Mortal Magnates

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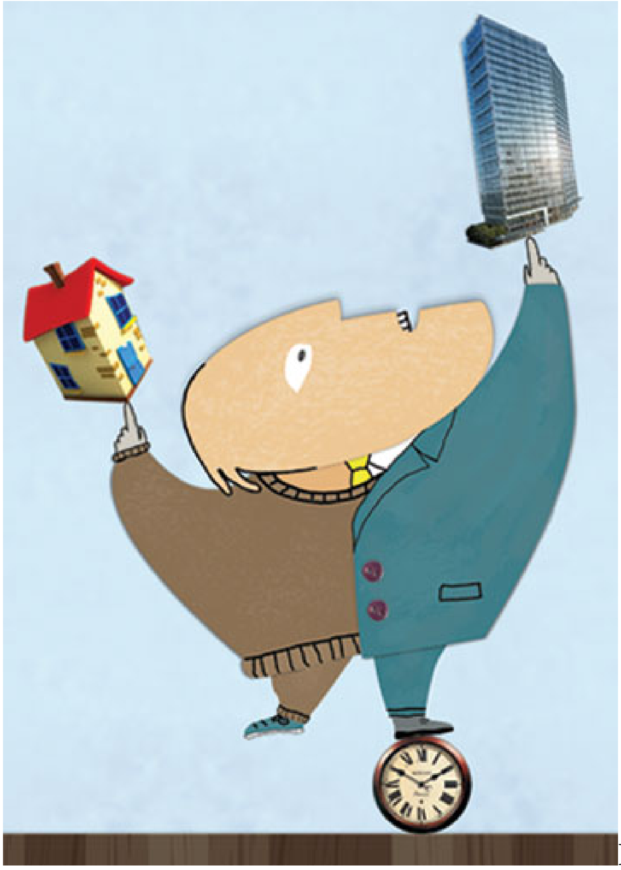

Kelly Shaver likes to play a game with his audience each time he gives a lecture.The Professor of Entrepreneurial Psychology at the College of Charleston, Shaver begins by placing a $100 bill on the table in front of him. The game has two stages, and in order to win, an individual has to complete both successfully.

“Write down the name of the first entrepreneur you can think of,” Shaver instructs. When everyone has finished writing, he turns on a small projector, and on the wall in front of the room appear 20 names. Most are well-known entrepreneurs — Bill Gates, Jeff Bezos, Steve Jobs — and the 20th entry on the list just says *someone you know*.

“If the name you wrote down is NOT on this list,” Shaver says to the audience, “then you’re still in the pool to win the $100, and you can move on to Part Two. Everyone else is out.” Most people are normally eliminated in Part One.

For those who remain, Part Two is a brief quiz. To win the $100, someone just has to listen to these five statements about entrepreneurs, as Kelly reads them, and correctly mark them as true or false.

They are:

1. Entrepreneurs want financial success more than most people,

2. Entrepreneurs are more likely to think they control their fate,

3. Entrepreneurs want recognition for their work more than others,

4. Entrepreneurs care more about following family traditions (so if their parents built a business, they're more likely to try building one too),

5. Entrepreneurs expect to succeed to a greater extent than employees.

These five statements, Kelly says, reflect some of the ways that both a number of psychologists and much of the general public have viewed entrepreneurs for the last several decades. Yet Shaver has played this game with dozens of audiences, and nobody has ever marked all five statements correctly to claim the money. This is because only one of them is true.

The study of entrepreneurial behavior began within the field of economics, not psychology, in the first half of the 20th century. The economist Joseph Schumpeter wrote that an entrepreneur had "the will to conquer: the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself." Schumpeter understood entrepreneurs to be necessary disruptive forces, people who introduced the innovations that were required for continued economic prosperity. An entrepreneur, in this view, had to be bold, creative, aggressive, competitive, a leader — qualities needed to challenge the conventional ways of doing business.

Psychologists only began to really study entrepreneurship in 1961, when David McLelland published *The Achieving Society*. McLelland's work sparked a decades-long search for the **psychological** traits that lead individuals to become, and succeed as, entrepreneurs. "Something that took hold was the idea that there was literally an entrepreneurial personality," says Shaver. "If you had it, you were an entrepreneur, and if you didn't, you should work for a company and just accept that."

But there were problems. One was that psychologists couldn't agree on how to define an entrepreneur, which is trickier than it sounds. Should psychologists study only subjects who start businesses, or should they also consider employees who open new units on behalf of a company they work for? Should they only consider new innovations that upset the status quo, or should humbler projects also be included? Most of these studies also used flawed samples, says Shaver. Owing to the difficulty of finding subjects to study, researchers would simply look them up in phone books and tax rolls.

