

Do Entrepreneurial Motivations Change when Establishing a New Venture?

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Abstract

Entrepreneurs are supposed to be driven by specific motivations when starting and establishing a new venture. Using a set of motivational items collected and developed by *Berthold et al* (2007), the study analyzes which aspects motivate or rather demotivate entrepreneurs. Based on a large scale panel study, it distinguishes these results between companies of different ages. Comparing all new businesses with those of lesser newness, some interesting insights into motivational evolution in the early development stage of young entrepreneurs appear that can be summarized as entrepreneurial disillusionment. Hence, there is evidence for a motivational liability of adolescence.

The results show that entrepreneurial motivation fades with time, independent from the type of motivation analyzed. This fading proceeds with continuously decreasing rates and almost stops roughly five years after launching the business. The motivational items differ in fading strength: While expertise, experience and the responsibility for family and staff seem to be rather stable motivations, self fulfillment and income expectations drop down more intensely.

1. Introduction

The propensity of individuals to become and the willingness to be an entrepreneur is determined not only by sociographic characteristics, but also by personal attitudes, perceptions, and mental dispositions like risk perception, perception of earnings, or risk taking behavior (Seitz/Tegtmeier 2007, Gemünden/Konrad 2000, Cattell 1973)

„Earnings“ may be extrinsic (income, reputation of being an entrepreneur) or intrinsic (self-fulfillment, independence). Both aspects are influenced by legal regulations, governmental authorities, the tax framework, social norms, or moral concepts. Opportunities and threats are exogenous factors that can be evaluated by an enterpriser based on an individual setting of personal traits. In this setting individuals decides to become and to be an entrepreneur.

Theoretic models created to explain entrepreneurship are mostly aligned with income disparities between self employment and salaried work: Individuals choose one of these options regarding future income, risk, and personal capabilities. The contractual salary for being employed is lower and less risky, while an enterpriser gains residual income that is higher and more volatile. Therefore, individuals choosing self employment are different from hired people serving a business (Parker 2005, 7). However, expected income is not the only explanation to be self employed (Parker 2005, 39). Surprisingly, expected income of self employed people is lower than the average income in the US (Hamilton

2000, 623-629). But entrepreneurs may also appreciate non monetary rewards like the social standing and reputation of being independent (Gianetti & Simonov 2004, 2).

Aside from those extrinsic motivations, entrepreneurs are supposed to be driven by intrinsic incentives which are the realization of an opportunity, self-fulfillment, responsibility for the employees of the business and the own family, or the continuation of a family tradition (Parker 2005, 80).

Using a set of motivational items developed by *Berthold et al* (2007), this study is about to check what drives entrepreneurial ambition for achievement, which aspects motivate or rather demotivate self employed people, and what courages and disencourages them to act entrepreneurial. Based on this initial approach, it tends to analyze if entrepreneurial motivations change when establishing a new venture or succeeding an already existing one. A large scale panel study allows to compare motivations between entrepreneurs running companies of different ages.

Section 2 of this paper presents the data set used. Section 3 delivers descriptive results concerning 16 entrepreneurial motivators under inspection. Section 4 inquires the change in motivation by comparing companies of different ages. Section 5 explores the willingness to become self employed once again. Section 6 closes the study with a short discussion.

2. Data and Methodology

The present study reports the results of a survey of 3.231 German entrepreneurs starting a new venture between 2001 and 2008. The study is based on a panel data set, utilizing data of young enterprises that have been monitored within the start up panel of Northrhine-Westphalia (NRW), Germanys largest federal state, which has been run since 2000 and will undergo its eleventh wave of observation in 2010. Until 2009, it has monitored more than 12,000 start ups, predominantly belonging to the crafts business sector. This sector can be viewed as typical for entrepreneurial activities in Germany in terms of size, business model, legal type, and other. As a consequence, the study focuses on 'ordinary' business starters predominantly neither having innovative nor technology based business concepts here. The panel covers start ups as well as successions and active participations, and contains solely full time entrepreneurship. Therefore, it is not biased by part time businesses that are mostly not comparable to full time ventures – for instance because they are created only for auxiliary income.

