

Impact of Locus of control, Risk-taking Propensity, Ambiguity Tolerance and Need for Affiliation on Entrepreneurial Behavior

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It is widely argued that personality traits impact the entrepreneurial behavior of entrepreneurs and managers. However, the personality traits that impact the behavior of entrepreneurs have been under argument and discussion since long. Locus of control, risk-taking propensity, ambiguity tolerance, and need for affiliation are personality traits that impact the entrepreneurial intention of a person and have been studied in the current study. The quantitative approach has been adopted in the study and primary data has been collected through the distribution and collection of 150 questionnaires. We conclude that locus of control, risk-taking propensity and need for affiliation have a positive impact on the entrepreneurial behavior.

Keywords: entrepreneurial behavior, personality trait, risk-taking, locus of control, propensity

Entrepreneurship is crucial for the development of a country's economy. The trend of small and medium enterprises in Pakistan is expanding and this calls for detailed research on entrepreneurship. Entrepreneurship can be defined as assuming risks, solving problems and adopting innovative practices for success. Research by Chen and Yen (2012) indicates that various new ventures have been started, but not all succeed.

A clear psychological profile of the entrepreneurs has not been identified in the trait-based literature. The literature has failed to identify such personality traits that link with entrepreneurial actions of a person (Mitchell et al., 2002).

The literature on cognition-based entrepreneurship argues that the entrepreneurs intend to proceed based on the intentions of the person (Keh et al., 2002).

Various factors have been identified by the scholars that impact the perception of individuals for entrepreneurial opportunities. For example, Krueger (1993) argues that the desirability and feasibility of entrepreneurial actions are impacted due to prior entrepreneurial experiences. The study of Chen et al. (1998) focused on personality traits and concluded that self-efficacy positively influenced the perception of an individual. The research work of Keh et al. (2002) also concluded that risk propensity directly impacts the feasibility and desirability of opportunity for new ventures.

Ambiguity tolerance, locus of control, risk-taking propensity and need for affiliation are personality traits that impact the entrepreneurial intention of a person and have been studied in the current study. Internal and external locus of control differentiates successful and unsuccessful entrepreneurs (Bird & Jelinek, 1988). Frese (2009) argues that innovation, risk-taking, self-efficacy and

the need for achievement are essential attributes of personality and contribute towards entrepreneurial orientation.

Literature Review

According to Olakitan and Ayobami (2011), an entrepreneur is a person who can create and grow an enterprise and exhibit innovation and risk-taking traits. Olakitan and Ayobami (2011) believe that those who want to pursue careers as entrepreneurs have a higher motivation to achieve their goals, they may take calculated risks, and they have greater tendency and capability for innovation and possess an internal locus of control rather than external. The earlier studies based on entrepreneurial characteristics such as the work by McMillan, Zemann, and Narasimha (1987) focused on traits such as the need for affiliation, power, and achievement against the other traits.

The manager is an idea that implies an individual, who oversees and controls (Yilmaz, 2010). In simple words, the manager is the individual who is involved in doing management tasks. The manager is the person that leads, monitors and oversees the individual tasks in an organization.

Powers of Decision Making. Decision making holds a significant place in the lives of humans. Hence, individuals, gatherings, associations, and nations need to decide relatively each problem to take care of their problems and proceed with their maintainability. Decision-making that involves physical, mental and enthusiastic procedures intends to pick and produce inclinations among various arrangements, openings and implies that it will prompt goals (Eren, 2003).

