



**How Entrepreneurs Think: Financial Decisions for the Long
or Short Term**

Journal:	<i>Journal of Business Strategy</i>
Manuscript ID	JBS-04-2020-0068
Manuscript Type:	Article
Keywords:	New business performance, Entrepreneurship motivation, Intrinsic motivation, Extrinsic motivation, Financial dilemmas, Return on assets

SCHOLARONE™
Manuscripts

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60

**JBS-
04-
2020-
0068**

Submitted: 03-Apr-2020; Last Updated: 03-Apr-2020; 32 days, 0 hours in review

- How contradicting motivations raise financial dilemmas for entrepreneurs
- [Debrulle, Jonas \(proxy\)](#) (contact); Maes, Johan; Gardiner, Elliroma

How Entrepreneurs Think: Financial Decisions for the Long or Short Term

Abstract

Purpose

This paper suggests that start-up motivations lead entrepreneurs to pursue different kinds of new business performance, which in this study is expressed in financial terms as return on assets (ROA). The authors posit that extrinsic motivation leads entrepreneurs to be more short-term oriented, while intrinsic motivation encourages a longer-term business vision. The paper explores how intrinsic and extrinsic entrepreneurship motivations combine and produce financial dilemmas for entrepreneurs.

Design/methodology/approach

The analyses are based on interviews with 300 entrepreneurs across diverse industries in Belgium. Data was collected for this study through structured interviews with entrepreneurs combined with company questionnaires. Financial data was obtained through a government database.

Findings

Results confirm that extrinsic entrepreneurship motivation boosts new business short-term financial performance, while intrinsic motivation contributes to the firm’s longer-term financial returns. The paper also shows that a mix of intrinsic and extrinsic motivations directs entrepreneurs toward different profitability levels during the organization’s survival and early-establishment phase.

Originality/value

Research on entrepreneurship has not yet corroborated that motivations can conflict, saddling the entrepreneur with dilemmas that may manifest into different levels of business performance.

Keywords

New business performance, entrepreneurship motivation, intrinsic motivation, extrinsic motivation, financial dilemmas, Return On Assets.

There are many reasons why an individual might decide to become an entrepreneur. It would be fair to say that some level of financial success is an anticipated reward for starting a new venture. Entrepreneurship might also be a way to achieve social status as well as make a contribution to the community. Many individuals may also be drawn to entrepreneurship because of the opportunity to have independence and control over the creation of something new. Despite this vast range of (possibly co-existing) reasons, academic work tends to conceptualize entrepreneurship motivations as either one or the other type, ignoring any interactions between them. However, given the dedication and risk associated with starting a new venture, it seems unrealistic to expect that entrepreneurs make such these large commitments for a single reason, such as to make money, though this may be a key driver.

Another caveat of the current knowledge on entrepreneurship motivation is that it tends to overemphasize entrepreneurial intentions (EI) while understating the actual actions. Whilst there is something to be said for having an entrepreneurial mindset, talk to any entrepreneur and he will tell you that entrepreneurship is a series of calculated risks and it is only through taking these economic, reputational, and personal risks that one can be truly considered an entrepreneur. What's more, the studies that do account for action-taking generally focus on the creation of a new business only in the survival phase.

This paper posits that **start-up motives continue to direct entrepreneurial action-taking beyond the business' survival period**. It contributes to the understanding of how much entrepreneurship motivation, specifically intrinsic and extrinsic motivation, accounts for the variance in new business performance, measured as year-by-year ROA, up until five years past the emergence of the firm. Consistent with prior work, this study defines extrinsic entrepreneurship motivation as the drive to engage in new business creation and development because of the material outcomes it can provide, especially financial rewards. Meanwhile, intrinsic entrepreneurship motivation relates to the drive to adhere to the task of firm creation and development because it is inherently enjoyable. To the best of the

1
2
3 authors' knowledge, the potential personal dilemmas that may occur for an
4 individual entrepreneur as a result of trying to reconcile conflicting motivational
5 goals have yet to be examined.
6
7

