



# Motivation, self-efficacy, and risk attitudes among entrepreneurs during transition to a market economy

Tadeusz Tyszka<sup>a,\*</sup>, Jerzy Cieřlik<sup>b</sup>, Artur Domurat<sup>c</sup>, Anna Macko<sup>a</sup>

<sup>a</sup> Faculty of Economic Psychology, Kozminski University, ul. Jagiellonska 59, 03-301 Warsaw, Poland

<sup>b</sup> Faculty of Management, Kozminski University, ul. Jagiellonska 59, 03-301 Warsaw, Poland

<sup>c</sup> Faculty of Psychology, University of Warsaw, ul. Stawki 5/7, 00-183 Warsaw, Poland

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## ABSTRACT

In this research were investigated the three most frequently studied characteristics of entrepreneurs – motivation, self-efficacy, and risk attitudes. We divided the sample of entrepreneurs into two subgroups: opportunity-driven vs. necessity-driven. In agreement with findings of research performed in countries with developed market economies, we found that the need for independence and the need for achievement were of higher importance to the entrepreneurs than to the non-entrepreneurs. However, this was only true of the opportunity-driven subgroup of entrepreneurs, while not of those categorized as necessity-driven. In contrast, the most important motive in the group of non-entrepreneurs and as well as the necessity-driven subgroup of entrepreneurs was job security. In accordance with Knight's claim, we found that opportunity-driven (but not necessity-driven) entrepreneurs revealed higher levels of self-confidence than the group of employees. We did not find support for the claim that entrepreneurs are more risk-prone than wage earners. On the other hand, entrepreneurs (both opportunity- and necessity-driven) reported more everyday risky investment activities than wage earners did. We interpret this observation in terms of the necessity of entrepreneurs for risk-taking, rather than personal preference and liking.

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## 1. Introduction

There is a long history of research on the personal characteristics (traits and motivation) of entrepreneurs (see, e.g., Brandstaetter, 1997). The general finding is that although some traits and motives are related to both an individual's decision to become an entrepreneur (e.g., Wärneryd, 1988), as well as to venture performance (Baum et al., 2001), these relationships are generally weak. The most probable reason for this seems to be that the entrepreneurs do not function in isolation from environmental factors.

The overall objective of the present study was to examine motivation, self-efficacy, and risk attitude – the three most frequently studied characteristics of entrepreneurs – in a specific environment. That environment being Poland in transition. When studying entrepreneurs and entrepreneurship in Poland and other Central-East European countries, one cannot avoid placing the whole analysis in the context of a systemic change – of a radical socio-economic and political transition from a Communist to a market

economy. One reason for this is the relatively short time elapsed since the dismantling of the Communist bloc in Central and Eastern Europe. Such a period of approximately 20 years in most country has been proven too brief to allow a full-degree of market maturity, particularly in the shaping of the relevant environment of certain institutions. As Osborn and Slomczynski (2005) state, the historical developments that took place during the Communist era and during the transition (particularly in its initial years), have profoundly affected attitudes and perceptions as well as the pool of available entrepreneurial skills.

How did these historic roots affect the performance and operating patterns of Polish entrepreneurs once the systemic transition got underway in 1989? Most striking was the obsolete character of specific operating skills embedded in the context of a command economy. Even despite substantial experience in the field, the apparent lack of a proactive, customer-focused attitude among the “old entrepreneurs” made them unable to cope with the new reality and, all the more so, to compete with new entrepreneurial start-ups. According to estimates, less than 10% of the 1.7 million businesses currently active in Poland can trace their roots to the pre-1989 period. Those which were able to survive had to entirely re-engineer their businesses, as illustrated by the following statement of an old-style entrepreneur:

\* Corresponding author. Tel.: +48 22 519 21 89.

E-mail address: [ttyszka@wspiz.edu.pl](mailto:ttyszka@wspiz.edu.pl) (T. Tyszka).

In 1989 Poland changed to such an extent, that in order to continue my prosperous business I had to start de novo. The same business, in a different environment, became a new kind of activity (Osborn and Slomczynski, 2005, p. 88).

### 1.1. Entrepreneurial motivation and self-efficacy

It is commonly assumed – not without empirical support – that individuals choose career roles matching their needs and values. There is a long history of theoretical and empirical efforts to identify the reasons driving individuals to become entrepreneurs. The main results have been rather consistent. Scheinberg and MacMillan (1988), who surveyed over 1400 business owners in 11 countries, identified 6 broad categories of reasons that entrepreneurs offered for creating a business: the need for approval, the perceived instrumentality of wealth, degree of communitarianism, the need for personal development, the need for independence, and the need for escape. Continuing this exploration, Birley and Westhead (1994), surveyed 405 British business owners. They identified seven factors that drove individuals to start up a business: the need for approval, the need for independence, the need for personal development, welfare considerations, the perceived instrumentality of welfare, tax reduction, and the example of role models. Interestingly enough, research by Smallbone and Welter (2001) showed that in transition economies (e.g., Moldova, Belarus, Ukraine) motives given for starting one's own businesses were not considerably different from those reported in market economies. The need for independence, personal development (personal fulfillment) and personal wealth (to boost income) were also among the most frequently declared motives in countries of transition economy.