There were significant elements of survivorship and retrospective bias, and researchers consistently failed to use a proper comparison group (people who had tried to start businesses and had either given up or failed).
"Unfortunately, 30 years of personality research following McClelland's lead yielded scant knowledge that financiers, practitioners, and entrepreneurship researchers considered useful for predicting entrepreneurship outcomes," write the psychologists Robert Baum, Michael Frese, Robert Baron, and Jerome Katz (2007).

In 1988, the sociologist William Gartner wrote that if you combine the studies alleging to have discovered an entrepreneurial personality trait, you would be left with “someone larger than life, full of contradictions, and conversely, someone so full of traits that (s)he would have to be a sort of generic everyman.” By then the study of entrepreneurship had moved into the domain of business schools. Researchers focused less on the personal characteristics of entrepreneurs and more on the strategies they employed — their business plans, how they raised money, their social networks, and how they dealt with a complex environment where resources are scarce. Psychologists ceded ever more ground to sociologists and management professors.

Essentially, what an entrepreneur is came to be seen as vastly more important than the individual the entrepreneur was.

Despite these stumbling blocks, by the early 1990s, psychologists suspected that the pendulum had swung too far away from them, and that the individual person still mattered as much as the process. “My view was that economic conditions are one thing, opportunities are another, but nothing happens until it all comes together in the mind of an entrepreneur, and that person acts on the information he or she has,” Shaver says. Rather than asking whether entrepreneurs possessed a unique personality — which psychologists no longer believed — Shaver wanted to explore how entrepreneurs differed along certain dimensions of personality. He wanted to understand how an entrepreneur’s **psychological** features differed in degree, not in kind, from those of other people.

But he also wanted to avoid the biases that plagued the earlier research. And this is where the PSED — the Panel Study for Entrepreneurial Dynamics — stepped into the picture. Started in 1994 by the sociologist Paul Reynolds, the PSED involved the collaboration of nearly 120 scholars from 34 universities. Each school donated $20,000 and sent up to four academics representing various disciplines. Sociologists, management theorists, economists, finance professors, and psychologists were all given a chance to test how variables that mattered to their fields influenced the startup process. A random screening of more than 64,000 American adults was whittled down to 830 nascent entrepreneurs (those who were in the process of starting a business) and another 431 nonentrepreneurs. All of them agreed to answer questions in both a telephone interview and mailing survey, and once a year for the next three years there would be a follow-up of each.

The PSED began gathering the data in 1998, and the process would last another five years. Additional grants from the National **Science** Foundation and the Kauffman Foundation brought the total price tag to about $1.3 million. Two years later, an entirely new study with updated testing procedures — the PSED II — was begun by the Kauffman Foundation, a study that was completed in 2008. Together, the PSED I and PSED II would provide the substance behind almost 80 peer reviewed papers, plus numerous other book chapters, presentations, and theses — with more articles in the pipeline.

What were the conclusions of these studies? In various ways, entrepreneurs are indeed very similar to everyone else, Shaver found. They don’t care about financial success any more or less, or about following family traditions. Especially surprising is that they are not more likely to believe they control their own destiny. In another paper based on the PSED, Matthew Ford and Charles Matthews found that entrepreneurs have no preference for analytical vs. intuitive approaches to solving problems (Ford & Matthews, 2004).

As for their differences, the one true statement in Shaver’s game was that entrepreneurs possess a greater belief that they will succeed. They are also less likely to care what others think of them. But perhaps the key difference, one that seems to tie the other differences together, is that entrepreneurs display more intensity towards their work. For their business to be successful, they are willing to sacrifice more, whether that sacrifice is in the form of time with family or money earned (Davis & Shaver, 2009). Similarly, Ford and Charles also found that entrepreneurs find it harder to balance work with their personal lives and to get support for what they do from friends and family.

As much as the PSED studies have proved to be a rich data source, they are not comprehensive. The studies tend to naturally mirror the interests of the psychologists who designed them, and therefore do not test the variables that were of interest to psychologists who didn't take part.

Andreas Rauch, an organizational psychologist, found another way to deal with the problematic entrepreneurial studies of the past: through meta-analysis. Rather than throw out the flawed studies, Rauch and his collaborator, Michael Frese, instead threw them together and let their mistakes essentially cancel each other out (Markman, 2007). "Meta-analyses allow us to control for weaknesses in the original studies," says Rauch. "We can aggregate dependent variables across a number of studies and be more confident about the size of the true effect."

What Rauch and Frese discovered was that many of the personality traits that were traditionally tested for, such as extroversion or emotional stability, were too general in definition and not significantly more present in entrepreneurs than in non-entrepreneurs.

But the scholars did find that entrepreneurs are more likely to have certain narrower traits — ones that are highly relevant to the specific activities that entrepreneurs engage in. For instance, entrepreneurs did not score higher in the general trait of conscientiousness, but Rauch and Frese did find that entrepreneurs have a somewhat higher need for achievement, which is a subset of conscientiousness, according to Rauch. Entrepreneurs demonstrate this trait by their tendency to set difficult but obtainable goals.