8
9 While entrepreneurship motives are obviously not the only ingredient explaining
10 new business performance, they represent a crucial factor influencing performance.
11 Because of entrepreneurs' pivotal role in the business, their motivations and
12 ambitions may affect the firm through the articulation of strategy, the allocation of
13 resources, and the overall management of responsibilities.
14
15
16

17 18 **Intrinsic and extrinsic motivation revisited** 19

20 Motivation represents the psychological drive that encourages individuals to act,
21 whether it is to eat when feeling hungry or to enroll in a university to obtain a
22 degree. A considerable part of our knowledge on this topic is related to
23 understanding job-related behavior. Vroom (1964) stated that job motivation is the
24 product of three catalysts: putting in effort which leads to performance;
25 performance triggering rewards; and these rewards being desirable. Porter and
26 Lawler (1968) extended Vroom's (1964) framework by classifying these rewards as
27 either intrinsic or extrinsic. Intrinsic reward is when an individual engages in a task
28 because of the spontaneous satisfaction and sense of achievement that come from
29 that task. Extrinsic rewards, in contrast, are rewards offered externally to the
30 individual, such as recognition or praise from others as well as financial incentives
31 or career progression. Those who are driven by attaining these external rewards
32 see the task, such as starting a new business, as a means for obtaining these
33 rewards rather than deriving inherent rewards from the task itself. Although
34 intrinsic and extrinsic motivation aim at achieving different objectives, both types
35 elicit and sustain purposeful behavior.
36
37
38
39
40
41
42
43
44
45
46

47 Some researchers (e.g., Kuratko *et al.*, 1997) extrapolated these job-related
48 findings to the entrepreneurship field by proving that similar intrinsic and extrinsic
49 goals incentivize and sustain firm creation. While entrepreneurship was initially
50 considered to be a pursuit of instrumental economic goals, more recent evidence
51 shows that individuals are still drawn toward entrepreneurship without any
52 apparent reward other than task enjoyment (Carsrud & Brännback, 2011). Today,
53
54
55
56
57
58
59
60

both intrinsic and extrinsic motives are considered important factors influencing start-up processes.

Another key difference between intrinsic and extrinsic motivation, on top of the objectives, is that they differ in terms of magnitude and intensity. For instance, drawing on the educational psychology literature, we know that when activities are experienced as spontaneously satisfying people tend to devote more effort to them and are more eager to acquire additional knowledge. In the field of job-related behavior, work climates that encourage intrinsic motivation appear to yield a higher level of long-term performance compared to those that are more extrinsic. This especially applies to climates involving complex problem solving and disciplined engagement, such as business development). Extrinsic motivation, conversely, better facilitates short-term performance, in particular when the task is characterized by increasing economic returns.

Thanks to persistent levels of task excitement, more intrinsically-motivated entrepreneurs are assumed to be more oriented toward business continuity and longer-term firm fruition compared to more extrinsically motivated entrepreneurs. They will display a stronger willingness to turn their business into a long-term career vehicle. Advanced levels of intrinsic motives correlate with time-consuming strategic investments, technological sophistication, calculated scale increases, and the development of a solid business foundation (Watson *et al.*, 1993). Such actions all foster longer-term organizational responsiveness and functional effectiveness, yet they may jeopardize the organization's profitability in the shorter-term due to the investments they represent. More intrinsically-motivated entrepreneurs are thus ready to build a business that can stand the test of time, though this may require sacrifices in terms of short-term business profitability.

