New Ventures : How Team Motivation Affects Financial Outcomes

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- Start-up performance : Considering motivation in entrepreneurial team composition
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Abstract

Purpose

This paper contributes to understanding the impact of entrepreneurial team composition on new venture performance. Different types of entrepreneurship motivation among founding team members are defined. Using a relatively recent theory as a framework (i.e., Self-Determination Theory), the authors group these motives into two categories: autonomous and controlled motivation. The business impact of the level of each type of motivation within the team, as well as the impact of having team members with different motivational drivers is examined. New venture performance is modelled in two different ways: financial performance (i.e., ROA) and innovation performance.

Design/methodology/approach

The analyses are based on 66 founding teams active in diverse activity sectors. The teams represent a total of 142 business founders. Data was collected through structured interviews, a company questionnaire, and a secondary data source (i.e., certified financial statements).

Findings

Results confirm that the level of autonomous motivation within the team contributes to start-up financial performance whereas the level of controlled motivation hampers innovation performance. No direct effects of diversity of team member motivation on start-up performance were discovered.

Originality/value

This is one of the first papers to study multiple firm performance effects of the composition of entrepreneurial founding teams in terms of motivation.

Keywords

Start-ups, entrepreneurial team, composition, motivation, Self-Determination Theory, financial performance, return on assets, innovation

There are few examples of successful new ventures stemming from the genius of a 'lone wolf'. More typically, venture creation is the result of a concerted and sustained collective team effort. Such teams go by a number of different names, such as founding teams, start-up teams, new venture teams and entrepreneurial teams. Ample evidence shows that these teams have a significant role in devising and executing a new venture's vision, strategy, structure and procedures – all factors which ultimately determine its success or failure.

Earlier work which looked at the impact of team composition on new firm performance tends to focus on either demographic variables like age or gender, or human capital features such as experience or skills. Personality and other dynamic psychological differences between team members, which are arguably more relevant than static individual features, have largely been ignored. Prior studies have also grappled with how to extrapolate individual characteristics to the team level. Many studies opt for so-called aggregate scores to represent the corresponding team characteristic. Although informative, this approach destroys any differences that might exist among team members. Capturing these differences is vitally important because the presence of opposing views, and how these views are managed within the team, are likely to influence team functioning, effectiveness and decision-making power. Therefore, whilst it is clear that start-up teams influence start-up performance, it is markedly less clear *how* teams influence firm outcomes. To answer this important question and correct for earlier research flaws, the current work explores how differences in psychological characteristics amongst team members impact new venture success.

Entrepreneurial team motivation

Motivation, the powerful internal drive that initiates, reinforces and maintains goal-focused behaviours, is key to entrepreneurship. In spite of this logical connection, previous research has either ignored the motives of

entrepreneurs or assumed that all entrepreneurs have the same 'default' motivation (e.g., 'they are in it for the money'). Yet, an essential element in studying motivation is that individuals may have multiple incentives for action. So, on top of considering the motives of different members within a team, it is crucial to acknowledge that each of those members may simultaneously have multiple motives. Self-determination theory (SDT) (Gagné and Deci, 2005), a more recent motivation theory, offers such a framework. Contrary to other theories on motivation, SDT does not consider motivation to be a unitary concept, which makes it ideal for investigating teams.

According to SDT (Gagné and Deci, 2005), individuals can engage in a task because they genuinely enjoy doing it or because they view the task as being personally important (i.e., autonomous motivation). Or they may also feel some pressure to take part in an activity, perhaps because they wish to attain certain rewards that are dependent upon task completion or because they strive for outside approval (i.e., controlled motivation). Translated to an entrepreneurial setting, autonomously motivated entrepreneurs go down the path of starting their own business for the personal enjoyment, satisfaction and desire to keep their venture going. Controlled motivation, in contrast, entices entrepreneurs to create and develop new ventures because of the anticipated rewards or because they appreciate the status associated with being an entrepreneur (Deci *et al.*, 1999).