The core elements of the start up-panel NRW are standardized written questionnaires distributed periodically, which allow a long time monitoring of a high quantity of young entrepreneurs and their newly created or acquired enterprises. The start-up panel NRW allows to control for survivorship bias. Because all included start ups have been monitored through government authorities, no hidden exit is possible. Furthermore, all exits could be verified by using a special crafts register, where all entries and exits have to be recorded.

The annual panel wave questionnaires always ask for some basic data used to describe corporate development (sales volume, quantity of staff, investment volume, Corporate earnings expectation, Corporate profit situation, production activity, achievement of profit goals). This basic part always is complemented by a nonrecurring, specific topic focused on aspects under investigation only once, like counselling, recruitment of staff, entrepreneurial marketing, or motivation. These regular panel examinations were accompanied by an extra enterprise data base with detailed business information, and some examinations placed aside the panel waves. The enterprise data base, among other data, provides

information about the age of the enterprise, the legal form of the company, its location, the gender of the entrepreneur, and so on.

The following table briefly describes the sample analyzed in panel wave no. 9 from 2008:

Table 1

Variable	Cases	Mean	Standard Dev.
Age of Company [years]	3231	3.25	.98
Sole proprietorship*	3231	.721	.449
Limited liability company*	3231	.152	.360
Building industry*	3231	.294	.456
Service industry*	3231	.274	.447
Gender: male*	3231	.773	.419
Corporate profit situation**	3170	2.23	.647
Corporate earnings expectation**	3159	2.11	.608
Employees	3142	5.33	7.39
Annual sales [in 1,000 €]	2896	370.87	996.05

* *yes=1, no=0* – ** *Response options: well (=3), satisfactory (=2), poor (=1)*

The complementary part of the questionnaire contains items adopted from Berthold et al (2007), who refer to Lembke/Reinfeldt (2007), Fueglistaller et al (2008), Eckhardt (2002), Blanchflower/Oswald (2001), Holmes/Schmitz (1990), De Meza/Webb (1987), and Lucas (1978). These items were adjusted for the entrepreneurial sample by ways of a pretest run with 45 randomly selected interviewees. The pretest suggests to eliminate two items and to rephrase some items to enable better understanding. Thereafter, 11 internal motivational items remained.

In line with Berthold et al (2007),

- an item measuring surrounding public and governmental conditions of entrepreneurial activity had been integrated additionally (legal regulations). It is used to describe terms and conditions for entrepreneurial deployment. It can be regarded as a public limiter of opportunities.
- an item measuring market conditions of entrepreneurial activity had been integrated additionally (industry competition).

Going beyond Berthold et al (2007), who designed their study for established enterprisers in the German mechanical engineering industry, and following findings of current surveys (see *Probleme im Mittelstand 2007 – Ergebnisse einer Studie des Bundesverbandes der Selbständigen (BDS)*, www.bgs.dgv.de, 2007; *Zentralverband des deutschen Handwerks, Stellungnahme zum Zahlungsverhalten von Handwerkskunden*, Berlin, 12.05.2005), we added three further items to adopt the set of items for people running a newly founded or succeeded business. These are designed to measure important operational conditions, yielding at the personnel of the business (commitment of staff) and the customers (order inflow, payment behavior). All of these additional items seem to be appropriate to measure discouraging outside barriers that can be controlled only conditionally, but might impact the motivational perception of the respondents.