Entrepreneurship and Entrepreneur. In the 1990s, entrepreneurship was defined as one of the most settled procedures of human culture, and also a main thrust on the planet since the leading community at the beginning of history started to develop specialization of work. As years passed, the significance and part of entrepreneurship slowly and gradually developed. Previously, the field enterprise was not thought about as an academic region of study. In any case, our economy depended on business (Kuratko & Hodgetts, 2007). The idea of a business depends on the assumptions of both the economy and society. In the 1800s, Jean Baptiste: a French economist was the first person who invented the word 'entrepreneur' and it refers to the person who influences monetary assets from a reduced efficiency range into an increasing profitability range. Today Entrepreneurial evolution has taken the world. Kuratko and Welsch (2004) guarantee that this transformation is as effective in the twentieth century, which is the period of the Industrial Revolution. Ahmed (2010) states that entrepreneurship brings a positive change in the economy. Entrepreneurship and entrepreneurs have transformed the ways of business economies and sectors.

Hisrich et al. (2013) stated that Entrepreneurship has a vital role in the development and creation of organizations and the improvement and success of nations. It is the concept of an organization's achievement and constancy (Kuratko & Welsch, 2004). All explanations for the organization, and with the expectation of complimentary endeavor itself, rely upon the organization as a base. Westhead et al (2011) studied different frameworks of entrepreneurship in both little and colossal associations, in new and set up associations, in the precise and occasional economies, in authorized and unauthorized activities, in imaginative and

traditional cases, and in all locales and monetary segments. Entrepreneurship helps in improving the financial condition of an organization. Politicians and scholastics anticipate driving business due to its importance to GDP and the creation of employment (Ahmad, 2010).

Westhead et al. (2011) study demonstrated that business people are not a homogeneous identity and there are distinctive sorts of entrepreneurs. If there is no energy, commitment and inspiration for entrepreneurs, the development of a new organization would not occur (Zimmerer & Scarborough, 2001).

Entrepreneurial Behaviors/Characteristics. Entrepreneurs tend to have an initiative attitude. Entrepreneurs tend to seek opportunities within the market. Entrepreneurs create value and involve in innovative activities. Ireland and Webb (2007) attested that the basis of entrepreneurial conduct is distinguishing openings and putting helpful thoughts into training. Xiang Li (2009) found that the owners of the business had a more lifted measure of entrepreneurial capacities than the managers, and further the results expressed that the business owners and the managers can be segregated in considering the entrepreneurial level of competency. Nair and Pandey (2006) state that the monetary status of the family, age, specialized instruction/preparing and work involved in a comparable or related field favored entrepreneurship. In correlation with whatever remains of the populace, entrepreneurs tend to be more creative in their disposition, however, they did not have more prominent confidence in the internal 'locus of control'.

Numerous examinations consider the "entrepreneurial traits" or the qualities that make an entrepreneur fruitful. In the decades that succeeded, studies have continued looking at specific individual qualities that incite people to evoke business people, and also motivate individuals and slants that keep business people on their preferred track. Some of the entrepreneurial traits which affect decision making, the power of manager/entrepreneur and behavior of an entrepreneur are examined are discussed below.

Locus of Control. Locus of control refers to the individual's control over life. The idea was initially utilized by Phares (1957) and afterward turned into a piece of the main research and sociologies as the foundation of Social Learning Theory in 1966. Locus of control refers to the capacity, aptitude, and conviction of a person (Tekeli, 2010). It is a generalized belief, whether a person can or not control their destiny. Those individuals that can control events are referred to have an internal locus of control. Those individuals are said to have an external locus of control who tend to be controlled by outside events.

Evidence shows a strong correlation between hard work, self-discipline, honesty and internal locus of control. People who have an external locus of control strongly believe that whatever happens is mainly due to the uncontrollable forces. In this case, responsibility is usually placed on the outside unknown forces (Trevino, 1992). They view achievement as a result of luck, institutions and chance. They believe that success is beyond the control of a human and his efforts. On the contrary, people who show internal locus of control believe that success and failure are contributed to one's efforts and actions. Brochaus (1982) describes an internal locus of control as one of the most integral and dominant characteristics of entrepreneurship.

