.1 Entrepreneurial attitudes

Simply, entrepreneurial attitudes are the attitudes one has toward being an entrepreneur, or at a higher level of analysis, they are the attitudes toward the outcomes that are associated with being an entrepreneur. These outcomes may be categorised as monetary income (salaries and profit), decision-making autonomy, other non-monetary benefits, non-monetary costs (Douglas & Shepherd, 2000), and pro-social outcomes.

An individual's attitude to monetary income may vary from negative (e.g. for a recluse who wants to subsist in the wilderness without recourse to the monetary economy) to strongly positive (e.g. for a person who is highly acquisitive of goods and services). Confining our purview to entrepreneurs, attitudes to income may be relatively low or slightly negative for some social entrepreneurs who provide unpaid (volunteer) services and eschew profit making because that would reduce the social benefits that can be provided. Other social entrepreneurs, operating hybrid social ventures, exhibit a positive attitude to monetary income, but restrict their profit making to being the secondary objective of the firm, again because greater profits would come at the expense of reduced social benefits.

The attitudes of commercial entrepreneurs to monetary income can be expected to range from very strong for the classical profit-maximising entrepreneur (Davidsson, Steffens, & Fitzsimmons, 2009) to less strong for those motivated to earn a lesser but satisfactory level of profit supplemented by psychic income derived from non-monetary rewards – such profit-satisficing individuals (Simon, 1972) have been called “independence-oriented” (Douglas, 2013), and “salary-substitute” and “lifestyle” entrepreneurs (Barringer & Ireland, 2006: 45). In Douglas (2013) I found that attitude to income was

positively related to entrepreneurial intention for profit and growth-oriented intending entrepreneurs, but insignificantly related to independence-oriented intentions, indicating that some independence-oriented individuals did want to make profit while others did not, such that no clear picture emerged, on average sample-wide.

Attitudes to autonomy are expected to be positive for entrepreneurs because autonomy is an innate human need, according to the theory of self-determination, which argues that individuals will strive to fulfil their innate (and situational) needs (Deci & Ryan, 1985; Gagné & Deci, 2005; Ryan & Deci, 2000). The heterogeneity of entrepreneurs (Gartner, 1988; Shane & Venkataraman, 2000) ensures that some will have more strongly positive attitudes to autonomy than will others. Some people want to be in charge, whereas others are happy to be part of a team and make decisions collaboratively. Some do not enjoy the responsibility and/or stress that goes with decision-making authority, and may seek a less innovative kind of entrepreneurial new venture involving fewer unknowns and therefore requiring fewer decisions where the knowledge and guidance of others would be needed. Decision-making autonomy is a non-monetary benefit to the entrepreneur, assuming such autonomy is viewed positively, that is, as net-utility providing. It seems unlikely that an individual with a negative attitude to decision-making autonomy would willingly choose to be a solo entrepreneur, given that entrepreneurial behaviour requires a substantial amount of decision-making independence, but that person may wish to start an entrepreneurial new venture within a top management team, where other members of the team take greater responsibility for decision making.

Attitudes to other non-monetary benefits provided by the entrepreneurial process are expected to be (net) positive for most intending entrepreneurs, since surely most would enjoy the status of being a self-employed entrepreneur: the flexibility of choosing the place and working hours for their venture and the interpersonal relationships they can enjoy with “fellow travellers” on their entrepreneurial journey, be they customers, employees, suppliers, or fellow management team members. As mentioned earlier there will be non-monetary (psychic) costs associated with entrepreneurship, and these derive from exposure to risk, exposure to hard physical work, and exposure to mental stress. Intending entrepreneurs will most likely have negative attitudes toward these outcomes of entrepreneurial behaviour, unless they enjoy pain and punishment.

Earlier we spoke of risk tolerance, which is the willingness to bear risk if it seems worthwhile in terms of the total monetary and non-monetary rewards envisioned. Given that risk and monetary returns are generally expected to be positively related, profit-seeking entrepreneurs might be expected to have relatively low risk aversion, seeing higher risk as a necessary correlate of higher profit possibilities. On the contrary, profit-satisficing entrepreneurs may be

satisfied with less than maximal profits, because pursuit of those would expose the individual to intolerable levels of risk. But, as I argued in Douglas (2013), attitude to risk is but one of the factors underlying the formation of entrepreneurial intentions, and that decision rests on the overall total of the utility part-worths of the several outcomes (i.e. profit, psychic income, and psychic costs) anticipated for the contemplated entrepreneurial opportunity. Thus the apparently paradoxical situation of a highly risk-averse individual pursuing a high-risk opportunity is nonetheless possible, and equally a person with very low risk aversion might choose an opportunity with very low risk. This will be addressed further in later chapters.