To more extrinsically-motivated founders, sustaining entrepreneurship only makes sense if it is justified by (swelling) organizational returns. They are impatient for financial rewards and not ready to risk any short-term financial success. Compared to their more intrinsically-motivated colleagues, more extrinsically motivated individuals are expected to demonstrate less determination to develop a solid business foundation since entrepreneurial activities provide them with lower task

1
2
3 enjoyment. They adopt a shorter time horizon and are willing to use any available
4 means of production without much consideration of the longer-term business
5 impact. Although such “modus operandi” does not always favor firm persistence, it
6 may cause more extrinsically-motivated entrepreneurs to yield higher firm
7 profitability during the first years of the business lifecycle, the survival phase. This
8 paper posits that the level of extrinsic motivation reflects the entrepreneur’s
9 averseness of any actions that could endanger shorter-term contingent monetary
10 rewards, whereas the level of intrinsic motivation mirrors a long-lasting
11 commitment to ongoing business development.

12
13 While intrinsic and extrinsic motives trigger purposeful behavior in diverse ways,
14 they are not mutually exclusive. These two motives are driven by different
15 psychological mechanisms, and an individual’s actions can be fueled by a
16 combination of intrinsic and extrinsic factors operating in parallel fashion (Ryan &
17 Deci, 2000). Intrinsic motives do not necessarily have to exclude entrepreneurs
18 from seeking wealth attainment, just as extrinsic ones do not prohibit task
19 enjoyment.

20
21 Insights from personality psychology shed further light on how these two motives
22 can influence behavior. Robinson *et al.* (2008) suggest that decision-making and
23 action-taking are more difficult when individuals hold simultaneously active yet
24 opposing goals. In the case of this research, one goal aimed at longer-term firm
25 fruition – requiring resource-demanding investments – and the other at short-term
26 financial gains – avoiding any declines in immediate profitability. For entrepreneurs
27 experiencing such conflicting objectives, decision-making and action-taking is easier
28 when one type of goal (i.e., either the pursuit of intrinsic or extrinsic rewards)
29 overshadows the other. When entrepreneurs feel equally compelled to achieve
30 conflicting short- and longer-term goals, they will have to first spend time and
31 effort to manage individual motivational compromises before taking action. The
32 stronger these dilemmas, the stronger the internal disposition to initiate and
33 maintain goal-oriented behavior. This could trigger a state of an entrepreneurial
34 ‘inaction’ which in turn can translate in inferior financial business performance.

Study design

The sample for this research originates from a population survey on new businesses located in Flanders, Belgium (START). The main source of data involved a structured interview with each entrepreneur. Face-to-face interviewing allows for a better understanding of educational background, career trajectory, and entrepreneurship motivations. General business information was collected by means of a company questionnaire sent out prior to each interview. Finally, financial performance data was captured using audited information from Bel-first, a financial database of information on all firms incorporated under Belgian law.

The total studied population of new businesses consisted of 3183 firms, of which 259 new ventures could not be contacted. In total, 2924 questionnaires were mailed, and 453 usable company responses returned. To be included as an observation in this study, complete data on both the firm, its short-term and longer-term annual accounts, and the entrepreneur was required, which restricted the sample to 294 (i.e., short-term performance) and 282 businesses (i.e., longer-term performance).

Measuring new business short-term and longer-term financial performance is not an easy task. We therefore followed the recommendations from the most recent studies in this domain. Three specific elements need to be examined. First, the study adopted a performance measure covering data over two years (i.e., short-term: Y1 & Y2; longer-term: Y4 & Y5). A two-year time period should capture unusual events in the market yet avoid the introduction of macro-economic noise. Second, performance data originates from an objective database (e.g., Bel-first). Third, the "Return on Assets" (ROA) was chosen as an adequate financial criterion. As an indicator of the profitability of a business relative to its total assets, it sheds light on the efficiency of the entrepreneur at using company assets to generate organizational earnings. The ROA reflects entrepreneurial effectiveness and the ability to create wealth, which is perfectly aligned with the purpose of this study.

This paper uses an established 12-item inventory of work motivation to assess intrinsic and extrinsic entrepreneurship motives (Gagné *et al.*, 2010). Though initially aimed at measuring people's motivation for job-related behavior, these

items are equally suitable for measuring motivation of business creation and development. Finally, to ensure that the study focuses on what it purports to examine, the analyses controlled for the firm's continuation and industry; the entrepreneur's industry, management, and entrepreneurship experience; and his/her level of education.