Risk-taking Propensity. Risk-taking is seen as a trademark that draws a line between an entrepreneur and a non-entrepreneur. Risk propensity refers to the ability of a person to take chances. One of the significant characteristics of an entrepreneur is that of risk-taking. A risk-taker usually opts for a business when the rate of success does not seem very high. Generally, an entrepreneur is also regarded as a risk-taker stereotypically. However, Chell (2008) argues that an entrepreneur only goes for an estimated risk and does not take any un-estimated risk.

It is argued that risk propensity is an individual characteristic rather than the situation. However, inconclusive results have been obtained in this regard as another perception of risk-taking refers to the prospect theory. Hull et al. (1980) concluded that the founders of a business tend to be greater risk-takers than the owners of the business. Entrepreneurs that take risks tend to be challenging as well as bold. These people tend to go through and strive after jolts and fervour (Fine et al., 2012). The risk-taking affinity is identified with the requirement for accomplishing. The formation of another business is unsafe and specialists have endeavoured to decide (Dollinger, 2003). Naturally, humans do not want to take more risks and are less likely to opt for any kind of vulnerability. However, both proprietor supervisors and entrepreneurs will go to take risks and to live with the vulnerability. Managers/owners and entrepreneurs need to live with the fact that they can't control numerous parts of the market they work in. Furthermore, they likewise must go for taking risks (Cope, Jack & Rose, 2007).

The term risk depicts the degree of possible loss or uncertainty that is attached to the outcomes of decisions taken by individuals with different behaviors (Forlani & Mullins, 2000). Brockhaus (1982) defines risk-taking propensity/ability as the expected possibility of gaining the rewards for achieving success in a situation, which is perceived by an individual before exposing himself to the possibility of a failure, the former situation giving lesser reward and less dangerous outcome than the latter situation. Research in this area has shown that in comparison to the other traits, risk-taking is the one that differentiates an entrepreneur from a manager. According to Stewart et al. (1999), the risk-taking behavior is inherently present in business ownership and is therefore not necessarily there in a manager. Atkinson (1957) believes that individuals who are keener for achievement usually take moderate risks and set goals that are not very difficult to achieve. This is their way of avoiding high risks and ensuring success.

Need for Affiliation. Individuals with a high requirement for alliance want to invest most extreme energy protecting social connections, joining gatherings and need to be cherished. People, who have this vast need for affiliation, still are not effective entrepreneurs or managers essentially because they experience serious difficulties settling on troublesome choices without agonizing over being disliked. Extraversion is also considered as the need for affiliation. Extraverts tend to be inviting, excited and active. Extraverts enjoy being amongst people and tend to be more social. Energetic behavior is possessed by such individuals. They are also referred to at times as social butterflies as they possess a high amount of enthusiasm. More frequent levels of happiness are reflected by the extroverts. The need for affiliation gives individuals a sense of involvement and belonging (McMullen & Shepherd, 2006).

Some people seek pleasure by motivating others. Leadership position offers people the power and ability to control subordinates that enables to satisfy the needs of those in power. However, Winter

(2000) refers to power as being aggressive. This means that some of the qualities may inhibit the role of the leader. It depends on the entrepreneur, whether power is to be used in a socially responsible manner or a manner of self-service. Some researchers report a negative relation of the need for affiliation with leadership (Delbecq et al., 2013) and some examine a positive relationship between the two (De Hoogh et al., 2005).

Ambiguity Tolerance. Ambiguity tolerance enables a person to see questionable circumstances attractively. The person who does not have a tolerance of ambiguity tends to react in a brash manner and he/she keeps away from any kind of stimulant that is ambiguous. Moreover, a person who has a high level of tolerance towards ambiguity will be situations of uncertainty as fascinating, and alluring. Entrepreneurial characteristics include management of vulnerability (Markman & Baron, 2003; McMullen & Shepherd, 2006). Ambiguity may arise due to pressure, postponement, refusal and shrinking. Researchers are now concentrating on analyzing tolerance impact on leadership and under different circumstances (Yurtsever, 2008; Van Hook & Steele, 2002; McLain, 2009). Ambiguity tolerance can be viewed as a threat or as an open way by the people. The situations can be taken as a desirable circumstance or a threat to the individual. Scholars have found an appeal in the research of ambiguity tolerance. Ellsberg (1961) has related the perspective of ambiguity to uncertainty and risk. It refers to how people react to different kinds of situations and how individuals process and interpret situations. Sensitivity is a core component of ambiguity tolerance as it refers to the response of an individual towards an ambiguous stimulus.

