

The Role of Entrepreneurship and Innovation to Drive Organizational Growth

Todd Harris, Ph.D.
Director of Research, PI Worldwide

Paul O'Leary, Ph.D.
PI Worldwide Consultant, PI Europe

PI Worldwide 

16 Laurel Avenue, Wellesley Hills
Massachusetts 02481-7532
Telephone: +1 781 235 8872
Toll-Free in USA: 800 832 8884
Fax: +1 781 235 0959
www.piworldwide.com

Barcelona is Spain's second-largest city, and perhaps it's most charming. One can't help be struck by the sheer number and variety of activities that could be considered entrepreneurial in nature. Vendors selling their handmade artistic wares in small stalls in front of the Cathedral de Barcelona. Restaurateurs operating four-seat tapas bars. Farmers directly selling their produce at the La Boqueria, one of the largest daily farmers' markets in the world. All just a few examples of the global phenomenon that is entrepreneurship.

Entrepreneurship provides substantial benefits to individuals, corporations and societies. It can be a driver of job creation, innovation, economic mobility, and a sense of independence and personal accomplishment. There are consistent indications that entrepreneurial efforts are currently on the rise despite the difficulty and volatility of the entrepreneurial world.

- One in ten adult members of the global workforce engaged in entrepreneurial ventures.
- 43 percent of urban Indians who worked were self-employed. By contrast, there is no metropolitan area in the United States with a self-employment rate above 11 percent.
- According to the National Longitudinal Survey of Youth (NLSY79), which has tracked a representative sample of 12,686 men and women who were between the ages of 14 and 22 when they were first interviewed in 1979 indicated by age 42, 12.1 percent of men and 9.8 percent of women were self-employed.
- The NLS79 survey also reported that 36.9 percent of the self-employed during a given year make the transition to wage and salary work the following year and that only 1.2 percent of respondents had three or more years of self-employment experience attesting to the difficulty and volatility of the entrepreneurial world.

If we examine the issue demographically, we see a number of noteworthy trends, especially heavy concentrations of entrepreneurial activities among women (perhaps due to an increasing drive toward economic independence), Generation Y – individuals roughly born from 1980 onward (perhaps due to that generation's alteration of the rules and meaning of work) and outside of North America. It is forecasted that as the economy recovers, job growth will result from new emerging industries and an unprecedented number of individuals will go on to start their own businesses. This growth is expected to surpass the growth era following World War 2.

Academic disciplines such as business, economics, sociology and psychology are all making significant contributions to our understanding of entrepreneurship. Can the science of psychology provide us with some clues as to what conditions may enable and promote venture creation?

The personal characteristics of those who view entrepreneurship as a career choice, persist at it, and succeed at it, can be distinctive. Nascent entrepreneurs are often relatively comfortable with ambiguity, uncertainty and risk, feel that they strongly and directly influence events ("self-efficacy"), and have high levels of work motivation. One recent finding is that contrary to the popular conception of successful entrepreneurs being solely independent,

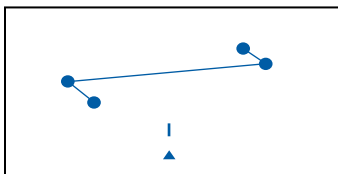
single-minded and devoted to their unique passions, they are also often characterized by high levels of social competence and social intelligence, with an ability to connect with others on a social and interpersonal level. Research that has recently emerged from Ireland points to some very clear personality – entrepreneurship links as measured by the Predictive Index® (PI®). The Predictive Index is one of a class of objective assessment techniques based on certain fundamental assumptions of behavioral psychology - the first being that work/social behavior is primarily an expression in activity of a variety of responses to environmental stimuli, recognizable as consistently expressed personality traits (Rorschach, 1921; Thurstone, 1934). The Predictive Index adjective checklist is essentially a symbolic environment composed of a variety of stimuli associated with personality traits.

In a September, 2009 study of 100 finalists of the Ernst and Young Entrepreneur of the Year Program, dating back to 1998, it was found that:

- 70 percent of Ireland’s most successful entrepreneurs shared a common core personality profile as measured by the Predictive Index
- 82 percent of the entrepreneurs studied were assertive, self-confident, challenging, venturesome, independent and competitive individuals
- 85 percent had low patience, and were tense, restless and driving individuals, who worked with a profound sense of urgency

A very distinctive PI Profile for the entrepreneurs emerged from the data. Attributes of this “typical” entrepreneurship profile includes:

- Proactive, assertive, has a sense of urgency for achieving their goals
- Communicates directly and to the point
- Challenging of the world
- Independent in putting forth their own ideas, which are often innovative and, if implemented, cause change
- Impatient for results, they will put pressure on themselves and others for rapid implementation
- Less productive when doing routine work
- Task-focused; they often notice and are driven to fix technical problems
- Ability to work through any personal/emotional issues
- Aptitude to spot trends in data or figure out how complex systems work
- Independent in thinking and action
- Confident in taking action without input from others
- Assertive drive to accomplish their personal goals by working around or through roadblocks



These recent findings from Ireland largely replicated a 2006 study of the personality traits of 60 successful entrepreneurs drawn from France. Using a mature and robust empirical

indicator (Predictive Index, 1955; 1963; 1974; 1989; 1992; 1998) to measure and describe personality, drives, motivational needs, and perceptions of the demands of the environment. The 2006 study found that 65% of participants in the study shared a common personality profile, and 85% shared common perceptions of behavioral demands required for performance. The findings of this study not only represent major progress in this area of entrepreneurship research, but also have important implications for theory, future research, policy and practice.

