

When being a “Scrooge” About Benefits is a Benefit:

The Impact of Emotional Self-Management on Benefit Offerings and Firm Growth

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Questions

1. Can successful entrepreneurs stay financially competitive while still recruiting and retaining employees?
2. Do entrepreneurs exhibiting high self-management recognize the need for and offer a wider selection of compensation benefits?
3. Does offering a wider selection of compensation benefits affect the probability that SMEs will be more successful as measured by employment and revenue growth.

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ABSTRACT

The last half-century yielded dramatic increases in both the number of employer provided benefits and the cost of such benefit offerings. This led organizations to scale back benefits packages in an effort to reduce labor costs. Since benefits are the hardest to change within an employment contract and employees are more dependent than ever on these benefits, we evaluate how entrepreneurs reconcile the need to stay financially competitive while still recruiting and retaining top talent. We propose and show support for model of moderated mediation based on financials and survey responses from founders of Entrepreneur Magazine’s 500 Fastest Growing Businesses.

INTRODUCTION

“External heat and cold had little influence on Scrooge. No warmth could warm, no wintry weather chill him.” – Charles Dickens, 1843

While merely a tolerance for variation in climate is expressly articulated by Dickens, it is not outlandish to extrapolate that there were other externalities incapable of fazing Scrooge. We propose that Dickens was calling attention to Scrooge’s high degree of Emotional Self-Management. Scrooge is best known as a “stingy,” “hard and sharp as flint” businessman (Dickens, 1843); but, tough and frugal as he may have been, was Scrooge really that bad? He was a productive and contributing member of society as a tax payer, helping to fund the workhouses, treadmill and Poor Law, as well as a job creator giving Bob Cratchit a means with which to support Tiny Tim and the rest of his family (Dickens, 1843). His professional services were in demand enough to necessitate working late into the night and over holidays, which many modern day entrepreneurs can sympathize with. Scrooge was certainly short with people and not eager to spend money, but “nowhere in the story do we read of Scrooge lying, cheating or

defrauding anyone.” Rather, “Scrooge [was] a hardnosed man of business no doubt, but he [lived] according to those hardnosed principles and [expected] no less from others” (Lowe, 2009). Entrepreneurs can admire his unflappable nature and follow his example of emotional self-management driven caution in providing employee benefits when he tells his employee "you don't think me ill-used, when I pay a day's wages for no work" (Dickens, 1843).

With this notion, we make important contributions to the Entrepreneurship literature. First, this study investigates how entrepreneurs’ emotional element performs moderating roles between firm size and number of benefits to employees. There are limited studies linking emotional intelligence and firm HR policy so we aim to fill that gap. Second, this study asks an important question in Entrepreneurship discipline: whether providing benefits to employees affects new venture performance. We operationalize this with a research question asking whether providing more benefits affects either revenue growth, employment growth, or both.

By integrating theories related to entrepreneurs’ self management and new venture performance, we build and test the theoretical model shown in Figure 1. This model furthers understanding related to the impact of entrepreneurs’ self management on new venture performance by linking the level of an entrepreneurs’ self management to new venture performance (operationalized as revenue growth and employment growth) through its effect on the number of benefits offered to employees. We also highlight the critical role entrepreneurs’ competence in emotional self-management plays in moderating the relationship between firm size and the total number of benefits offered. We are able to show support for a moderated mediation effect (Preacher, Rucker, & Hayes, 2007) in which the indirect effect of entrepreneurs’ self-management on new venture performance through number of benefits is conditional on their level of self-management.