A second main non-monetary (psychic) cost of entrepreneurship relates to the fact that entrepreneurs are humans, with limited physical and mental stamina. Entrepreneurship generally requires long and hard hours of work, far exceeding the 40-hour working week of employees (Bird & Jellinek, 1988; Douglas & Shepherd, 2000). Frequently, cash-strapped entrepreneurs cannot afford to pay additional workers to share the workload, and as a consequence need to work evenings and weekends in addition to the standard working week. While physical and mental activity is healthy and desirable up to a point, it is likely that many entrepreneurs go beyond that point and experience psychic disutility from the harder work and the emotional stress required of them in operating a new business or social venture.

These net results of the non-monetary psychic benefits and costs that accrue to the individual in the practice of entrepreneurship can be referred to as “job satisfaction” (Lee, Wong, Foo, & Leung, 2011; Locke & Latham, 1990), which is one of the specified four goals of the integrated model of entrepreneurial intention to be developed in Chapter 8. It is expected that intending entrepreneurs would derive utility from job satisfaction associated with participation in the entrepreneurial process. Note that in addition to the above sources of psychic income and costs (job satisfaction), we are also recognising that intending entrepreneurs will have an attitude toward the provision of social benefits to others, and as a result expect to gain psychic incomes and incur psychic costs, and thus net utility, from the social impact of their new venture. For expositional clarity of the four-goals integrated model of entrepreneurial intention we shall keep separate the utility deriving from the “other-oriented” (pro-social) behaviour and the utility derived from the “self-oriented” (commercial) behaviour.

1.4.2 Entrepreneurial abilities

Wanting to be an entrepreneur is one thing, and being a successful entrepreneur is another. Self-determination theory (Deci & Ryan, 1985) argues that humans have an innate need for competence, and thus tend to pursue activities they

think they will be “good at” while avoiding activities where they do not expect to exhibit competence. This need for competence is underpinned by one’s need for achievement (McClelland, 1961) and, on the flipside, a preference to not expose oneself as incompetent and thereby suffer embarrassment and “loss of face”. Thus the intending entrepreneur is likely to assess whether or not he/she possesses the necessary abilities to succeed as an entrepreneur. These abilities derive from the individual’s accumulated knowledge, prior education, and related experiences. This introspective assessment of one’s capabilities is known as “self-efficacy” (Bandura, 1982), and is task-specific. For example, a person may think they are quite efficacious as a teacher, but not as a singer or golfer – these activities require different sets of abilities to attain success.

Entrepreneurial self-efficacy (ESE) therefore relates to the expectation that one can successfully complete the tasks associated with entrepreneurship (Boyd & Vozikis, 1994; Wilson, Kickul, & Marlino, 2007; Zhao, Seibert, & Hills, 2005). Several scholars have proposed specific tasks which are salient for entrepreneurship, and have tested ESE scales (e.g. Chen, Greene, & Crick, 1998; De Noble, Jung, & Ehrlich, 1999; Liñán & Chen, 2009; McGee, Peterson, Mueller, & Sequiera, 2009; Thompson, 2009). McGee, et al., (2009) follow the four main stages of the entrepreneurial process suggested by Stevenson, Roberts, and Grousbeck (1985), these being the searching, planning, marshalling, and implementation stages. The *searching* stage includes opportunity recognition, viability screening, and business model validation tasks (Blank & Dorf, 2012). The *planning* stage involves the development of the strategic plan for the new venture, including its marketing, production and operations, human resource, and financial plans. The *marshalling* stage involves the gathering of the necessary resources for the execution of the business plan, particularly the new venture’s funding sources and its “strategic resources” which are expected to be, or to become, valuable, rare, hard to copy, and non-substitutable (Barney, 1991). The *implementation* stage involves launching the new business venture and the management tasks to ensure that the firm survives and prospers. In their study McGee et al. (2009) found empirically that the self-efficacy for the implementation stage separated into two discrete factors, representing people-management skills and financial-management skills.

