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# Identity-Transition into Entrepreneurship: A Two-Phase Theory to Explain the Propensity-Capability Paradox

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**Abstract:** In view of the call by the European-Commission (2013) for more entrepreneurs and for more high-growth enterprises, this project investigates the development of entrepreneurial propensity among individuals who possess strong entrepreneurial capabilities. Scholars have modelled the development of entrepreneurial behavior by adopting the theory of planned behavior and later by applying identity transition theory (Ibarra, 2005) to entrepreneurial career transitions. More recently, Hoang and Gimeno (2010) added the construct of role-identity-complexity to the identity transition model in order to explain the likelihood of a successful transition into the entrepreneurial founder role. There is, however, a need for theory to enlighten why objective entrepreneurial capability has not shown up as a favorable explanatory variable when modelling entrepreneurial intention and career transition behavior (Bayon, Vaillant, & Lafuente, 2015). This article and this poster present a model to respond to this need and to extend the theory on developing entrepreneurial behavior by showing how objective entrepreneurial capabilities can intervene in paradoxical ways. More specifically, we broaden the identity theory for entrepreneurial career transitions by distinguishing two phases. The point where entrepreneurial intention is established separates these two phases. We argue that constructs like self-complexity, the complexity of the envisaged founder-role and objective entrepreneurial capability have opposite effects in both phases. If these factors have an inhibiting effect on generating intention and have a favorable effect on turning intention into actual behavior, then this explains why individuals who are expected to have the necessary capacities to do well in the second phase can struggle to develop entrepreneurial intention in the first place. We conclude by suggesting further quantitative and empirical research and possible practical implications.

**Keywords:** Entrepreneurial intention, Entrepreneurial capabilities, Identity transition, Self-complexity

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## 1. Introduction

Policy makers envisage encouraging entrepreneurship (European-Commission, 2013) and consensus is growing that actions promoting entrepreneurship should aim beyond the mere creation of more entrepreneurs (Blanchflower, 2004; Burke, FitzRoy, & Nolan, 2000) and that these actions should focus on ambitious start-ups with high growth potential (Shane, 2009). In support of this call, scholars continue to address the following questions: firstly, what determines whether an individual decides to step into active entrepreneurship and secondly, what are the characteristics that make an individual more competent to successfully fulfil an ambitious entrepreneurial role? Dams and Segers (2018) refer to the answers to these two questions as the antecedents of entrepreneurial propensity and entrepreneurial capability. They review the most researched antecedents of these two constructs and conclude that the majority of antecedents can have opposite effects on entrepreneurial capability and propensity (Figure 1). For three of these factors: need for achievement (Begley & Boyd, 1988; Jain, 2011; David C. McClelland, 1961); innovativeness (Frese & Gielnik, 2014; Jain, 2011); and creativity (Mcmullan & Kenworthy, 2016), no references to opposite effects on entrepreneurial propensity and entrepreneurial capability were found. For the other nine most researched factors, earlier research reveals opposite effects on entrepreneurial propensity and capability. This study of the literature does not provide a quantitative proof of significantly negative correlation coefficients. However, if factors like the need for independence (Caliendo & Kritikos, 2011; Hessels, Van Gelderen, & Thurik, 2008; Mcmullan & Kenworthy, 2016; Van Gelderen & Jansen, 2006), self-efficacy (Bayon et al., 2015; Chen, Greene, & Crick, 1998), optimism (Hmieleski & Baron, 2009) overconfidence (Koellinger, Minniti, & Schade, 2007), risk propensity (Begley & Boyd, 1988; Hao, Seibert, & Lumpkin, 2009), the need for power (De Vries, 1977; David C McClelland, 1975), education (M. Van Praag, Witteloostuijn, & Van der Sluis, 2009), experience (Chandler & Jansen, 1992; Zouhar & Lukeš, 2013), teamwork (Ensley, Hmieleski, & Pearce, 2006; Fadul Ramirez, 2016), financial utility (Hartog, Van Praag, & Van Der Sluis, 2010; C. M. Van Praag & Versloot, 2007), and flexibility (Bingham, Furr, & Eisenhardt, 2014) all can have opposite influences on entrepreneurial propensity and capability, then it seems reasonable to conclude that entrepreneurial propensity and entrepreneurial capability do not go together automatically. On the contrary, the opposite is expected: individuals who engage into entrepreneurial activity might possess antecedents that work against optimal entrepreneurial capabilities,