“Insert Figure 1 here”

THEORY AND HYPOTHESES DEVELOPMENT

Self-Management Theory

Emotional Intelligence (EI) is based on social intelligence theory (Thorndike, 1920) and is “the subset of social intelligence that involves the ability to monitor one’s own and others’ feelings and emotions, to discriminate among them, and to use this information to guide one’s thinking and actions” (Salovey & Mayer, 1990 p. 189). EI is a measure of one’s ability to learn the skills of its four underlying clusters, while an emotional competence is a manifestation of the mastery of those skills; that is to say an emotional competence (such as EI) is “realized by learning and mastering skills and translating intelligence into on-the-job capabilities” (Goleman, 2001 p. 28) and is “a learned capability based on emotional intelligence that results in outstanding performance at work” (Goleman, 1998b). Goleman (1995) presents four clusters of EI: self-awareness; self-management; social awareness; and relationship management along with 18 underlying competencies across those clusters. Mayer & Salovey (1997) also offer four clusters of EI, ordered from least to most demanding: (1) accurately perceiving emotions in self and in others; (2) using emotions to facilitate thinking; (3) understanding emotional meanings; and (4) managing emotions. While these clusters are presented comprehensively as EI, there is no requirement of empirical inter-correlation among them in the form of a single factor. Rather, these clusters are presented in concert due to the inherent conceptual connection between them as aspects of emotional processing and functioning (Mayer & Salovey, 1997). We therefore focus on the subset of EI involved with the regulation and management of emotions, Emotional Self-Management. This is thought to be the most demanding skill which builds upon the less taxing

skill sets of perceiving, using and understanding emotions building from more basic to more sophisticated skills (Mayer & Salovey, 1997).

Self-Management is “the ability to manage internal states, impulses and resources” and “the ability to regulate distressing affects like anxiety and anger and to inhibit emotional impulsivity” (Goleman, 2001 p. 28). Put another way, self-management is “the ability to stay aware of one’s emotions, even those that are unpleasant, the ability to determine whether an emotion is clear or typical, and the ability to solve emotion-laden problems without necessarily suppressing negative emotions” (Caruso et al., 2002 p. 307). The regulations of such emotions can occur consciously or unconsciously, automatically or in a controlled fashion; furthermore, this regulation can occur in advance (Antecedent-focused regulation) of an emotion being activated or in response (Response-focused regulation) to the presence of a given emotion (Gross, 2002). One must exercise objective reasoning in order to handle the multitude of feelings which must be conveyed and acted upon in an appropriate manner (Anderson, 1985).

In addition to being a type of EI, Self-management is also one form of the multiple intelligences (MI) proposed by Gardner in 1983; intrapersonal intelligence or self-knowledge, containing the abilities of “accurate self-appraisal, goal setting, self-monitoring, and emotional self-management” (Shearer, 2004, p. 6). The proposal of such multiple intelligences called into question the long held status of IQ as the determinant of human intelligence (Fineman, 2004; Goleman, 1995; Shearer, 2004) and went so far as to describe human intelligence as “a biophysical potential with an emergent, and pluralistic nature” (Chen, 2004, p. 19). Goleman also describes self-management in a biophysical context, explaining “thus a major locus of the ability to regulate negative affect appears to be the circuit between the amygdala and the left prefrontal cortex” (Goleman, 2001) and in plain terms “Biological impulses drive our emotions. We cannot

do away with them - but we can do much to manage them. Self-regulation, which is like an ongoing inner conversation, is the component of emotional intelligence that frees us from being prisoners of our feelings. People engaged in such a conversation feel bad moods and emotional impulses just as everyone else does, but they find ways to control them and even to channel them in useful ways” (Goleman, 1998a). Goleman concludes that effective self-regulation occurs when emotional centers and prefrontal areas of the brain work in unison to activate the primal abilities of controlling impulse and dealing with upsetting situations (Goleman, 1998b).

An individual’s ability to exercise self-management can lead to success and wellbeing in excess of what would be predicted by intellectual measures alone (Bar-On, 1996; Goleman, 1995; Mayer and Salovey, 1995). Goleman (1995) provides examples of high IQ/low self-management individuals who were not successful in business and counter examples of lower IQ individuals who attained success through the use of emotional management. While in general, fear and anxiety can hamper the process of cognition, it has been shown that those with the skills of emotional management can use these influences to prioritize and focus on what is paramount as opposed to stressing over the stimulus (Mandler, 1992) and ensure intelligent actions in the face of impulse triggers (Nelson & Low, 1998). The mastery of self-management implies a mastery of all preceding abilities within EI due to the hierarchical nature of the model (Saarni, 1999) and such mastery is accompanied by the emotional skills of drive strength, commitment ethic, and time management (Nelson & Low, 2003). Once an individual has a deep understanding of their emotional management processes and techniques, they are able to handle just about anything that life throws at them and thus self-management is a key element to personal success (Weisenger, 1998).

