ENTREPRENEURSHIP AND EMOTIONS

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ENTREPRENEURSHIP AND EMOTIONS: INSIGHTS ON VENTURE PERFORMANCE

BY

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Dedication

To my family, the reason why I always think positive

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INTRODUCTION

Recent research efforts (e.g. Baron, 2008; Ingram, Peake, Stewart, & Watson, 2019; Lerner, Valdesolo, & Kassam, 2015) have underlined the necessity of considering emotions during discussions of entrepreneurial performance. Indeed, the latest studies have argued that entrepreneurial emotion is an 'hot topic' (Cardon, Foo, Shepherd, & Wiklund, 2012); accordingly, research shows that emotions influence both opportunity evaluation and exploitation decision (Hayton & Cholakova, 2012; Welpe, Spörrle, Grichnik, Michl, & Audretsch, 2012) and performance in general (Baron, Hmieleski, & Henry, 2012; Cardon, Wincent, Singh, & Drnovsek, 2009). This is due to the fact that 'entrepreneurship generates substantial emotions because it is an extreme context in terms of time pressures, uncertainty, and the extent of personal consequences tied up in the fate of the firm' (Cardon et al., 2012, p. 7).

For these reasons, this book aims to emphasise that entrepreneurship is a high emotional labour context, where positive and negative affect have a critical role and where emotions have to be controlled in order to achieve better performance (Cardon et al., 2012). Although scholars have begun to emphasise the role of emotion in entrepreneurial behaviour, including how positive affect influences entrepreneurs' engagement and performance (Baron et al., 2012; Cardon et al., 2009), this line of inquiry still needs to be understood in a more overarching manner (Ingram et al., 2019).

To better understand the role of emotions in entrepreneurship, the areas of focus are positive and negative affect and emotional intelligence. Entrepreneurial affect refers to the emotions, moods, or feelings of entrepreneurs that accompany the entire process of entrepreneurship (Cardon et al., 2012). As an important psychological feature of such individuals, it plays an important role in optimising entrepreneurial cognitive ability, inducing entrepreneurial behaviour, and subsequently affecting entrepreneurial performance (Baron & Tang, 2011; Dijkhuizen, Gorgievski, van Veldhoven, & Schalk, 2016). In the same vein, according to Salovey and Mayer (1990, p. 189), emotional intelligence is defined as 'the ability to monitor one's own and others' feelings, to discriminate among them, and to use this information to guide one's thinking and action'. In this definition, emotions are considered as 'useful sources of information that help one to make sense of and navigate the social environment' (Salovey & Grewal, 2005, p. 281). Moreover, in the decision-making process, if a person is able to understand his/her own emotions this allows him/her to realise not only the motivations at the base of decisions but also the potential consequences of those decisions for others (Hess & Bacigalupo, 2011). Following the argument that emotional intelligence plays an important role in affecting the decision-making process (Hess & Bacigalupo, 2013), emotional intelligence could help distinguish good performers (i.e. entrepreneurs) from bad performers (Boyatzis, 2009; Goleman, 1998).

Starting from these theoretical premises, the intention of this book is to contribute to entrepreneurship literature explaining and summarising how affect, both positive and negative, and the emotional intelligence of entrepreneurs have an impact on venture performance. In order to achieve this aim, the first chapter focuses on the understanding of the relationship between affect and entrepreneurship. After explaining that the literature about affect and entrepreneurship can be classified following four main criteria – the level of analysis, the antecedents and consequences of affect, the consequences of affect for the entrepreneurial process, and the facets of affect analysed (Delgado García, De Quevedo Puente, & Blanco Mazagatos, 2015) – a focus on the main literature about the relationship between positive and negative affect and venture performance is provided.

In Chapter 2, the main topic is an investigation of the role of emotional intelligence in entrepreneurship field. As with Chapter 1, the main contributions involving this topic will be discussed. Using this literature review as a base, Chapter 3 presents some hypotheses and explains the related theoretical framework to be tested. The second part of the chapter focuses on explaining the research method adopted to test the theoretical framework, while also describing the data collection, the research setting, and the sample. Specifically, the aim of this research is to investigate the emotional side of venture performance; in order to do so, the hypotheses which composed the theoretical framework consider positive and negative affect and emotional intelligence and explain how these emotional components should be related to entrepreneurs' venture performance.