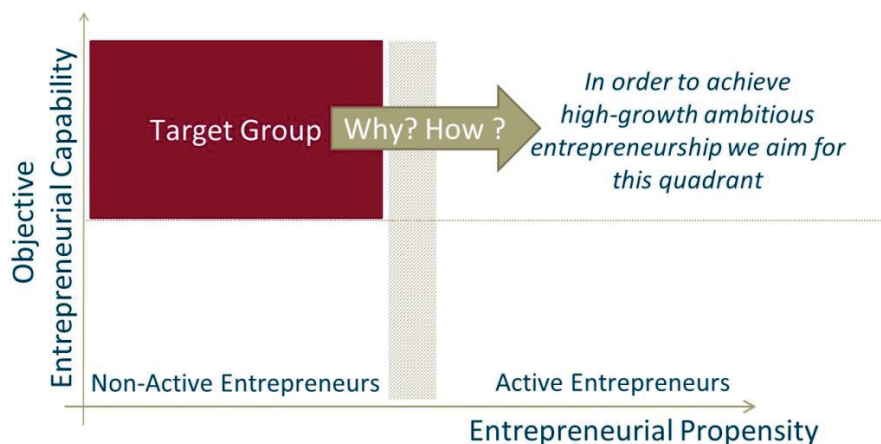
whereas individuals who score high on the entrepreneurial capability dimension probably possess antecedents that counteract their intention to choose for active entrepreneurship. Therefore it is presumed that the passivity of the capable non-actor is not an exception, and that this passivity, which Ramoglou (2011) says should be respected, is not just a choice, it is upheld by the mechanisms that govern entrepreneurial propensity and capability

This is in line with the conclusion of Bayon et al. (2015), that objective entrepreneurial capability has not shown up as a favorable explanatory variable when modelling entrepreneurial intention and behavior.



**Figure 1:** Whether or not antecedents of entrepreneurial propensity and capability reveal opposite effects

If, paradoxically, objective entrepreneurial capability does not automatically lead to active entrepreneurial behavior, then this raises the question: “Why do people who are capable of founding and running a business of their own not actually turn into active entrepreneurs?” (Figure 2).



**Figure 2:** The research question, the target group in the entrepreneurial propensity capability plane

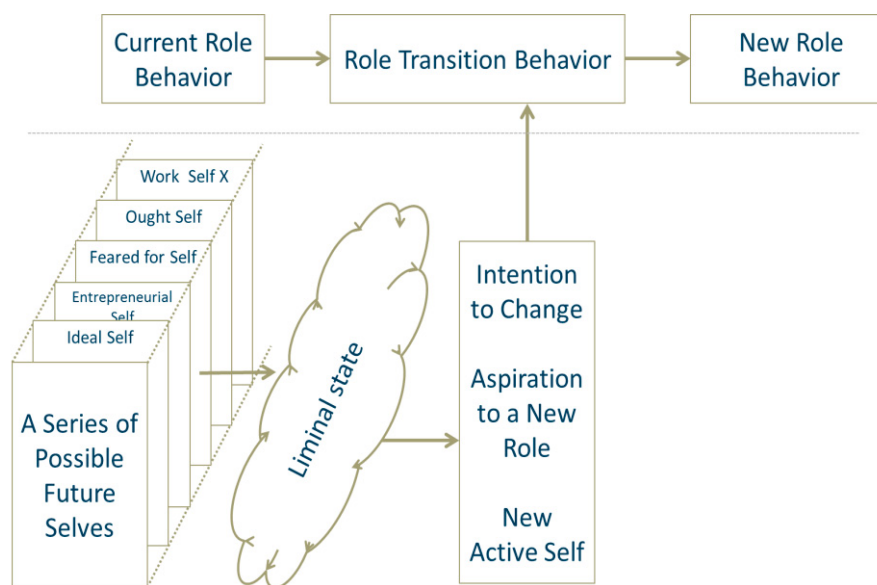
In this paper, we report on the search for theory that can explain why objective entrepreneurial capability does not automatically lead to active entrepreneurial behavior. First, we further analyzed the available theory on the development of entrepreneurial behavior. However, we did not find any theory to elucidate this paradoxical effect. We studied the identity-transition theory applied to the transition into entrepreneurship and we propose how the introduction of the construct of identity-complexity, can produce opposite effects. This offers a model to explain the entrepreneurial propensity-capability paradox.