Cools and Van den Broec (2006) contrasted five qualities of entrepreneurs and non-entrepreneurs. These equalities include tolerance for ambiguity, self-viability, locus of control, proactive personality, and the requirement for accomplishment. They utilized these attributes and psychological qualities to anticipate fluctuations in entrepreneurial orientation (EO). The study found that entrepreneurs tend to score higher in all the mentioned characteristics than those individuals who are not entrepreneurs. According to the definition by McClelland (1967) intolerance for ambiguity is the ability to take an ambiguous situation as a means for threat. This definition refers that tolerance for ambiguity is the ability to perceive unclear situations in a rather neutral way. Individuals having lower levels of tolerance for ambiguity, find it difficult to manage uncertain situations and will, therefore, try to avoid them. Another relevant factor that may affect an individual's tolerance for ambiguity is creativity and the ability to present more ideas in a difficult situation (Zimmerer and Scarborough, 1998). These findings imply that innovativeness and personal creativity need tolerance for ambiguity to a certain level.

Rationale of the study

The number of small and medium enterprises is slowly and gradually rising in Pakistan, however, studies on the entrepreneurial personality traits have not been carried out widely to get a detailed insight into the characteristics of the entrepreneurs. With this rise and increase in entrepreneurship ventures, it is necessary to explore the managerial traits of entrepreneurial behavior. Small and medium enterprises are considered as the backbone of the economy, however, if the personality traits of the entrepreneurs are not understood, then these cannot be encouraged and cannot be sustained for longer periods. The small and medium enterprises account for 99% of the 3.2 million business enterprises within Pakistan (Farid, 2016). Growth has been experienced in this sector

within Pakistan and it acts as the engine of the economy of Pakistan. However, despite the tremendous growth, the sector remains largely unexplored. The research work aims to explain the personality traits, emotional behavior and outcomes of managerial traits on entrepreneurial behavior. The characteristics of entrepreneurs that are used in this study to measure the effect of behavioral traits on performance include; ambiguity tolerance, locus of control, need for affiliation and risk-taking propensity.

The theory of social exchange theory and human capital theory has been followed in the study plan. Luthans et al. (2006) conclude that people who have an internal locus of control can overcome difficulties, they can accept challenges and also tend to resolve problems more appropriately through the process of social exchange. It is vital to establish interpersonal relationships as they help in the elimination of personal weaknesses (Chen & Yen, 2012). The human capital theory refers to the one in which education, capabilities, techniques, and knowledge is involved (Hansen & Alewell, 2013). The personal strengths of a person are improved and enhanced through human capital theory.

Objective of the study

The third-largest economy in Pakistan is that of Khyber Pakhtunkhwa. The share of GDP of Khyber Pakhtunkhwa is 10.5%, which amounts to over US\$ 30 billion. 11.9% of Pakistan's population resides in Khyber Pakhtunkhwa (KPBOIT, 2016). The sector of forestry is highly dominated by Khyber Pakhtunkhwa with an average of 61.6%. Marble production, which is 78% of Pakistan comes from the province of Khyber Pakhtunkhwa (KPBOIT, 2016). Small and medium enterprise development authority was established in 1998 in this regard to take the challenge of SMEs in Pakistan. It has also been actively operating in the capital of the Khyber Pakhtunkhwa province, Peshawar. SMEDA helps the SME's in their development agendas. To find the impact of locus of control, risk-taking propensity, ambiguity, and affiliation on entrepreneurial behavior.