Yet the specific trait analyzed by Rauch and Frese that had the highest correlation to entrepreneurship — for both startup efforts and success — was self-efficacy. Rauch explains this as "the specific belief that you're able to accomplish certain tasks. You may not have general confidence that you are always able to accomplish all tasks, but you do have a specific belief that you will be able to accomplish a specific task." So an entrepreneur might not believe that all of his startup ventures will be massive hits, but he does believe he will raise the necessary funds for the one he is working on now.

As with the PSED, traits that were not more likely to be found in entrepreneurs were just as intriguing. Apparently, entrepreneurs are only slightly more likely to be more autonomous than others or to believe they control their destinies. Entrepreneurs in the technology industry have above average levels of innovativeness, but entrepreneurs in other industries do not. And entrepreneurs are just marginally bigger risk-takers, but Rauch finds even this to be inconclusive. "Some of it is there," he says, "but it may also be that there is such a thing as too much riskiness. Starting an enterprise is inherently risky, so entrepreneurs should know how to reduce risk in other areas." Finally, Rauch and Frese did find that successful entrepreneurs were much more stress-tolerant, and better equipped to handle the unique pressures that come with new ventures.

That entrepreneurs expect success — both generally, as indicated by the PSED, and in specific goals, as found by Rauch and Frese — is intuitive. Most startup attempts ultimately fail. To create a new business while knowingly facing those odds therefore requires someone with a high degree of confidence in the future.

However, this does not mean that entrepreneurs are sunny optimists by nature. They might be confident that they will successfully deal with obstacles that get in their way, but they know it won't be easy. Robert Baron, an organizational psychologist and the chair of entrepreneurship at Oklahoma State, says prior research has shown that having a highly optimistic disposition actually tends to harm performance. A small level of optimism does help entrepreneurs to endure through difficult moments, and it helps in forming social networks. But too much of it leads to overconfidence and to the tendency to overlook negative feedback.

Baron's latest research — a study of 207 entrepreneurs and their businesses — for the most part confirms this, but with a twist (Hmieleski & Baron, 2009). According to this study, high levels of optimism are more damaging for entrepreneurs in industries that are more dynamic. In stable industries, it helps. "In dynamic environments," Baron says, "you had better be ready to change and not fall in love with the strategies you're using. Too much optimism causes people to believe they're right, and they won't adapt."

In some ways, the Schumpeterian view of entrepreneurs — as ruthless, risk-defying capitalist superheroes with ambitions as big as their outsized egos — persists. For the latest example of this approach, one need look no further than how Mark Zuckerberg is fictionally portrayed in film *The Social Network*, a new movie about the origins of Facebook: He is brilliant, backstabbing, arrogant, and innovative. And certainly some entrepreneurs do fit this mold.

But with more than 550,000 new firms opening in the US each year, it's obvious that only a tiny percentage of startups ever become global phenomena like Facebook — and most entrepreneurs are nothing like the Zuckerberg of the movies. As Shaver has labored to prove, it's time to do away with much of the stereotypical personality sketch.

That doesn't mean, however, that we should ignore all personal characteristics in evaluating potential entrepreneurs. It is just that the relevant characteristics have more to do with how equipped someone is to endure the rigors of entrepreneurship than with personality. Consider what the studies have found, beginning with how entrepreneurs are similar to everyone else. Entrepreneurs are no more likely to care about money. On average, they are no more ruthless than non-entrepreneurs, or any more spontaneous. They should not be portrayed as either not gooey optimists or control freaks. They do not crave risk more. They're not more outgoing or agreeable. And they don't have a magical problem-solving approach that's denied to the rest of us.

Shaver likes to emphasize how important it is for more people to realize this. **Psychological** perceptions matter. A young college grad with a big idea who thinks he lacks the personality to create a business should reconsider. So should venture capitalists and financiers who think they can instantly distinguish a winner from a loser during a first meeting. This is nonsense, as the ways in which entrepreneurs differ are mostly unrelated to the kinds of personality features that can be observed in such a manner.

But (and this is a large but) the few **psychological** differences that entrepreneurs do have are crucial ones. The PSED found that entrepreneurs are more willing to sacrifice other parts of their lives for their ventures. Their lives are less balanced and heavily oriented towards their work. They care a lot less what others think of them. Shaver believes this is because entrepreneurs find their primary validation in the success of their businesses. No wonder then, that entrepreneurship attracts people who both expect to succeed and are better able to cope with the stress and rigors it brings. Starting a business can be grueling and full of uncertainty, and it will exact too heavy a cost on someone unable or unwilling to throw themselves at the process.

Maybe, then, the right lesson to draw from the research is that more people than we think are capable of starting and running new businesses, but there are good reasons why not all of them will — or should — try.

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