The insights provided by this study can therefore be employed, for example: to aid individual entrepreneurial career decisions; as a framework for entrepreneurial audits and organizational development; to foster organizational innovation; as a tool for entrepreneurial coaching and education; to assist the development of entrepreneurial partnerships and teams; to aid technology transfer initiatives; to create enterprise development initiatives; to evaluate and assist entrepreneurial performance; and to make more informed venture capital investment decisions.

Character verses Skills

Entrepreneurial performance, indeed any Individual's performance in a given role, is largely a function of character and skills. This is just as valid for roles in sport, social, political, personal and family settings as it is in business.

Because skills can be continually learned, developed and honed, but character is fixed and stable (Nettle, 2006), a prerequisite to top-performance in any role is getting the character-fit right. The key point being that while character is a function of genetics and life experiences, by the end of the a person's formative years character is fixed and does not change in the vast majority of people thereafter.

An individual therefore with an ideal skills-fit but a suboptimal character-fit, for a given role, will never have the potential to be a consistent top-performer, because character is fixed. On the other hand, however, an individual with an ideal character-fit but a suboptimal skills-fit, for a given role, will have the potential to be a consistent top-performer, because skills are learned.

In addition to the importance of personality, early research has indicated that successful entrepreneurs often seem to think a bit differently from the rest of us, viewing the world and the potential risks in it through a different lens. For example, successful entrepreneurs may have a unique ability to see opportunities that other people fail to recognize. Or they may judge ambiguous business conditions in more positive, enthusiastic, and optimistic terms than others would. One of the appealing notions of exploring these and other cognitive strategies employed by successful entrepreneurs is that they are likely learnable skills that education, training and practice can improve upon. For example, many business schools and other organizations devoted to entrepreneurship invite aspiring entrepreneurs to pitch their business plans in front of audiences of students, faculty, fellow entrepreneurs, and investors, with feedback and information sharing to follow. Additionally, evidence indicates that small start-up firms that take advantage of resources such as mentoring, counseling and other small business development assistance display a better survival and growth rate than do comparable firms.

One research area that is still somewhat unexplored is the connection between personality characteristics and success at various stages of the entrepreneurship process or different types of entrepreneurship. For example, are the same personal qualities and characteristics

as helpful for a solo entrepreneur who is at the very initial point in his or her business as they would be in a more mature or team-based setting?

Role of Intelligence

Psychology also has a lot to tell us about the role of intelligence in entrepreneurial success. There is some evidence that general mental ability as measured by standardized assessments positively predicts some entrepreneurial outcomes, and higher levels of educational attainment typically predict self-employment. (Robert Hisrich, Janice Langan-Fox & Sharon Grant, September, 2007. *Entrepreneurship Research and Practice: A Call to Action for Psychology*. *American Psychologist*). However, perhaps another “type” of intelligence is even more important to the eventual success of an entrepreneurial venture. Some blend of critical analytical thinking, creativity, and practical implementation of ideas, which psychologists often refer to as “successful intelligence” can also predict important outcomes such as business growth rate. Entrepreneurs with higher levels of successful intelligence are likely to be better positioned to navigate the environment that they are in – an environment often characterized by urgency, uncertainty, insufficient resources and rapid change.

Innovation and Creativity

Good business leaders in the modern organization often possess entrepreneurial traits such as innovation, creativity and risk-taking. But just as importantly, and perhaps more so, they establish corporate cultures and business practices that support and nourish entrepreneurship throughout the enterprise. In today’s global marketplace, in which every company’s product and service offerings run the risk of being simply turned into another commodity, the companies that not only survive but thrive will be the ones that can consistently find and deliver the “secret sauce” – that special combination of offerings that provide unique and hard-to-replicate value to their customers. While critical across all industries, this entrepreneurial mindset may be especially important in knowledge-intensive areas such as financial services, consulting, biotechnology, pharmaceuticals, and a host of others. Effective executives not only tolerate mistakes, they actually encourage them, and they find the right balance between protecting existing revenue streams and promoting the concepts that will be critical to future success.

What can organizations and the people who lead them do to promote a spirit of entrepreneurship, innovation and creativity?