Findings

The paper uses regression as a statistical procedure. Separate models were run investigating the firm's short-term and longer-term financial profitability. The model explaining short-term financial performance shows that extrinsic entrepreneurship motivation positively contributes to the firm's short-term profitability. The model explaining longer-term financial performance reveals that extrinsic motivation does not exert a significant negative influence on the firm's longer-term ROA. The opposite is true for the entrepreneur's intrinsic motives, which appear to be stimulating the firm's longer-term returns without impacting its short-term profitability.

Insert Figure 1 Here

In addition, two interesting interaction effects emerged, signaling the conditional impact of extrinsic/intrinsic motivation on start-up performance. The left side of Figure 1 displays the combined impact of the entrepreneur's extrinsic and intrinsic motives on the short-term ROA of the business. The figure confirms that as the level of intrinsic motivation increases, the contribution of an individual's extrinsic motivation to the organization's short-term ROA weakens. The right side of Figure 1 represents the combined impact of both types of motivation on the firm's longer-term profitability. Contrary to what was expected, the figure shows that the positive financial contribution of intrinsic motivations strengthens when the entrepreneur is more extrinsically motivated.

Do intrinsic and extrinsic motivation work together?

This paper conceptualizes new business financial performance as a function of the entrepreneurship motivation of its business founder. Its claim that new business profitability in the short-term benefits from the extrinsic entrepreneurship motivation of its founder is supported, as is the similar association between intrinsic entrepreneurship motivation and longer-term firm performance. However, the results do not reveal a detrimental impact of intrinsic motives on short-term business profitability, nor of extrinsic motives on longer-term profitability. This study also provides empirical evidence linking individual motivational dilemmas and short-term ROA. Yet, regarding the longer-term impact of motivational dilemmas our empirical evidence appears to oppose this study’s argument.

The following three explanations explain the mechanisms behind this last finding, First, it might be that the adopted timespan of five years is simply too short for extrinsic motives to exert their hypothesized negative business impact. It could be that, during the ‘early-establishment’ phase, new businesses benefit from the outgrowth of the entrepreneur’s extrinsic motivation and the early effects of his intrinsic motivation. After all, the new business has overcome the arguably complicated survival phase and progressed into early firm growth. Given that the latter is traditionally characterized by swelling economic returns, extrinsic motives may continue to contribute to firm fruition. Meanwhile, after four years of business activity, the entrepreneur should be reassured of his abilities, providing more task enjoyment and an even closer fit with personal values. The early-establishment phase may therefore represent a transitional business stage during which entrepreneurs can concurrently achieve the different goals of wealth accumulation and task enjoyment.

Second, and building on the previous explanation, this finding seems to suggest that **when entrepreneurs have motivational conflicts, they can reorder their hierarchy of intrinsic and extrinsic motives in subtle and more effective ways than originally anticipated.** This would imply that the so-called entrepreneurial ‘inaction’ stemming from motivational dilemmas can be postponed to a later, more mature phase of the business lifecycle. In all, this paper urges that recognizing the myriad

of (parallel) entrepreneurship motives is more effective to advance our understanding than continuing with the archetypal notions of 'wealth-oriented' versus 'joy-seeking' business creators.

Finally, it may be that our understanding of extrinsic motivation, which originates from the fields of educational, personality and organizational psychology, should not be unreservedly extrapolated to the field of entrepreneurship. We can question the traditional distinction between intrinsic motives, creativity, and multifaceted tasks on the one hand (i.e., presumed essential to entrepreneurship); and extrinsic motives, repetition, and more mundane tasks on the other (i.e., presumed to conflict with entrepreneurship).

