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PERSONALITY BASED PREDICTION OF ENTREPRENEURIAL RISK TOLERANCE IN EMERGING MARKETS

MUKESH SHARMA[1], DR.SHYAM MAURYA[2], DR. RASHMI CHAUHAN[3]

[1]ASSISTANT PROFESSOR, KALINGA UNIVERSITY, RAIPUR, INDIA.
e-mail: ku.mukeshsharma@kalingauniversity.ac.in,0009-0006-4052-2358
[2]ASSISTANT PROFESSOR, KALINGA UNIVERSITY, RAIPUR, INDIA.
email: ku.shyammaurya@kalingauniversity.ac.in orcid: 0009-0006-3442-8621
[3]ASSISTANT PROFESSOR, NEW DELHI INSTITUTE OF MANAGEMENT, NEW DELHI, INDIA.,
e-mail: rashmi.chauhan@ndimdelhi.org, https://orcid.org/0009-0005-4371-0373

Abstract

Venture undertakings in developing countries are marked by high levels of ambiguity, missing or unsteady supporting structures, and socio-economic shifts. Under such conditions, risk acceptance emerges as an individual characteristic that is critical in supporting or undermining new businesses. This study focuses on the connection between an individual's psychographic traits and entrepreneurial risk tolerance, examining solely emerging economies. This is the focus of the study: the connection of risk-taking behavior in entrepreneurs to some of their personality traits, Openness to Experience, Extraversion, Conscientiousness, Agreeableness, and Neuroticism, through the Big Five Personality Framework. A quantitative research strategy was implemented through a systematic questionnaire directed to 300 entrepreneurs in India, Nigeria, and Brazil. Analysis was conducted by multiple linear regressions. Machine learning approaches—logistic regression and decision tree classifiers—were employed to analyze the predictive power of each personality trait.The results showing that Openness to Experience and Extraversion positively augment risk tolerance while Neuroticism diminishes risk tolerance are noteworthy. The influence of Conscientiousness and Agreeableness is marked by dependence on the context of the given market. These results strengthen the argument for psychographic segmentation in entrepreneurship, especially in dynamically changing markets where the need for personality traits like the need for cognition and emotions is crucial in the decision-making framework. The research directly benefits investors, startup accelerators, and even policymakers by illuminating the psychological traits linked to resilience and adaptability in entrepreneurs. Moreover, by integrating psychological dimensions into the economic framework, the actions of the entrepreneurs in the unpredictable environment of the economy is better understood, and the literature is all the more richer.

Keywords - Entrepreneurial Risk Tolerance, Big Five Personality Traits, Emerging Markets, Predictive Modeling, Psychological Profiling

I. INTRODUCTION

Beside external factors such as gaps in infrastructure and lack of clear regulation, internal psychological mechanisms and how they shape decision-making in absence of certainty also play a critical role in an emerging market's entrepreneurial activities. Of these, the acceptance of risk appears to be the most important and, yet, least studied. In the context of fast changing environments characterized by economic volatility, political turmoil, and unstable institutional frameworks, entrepreneurs make decisions in a split second with scant information—thus, their risk appetite bares critical impact. The focus of most studies has been on the barriers stemming from the environment; however, there is a question of how individual factors, especially those ascribed to the Big Five, impact entrepreneurial risk-taking that needs to be

answered. It is possible that the traits of Openness to Experience and Extraversion facilitate adaptive decision-making, while Neuroticism inhibits it—thus, offering a fresh psychological perspective that could add value to the study of entrepreneurship. With this perspective, the study aims not only to widen the scope of the psychological approaches on entrepreneurship, but also help devise better tailored support strategies for high-potential targets in high-risk environments with limited resources [6].

II. THEORETICAL FRAMEWORK

This examination stems from a multitude of foundational theories and models of psychology, which collectively aid in analyzing the acceptance of risk in entrepreneurship in relation to a person's personality and motivation. This integration will make use of the trait theory, self-determination theory, as well as behavioral decision-making theory in order to provide an explanation for the disparities in the willingness to take entrepreneurial risks and the differences among individuals [3].