The Role of Entrepreneurs' Self-Management in Firm Compensation Practices

In this section, we discuss the moderating effect of entrepreneurs' self-management. By doing so, we initially discuss the direct relationship between size of firm and total number of benefit offered to employees. Then, we discuss the moderating role of entrepreneurs' self-management

Size of Firm and Total Number of Benefits. Workers in the United States obtain their health insurance and retirement benefits mainly through employment (Kalleberg, 2011). Kalleberg argued (2011) benefits provided by job, namely healthcare coverage and retirement plan, constitute the "real job" (p. 123).

Brown, Hamilton, and Medoff's (1990) extensive research finds that jobs created by small firms, relative to those created by large firms offer less generous healthcare and retirement benefits. Many other large-sample studies also have shown that small firms are less likely than large firms to provide benefits to their workers (e.g., Belman & Groshen, 1998; Hollister, 2004; Kalleberg & Van Buren, 1996; Rebitzer, 1986) and that the negative relationship between size of firm and total number of benefits is more evident for those benefits that impose a direct cost on employers, namely healthcare coverage and retirement pensions (Knoke, 1994). Indeed, MacDermid, Litchfield, and Pitt-Catsoupes (1999) showed that larger firms are more likely than smaller firms to offer 21 out of 22 benefits listed on their survey.

It can be certainly the case that larger firms are characterized by greater capital intensity (Idson & Feaster, 1990; Oi, 1983). In large scale firms, along with high capital intensity usually come production processes that are highly interdependent and managerial challenges for monitoring and supervising workers (Griliches, 1969; Rebitzer & Taylor, 1995). Therefore, smaller firms, to the extent they are characterized by lower capital intensity, and therefore, more

segmented or disjoint production processes and certainly greater ease of monitoring and supervision, are less likely to feel the need to offer their workers a generous package of fringe benefits. In addition, dual market theory (Doeringer & Piore, 1971; Piore, 1973) suggests that small firms have less scope for long-term attachment to employees, primarily due to their lack of internal labor market and thus, opportunities for advancement (Reilly, 1995). Closely related to large firms' scale economies that enable providing benefits, a small firm's resource constraints can also impact its limited number of benefit provided to workers. Small firms are less likely to have retained earnings or other cash reserves from which to finance employee benefits requiring upfront cost, e.g., the payment of healthcare premiums or the establishment of retirement benefit accounts (Cardon & Stevens, 2004).

Moreover, larger firms are likely to face challenges from large number of employees who have bargaining power for achieving their benefit plans. Indeed, the pressure of institutionalization (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) felt by a small firm is likely to be low for a number of reasons. First, small firms are much less likely to be shaped by their national environments and government regulations than are otherwise similar larger firms (Edwards & Ram, 2010; Wever, 1995). Therefore, to the extent there is still a regulation, or at least a norm to provide benefits to employees, smaller firms would feel less pressure to comply. Second, small firms tend to be less visible to and therefore receive less attention from the media and the public (Goodstein, 1994). To the extent they are less likely to be noticed by labor union organizers, small firms are less likely to be unionization targets, relieving the institutional pressures to provide benefits to workers (Leicht, 1989).

Lastly, having more employees across which to spread the fixed costs of initiating any particular benefit will also reduce the cost per employee, which makes it easy for large firms to

have less expensive basis per-employee (Sels, De Wine, Delmotte, Maes, Faems, & Forrier, 2006; Sels, De Wine, Maes, Delmotte, Faems, & Forrier 2006).

All of these facts make it especially likely that large firms are more likely than small firms to invest in benefits to workers. We expect the size of a firm will be positively associated with the probability whether or not it offers number of benefit to workers.