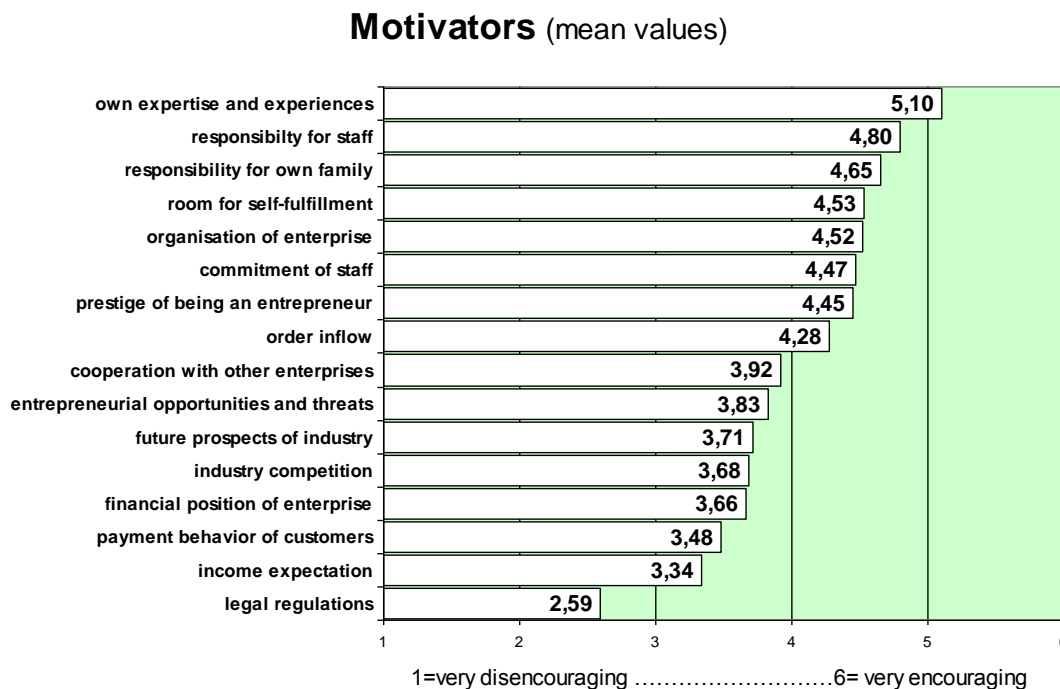
Find a list of the resulting 16 items in figure 1 (section 3).

3. What does entrepreneurs motivate?

All 16 items under inspection were measured using a 6-point-scale ranging from 1 (for a very discouraging aspect) to 6 (for a very encouraging aspect).

Figure 1 depicts all 16 mean values. The picture shows remarkable differences between the motivators asked for. Very encouraging are the expertise and experience the entrepreneur holds (mean value 5.1), the responsibility for his staff (4.8) and his family (4.65), the option for self-fulfillment (4.53) and the option to form and to layout the enterprise according to their own ideas (4.52). In line with the traditional stereotype of dynamic enterprisers, the respondents aspire to independence and entrepreneurial responsibility. Unsurprisingly in this setting, discouragement most notably comes from legal regulations by fiscal and legal systems.

Figure 1:



Conducting a factor analysis using these 16 manifest variables (see appendix for details), five distinct background phenomena can be derived. These are

- the “private being” and personal precincts (family, intrinsic motivations – component 2),
- the enterprise (inside view on enterprise: staff, organization of enterprise – component 1),
- the financial and profit situation of the enterprise (order inflow, personal income – component 4),
- market and competition (inside-out view; customers, industry competition – component 5), and
- public and governmental surrounds (government, taxes, laws, entrepreneurial reputation in society – component 3).

The motivational impact of these latent variables decreases in the order mentioned above.

4. Does motivation change?

Comparing young entrepreneurs of different newness in business, it seems to be quite interesting to examine motivational changes after establishing the business. We assume, that the early development stage of a newly founded or succeeded business may alter motivation.

This aspect represents the guiding research question of this paper. Figure 2 shows a comparison of two subpopulations of the panel. With each item, it indicates the mean value difference between both groups. The first one contains entrepreneurs who founded or succeeded their venture in the years 2001 – 2003 (pop. 2001), the second one those of the years 2007 – 2008 (pop. 2007). In this context, we encountered an effect that we call *entrepreneurial disillusionment*. The figure gives strong evidence that motivation declines with the time passed since becoming self employed.

Note that every item faces a pretty intense decline. All differences in mean value between the groups are highly significant ($\alpha < .00$). The decline in mean value ranges from -0.2 to -0.78 within the rating scale described above. As one can see, there are a more or less stable motivators like expertise, experience and the responsibility for the own family (green area). They seem to be hardly changed for years. On the other hand, there are items facing an extreme sliding (red area), like income expectation, self-fulfillment or the company's financial position.