Consequently, Chapter 4 aims to describe the empirical analysis conducted in order to test the theoretical framework. The descriptive statistics, considering the minimum and maximum value for each variable investigated and the related mean and standard deviation, are described; in addition, the correlation matrix results are presented. Subsequently, confirmatory factor analysis (CFA) is performed and finally the results of regression analysis run using SPSS v.26 are reported. In the final chapter, the main findings regarding the emotional side of venture performance are discussed and the theoretical and practical implications are presented.

1

UNDERSTANDING THE RELATIONSHIP BETWEEN AFFECT AND ENTREPRENEURSHIP

1.1 AFFECT AND ENTREPRENEURSHIP: SOME DEFINITIONS

Melissa Cardon, one of the most important researchers with regard to the role of affect and emotions in the field of entrepreneurship, together with other colleagues, stated that 'entrepreneurship generates substantial emotions because it is an extreme context in terms of time pressures, uncertainty, and the extent of personal consequences tied up in the fate of the firm' (Cardon et al., 2012, p. 1). Indeed, there are several reasons why affect may be relevant for entrepreneurs (Baron, 2015). First, as underlined by Cardon and colleagues, entrepreneurs often operate in highly uncertain and dynamic environments and their behaviours and actions are mostly influenced by unpredictable and ambiguous contexts. In these situations the emotional side is often the dominant characteristic when decisions have to be made and strategies have to be applied. Second, persons who want to be entrepreneurs are often able to experience intense affect and emotions. Indeed, entrepreneurs are often described as having high levels of passion – powerful commitment and emotional attachment to their ideas, new ventures, and the roles they play while launching and developing these new businesses (e.g. Cardon et al., 2009). Further, because entrepreneurs personally identify with their ventures and constantly face the unknown, they are inherently likely to feel strong affect and emotions – both negative and positive (Delgado García et al., 2015; Doern & Goss, 2013; Morris, Kuratko, Schindehutte, & Spivack, 2012).

Before we move forward and discuss the role and empirical evidence regarding affect and emotions in the entrepreneurship field in more depth, it is important to clarify some definitions. As explained by Baron (2015, p. 1) in the Wiley Encyclopedia of Management,

> *the term affect has generally been defined in a large body of research as referring to a very broad range of feeling states. Affect, therefore, encompasses both moods, which are often relatively long-lasting in nature but not focused on specific events or objects (e.g., cheerfulness and depression), and emotions (e.g., anger, sorrow, and joy), which are often shorter in duration but more specifically directed toward a particular object (e.g., a person, an event, or an object). (Frijda, 1993)*

Referring to entrepreneurship, scholars usually define this process as the recognition that there exists, or can be created, of business opportunities: the evaluation of the desirability and feasibility of an opportunity for the focal person or firm; and the exploitation (and perhaps reformulation) of an opportunity (McMullen & Shepherd, 2006; Shane & Venkataraman, 2000). As per Cardon et al. (2012), by opportunity this study refers to

> *[a situation] in which new goods, services, raw materials, markets and organizing methods can be introduced through the formation of new means, ends, or means-ends relationships to create value. (pp. 2–3).*

Considering these definitions together, when entrepreneurs' affect and emotions are investigated, the literature usually refers to

> *the affect, emotions, moods, and/or feelings – of individuals or a collective – that are antecedent to, concurrent with, and/or a consequence of the entrepreneurial process, meaning the recognition/creation, evaluation, reformulation, and/or the exploitation of a possible opportunity. (Cardon et al., 2012, p. 3)*

Keeping these definitions in mind, in the following paragraphs the main literature about the role of affect in entrepreneurship will be discussed.

1.2 AFFECT AND ENTREPRENEURSHIP: LITERATURE REVIEW

A recent review of the literature entitled *How Affect Relates to Entrepreneurship: A Systematic Review of the Literature and Research Agenda* (2015) by Juan Bautista Delgado Garcıa, Esther De Quevedo Puente, and Virginia Blanco Mazagatos offers an interesting categorisation of entrepreneurship research on affect. The authors explain that the extant literature in this area could be classified following four main criteria: the level of analysis, the antecedents and consequences of affect, the consequences of affect for the entrepreneurial process, and the facets of affect analysed (Delgado García et al., 2015).