The Moderating Role of Entrepreneurs' Self Management. As outlined above, there is a well established connection between the size of a firm and the number of benefits offered to employees. However, entrepreneurs and firm leaders are understandably weary of offering new benefits due to the fact that the latter half of the 20th century saw not only a dramatic increase the number of employer provided benefits being offered, but more importantly saw a substantial increase in the cost of such offerings (Lucero, 1994). Organizations now find themselves attempting to scale back their benefits packages in an effort to reduce labor costs (Lucero, 1994); however, compensation practices are “the least malleable features” (Rousseau & Greller, 1994, p.154) of a firm’s employment contract as once they are available, they are difficult to take away or even change. Over this same period of time, more and more employees have become dependent on such benefits in order to meet their basic security needs (Lucero, 1994) and thus are inclined to push for increased benefit offerings. This leaves a company founder in quite a predicament: delay the offering of benefits to keep the company competitive at the risk of disenfranchising employees or give in to employee demands at the risk of jeopardizing the firm’s long term competitive advantage.

Such a decision is surely riddled with stress and emotion and thus we posit that emotional intelligence plays an integral role in assisting an entrepreneurial leader to successfully traverse this decision process (Nelson & Low, 1998; Barling, Kelloway, & Iverson, 2003; Avolio,

Gardner, Walumbwa, Luthans, & May, 2004). Specifically, these firm leaders rely on their emotional self-management to persevere in the face of such uncertainty (Humphrey, 2002) as self-management is said to be a prerequisite of effective leadership (Kupers & Weibler, 2006). The choice to offer more benefits would be fixing the short term pain induced by employee pressure; conversely, the choice to forgo offering new benefits would require impulse control (Yukl, 2002) and the ability to respond accordingly to the conflict that would arise in the face of that choice, a textbook definition of self-management (Goleman et al., 2001). Emotional self-management is not only a tool used to lessen emotional anguish, but can also be leveraged in drawing out unpleasant emotions (Goleman, 1998b), which could elicit employees to air their grievances over the choice not to offer benefits, come to peace with the decision and move forward with the work at hand rather than letting the displeasure fester and manifest itself in a larger outburst in the future.

High levels of self-management in firm founders not only help draw out these negative emotions from employees, but also helps the founder to “weather the storm” that they have induced. High self-management has been shown to be correlated with higher quality relationships in which rankings of general social interactions are improved (Lopes et al., 2004; Lopes, Salovey, Cote, & Beers, 2005) and conveying the right emotion at the optimal time via emotional regulation leads to increased job performance ratings (Grandey 2000; Hochschild, 1983; Humphrey, 2002; Rafaeli & Sutton, 1987). A closer look at the six competencies of self-management shed further light on the skills that enable founders to retain buy-in and support from their staff in the face of an unpopular decision.

The six clusters of self-management are: (1) Emotional Self-Control, having an “absence of distress and disruptive feelings”; (2) Trustworthiness, “letting others know one’s values and

principles, intentions and feelings, and acting in ways that are consistent with them”; (3) Conscientiousness, “being careful, self-disciplined, and scrupulous in attending to responsibilities”; (4) Adaptability, being “open to new information and can let go of old assumptions and so adapt how they operate”; (5) Achievement, being “optimistic striving to continually improve performance”; and (6) Initiative, to “act before being forced to do so by external events” (Goleman, 1998b). These clusters are not equally distributed in individuals, as self-control is required, trustworthiness and adaptability are quasi-substitutes (with trustworthiness representing stability and adaptability representing flexibility) and the three remaining competencies may or may not be present in an individual (Jacobs, 2001). That being said, each cluster brings its own advantages in this situation.

Next, we discuss how the six clusters of self-management mitigate the positive relationship between size of firms and the number of benefits offered to employees. First, emotional self-control enables individuals to avoid anger and depression in the face of work stress (Rahim & Psenicka, 1996), offer a calm response to attacks when dealing with disgruntled subordinates (Boyatzis & Burrus, 1995; Spencer & Spencer, 1993) and keep organizational goals as their top priority (Boyatzis, 1982). Second, transparency allows employees to trust that the decision to withhold benefits was in the best interest of the firm, as the entrepreneur will have a history of forthright and honest communications with their staff (Goleman, 1998b). Third, conscientiousness has been shown to be a driver of effectiveness in nearly ANY job, from the lowest level to the highest ranks within an organization (Barrick & Mount, 1991). Fourth, for decision makers to be successful in the modern economy, they must possess the skills of adaptability (Spencer & Spencer, 1993) as being able to maintain a flexible and autonomous workforce leads to greater innovative output (Amabile, 1988). Fifth, achievement drive is what