Figure 2:

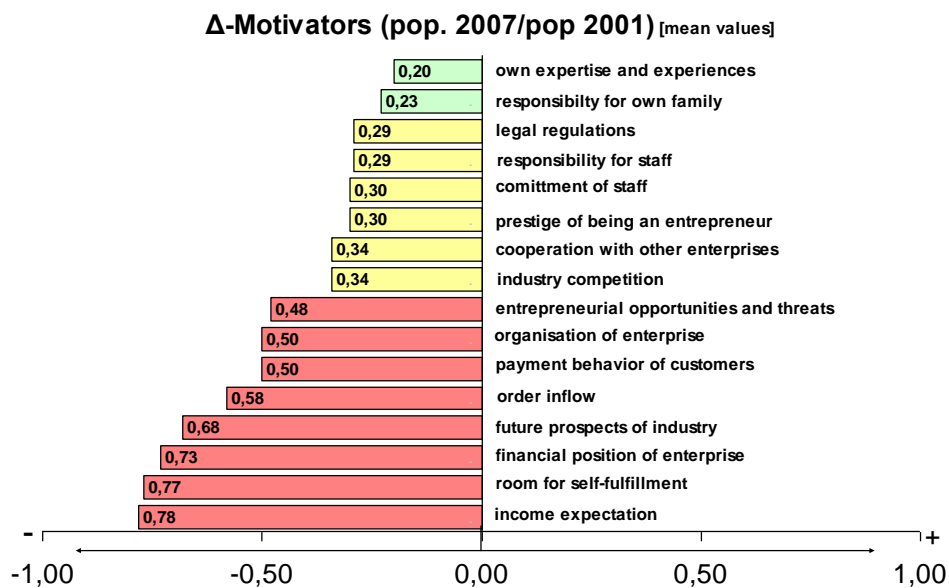


Table 2 shows all mean values of the three subgroups. In line with the differences found between youngest and oldest enterprises depicted above, there are similar differences between all three groups. In every item there is a continuously progressing downward slide in motivation. Because the 2001/2004-deltas are much smaller than the 2004/2007-deltas, decreasing rates of motivational loss can be assumed.

Table 2

entrepreneurial motivation	all	pop. 2007	pop. 2004	pop. 2001
own expertise and experiences	5,10	5,25	5,08	5,05
responsibility for staff	4,80	5,01	4,77	4,72
responsibility for own family	4,65	4,82	4,67	4,59
room for self-fulfillment	4,53	4,97	4,49	4,20
organisation of enterprise	4,52	4,77	4,45	4,48
commitment of staff	4,47	4,70	4,42	4,40
prestige of being an entrepreneur	4,45	4,65	4,45	4,35
order inflow	4,28	4,68	4,32	4,10
cooperation with other enterprises	3,92	4,15	3,92	3,81
entrepreneurial opportunities and threats	3,83	4,10	3,76	3,62
future prospects of industry	3,71	4,08	3,69	3,40
industry competition	3,68	3,83	3,72	3,49
financial position of enterprise	3,66	4,15	3,63	3,42
payment behavior of customers	3,48	3,79	3,47	3,29
income expectation	3,34	3,84	3,27	3,06
legal regulations	2,59	2,89	2,56	2,39

Checking control variables, the mean comparison test gives evidence that this effect is *independent* from size, profit situation, earnings expectation, and turnover. However, a majority of items *depend on* gender (more disillusionment in female subpopulation) and type of self-employment (succession: more disillusionment).

A comparison of non grouped single year cohorts indicates that the sliding effect almost stops roughly five years after launching the business.