1.2.1 The Level of Analysis

The first criterion is that it is important to consider is the level of analysis. Three levels of analysis can be considered: individual, interpersonal, and group (Delgado García et al., 2015). Most of the studies about the role of affect in entrepreneurship are focussed on the individual level of analysis, namely the entrepreneur. Of these, the most cited and important contributions by Baron and colleagues (Sassetti, Marzi, Cavaliere, & Ciappei, 2018) argue that affect plays an important role in the entrepreneurship process, from opportunity recognition to resource acquisition. In line with this, research has demonstrated that entrepreneurs' dispositional positive affect (DPA) is related to many beneficial outcomes, such as product innovation and sales growth (Baron & Tang, 2011), innovation, and creativity in general (Baron & Tang, 2011). At the same time, an increase in entrepreneurs' DPA is associated with damaging effects, for instance reduced task performance and higher impulsivity (Baron et al., 2012).

Few studies have examined the relationship between affect and entrepreneurship considering the interpersonal and group level. As explained by Delgado García et al. (2015), those research efforts which have considered the interpersonal level of analysis predominantly focus on the influence of positive affect displayed by entrepreneurs on the perceptions and decisions of other individuals, such as employees and investors (Breugst, Domurath, Patzelt, & Klaukien, 2012), or how negative affect displayed by the entrepreneur influences others' perceptions or decisions (Cardon, 2008). In this context, it is important to underline that:

> *little is known on how affect displayed by other individuals influences the perceptions and decisions of the entrepreneur or on how affect displayed by an entrepreneur sways other members of an entrepreneurial team. This seeming lack of analysis is surprising, since affective influence between entrepreneurs and other individuals related to their ventures might be bidirectional – and because ventures are not always formed by a sole entrepreneur. (Delgado García et al., 2015, p. 199)*

Finally, regarding the group level of analysis, it is evident that several studies have considered the effect of negative affect and business failure when a group entrepreneurial decision has to be made. In this regard, there is a need for a better understanding of how affect is distributed across social (different people and stakeholders) and organisational (entrepreneurial team, family business, and overall organisation) actors. This is particularly true in these times of complexity and change as entrepreneurs' decisions have a wider range of influences and are often the results of negotiation with different stakeholders (Randolph-Seng et al., 2015; Sassetti et al., 2018).

1.2.2 Affect as an Antecedent or Consequence of Cognition

Most of the literature about affect and entrepreneurship is discussed within the entrepreneurial cognition (EC) literature. EC represents the knowledge structures that entrepreneurs use to make assessments, judgements, or decisions involving opportunity evaluation, venture creation, and growth (Mitchell et al., 2002; Randolph-Seng et al., 2015). Indeed, 'Affect is a pervasive part of the way we see the world' (Forgas, 1995). Moreover, as pointed out by Simon after developing his theory on decision making, '[…], in order to have anything like a complete theory of human rationality, we have to understand what role emotion plays in it' (Simon, 1987).

For this reason, it is important to understand the link, in terms of antecedents and consequences, between affect and cognition. From Delgado and colleagues' review, we know that the majority of the literature has focussed on the consequences of affect with regard to cognition, such as opportunity recognition and evaluation. This emphasis is not surprising given that researchers have traditionally emphasised the effects of cognition on the entrepreneurial process as opposed to the antecedents of EC (Mitchell et al., 2007). On the contrary, few studies explore the cognitive antecedents which have an impact on affect. Most studies of antecedents have focussed on business failure and grief (e.g. Shepherd, 2003). As underline by Delgado García et al. (2015), the disproportionate theoretical and empirical focus on the cognitive consequences of affect calls for new research which analyses the antecedents of entrepreneurs' affect and the dynamics between antecedents and consequences.

1.2.3 The Consequences of Affect for the Entrepreneurial Process

For many years, entrepreneurship studies have been conducted within the context of economics: entrepreneurship has been considered as the heart of economic development and the unit of analysis for such studies has essentially been the individual (Sciascia & De Vita, 2004). The first definition of entrepreneur was given by Cantillon (1755) in his *Essai sur la Nature du Commerce en General*. What first appeared as a link between economic activity and the role of the entrepreneur was his inclination to risk and his ability to manage situations of uncertainty. According to Cantillon, in fact, the entrepreneur is a speculator in search for profit from arbitrage, from buying at a certain price and selling at an uncertain price. Furthermore, Say (1846) introduced the concept of entrepreneur in his *Traite D'économie Politique* in the early 1800s. In his representation of the economic system, Say identifies the entrepreneurial activity in the art of superintendence and administration.