Future research might expand this study's empirical model by looking into whether and how motives change over time, and how this dynamic interaction may create a wide variety of motivational pathways. Entrepreneurship motivation research would also benefit from employing additional indicators of new business performance. Indicators related to operational performance (e.g., innovativeness, R&D) and firm growth (e.g., in terms of FTE, market share) should be considered. Growth theorists might be especially interested in the association between longer-term business fruition and intrinsic motivation. Future studies could examine how business strategy moderates and mediates the relationship between entrepreneurship motives and new business performance. Entrepreneurs may prefer to adopt a different kind of business strategy depending on their type and level of motivation. For instance, extrinsic motivation is likely to prevent entrepreneurs from engaging in competitive pricing, as this strategy has been proven to destroy short-term business returns. Providing a better match with the monetary objectives of more extrinsically motivated entrepreneurs are market-oriented strategies. Intrinsic motivation, on the other hand, is unlikely to drive short-term exit and liquidation strategies because it contradicts the notion of entrepreneurial activities being inherently enjoyable. Under these circumstances, niche-market strategies that capitalize on intimate customer knowledge should provide a better fit.

Finally, there may be a case for studying other types of entrepreneurship motives. The current research, for instance, did not find empirical evidence for the 'necessity-entrepreneurs', meaning those who scored low on both intrinsic and extrinsic motivation. Not finding any joy in the task itself or in the rewards it provides suggests that these entrepreneurs either lack any motivation for entrepreneurship or possess a yet to be identified type of motivation.

This research has significant potential practical benefits to help entrepreneurs understand the consequences of their embedded motivations and how they are going to be reflected in their company's profitability. The findings serve as an argument to reconcile personal motivations with the company objectives entrepreneurs ultimately wish to attain. This study informs entrepreneurs on how to optimally deploy the resources they possess – in line with their motivational aspirations – and sheds light on the short-term and longer-term financial implications if they were to deviate from their path.

Conclusion

There is inadequate understanding of entrepreneurial motivation as it relates to early business profitability. Through what mechanisms do intrinsic and extrinsic motives influence short-term and longer-term ROA, and how do these motivational types relate to one another? The current research shows that intrinsic entrepreneurship motivation fosters longer-term business returns, whereas extrinsic motivation makes the entrepreneur more short-term oriented. What's more, both types of motivation combine to influence the firm's short- and longer-term returns, thereby generating dilemmas for the entrepreneur.

References

Carsrud, A. and Brännback, M. (2011), "Entrepreneurial motivations: What do we still need to know?", *Journal of Small Business Management*, Vol. 49 No. 1, pp. 9–26.

Gagné, M., Forest, J., Gilbert, M.H., Aubé, C., Morin, E. and Malorni, A. (2010), "The motivation at work scale: Validation and evidence in two languages", *Educational and Psychological Measurement*, Vol. 70 No. 4, pp. 628–646.

Kuratko, D.F., Hornsby, J.S. and Naffziger, D.W. (1997), "An examination of owner's goals in sustaining entrepreneurship", *Journal of Small Business Management*, Vol. 35 No. 1, pp. 24–33.

Porter, L.W. and Lawler, E.E.III. (1968), *Managerial attitudes and performance*, Irwin-Dorsey, Homewood, IL.

Robinson, M.C., Wilkowski, B.M. and Meier, B.P. (2008), "Approach, avoidance, and self-regulatory conflict: An individual differences perspective", *Journal of Experimental Social Psychology*, Vol. 44 No. 1, pp. 65–79.

Ryan, R.M. and Deci, E.L. (2000), "Self-determination theory and the facilitation of intrinsic motivation, social development, and well-being", *American Psychologist*, Vol. 55 No. 1, pp. 68–78.

Vroom, V.H. (1964), *Work and motivation*, Wiley, New York, NY.

Watson, W.E., Kumar, K. and Michaelsen, L.K. (1993), "Cultural diversity's impact on interaction process and performance: Comparing homogenous and diverse task groups", *Academy of Management Journal*, Vol. 36 No. 3, pp. 590–602.

Figure 1. Interaction Effect of Intrinsic Entrepreneurship Motivation and Extrinsic Entrepreneurship Motivation on New Business Short- and Longer-Term Financial Performance