In summary, research into the motives directing individuals into an entrepreneurial life path (Gatewood et al., 1995; Carter et al., 2003) most frequently cites four motives: personal wealth (opportunities to earn more), the need for independence, the need for personal development, and the need for approval. Additionally, there are observations that entrepreneurs tend to put their families in second place behind the interests of the enterprise (Wärneryd, 1988). Thus, compared to employees, entrepreneurs tend to accept longer work hours (Eden, 1973; Hammermesh, 1990; Chay, 1993). On the other hand, work security seems to be a factor of special interest to wage earners (Kolvereid, 1996).

Motivation is a significant factor in directing an individual into an entrepreneurial life path. Yet, in order to choose such a path, one must believe that it will allow the attainment of one's goals. As van Praag (1999) points out, several economists (e.g., Schumpeter, Knight, etc.) dealing with entrepreneurship have recognized the role of uncertainty and self-confidence in entrepreneurship. For example, Knight (1921) emphasized that people differ with respect to self-confidence. He asserted that entrepreneurs must bear uncertainty, which permits no objective calculation of the probability of success. Thus he felt that self-confidence differentiates individuals, and in particular it distinguishes entrepreneurs from others.

Knight's concept of self-confidence is closely related to self-efficacy, defined by Bandura (1994) as task-specific self-confidence. Self-efficacy, according to Bandura, is based on past experience and attainment. Achieving success helps build a sense of self-efficacy, whereas failure, especially if it occurs before a sense of self-efficacy has been established, undermines it. Thus, according to Bandura, self-efficacy depends on personal experience. Another significant source of one's self-efficacy is vicarious experience – seeing others similar to oneself succeeding in something.

In the light of Knight's thesis, Chen et al. (1998) asked entrepreneurs and managers to rate their confidence in dealing with various types of tasks involved in running a business. It turned out, that for some of these tasks entrepreneurs indeed had a higher

sense of self-efficacy than did non-entrepreneurs. Similarly, Macko and Tyszka (2009) found that entrepreneurs showed a higher level of self-efficacy than non-entrepreneurs.

In summary, the following picture of an entrepreneur emerges. The choice of an entrepreneurial career is based above all on motives related to independence, self-realization/achievement, financial success, and perhaps social approval. These motives should differentiate entrepreneurs from wage earners, for whom motives related to job security and working time should be more important. Moreover, entrepreneurs should reveal a higher level of self-efficacy than wage earners.

### 1.2. How can radical systemic change in the economy affect the motivation and beliefs of people with regard to engaging in entrepreneurial activities?

To answer this question we followed the theoretical framework of Shapero and Sokol (1982), according to which the individual's behavioral intention to start a business depends on two main factors: perceived feasibility and perceived desirability of starting a business. Shapero and Sokol (1982) defined "perceived desirability" as the personal attractiveness of starting a business, and "perceived feasibility" as the perceived capability to create a new venture. With regard to "perceived desirability," Shapero and Sokol (1982) recognize two main factors playing a role in prompting an individual to consider entrepreneurship as a life-path option: "negative displacement" and a "between-things" factor. We believe that both of these factors were present during the period of systemic transformation in Poland. Together they resulted in a large number of new businesses being undertaken by individuals.

"Negative displacements" concern externally imposed circumstances, which deflect individuals from their previous paths, who thus have little or no choice but to start new businesses. This may be the case with refugees or with employees who have been fired, but also with managers who are bored with climbing up the corporate career ladder. Shapero and Sokol (1982) quote numerous instances of such cases. The radical systemic changes in Poland from 1989 onward affected hundreds of thousands of people, who lost their jobs in state-owned enterprises, farms and institutions – jobs that had brought less-than-satisfactory income, but were considered secure. Many such individuals had no other choice but to start a new business. We labelled them *necessity-driven entrepreneurs*. For this group, job security became a motive of prime importance. For people who lost jobs, opening a business of one's own was often the only chance to earn a living. They had no alternative if they wished to attain an acceptable standard of living. It was crucial for them to satisfy the needs that lie at the base of Maslow's hierarchy.

Empirical studies, particularly those concentrating on the initial period of 1989–1993, have emphasized the importance of the transition context for the decision to start one's own business. Indeed, this was the typical view of Polish entrepreneurs interviewed by Osborn and Slomczynski (2005). They stressed the role of "Wind of history", meaning the magnitude and the irreversibility of the social change taking place. Shapero and Sokol (1982) speak also of a "between-things" factor, which manifests itself in a situation when a certain period of life comes to a natural end (e.g., end of school, end of military service), thus necessitating a decision as to the next phase. We think that in Poland, apart from *necessity-driven entrepreneurs*, there were certainly others who decided to start their own businesses based upon other motives, such as the need for independence and/or self-reliance. In particular, middle-aged managers who had experienced working in the highly bureaucratic state-owned firms, where they had been unable to express their views nor put into action their initiatives, were motivated to start their own businesses. Finding themselves "between systems," they could feel compelled to change their lives

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