Big Five Personality Traits

The Five Factor Model (FFM) or "Big Five Personality Traits" (B5) is one of the most widely accepted models in personality psychology [2]. It encompasses five derived dimensions: Openness to Experience, Conscientiousness, Extraversion, Agreeableness and Neuroticism.

- Openness is the the strongest trait sample to risk acceptance and dangerous jobs, due to creativity and a willingness to embrace risk.
- Extraversion is also dominant in this context as it features high levels of assertiveness and a desire to seek risk, thus can be associated to Occupational and Organizational Psychology.
- Neuroticism is associated with risk aversion due to the anxiety it is perceived to bring, hence supporting the opposite view.
- This model is useful because many disciplines can benefit from a well-structured framework as this one and, in this case, the impact of personality on one's tolerance to risk can be measured and estimated.

Additionally, Self-Determination Theory (SDT) is applied to the Big Five model to better understand motivational aspects related to behavioral entrepreneurship [5]. As SDT argues, individuals are more likely to act voluntarily when their basic psychological needs of autonomy, competence, and relatedness are met. In the context of entrepreneurship, individuals with high levels of autonomy and intrinsic motivation tend to be more risk-taking. Such individuals tend to see challenges as possibilities for personal growth and self-actualization. At the same time, Behavioral Decision-Making Models explain how entrepreneurs tend to process information, think about risk, and make decisions in high-uncertainty environments. Decision-making as a phenomenon is influenced by several constructs including biases, emotions, and personality. For example, high Extraversion is associated with optimism and risk-taking because of increased sensitivity to potential rewards, while high Neuroticism is associated with increased anxiety and loss aversion, leading to overly cautious behavior. These frameworks enhance understanding in the area of psychology regarding an entrepreneur's risk appetite [13]. As for the developing world, it is essential to bear in mind that the willingness to take risks is not an economic choice by itself. Instead, it is an action of the head that is shaped by more or less permanent aspects of one's character, the decision-making layer underneath, and an intricate web of thinking and feelings.

Table 1 – Measurement Scales and Trait Definitions

Trait	Definition	Scale Used	No. of Items	Reliability (α)	Trait
Openness	Creativity, curiosity, preference for novelty	BFI – Openness Subscale	10	0.84	Openness
Extraversion	Sociability, assertiveness, energy orientation	BFI – Extraversion Subscale	10	0.81	Extraversion

Neuroticism	Emotional instability, anxiety, pessimism	BFI – Neuroticism Subscale	10	0.79	Neuroticism
Conscientiousness	Orderliness, goal orientation, impulse control	BFI – Conscientiousness	10	0.82	Conscientiousness
Agreeableness	Altruism, cooperation, empathy	BFI – Agreeableness Subscale	10	0.80	Agreeableness

Self-Determination Theory (SDT)

Self-Determination Theory developed by Deci and Ryan focuses on motivation concerning autonomy, competence, and relatedness. Moreover, an entrepreneur who possesses an autonomous motivational approach is more inclined to engage in a premeditated risk due to a self-imposed motivational drive. SDT assists in understanding the reasoning behind the motivational internal drives of particular individuals possessing certain risk embracing or evading personality traits.

Risk-Taking Behavior in Psychology

Risk-taking behavior is a complex concept of Psychology and has a wide application in areas such as Finance, Health, and Entrepreneurship. It is the extent to which a person will engage in behavior which has unpredictable results. It has been shown by Psychological studies that both one's character and one's ability to manage negative emotions will strongly influence this kind of behavior [1]. This research attempts to establish the link between trait theory and risk propensity and how personality driven traits influence entrepreneurial behavior.

