

ENTREPRENEURIAL POTENTIAL: AN EXPLORATORY STUDY OF BUSINESS STUDENTS IN THE U.S. AND GERMANY

Gerhard Raab, University of Applied Sciences, Ludwigshafen

Yvonne Stedham, University of Nevada, Reno

Michael Neuner, University of Applied Sciences, Ludwigshafen

ABSTRACT

Developed economies, including Germany and the U.S., have experienced a decrease in entrepreneurial activity. Capitalism depends on continuous innovation and entrepreneurship. Business schools provide education that equips students with the necessary technical knowledge to found and run businesses. Women represent between thirty-five and fifty percent of business students in western industrialized countries and have in the recent past increasingly participated in entrepreneurial activity.

The literature on entrepreneurs has identified psychological attributes that are related to entrepreneurial potential. This study investigates the presence of such psychological attributes in business students in the U.S. and Germany and explores whether country- and gender-based differences in such attributes exist. Specifically, the presence of achievement motivation, internal locus of control, risk-taking propensity, problem solving, the ability to assert oneself, tolerance of ambiguity, empathy, emotional stability, team ability and customer orientation is explored. Additional factors related to an interest in entrepreneurial activity such as “bequested entrepreneurship” (parents have been owners of a business) were included. Data were collected in Germany and the United States from 262 German and 203 American business administration students.

The findings demonstrate that the development of some of these characteristics for respondents in Germany was significantly lower than that for American respondents. The findings will be discussed in the context of structural and cultural factors in Germany and the United States. Theoretical and practical implications of this research will be addressed.

INTRODUCTION

According to the Schumpeterian view, the essence of capitalism is the process of “creative destruction” – the perpetual cycle of destroying the old and less efficient product or service and replacing it with new, more efficient ones (Schumpeter, 1934). Accordingly, Schumpeter sees the entrepreneur as an innovator who disrupts the economic equilibrium and thus initiates economic development. The entrepreneur is the “creative destructor” who initiates and implements changes that are necessary for economic advancement and success.

Analysts have noted that many industrialized countries seem to be losing momentum in their economic development. Specifically, this appears to be true for Western European countries and the U.S. Politicians and mass media suggest that insufficient entrepreneurial activity is one of the major factors responsible for the negative development and stress the need for innovative entrepreneurship (Wärneryd, 1988).

Nearly all supporters of the capitalistic system would argue that the encouragement of successful innovation and entrepreneurship is beneficial to society (Hull, Bosley, & Udell, 1980). In his earlier

work, Schumpeter (1934) described innovation and entrepreneurship as the driving force of economic growth in a capitalistic society. Innovative entrepreneurship is considered a catalyst for transforming and improving the economy (Sexton & Bowman, 1985); it is the engine of growth and prosperity. (Sternberg, Otten, & Tamásy, 2000). Countries' future success and competitiveness in a global market depends on the countries' ability to be innovative and on the dynamics of entrepreneurial thinking and acting.

Early research on factors that may enhance entrepreneurship focused on economic and legal conditions. More recently, psychological characteristics have been recognized as being of great importance in understanding and fostering entrepreneurship and assessing entrepreneurial potential.

In the recent past, participation of women in entrepreneurial activity in industrialized countries has consistently increased. Suggested reasons for this development range from the need to balance family and work responsibilities to circumventing the "glass ceiling" that exists in corporations (McKay, 2001). The effect of this development is of great importance to economic development. For instance, Buttner and Moore (1997) report that in the U.S. in the mid '90s women-owned businesses employed about 28 million people, one-third more workers than the *Fortune 500* companies.

This study focuses on business students in the U.S. and Germany, two leading economies. Through their education, business students acquire the technical tools for founding and running a business and have been and will be a primary source for entrepreneurial activity. This study explores the extent to which business students in the U.S. and Germany possess entrepreneurial attributes and entrepreneurial potential. Entrepreneurial potential is the extent to which an individual possesses the characteristics that are associated with successful entrepreneurs. In addition, the study investigates whether the presence of these attributes differs between male and female business students.

Although exploratory in nature, this study's contribution is unique for several reasons. First, most of the studies on entrepreneurial attributes have been carried out on individuals who are already entrepreneurs whereas this study focuses on business students and entrepreneurial potential. Secondly, very few studies have taken a cross-cultural approach. Third, although some research on gender differences in entrepreneurial attributes does exist, the results are inconclusive and primarily based on samples from the U.S. (Brändstatter, 1997; Mukhtar, 1998). Fourth, the results may show how cultural differences are reflected in entrepreneurial characteristics. Finally, this study integrates the German and American literature on this topic.