Although several studies support the distinction between autonomous and controlled motives as an adequate approach to studying work motivation, few have actually tested the theory within an entrepreneurial setting. Instead, research on entrepreneurship motives has largely concentrated on push-pull factors as predictors of firm activities. Distinguishing between autonomous and controlled motivation, however, offers some unique insights into entrepreneurship. Several arguments support this view. For one, this distinction incorporates what is already known in terms of the push-pull strand in entrepreneurship research (e.g., opportunity versus necessity entrepreneurship). In addition to push-pull motives, autonomous and controlled motives transcend pre-launch or launch activities of entrepreneurship and can be used to examine motivational changes during the development of the business. What's more, the SDT framework has a wide reach as it can be applied to a specific (i.e., individual or team-based) activity, a project, or an entire profession. The push-pull debate, contrarily, is limited to the person of the entrepreneur, thereby ignoring any task-level motivational differences. Finally, while autonomous and controlled motives trigger and sustain purposeful behaviour in a diverse way, they are not

considered mutually exclusive. Ryan and Deci (2000) posit that actions may be simultaneously motivated by a combination of autonomous and controlled factors. Contrary to the push-pull factors, **autonomous motives do not preclude an individual from seeking rewards, and controlled motives does not rule out task enjoyment.**

Level of entrepreneurial team motivation and start-up performance

New venture financial performance measures such as net sales, return on assets (ROA), return on equity (ROE) and firm profitability are quite common in entrepreneurial team research. Since ROA refers to a firm's profitability relative to its assets, it sheds light on the efficiency of the founding team at using company assets to create financial wealth. As such, the current study enlists ROA as an indicator of founding team performance. In addition to financial performance, innovation performance (i.e., bringing new goods and services to the market) is also important for firms, including new ventures. Innovation fuels organizations' competitive advantage and stimulates growth and survival. Innovation is, to some degree, a goal for many new ventures. However, it involves insecurity and risk and requires (strategic) perseverance.

Pursuing innovation and achieving financial wealth as a start-up is not straightforward. Given the founding team's central role in the business, its motives will colour the diversity of the decisions and actions required. In modelling the impact of the team's motives on new venture performance, this paper first addresses *the level of* autonomous and controlled motivation, followed by the associated *differences in motivation* within the team.

Accumulating wealth, monetary compensation and building equity have long been recognized as dominant incentives of entrepreneurship. SDT specifies that when an entrepreneur is motivated in this way, the financial performance of the new venture becomes instrumental to attaining personally desired outcomes (e.g., financial capital, outside approval) or to avoiding undesired ones (e.g., business failure, shame, guilt). With higher levels of controlled motivation, entrepreneurs, either alone or as part of a team, will become increasingly energized to take actions that foster new ventures' financial performance. Meanwhile, despite substantial evidence of people engaging in entrepreneurship without any apparent reward other than task enjoyment (Carsrud and Brännback, 2011), little research explores how autonomous entrepreneurship motives impact new venture performance. We know from prior work in psychology that when activities are experienced as naturally satisfying, individuals tend to persistently exert effort, be eager to acquire additional knowledge and show improved creativity (Deci *et al.*,

2001). Extrapolating this finding to entrepreneurship, founders with advanced levels of autonomous motivation are expected to exert more time and effort on business development, display more task engagement and achieve higher functional effectiveness, which ultimately should be reflected in higher start-up financial performance. In sum, while some entrepreneurs in a team may be (mainly) driven by external contingencies (i.e., controlled motives) and others by task enjoyment (i.e., autonomous motives), they will all share a commitment to pursue the new business opportunity. Both types of motivation will trigger founding teams to promote new ventures' financial performance.

Unlike ROA, which may be influenced by short-term factors, innovation is a more distant goal. Lacking imminent external rewards, such goals usually do not advance via controlled motivation. Though past research has suggested that even controlled motives could have a positive effect on creativity and innovation (Eisenberger *et al.*, 1999), more recent work has refined that idea and made its effect contingent upon the rewards attached to the innovation. In view of the high levels of insecurity and risks involved with innovation within new ventures, its possible rewards are expected to be too weak to trigger any controlled motivation. Stirred by the prospect of accumulating wealth, control-motivated founding teams are more likely to shorten their time perspectives and lucratively consume any available means of production, thereby destroying their innovation power. Yet if entrepreneurs consider innovation as something of genuine value, and anticipate that their efforts will lead to innovation performance, then autonomous motives will play a facilitating role in their behavioural scheme and stimulate start-up innovation. This line of thought is not entirely new. Past research has identified autonomous motives as key ingredients for individual innovation and creativity (Prabhu *et al.*, 2006). Aimed at new venture continuity and long-term fruition, rather than short-term profitability, autonomous motivation is expected to promote strategic investments, calculated risk-taking, and the development of a higher capacity of new venture innovation.