Models of Behavioral Decision-Making

The conventional economic approach to decision-making focuses on the idea of businesses and people as rational decision makers. Behavioral decision-making models that expands from the traditional economics of rational decision-making focuses on cognitive distortion, rule of thumb, and emotions. Kahneman and Tversky's Prospect Theory and Theory of Planned Behavior try to explain how people estimate risk and the uncertainty that comes with it. These models validate some of the more classical ideas about the behavior of entrepreneurs that, unlike corporate managers, are often driven by some psychological factors.

III. TRAITS AND RISK BEHAVIOR IN ENTREPRENEURSHIP

The reasons for starting a business do not stem only from economic considerations.
Individual psychological dispositions, particularly personality traits, also play a major role. These traits are crucial in defining a how an entrepreneur will perceive, evaluate, and respond to risky opportunities in the devastating landscape of turbulence, uncertainty, and change.

Trait-Level Predictors of Risk-Taking

Considerable evidence suggests some of the Big Five personality traits have a profound impact on entrepreneurial behavior. Creativity, curiosity, and risk tolerance which are strongly associated with a preference for novel experiences are wrapped up in Openness to Experience. Entrepreneurs with a high degree of Openness are more willing to embrace uncertainty and pursue novel, high-risk business strategies. On the other hand, Neuroticism correlates with emotional instability and anxiety. Often, individuals with a high degree of Neuroticism will fixate upon losses, unduly exaggerate risks, and make avoidant, conservative decisions which are detrimental to entrepreneurial and innovative pursuits. Sociability and assertiveness, the hallmarks of Extraversion, tend to have a positive impact on entrepreneurship by encouraging action and risk-taking. Response in Question 26 of the survey suggests people differ in how Conscientiousness. While some individuals don't plan at all, some over plan and thus become risk averse. Also, Agreeableness is not neutral, and in combination with other traits will have a mixture of positive and negative effects.

Cross-Cultural Patterns in Personality and Business Risk

While certain biological attributes constitute personality traits, their cultural expressions and the behavioral outcomes may differ in specific social settings. Risk in collectivist cultures, which include some regions in Asia and Africa, may be limited to social responsibility even amongst highly open or extraverted individuals. Such cultures exhibit far greater signs of risk-taking behavior, and rather individualistically. Evidence suggests culture alters the impact of personality traits on risk behavior [12], implying that traits may produce varying entrepreneurial outcomes in different areas. This highlights the need to sociologically ground forecasts based on personality in the relevant social and institutional frameworks.

Risk Aversion vs. Risk Resilience in Uncertain Environments

Emerging markets encounter constant changes in the economic and political landscape, gaps in infrastructural development, and uncertainty in the nature of institutions. Besides the existing risk, these entrepreneurs face the additional challenge of adapting and recovering from the risk, which is referred to as risk resilience. This resilience may stem from a blend of personality traits such as high openness, low neuroticism, and moderate conscientiousness, which aid in adapting to changing circumstances.

Based on these insights, we understand that risk propensity entails more than just the readiness to accept risk; it includes the response to unsuccessful attempts, evolving market cues, and sustained uncertainty.

IV. PSYCHOLOGICAL FRAMING OF EMERGING MARKET DYNAMICS

The implosion of an international carrier combined with an escalation of instability-ridden terrorism sent a shock wave of transformation within the Serbian telecommunications market. Such irrational, uncontrolled and high impact events have become the new norm across many international markets, most notably the telecommunications sector, due to the lack of stringent frameworks to govern the industry. Suggestions have been made to assume the irrational behavior resembles chaos theory, where the undoughtable exhaustion of constant changes diverges from order, however for businesses, and the market overall, an effective and efficient approach to solve these concerns is integral.In the face of severe instability, an organization must devise strategies to survive the rampant contests for market share. Consider, for example, a bungee jump company. Using the sole focus of an advertising blitz, a company sets out to broaden the potential clients wishing to experience the bungee jump. As a result, numerous clients booking bungee jump appointments makes this strategy acute for a short span. That provoked critical wonders about the theory and highways of irrational behavior.