Hypotheses

Based on the literature, the following hypotheses are derived:

H₁: Locus of control positively impacts the entrepreneurial behavior

H₂: Risk-taking propensity positively impacts the entrepreneurial behavior

H₃: Ambiguity intolerance negatively impacts entrepreneurial behavior

H₄: Need for affiliation positively impacts entrepreneurial behavior

Methodology

Sample

The population of the study includes the Small and Medium Enterprises operating in the city of Peshawar. Out of 3.2 million SMEs in Pakistan, there are 14% SMEs located in Peshawar, Khyber Pakhtunkhwa (Tribune, 2015). Therefore, the total SMEs are 448,000, which is the population of the study. Multistage sampling was carried out with a 6.7% margin interval and a confidence level of 90%. The sample size accordingly was 150 for the research study and was calculated following sample size calculation method by Yan (2010).

Instruments

The questionnaire for entrepreneurship behavior and locus of control has been adapted from (Hsiao, Lee, & Chen, 2015). The

Giordano Martinez, Crespo, and Fernandez-Laviada (2015) questionnaire for risk-taking propensity was adapted. Herman et al. (2010) questionnaire for ambiguity tolerance was adapted. Ken (2015) the need for affiliation questionnaire was adapted. Pilot testing of all these instruments was conducted on 30 participants. Reliability analysis were run for individual scales and the results showed that Cronbach alpha values were = .67, .70, .65, .77, .69 for Locus of control (item=6), Entrepreneurial behavior (items= 6), Risk taking propensity (items=4), Ambiguity tolerance (items=3), Need for affiliation (items =3) respectively

Procedure

Primary data were used for the study. Questionnaires were distributed amongst the managers of small and medium enterprises as in the research work of Yan (2010).

The subjects were contacted by phone to ensure their willingness and then handed over the questionnaires in person. The normality plots are obtained in order to test the normality of the data. The results tell us that the data is normal.

Analysis and Results

The data obtained was analyzed through SPSS. SPSS was used for reliability analysis (Cronbach alpha), correlation analysis so that the relationship between the dependent and independent variables can be found and regression analysis.

Table 1
Correlations among the Study Variables

Variables	Locus of control	Risk taking propensity	Ambiguity tolerance	Need for affiliation
Entrepreneurial behavior	.83*	.75*	.84*	.83**

* $p < .05$, ** $p < .001$

The results indicate that there is a strong positive relation between entrepreneurial behavior and locus of control (.83) and the relation is significant as the p-value is less than 0.05. The relation between entrepreneurial behavior and risk-taking propensity is also strongly positive (.75) and the relation between the two is significant as the p-value is less than 0.05. The relation between the need for affiliation and entrepreneurial behavior is strongly positive (.83) and is also significant (0.001). Lastly, the relation between entrepreneurial behavior and ambiguity tolerance is strong positive (.84) and the relation is significant as the p-value is less than 0.05 (see Table 1).

The results indicate that entrepreneurial behavior has a positive relation to all the independent variables. The results reflect that if there is a one unit change in locus of control, then there is a 12.9% change in entrepreneurial behavior. The results reflect that if there is a one unit change in the risk-taking propensity, then there is a 32.9% change in entrepreneurial behavior. The results reflect that if there is one unit change in need for affiliation, then there is a 21.3% change in entrepreneurial behavior.

Table 2
Determinants of Entrepreneurial Behavior

Model	B	SE	B	t	Sig.
Constant	.351	.061		5.798	.001
Locus of control	.129	.053	.160	2.419	.017
Risk taking propensity	.329	.033	.392	9.854	.000
Ambiguity tolerance	.159	.114	.217	1.386	.168
Need for affiliation	.213	.105	.294	2.033	.044
R ² = .86					

Table 2 shows that the independent variables, i.e. the need for affiliation, locus of control, risk-taking propensity and ambiguity tolerance cause, 85% variation in entrepreneurial behavior. The significance value (0.001) and F value (220.842) indicates that the model is significant.