In Britain, following the Industrial Revolution, Mill (1848) identified the role of the entrepreneur in a supervisory activity and specified the requisite qualities. Among these qualities the economist underlines 'superior knowledge' and 'habitual rectitude of perception and judgment'. Other British economists have contributed to the development of a theory of entrepreneurship: unlike other later neoclassical economists, Marshall, Pigou, and Edgeworth studied the entrepreneurial phenomenon (Sciascia & De Vita, 2004). Marshall (1930) defined the entrepreneurial function in providing innovations and consequently progress, writing that the entrepreneur (employer) is 'the mastermind of the whole'. An entrepreneur is responsible for decision-making about what kinds of job have to be done, how, and by whom. It is important to underline how already in Marshall's formulation not all businessmen can be considered entrepreneurs in the previous example. Marshall's entrepreneur is innovative in operative terms, meaning that he innovates for efficiency more than efficacy; thus, Schumpeter had the possibility to develop his ideas in a fuller sense.

Schumpeter and Nichol (1934) saw the entrepreneur as the major agent of economic development. The concept of economic development covers the following five cases: (a) the introduction of a new good or of a new quality of a good; (b) the introduction of a new method of production; (c) the opening of a new market; (d) the conquest of a new source of supply of raw materials or half-manufactured goods; and (e) the carrying out of the new organisation of any industry. In his work, Schumpeter conceives the market as a system in equilibrium and entrepreneurship as the process of disrupting such equilibrium, a way of moving the market away from it. In order to understand Schumpeter's contribution to the research in the field it is important to underline that this kind of innovation comes from resources that already exist in the market and are already under the control of the entrepreneur. In this sense, innovation is not the consequence of an invention; rather, invention operates as an exogenous factor with regard to the economic dynamics. Of course, inventions could change the perceived value of some resources, but this can happen only after their implementation in the ordinary activity of the firms. While entrepreneurs may be inventors, the birth of an innovation itself does not require invention.

In contrast, Kirzner (1979), an Austrian economist, suggests that entrepreneurship is the consequence of innovations designed to exploit the opportunities afforded by economic disequilibrium. He therefore turns the Schumpeterian view upside down, depicting the entrepreneur as an equilibrator agent taking advantage of disequilibrium.

With these historical premises in mind, we should affirm that entrepreneurship is built around opportunities (McMullen & Shepherd, 2003; Shane & Venkataraman, 2000) that have to be recognised, evaluated, and managed. Accordingly, Delgado García et al. (2015) explain that most of the studies about the role of affect in entrepreneurship have considered the intermediate stages of entrepreneurial process, namely opportunity exploitation, venture management, and success. Most of these studies have considered positive affect; however, less is known about the role of negative affect. Specifically, we know that positive affect increases opportunity recognition, but researchers have also suggested that this beneficial effect has a limit (Baron, 2008; Cardon et al., 2009; Foo, Murnieks, & Chan, 2014). It is not clear whether the influence of positive affect on opportunity recognition increases at a lower rate as positive affect increases or whether there is a discrete threshold beyond which very high levels of positive affect may reduce opportunity recognition. Regarding the opportunity evaluation, the researchers (Baron, 2007, 2008; Baron et al., 2012) explain that positive affect can be useful in evaluating opportunities; however, at the same time if there is an exaggeration of positive disposition, it could become a bias and lead to an overestimation of some information and situations that could subvert the opportunity evaluation success.

Considering the exploitation phase, researchers have asserted that it is important both to understand the decision to exploit and also to consider how to collect financial, human, and material resources (Clarke, 2011). In this context, studies have focussed on understanding the interpersonal effects of affect, particularly positive affect (e.g. Breugst et al., 2012) in engaging potential resource providers. Specifically, Brundin, Wigren, Isaacs, Friedrich, and Visser (2008) and Clarke (2011) have outlined how entrepreneurs' affective displays influence employees' willingness to act entrepreneurially and signal to resource providers that their venture is feasible and legitimate. Some other studies have focussed on the perception of entrepreneurial passion by employee and investors (Breugst et al., 2012; Chen, Yao, & Kotha, 2009), concluding that that entrepreneurial passion perceived by investors positively influences the investors' evaluations of technologies.

Finally, examining the management and the success of the venture, studies have demonstrated that affect is related to innovation (Baron & Tang, 2011;