Motivational Differences within Teams

Since members within a team can have varying levels of autonomous and controlled motives, motivational differences will emerge within the team. Capitalizing on the information decision-making perspective of team diversity, this paper posits that entrepreneurial teams will process information differently depending on their members' motivation for the task at hand and its targeted outcome. In general terms, information processing involves the learning and exchange of perspectives among group members,

the individual-level processing of this information, feeding back processing results to the group and the discussion and integration of member feedback (Van Knippenberg *et al.*, 2004). Though these information-processing requirements are highly demanding, they are beneficial in the context of complex, cognitive and risky innovations. Whenever learning processes resemble the information processing of the team, as with new venture innovations, diverse standpoints, orientations and beliefs are essential to reach a greater understanding of the situation and its strategic alternatives. The higher the value, idea and knowledge diversity embedded in the motivational differences of its members, the more the founding team will challenge the status-quo, show creativity in solving problems and ultimately foster start-up innovation.

Given the mechanisms listed above, it is not surprising that team information processing is to some extent an ambiguous and often time-consuming process. In fact, its requirements may prevent a team from engaging in efficient decision-making and achieving timely compromises. Variety in individually-valued goals, beliefs and cognitive schemas that stem from motivational differences may therefore disturb the setting for short-term oriented tasks or objectives that capitalize on such efficient decision-making (e.g., short-term ROA). To secure team effectiveness, entrepreneurial teams comprised of members with different motivational drivers will have to devote some resources (e.g., time and effort) to the reinstatement of group coherence and team consent. Meanwhile, equally motivated team members might find it much easier to develop and sustain short-term communication patterns, group objectives and *modi operandi*. While such communality among team members does not particularly favour start-up innovation or long-term fruition, it may enable less diversely motivated teams to facilitate new venture financial performance.

Study design

The sample for this study originates from the START research program (now finished), an extensive survey on new ventures located in Flanders, Belgium. To be eligible for START, companies need to be in business for one to three years; active within various economic sectors; and have a minimum of one and a maximum of 49 employees. The primary source of data involved an interview with each of the entrepreneurs. Face-to-face interviewing allows for the acquisition of detailed information regarding their educational background, career trajectory and entrepreneurship motives. A questionnaire was mailed to each firm prior to the interviews to collect general company information. Financial performance information was captured using audited

information from Bel-first, a financial database holding information on the company accounts of firms incorporated under Belgian law. Considering the study's focus on teams, a subset of the START data was used for the analyses. This resulted in a final sample of 66 ventures representing 142 founders. Teams ranged in size from two to four members.

To measure new venture financial performance this paper makes use of ROA data over the last two fiscal years following the interview and survey data collection. A two-year period makes it possible to observe a more stable pattern in the ROA while avoiding the introduction of macro-economic noise. Regarding innovation performance, three measures included within the company questionnaire captured three theoretically meaningful innovation dimensions: product portfolio, process technologies and served markets. The number of distinct types of products or services the firm offers was used to differentiate single-product from multiple-product firms. The number of possible process technologies used to create and deliver these products or services ranged from 'one dominant technology' (46.97%) over 'two distinct technologies' (12.12%) to 'three or more distinct technologies' (40.91%). Finally, concentrating on multi-market ventures, the diversity of the served markets was scored on a five-point scale ranging from 'very equivalent' (1) to 'not equivalent at all' (5). Together, these measures provide an overview of new ventures' innovation performance. For each firm, the 10-point aggregate of these measures was calculated with 10 representing a multiple-product new venture, relying on minimum three distinct process technologies, thereby serving completely disparate markets.