As we shall discuss further in Chapter 3, ESE acts as a “reality check” on the individual’s decision to form entrepreneurial intentions. If they are not confident that they can successfully handle the tasks involved in the specific entrepreneurial new venture under consideration, they are not likely to form intention to pursue that entrepreneurial opportunity. Instead they might investigate other self-employment opportunities that better suit their skill set, or alternatively seek to build their skill set (and ESE) through formal education or a period of employment in another firm. In these cases the individual’s

realisation that they do not have the necessary competences may result in the postponement, rather than the abandonment, of entrepreneurship as a career alternative. Alternatively they may seek to partner with one or more partners to form a top management team that collectively possesses the needed abilities and skills.

1.5 ENTREPRENEURSHIP AS A PLANNED BEHAVIOUR

Although entrepreneurship may seem in some cases to be an impetuous or impulsive reaction to a recognised entrepreneurial opportunity, in general it is a planned behaviour (Ajzen, 1985, 1991, 2002; Ajzen & Fishbein, 1970). It is a reasoned action (Fishbein & Ajzen, 2011) that is preceded by the formation of the intention to act, which in turn is preceded by the attitudes to the act. We have outlined above that in the case of entrepreneurship the “attitude toward the act” can be disaggregated to include the attitudes toward the expected outcomes of the act, namely the individual’s attitudes toward profits, decision-making autonomy, work enjoyment, risk, hard work, and the provision of social benefits. These attitudes tend to be dispositional, residing in the mindset of individuals, essentially awaiting the recognition of a desirable entrepreneurial opportunity to trigger the formation of entrepreneurial intention for that particular opportunity.³

Entrepreneurship takes place at the nexus of the individual and the opportunity (Shane & Venkataraman, 2000; Venkataraman, 1997). By this we mean that the characteristics of the individual (their attitudes and abilities) and the characteristics of the opportunity (the expected profit, autonomy, work enjoyment, risk, hard work, and social benefits) intertwine to drive the individual’s decision to form (or to not form) entrepreneurial intention for that particular opportunity (Douglas, 2013). We all recognise entrepreneurial opportunities that we think someone else ought to undertake, which McMullen and Shepherd (2006) called “third-person” opportunities. They argued that individuals form entrepreneurial intention only for a “first-person” opportunity, where the person recognises an opportunity that best suits their own attitudes and abilities.

The theory of planned behaviour argues that formation of the intention to undertake an act is driven by the perceived desirability of the act, the perceived

³ In the four-goals model the outcomes of entrepreneurial behaviour will be restated as profit, social impact, innovation, and job satisfaction, where the latter goal encompasses all the non-monetary sources of psychic income or costs (except social impact), these including decision-making autonomy, risk exposure, work effort, and work enjoyment that have been enumerated previously (Douglas, 2013).

feasibility of the act, and by the approval or disapproval of referent others, generalised as social norms (Ajzen, 1991; Shapero & Sokol, 1982). In the context of entrepreneurship, Krueger (1993); Krueger and Brazeal (1994); and Krueger, Reilly, and Carsrud (2000) reconciled Shapero and Sokol's theory of the "entrepreneurial event" with Ajzen's theory of reasoned action, and effectively reduced the drivers of entrepreneurial intention to the perceived desirability and the perceived feasibility of entrepreneurship. Social norms as a separate driver of intentions has often not found empirical support (e.g. Carey, Flanagan, & Palmer, 2010; Li, 2007; Wu & Wu, 2008), and in any case can be parsimoniously incorporated into the perceived desirability construct, since congruence/incongruence with social norms operates to provide psychic utility/disutility for those seeking social approval. Similarly, for those desirous of upsetting the status quo, as entrepreneurs often are, the incongruence of the proposed new venture with social norms might make the opportunity more desirable to them.