## 2. Literature on identity transition and voluntary career change

With respect to entrepreneurial propensity, the theory of planned behavior (Ajzen, 1991) and the entrepreneurial event model (Shapero & Sokol, 1982) have been the two most extensively tested competing theories used to explain entrepreneurial intent (Schlaegel & Koenig, 2014). More recently, Ibarra (2005) has

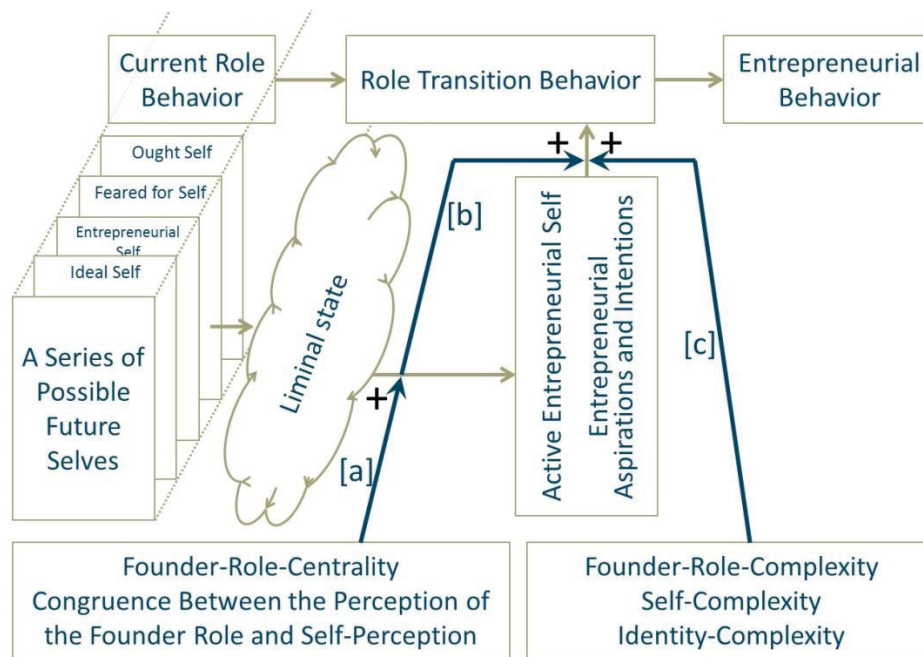
applied the theory on possible and future selves (Markus & Nurius, 1986) and has described a process of identity transition in relation to a voluntary career change. In Figure 3 we sketch a graphical summary of the process as described by Ibarra (2005). The boxes in this sketch do not necessarily represent different variables they can also represent different states of the same variable, arrows are symbolizing transitions between these different states. The upper part shows the behavioral plane, indicating that a role change is brought into effect after deploying actual role changing behavior. This role change behavior goes together with the presence of an activated new future self in the lower part of the graph. In the lower section we represent how Ibarra (2005) expounds the underlying effects in the cognitive plane. While active in the current role an individual can develop multiple alternative selves that do not immediately culminate in a state of intention-to-change. A liminal state can emerge wherein various, divergent, possible selves co-exist. This liminal state exists until a salient future work-self prevails and becomes activated as part of the self-concept. Not the liminal state but an activated state explains proactive role transition behavior (Strauss, Griffin, & Parker, 2012) and we associate this activated state of the future work-self with the state where the intention to change is established.

In the last decade we can find research that applies identity transition theory to career transitions into entrepreneurship (Figure 4a).



**Figure 3:** Graphical summary based on the description by Ibarra (2005) of the identity transition process in relation to a voluntary career change.

In view of our research question, we searched for work that applies identity transition theory to career transitions into entrepreneurship. Although a limited amount of work was found with respect to the identity transition into entrepreneurship, we found two studies that introduce constructs which contribute to explain the transitions shown in Figure 3. In Figure 4a the effect on these transitions are depicted with bold arrows [a], [b] and [c]. Farmer, Yao, and Kung-Mcintyre (2011) show empirically that congruence between the perception of the founder role and the self-perception predicts [a] the strength of the aspiration to the entrepreneurial identity. Hoang and Gimeno (2010) address the probability of whether actual role transition behavior occurs given that the identity transition into the founder role has occurred and that entrepreneurial intention is established. They put forward that founder-role-centrality [b] and founder-role-complexity [c] have a favorable effect on the likelihood of developing effective founding behavior. They define that founder-role-centrality describes the individual's strength of attachment to the founder role and that founder-role-complexity captures diversity and richness in individuals' definition of the founder role. Separate from the envisaged founder role, identity-complexity builds on self-complexity, defined as the degree in which the identity is represented by a greater number of cognitive self-aspects and the degree in which a greater distinction among self-aspects is maintained (Linville, 1987).



**Figure 4a:** Graphical representation based on the description by Hoang and Gimeno (2010) of the effect of Identity-Centrality and Identity-Complexity on identity transitions related to career transitions (Ibarra, 2005).

### 3. Propositions

In order to explain the paradoxical effects between entrepreneurial propensity and capability we suggest expanding the described identity transition theory on entrepreneurship (Figure 4a) using the following propositions. These propositions assign a more crucial role to identity-complexity in the identity transition process. The bold arrows in Figure 4b show how the propositions contribute to explaining opposite influences on the role and identity transitions.