Assessing the founding team's level of controlled and autonomous entrepreneurship motivation involved the following steps. First, during the interview the motives of each entrepreneur were assessed based on a scale that is grounded in self determination theory (i.e., Vansteenkiste *et al.*, 2009). Next, consistent with Maes *et al.* (2005), two factors with scale ranges from 0 to 100 were calculated, one for individual autonomous motives and another for individual controlled motives. The average autonomous (controlled) motivation among team members was calculated to determine the team's level of motivation. Using Allison's (1978) 'coefficient of variation' individual autonomous (controlled) motivation was also used to create an index of motivational differences amongst team members. A high score on this coefficient indicates that there is great divergence in motivational preferences, whereas a low score denotes that most team members share the same motivational drive. To ensure that the study excludes any rival explanations, the analyses controlled for firm continuation, team size, industry and environmental turbulence. In order to explore the

performance contribution specific to entrepreneurial team motivation, more traditional demographic and human capital diversity variables (e.g., gender, education, industry experience) were equally controlled for.

Findings

The paper uses regression as a statistical procedure. In the model explaining financial performance, the team's level of autonomous motivation positively contributes to the ROA-based performance measure. Contrarily, neither the level of controlled motivation nor team motivational difference indices show any impact on start-up financial performance. Considering the model explaining innovation performance, the team's level of controlled motivation appears to hamper start-up performance. Yet no effect of the level of autonomous motivation emerges. Team diversity with respect to either autonomous or controlled motivation also fails to show an impact. Table 1 summarizes the proposed relationships as well as the analysis results.

Insert Table 1 here

Discussion

This study shows the importance of considering the motivational aspect of entrepreneurial team composition. On top of a wide array of more typically studied facets of team composition, motivational elements help to explain differences in start-up performance (financial or innovation). This study sets the scene for renewed and contemporary attention for motivation in entrepreneurship, an element that has been long ignored (Carsrud and Brännback, 2011). The study's findings confirm the distinction between autonomous and controlled entrepreneurship motivation. The level of both types of motives can generate different effects, which goes against a unitary view on motivation (Gagné and Deci, 2005).

As far as the level of autonomous motivation is concerned, the results confirm the anticipated positive effect on start-up financial performance. The effect on innovation performance, however, is not supported. An explanation for this absent link lies in the close resemblance between becoming an entrepreneur (e.g., starting up a new venture) and innovation activities within young organizations (e.g., bringing new goods and services to the market). By entering entrepreneurship, the team members' tasks resemble those when pursuing innovation. It could be that the level of autonomous motivation is simply too high for any additional autonomous factors to trigger innovation effects. Securing new venture ROA, however, is far more of a managerial activity than first-stage entrepreneurial ones. Resemblance

between entrepreneurship and the latter is less outspoken, which allows additional effects to occur.

Considering the results for the level of controlled motivation, we observe a confirmation of the proposed negative effect on innovation performance, yet the expected positive impact on financial performance is absent. This could be linked to the initial life cycle stage the new ventures are in. In this stage, start-ups need to closely monitor their financial performance anyway in order to secure their survival and satisfy the often-external providers of financial resources. The level of controlled motivation in the team then does not render additional explanatory power on the venture's financial return.

The study's findings could not confirm any effect of motivational differences within the entrepreneurial teams on start-up performance. Diversity in psychological drive amongst group members, therefore, doesn't appear to be a crucial direct input for start-up performance, yet it could be an important contextual element to study. Through its effects on team processes (e.g., communication, information processing, collaboration) this contextual influence deserves additional research attention (Zhou *et al.*, 2015). This type of research, however, requires a sample larger than the one in this study.

Conclusion

Motivation matters within entrepreneurial teams, on top of demographic and human capital characteristics such as gender, education and experience. It should, therefore, be re-included in the entrepreneurship research agenda. Start-up performance is not only influenced by the founding team members' ability, but also by their motives. In order to inform practice, a broader approach whereby motivation is not only considered as an input for performance but also (and perhaps even more) as a contextual element, might be required to advance the understanding of entrepreneurial team processes, dynamics and business outcomes.

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Table 1. Overview of the proposed relationships and findings.

	Proposed relationships		Findings	
	Fin. perf.	Innov. perf.	Fin. perf.	Innov. perf.
Auton. mot. level	+	+	+	n.s.
Contr. mot. level	+	-	n.s.	-
Auton. mot. diversity	-	+	n.s.	n.s.
Contr. mot. diversity	-	+	n.s.	n.s.

n.s. : not significant ; + : positive relationship ; - : negative relationship.