BACKGROUND

Entrepreneurial Attributes

Searching for a common denominator among definitions for "entrepreneur," a considerable number of entrepreneurial definitions seem to be coalescing around three dimensions: innovation, proactive behavior, and risk taking (e.g., Covin & Slevin, 1989). Hence, for the purpose of this study, we define entrepreneurs as people who can manage the innovation transfer process from idea to market.

The founding of enterprises proceeds in keeping with the interaction of various determining factors (Müller, 1999). In addition to political, economic and social conditions, i.e. the tax loopholes, opportunities of advancement, financing opportunities, market structure, and fundamental societal structure, psychological factors are consistently emphasized. Research on entrepreneurship has historically been centered on the individual. This continues to be the case even with a recent shift of focus towards the entrepreneurial process (Hansemark, 2003).

With the inherent focus on the entrepreneur as a person, questions related to the inner nature of entrepreneurship have been of great interest for entrepreneurship research. Opinions vary as to whether entrepreneurs are born or developed (Bonnet & Furnham, 1991). The “attribute approach” with its focus on personal characteristics has dominated attempts to determine why some individuals become entrepreneurs and others do not and whether the strengths of individuals’ characteristics could predict entrepreneurial behavior (e.g., Brockhaus, 1975; Hornaday & Aboud, 1971; Low & MacMillan, 1988; McClelland, 1961, 1987; Shaver & Scott, 1991; Singh, 1989; c.f. also Gartner’s comprehensive overview, 1988.).

Entrepreneurship is characterized by a large degree of indefiniteness with regard to goals, a lack of structure in the area of tasks, complexity and interconnection in the field of action, lack of transparency, and a limited amount of resources. Successful action under such conditions clearly depends on certain personality characteristics.

There are numerous points of view regarding what kind of characteristics entrepreneurial personalities ought to exhibit (see, e.g., Brandstätter, 1997; Brockhaus, 1982; Gibb, 1987; Hull et al. 1980; Low & MacMillan, 1988; McClelland, 1987; Miner, 1997b; Sexton & Bowman, 1985; Winslow & Solomon, 1989). Some personality characteristics have been shown to be relatively stable predictors of entrepreneurial behavior. King’s (1987) and Müller’s (2002) comprehensive research is based on previous work and focuses on need for achievement, locus of control, propensity to take risks, problem solving, willingness to assert oneself (willingness to follow through), tolerance of ambiguity, and emotional stability. These seven characteristics will be the focus in this study. They are briefly described in the following sections.

Achievement motivation: There is no other entrepreneurial attribute that rivals achievement motivation or need for achievement in the number and quality of empirical studies dealing with it, including a large number of experimental psychological studies. Murray (1938) was the first to systematically describe achievement motivation. Characteristics of it are, among others, to master, manipulate or organize objects, human beings or ideas, to overcome obstacles and attain a high standard, to excel one’s self, to rival and surpass others, and to increase self esteem by the successful exercise of talent (Murray, 1938). McClelland and Winter (1969) conducted the first studies, which were then followed by numerous others (King, 1985; Langham-Fox & Roth, 1995; McClelland, 1987; Miner, 1997a; 1997b; Müller, 1999; 2002). Achievement motivation is an intrinsically motivated desire for preferably interesting and challenging tasks. It is therefore primarily the task itself that the person desires, and not necessarily the financial or concomitant societal success that may attach to it. The financial success mainly serves as a gauge for measuring one’s effort. Achievement motivation is aroused through activity involving engagement with goods and performance standards.

According to McClelland (1961; 1978; 1987) there is a relationship between the development of achievement motivation and the desire to take up entrepreneurial activity. This notion has been explored on several occasions (Johnson, 1990; Lynn, 1969; Müller, 1999; Nandy, 1973; Singh, 1969; Sagie & Elizur, 1999; Waine & Rubin, 1969). Within the canon of the numerous personality characteristics that have been studied it belongs, also interculturally (e.g., Ahmed, 1985; Bellu, Davidsson, & Goldfarb, 1990; McClelland & Winter 1969), to the most stable of predictors. In conclusion, current research on achievement motivation provides two primary insights: a) The founders of enterprises are significantly more performance oriented than the average person; b) among founders of enterprises, those who possess an especially large degree of achievement motivation tend to be more successful.