Economic Fluctuations and the Processes of Thinking and Emotion

Emerging markets are characterized by frequent changes to government policy, demand in the market, inflation, and the value of the currency. Such unpredictability increases anxiety, fear, and even overconfidence. Entrepreneurs are required to make decisions within a short period of time, often with little to no accurate information available [4]. Due to the internal and external factors at play, the way information is processed with feel is heavily determined by risk analysis which is influenced by neurotic and extroverted tendencies. From this perspective, risk tolerance illustrates the ability of the individual to control their emotions under economic distress.

Entrepreneurial Stress, Ambiguity Tolerance, and Psychological Readiness

Very ambiguous environments invariably lead to chronic stress. Inconsistent infrastructure, unpredictable regulations, and unreliable partners are all challenges that entrepreneurs face on a daily basis. Such environments are deeply ambiguous. Under such conditions, psychological traits such as adaptability and openness become paramount [11]. Most of us are familiar with low tolerance scenarios like stagnation in decision making.

In cases where decision making is psychologically flexible, entrepreneurs show much higher resilience and cognitive stamina. Psychological readiness is a more specific concept. Backed with stable emotions, clear values, and strong intrinsic motivation, psychologically prepared individuals more resilient.

V. PREDICTIVE DIMENSIONS OF PERSONALITY IN RISK CLASSIFICATION

Analyzing entrepreneurial personality dimensions facilitates the creation of risk propensity profiles of entrepreneurial behavior, thus enabling the classification of entrepreneurs according to their risk tolerance [15]. This section shows the personality dimensions can provide insight into probabilistic outcome mapping, behavior assessment, and primal-skeletal investor behavioral evaluations which are crucial in informing investor decisions and developing incubation policies for enterprise development.

Trait Aggregation and Behavioral Trend Analysis
Application of cluster analysis, decision tree analysis, and machine learning classifiers can be used to categorize entrepreneurs into behavioral clusters with unique personality-driven traits [14]. For example, entrepreneurs with high Openness and Extraversion traits, coupled with low Neuroticism may form a cluster that exhibit consistent high-risk behavior and a combination of resiliency and high-chance innovation. Such behavioral models are instrumental in the analysis of phenomena associated with the lifecycle of a startup, be it growth, survival, or failure.

These models or patterns are predictive and also descriptive in nature [10]. They provide a different behavior-based perspective of certain traits succession and configuration to certain entrepreneurial activities and real-life business and entrepreneurial phenomena, for example, stress-induced pivoting, failure-induced enduring, and constraint-induced innovation [7].