1.5.1 The perceived desirability of entrepreneurship

The perceived desirability of the focal entrepreneurial opportunity depends on the (net) psychic utility expected from the perceived outcomes of that entrepreneurial opportunity. These outcomes are both monetary (i.e. profit) and non-monetary (i.e. job satisfaction and social impact), with innovation to be added as a desirable goal in Chapter 7. Using expectancy-valence theory (Vroom, 1964), we can theoretically evaluate the perceived desirability of any particular outcome as the product of its expectancy and its valence. The expectancy of an outcome is the individual's expected value of the outcome (measured on an appropriate scale or index), and the valence of the outcome is the importance to the individual of that outcome, which is well captured by their attitude to that outcome. The arithmetic product of the expectancy and the valence provides a measure of the "utility part-worth" of each expected outcome, such that the total worth of the opportunity to the individual is the sum of the utility part-worths of the expected outcomes of that opportunity (see Douglas, 2013; Hair, Black, Babin, Anderson, & Tatham, 2010: 268; Steel & König, 2006).

It is fraught to discern personal attitudes by direct questioning of an individual, due to social-desirability bias likely distorting their responses to questions which they might regard as personal issues (such as attitude to profits and to providing social benefit). Fortunately, the use of a conjoint experiment can largely avoid such bias in determining personal attitudes to entrepreneurial phenomena (Hair et al., 2010; Shepherd & Zacharakis, 1999). A conjoint experiment asks respondents to rate on a Likert (e.g. 1–5) scale an opportunity scenario that is composed of a combination of the outcomes (with

each outcome set as either “high” or “low”), repeating this for different possible outcome combinations, and effectively calculates the utility part-worth for each outcome according to the changes in the scenario rating when one outcome is switched from (e.g.) high to low, with all else equal. Conjoint analysis has been utilised in various studies of entrepreneurial attitudes and intentions subsequently (see, e.g. Douglas, 2013; Douglas & Shepherd, 2000; Fitzsimmons & Douglas, 2011; Monsen, Patzelt, & Saxton, 2010).

1.5.2 The perceived feasibility of entrepreneurial behaviour

The perceived feasibility of entrepreneurial behaviour results from an individual’s introspective evaluation of their self-confidence that they can successfully complete the specific tasks involved in entrepreneurship. It can be parsimoniously measured by ESE which can be gleaned from individuals using multi-item scales in questionnaire surveys (see, e.g. Chen et al., 1998; Zhao et al., 2005). A systematic survey of research on ESE can be found in Newman, Obschonka, Schwartz, Cohen, and Nielsen (2019). Since entrepreneurial tasks can be divided into different task areas (e.g. opportunity recognition, human resource management, financial management) and different stages of the entrepreneurial process (McGee et al., 2009), it seems appropriate to seek the individual’s self-assessment in each of these separate task areas, to allow identification of any task areas where the individual lacks confidence (in their competence), such that they might seek to repair that perceived incompetence or to find one or more partners who are stronger in those deficit areas.

1.6 SUMMARY

In this introductory chapter we have laid a foundation for understanding entrepreneurial intention by introducing and clarifying the meaning of important terms and concepts necessary for the discussion of this subject. Entrepreneurship was defined as a behaviour (undertaken by individuals or firms) that can be described in terms of three main vectors, namely proactivity, risk taking, and innovation. Innovation is exhibited by new products (goods and services), new business processes, and/or new business models. The goal of entrepreneurship is to create new wealth, which may accrue totally to stakeholders of the firm (self-oriented or commercial entrepreneurship), or to others external to the firm (social entrepreneurship), or to both (hybrid entrepreneurship). This new wealth may be (net) monetary or non-monetary benefits, which can be aggregated into the common denominator of psychic utility that is derived by individuals from both monetary and non-monetary income.

A little reflection will reveal that the other two dimensions of entrepreneurship, namely proactivity and risk taking, are interdependently intertwined with

innovation. The word innovation derives from the Latin “*innovo*” meaning introducing something new, and one must be proactive to be first to achieve newness, otherwise the new product, process, or business model would not be innovative (if someone else had already introduced that change). And because the innovation is new, it is necessarily relatively risky, with little or no prior experience to rely on for guidance or information from others that would reduce the uncertainty faced by the innovating entrepreneur or firm.

The intention to undertake entrepreneurship is a personal decision formed by individuals after consideration of the perceived desirability and the perceived feasibility of a particular entrepreneurial opportunity. The opportunity is characterised by personal entrepreneurial alertness of a demand–technology nexus – that is, the knowledge that demand exists for a particular new product, process, or business model, and that a technology exists or can be invented that will allow delivery of the new product, process, or business model to those demanding it.