5. Would they do it again?

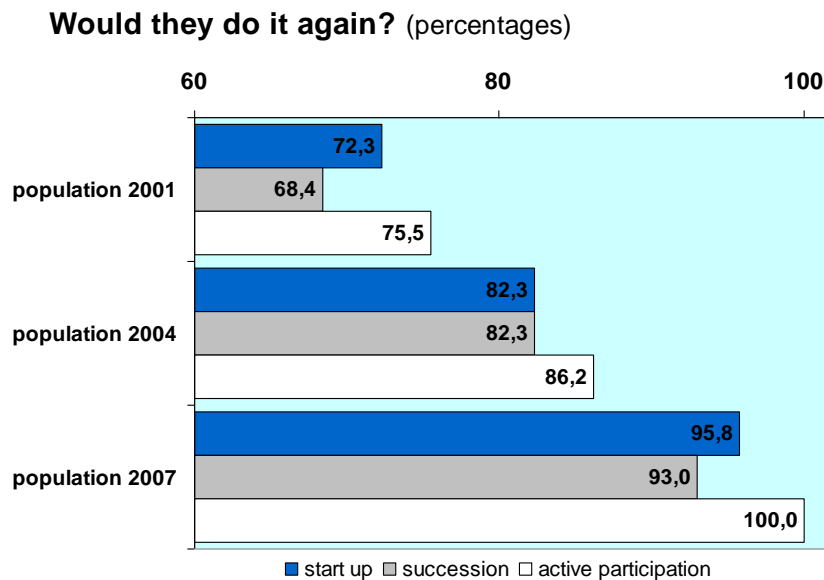
Finally, we examined willingness to become self employed again, seen from today's point of view – in other words: the affinity to do it again. This question is used to determine an overall assessment of sustainable satisfaction with self employment.

Table 3

willingness to become self employed again (mean values, yes=1/ no= 0)	start ups	successions	active participations	all
population 2001-2003	.723	.684	.755	.716
population 2004-2006	.823	.823	.862	.824
population 2007-2008	.958	.930	1.000	.950
all	.825	.817	.838	.814

Figure 3 shows the respective results. In line with the observations concerning motivational items, satisfaction with self employment fades with time. The mean comparison test confirms that this effect is *independent* from size, profit situation, earnings expectation, and turnover. However, it *depends on* gender (more desillusionment in female subpopulation, with $\alpha= 0.024$) and type of self-employment (succession: more desillusionment, $\alpha= 0.009$). The time passed since starting the business remarkably determines variance ($R^2_{\text{corr}}= .280$).

Figure 3:



6. Conclusion

The study delivers some valuable new insights into the motivational perceptions of German entrepreneurs. It shows remarkable high rates of decreasing entrepreneurial motivation and satisfaction. Summarizing the observations made above, there is indication for an entrepreneurial disillusionment concerning every dimension of motivation and satisfaction with self employment. So there is strong evidence for a motivational liability of adolescence.

The results show that entrepreneurial motivation as well as satisfaction with self employment fade with time, independent from the type of motivation analyzed. This fading proceeds with continuously decreasing rates and almost stops roughly five years after launching the business. The motivational items differ in fading strength: While expertise, experience and the responsibility for family and staff seem to be rather stable motivations, self fulfillment and income expectations drop down more intensely.

To confirm these findings on an individual basis, a longitudinal cut covering a few years will be needed. Note that this study delivers a comparison of different cohorts at one point in time only. But a longitudinal study would hardly be feasible because of its costliness. Moreover, it would crowd out other topics within the panel for years. However, the results at hand are so explicit and consistent that this limitation might be neglectable.

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Appendix

factor loadings (varimax rotation)		component				
		1	2	3	4	5
1	future prospects of industry			0,67		
2	cooperation with other enterprises			0,31		0,60
3	legal regulations			0,73		
4	industry competition		0,37			0,65
5	income expectation				0,62	
6	room for self-fulfillment		0,64	0,43		
7	entrepreneurial opportunities and threats		0,66	0,38		
8	responsibility for own family		0,64			
9	own expertise and experiences	0,50	0,51			
10	payment behavior of customers				0,35	0,60
11	financial position of enterprise				0,85	
12	commitment of staff	0,79				
13	organisation of enterprise	0,78				
14	responsibility for staff	0,78				
15	order inflow				0,66	
16	prestige of being an entrepreneur			0,56		