Frameworks Based on Predictive Analyses Using Non-Intrusive Evaluative Methods:
Profiling by Personality Traits
The architecture of such predictive systems is a strength of personality-based prediction methods, relying on non-intrusive and validated instruments such as the Big Five Inventory (BFI). These instruments are concise, self-reported, and do not demand any form of clinical evaluation [8]. Due to the rising integration of technology, personality traits can be incorporated into screening algorithms, enabling automated evaluation of entrepreneurs by incubators and investors to categorize them into actionable risk levels [9]. Furthermore, due to personality traits being relatively stable, a single evaluation can reliably forecast behavioral conduct for the entire span of a startup's life, from ideation to scaling.
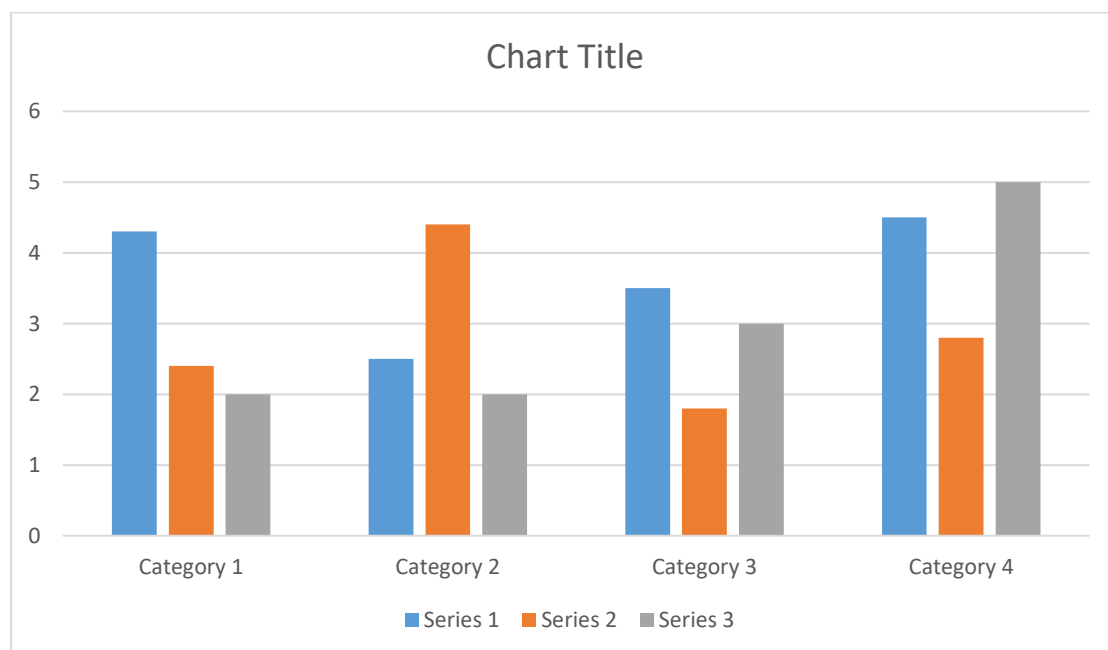

Figure 1 - Predictive Strength of Personality Traits on Entrepreneurial Risk Tolerance

The Figure 1 regard to the consideration of "The Big Five Model" of personality characteristics taxonomy, it indeed offers quite an interesting account as far as the delineated risks within an entrepreneurial context goes.Imaginative and curious individuals more open to different experiences positively predict a greater willingness to take entrepreneurial risk. Openness to Experience trait is the most notable with a standardized coefficient of +0.62.Extraversion also strongly positively impacts with a coefficient of

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+0.48 because of the influence of assertiveness and sociability on entrepreneurial risk. In stark contrast, neuroticism exhibits a significant negative correlation ($\beta = -0.55$) suggesting the emotionally unstable are more risk averse owing to their heightened sensitivity to uncertainty and failure.Finally, agreeableness has a small, negative effect ($\beta = -0.07$), suggesting the more agreeable one is the more likely is to avoid making high-risk decisions that may lead to conflict or competition. As a whole, the graph reinforces the fact that personality traits, most notably openness, extraversion, and lower levels of neuroticism, significantly predict risk-taking behavior in entrepreneurial contexts and reinforces the psychometric profiling frameworks for talent forecasting and pinpointing in dynamic and turbulent business climates.

VI. CONCLUSION

This research addresses frameworks of psychology with entrepreneurial activity by illustrating how an individual's personality affects their risk profile in the context of emerging markets. Following the Big Five Personality Model, Self-Determination Theory, and behavioral decision-making models, the study reveals how entrepreneurial risk tolerance goes beyond the scope of an economic-derived function, but rather a psychologically rooted capability that is shaped by relatively constant individual characteristics and intrinsic motivators. The data and theory suggest that risk tolerance is predictably higher among individuals displaying Openness to Experience, higher Extraversion, and lower Neuroticism. Through the lens of personality, these traits promote the necessary emotional and cognitive agility that is essential in coping with the ambiguity, institutional voids, and economic turbulence of emerging markets. This strengthens the understanding of risk tolerance as a form of psychological flexibility, shaped by individual personality traits and external pressures.

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