Discussion

The study assessed the personality traits of entrepreneurs and its impact on entrepreneurial behavior which is a missing link in various previous studies. From the results, we conclude that ambiguity tolerance, locus of control, risk-taking propensity, and the need for affiliation had an impact on the entrepreneurial behavior of managers. Based on the results obtained.

The results indicate that a strong, positive and significant relationship exists between ambiguity tolerance, locus of control, risk-taking propensity, need for affiliation and entrepreneurial behavior (see Table 1). Furthermore, the impact of the independent variables on the dependent variables is also high as indicated by the regression analysis (see Table 2). The results indicate that ambiguity tolerance is the strongest predictor of entrepreneurial behavior followed by the need for affiliation and locus of control. The more tolerance a person has towards ambiguity, it is more will most likely that s/he has entrepreneurial behavior.

Although some of the studies indicate that entrepreneurs tend to be calculated risk-takers (Litzinger, 1963), however, the current results reflect that a high level of risk propensity influences the entrepreneurial behavior of a person. However, desirable consequences may not always be achieved due to the over-optimistic nature of a person. This may enable a person to take some existing risks less seriously. Therefore, the results vary in different studies. The study explains that the personality traits of the entrepreneurs play an integral role in explaining the entrepreneurial actions and behavior of the managers.

Important lessons can be obtained from the study for managers and entrepreneurs. They need to understand that the perceptions of entrepreneurial intentions are influenced by their personalities. Managers can better understand new ventures by having a deep understanding of their personalities. This will help the managers and entrepreneurs to minimize the negative impact of personal proclivities regarding new venture decisions. Managers and entrepreneurs can also understand their differences and take necessary action while going for a new venture.

Results of our study are in line with Cools and Van den Broec, (2006) who states that ambiguity tolerance is positively associated with entrepreneurial behavior. Results are also in line with the study of Zimmerer and Scarborough (1998) who argue that tolerance for ambiguity reflects the creativity and enhanced ability to tackle

situations. Thomas et al. (2000) conclude that the need for affiliation links positively with entrepreneurship intentions and new ventures and our study also reflects the same results. Fine et al. (2012) state that the one who takes risks tends to be bold and challenging. The same results have also been concluded regarding risk-takers by Dollinger (2003). Our results are in line with the results of (Dollinger, 2003; Fine et al., 2012; Smith & Mihans, 2009; Spector et al., 2002) who conclude that the locus of control positively relates to entrepreneurial intentions.

Implications

The research holds importance for the small and medium enterprises and the entrepreneurs will realize the factors that contribute towards new ventures. Stakeholders and policymakers will get to know what factors contribute towards entrepreneurial behaviors and relevant policies, rules and regulations can be made accordingly to promote the entrepreneurial behaviors amongst the people. Furthermore, the study will also contribute to the thin literature on entrepreneurial behavior in Pakistan.

Limitations

This study does not include non-managerial employees. Data collected for this study is limited to small and medium level organizations subject to availability and keeping in view the time and other resources at hand.

Conclusion

The study explored the personality traits of the entrepreneurs and its impact on entrepreneurial behavior which is a missing link in various previous studies. From the results, we can conclude that ambiguity tolerance, locus of control, risk-taking propensity, and need for affiliation positively impact the entrepreneurial behavior of managers. On the basis of the results obtained, we accept all our alternate hypothesis and reject the null hypothesis.

The results indicate that a strong, positive and significant relation exists between ambiguity tolerance, locus of control, risk taking propensity, need for affiliation and entrepreneurial behavior. Furthermore, the impact of the independent variables on the dependent variables is also high as indicated by the regression analysis. The results indicate that risk propensity behavior followed by the locus of control and need for affiliation are the strong predictors of entrepreneurial behavior..

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