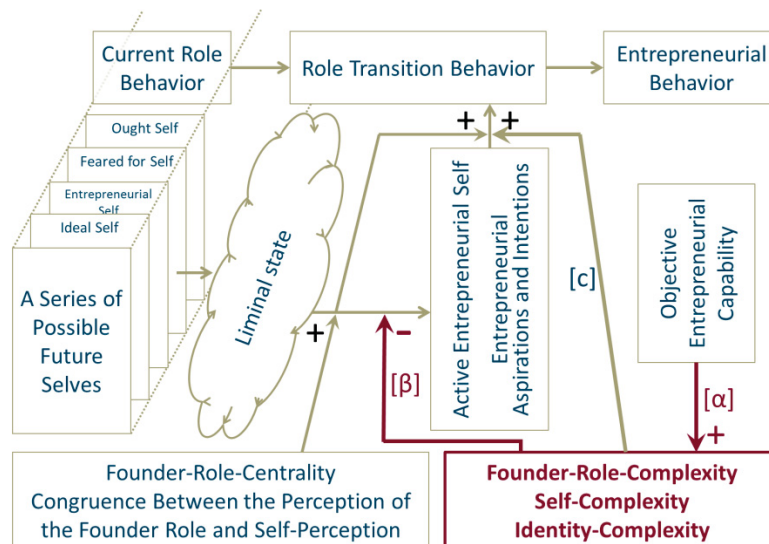
#### 3.1 Proposition 1:

Objective entrepreneurial capability correlates with high identity complexity [ $\alpha$ ].

#### 3.2 Proposition 2:

Before and after entrepreneurial intention is established [ $c$ ] and [ $\beta$ ], Founder-role-complexity and identity-complexity generate opposite effects on the transitions and on the development of entrepreneurial role transition behavior.

Hoang and Gimeno (2010) state that these complexities of the identity and the future selves of an individual are favorable to turning intention into entrepreneurial behavior as a multifaceted identity is more robust when dealing with negative inputs and setbacks. However, we propose that, before reaching entrepreneurial intention, identity-complexity works against making a match between a complex founder role and a desired future self as: 1) more facets have to match, 2) the match is evaluated at multiple time points in the future and 3) more career alternatives are available. This proposition is supported by the empirical research of Halberstadt, Niedenthal, and Setterlund (1996) on the negative effects of identity complexity in relation to the ease of decision making.



**Figure 4b:** Graphical representation how the proposed effects of Founder-Role-Complexity and Identity-Complexity can explain opposite influences on the role and identity transitions.

#### 4. Conclusion

This research project proposes a model to broaden the identity theory for entrepreneurial career transitions by distinguishing two phases. The point where entrepreneurial intention is established separates these two phases. We argue that constructs like self-complexity, the complexity of the envisaged founder-role and objective entrepreneurial capability have opposite effects in both phases. If these factors have an inhibiting effect on generating intention and have a favorable effect on turning the intention into actual behavior, then this explains why individuals who are expected to have the necessary capacities to do well in the second phase can struggle to develop entrepreneurial intention in the first place.

#### 5. Limitations, discussion and further research

We have put forward a theoretical model that can explain the paradoxical effect that seems to exist between entrepreneurial propensity and capability. Nevertheless, empirical verification is needed. Therefore, we call for empirical research to measure entrepreneurial capability, entrepreneurial propensity, founder-role-centrality, complexity of the envisaged founder role and identity-complexity in order to validate whether the proposed effects between the constructs can be established. Before setting up quantitative work, the model has to be completed with all relevant known variables that can influence the variables and relations under study. In addition, the following variables need to be operationalized: self-complexity, complexity of the founder role, objective entrepreneurial capability and how close an individual is to a possible identity transition. Self-complexity can be measured with the H statistic (Scott, 1962), however, it is to be analysed whether these propositions do not need an operationalization of self-complexity which is more directed to this specific application or whether the generic operationalization of Scott (1962) can be used. For objective entrepreneurial capability we propose to use the 'Entrespiegel 2.0' survey (Kyndt & Baert, 2015). In order to assess how close an individual is to a career transition we suggest analyzing the work on "the degree of decidedness" (Amir & Gati, 2006) and the "Career Decision-Making Difficulties Questionnaire" by Gati, Osipow, Krausz, and Saka (2000). Finally, we call to explore this empirical verification in samples that cover the entire range of the population in terms of entrepreneurial capability and entrepreneurial propensity.

Furthermore, understanding why the desired entrepreneurial capabilities do not automatically convert into actual entrepreneurial behavior can trigger the development of new strategies for policy makers who want to promote ambitious entrepreneurship among individuals who possess strong entrepreneurial capabilities. For the individual, these modified theoretical insights into paradoxical effects can generate new approaches for career development and career coaching practices.

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