- **Incorporate entrepreneurial elements into leadership competency models and profiles.** For example, the global leadership model for a Fortune 500 retailer includes elements such as “Intellectual Curiosity – sees different possibilities, tinkers and experiments, cultivates new ideas and approaches, is okay with uncertainty and ambiguity” and “Reasonable Risk – takes calculated risks with personal courage and conviction, learns from both wins and losses.” A Fortune 500 wholesaling company lists “Display and promote entrepreneurship and innovation” as one of its nine core leadership competencies. Incorporating these elements into a company’s leadership framework gives everyone a common and objective language to discuss entrepreneurship, creativity and innovation, and clearly signals its importance.
- **Don’t succumb to the myth that that some people simply aren’t “wired” to be creative.** Organizations certainly should make efforts to identify and hire people who have naturally-occurring entrepreneurial traits, such as independence, confidence and comfort with risk and ambiguity, and then coach and mentor them in a way that

supports those traits, such as by removing burdensome bureaucratic controls. However, my work with personality assessments has taught me that *everyone* in an organization has the power to contribute to innovation - they just approach it in different ways and need different support from their managers. For example, you may have a team member whose natural inclination is to rely on established precedents when making decisions and to limit risk, not tendencies that one would normally associate with entrepreneurship. However, you can help that person be more innovative by doing things such as clearly communicating that it is part of the job to be on the lookout for improvement opportunities, helping him or her to mitigate the risk when trying new things, and strongly supporting those efforts by being encouraging and by helping absorb some of the “fallout” when mistakes are made.

- **Innovation can come from anywhere, and not every new idea has to be a blockbuster.** The potential for highly lucrative returns and the accompanying attention they generate often lures executives into a desire to seek the next game-changer – for example, the next YouTube or iPhone. Along the way, an enormous amount of resources are expended, all the while in pursuit of a pay-off that may be rare and unpredictable. Companies that truly master innovation look for many incremental opportunities to be innovative, and do so not only in “traditional” creative areas such as new product development but across the organization in functional areas such as sales, finance or processes such as procurement or recruiting.
- **Build a culture of collaboration and communication – from the top down.** Successful innovations need multiple connections across an organization to survive, and these connections are often a mixture of “formal” and “informal” ones. Successful innovation teams often have one or more members who are particularly adept at reaching out to other parts of the core business to find the requisite skills and resources that their projects need, and to build support for their efforts. Communication is critical as well, both with respect to articulating potentially radical, disruptive and technically complex ideas in a way that people can understand, see the value in and be comfortable with, and also doing so in a way that fosters a sense of inclusion and interpersonal connection. Effective leaders in the 21st-Century organization are often particularly skilled at finding and leveraging the talent within their workforce that will be innovation “connectors and communicators.”
- **The structure of an organization matters.** Think about how your company and the work that it does is organized. For example, a 2007 Working Paper from the U.S. Bureau of Labor Statistics (BLS) authored by Cindy Zoghi, Robert Mohr and Peter Meyer reported that across 6,322 Canadian companies tracked over a four-year period, those with decentralized decision-making or information-sharing programs were between 14% and 22% more likely to innovate than other companies.
- **Encourage constant, small-scale experiments.** An article by Atul Gawande in the December 14th, 2009 issue of the New Yorker entitled “Testing, Testing” provides a wonderful example of the power of this approach. In 1900, more than forty percent of an American family’s income was devoted to paying for food. At the same time, the production of that food was extremely labor-intensive, with almost half of all American workers being employed in farming. The inefficiency of farms meant low crop yields, high prices, limited choice, and uneven quality. Food costs had to be reduced, so that families could spend money on other goods, and resources could flow to other sectors of the American economy. Farming also had to become less

labor-dependent, so that more of the population could enter non-farming occupations and support economic growth and development.

To better manage this situation, the United States did not seek a centralized, “master-plan” solution. Instead, in 1903, the United States Department of Agriculture (U.S.D.A.) set up one “demonstration” farm in Terrell, Texas to use more scientific methods of farming (things like deeper plowing and better soil preparation, the use of only the best seed, the liberal application of fertilizer, and more thorough cultivation to remove weeds and aerate the soil around the plants) and to see what happened. Despite 1903 being one of the worst years for farming on record, the “demonstration farm” cleared an extra \$700.00 in profit compared to the prior year. The following year, many additional “demonstration farms” were set up throughout Texas and parts of Louisiana. By 1930, more than 750,000 “demonstration farms” were operating in nearly every county in the U.S.

What was the result of all of this experimentation, feedback and learning? Productivity went way up, outpacing that of other Western countries. Prices fell by half. By 1930, food accounted for just twenty-four percent of family spending and twenty per cent of the workforce. Today, food accounts for just eight per cent of household income and two percent of the labor force.

Remember, successful entrepreneurs and innovators approach life with a hypothesis-testing mindset, and seek to cultivate that mindset in others. They are independent in putting forth their own ideas, respond well to pressure and challenge, and will resourcefully work through and around roadblocks to achieve their goals.

For more information about the study or Predictive Index, please contact Todd Harris, Ph.D. or PI Worldwide at info@piworldwide.com or 1-800-832-8884.