separates quality executives from ineffective ones (Spencer & Spencer, 1993) as those with a high achievement drive take calculated risks and challenge their employees. Achievement drive also inherently entails an optimistic outlook which helps firm leaders discuss difficult decisions with a hopeful vision of the future and leads to several positive outcomes such as increased sales (Schulman, 1995). Sixth, initiative enables a long-term view of situations and allows for problems to be avoided in advance of their occurrence; in this case realizing that the pain of not offering a benefit now is much less than the disruption and outcry of removing a benefit in the future to remain competitive. Such proactive, farsighted actions result in enhanced relationships and are a critical driver of improved performance in industries reliant on sales (Crant, 1995; Rosier, 1996).

Finally, the self-management of a founder is not confined to his or her person, or to just one person for that matter. The capabilities of EI in general, and specifically self-management, apply to teams as well (Goleman et al, 2002). Organizational leaders are able to transmit their exemplary example of self-management to their staff, as personal modeling has been shown to affect followers (Kouzes & Posner, 1995, Scholtes, 1998). By these entrepreneurial founders representing the norms they expect of their followers, they are able to increase the loyalty their team has for them (Gardner, 1995). Goleman summarizes this contagion of self-management throughout the organization by stating “It takes a strong, emotionally intelligent leader to hold the group to the practice of self-management, especially for teams not accustomed to proactively handling emotions and habits. When core values and the team’s overall mission are clear, however, and when self-management norms are explicit and practiced over time, team effectiveness improves dramatically, as does the experience of team members themselves.” (Goleman et al, 2002). We therefore offer the following hypothesis regarding the change in the

relationship of the firm size and number of benefits offered based on the level of self-management of the founder.

H1: Entrepreneur's level of self management moderates the relationship between the size of the firm and the total number of benefits offered to employees, such that this relationship is significantly less strongly positive when entrepreneur's self management is high than when entrepreneur's self-management is low.

Total Number of Benefit and Firm Growth

Firm performance depends on, in part, the degree to which compensation practices are employed and if they reinforce or match corporate strategies (Gomez-Mejia, 1992; Miles & Snow, 1984; Youndt et al., 1996). Moreover, founders' initial model of HR practices including compensation has far-reaching effects, influencing the likelihood of the firms' survival (Baron et al., 1999). Similarly, Welbourne and Andrews (1996) examined that HR decisions made early in the life cycle of a firm (that is, the time of an initial public offering, IPO) affected the firm's survival after five years. More specifically, they found that companies having compensation programs such as stock options and profit sharing at the time of the IPO were more likely to survive. This was likely because those compensation practices provided employees with a longer-term perspective on the business, which helped to retain employees and make them work towards a common goal. As a result, the firm was able to keep moving forward even while adjusting to changes in their environment (Welbourne & Andrews, 1996). Finally, the compensation practices of an early stage of a firm positively affect not only relatively short-term success (for example, five years after IPO) but also the long-term survival of the firm (for example, fifty years, Collins & Porras, 1994).

In addition to positive impact on employee motivation, competitive compensation packages can help firms to establish good reputation for prospective employees by affecting job applicants' perception of organizational attractiveness (Cable & Judge, 1994). Positive reputation among potential employees may strengthen a firm's ability to attract and select better job applicants. Thus, through recruiting and retaining outstanding people, firms can also generate human capital advantage (Boxall, 1996). Competitive advantages can be achieved through human resources in light of a firm's strategies (Delery, 1998; Lengnick-Hall & Lengnick-Hall, 1988; Wright & Snell, 1998), and the match between human resource capabilities and strategy is positively related to firm performance (Wright, Smart, & McMahan, 1995).

Research has shown that employees with more training, experience, and skills help firms implement new technologies more effectively (Bartel & Lichtenberg, 1987, Siegel, Waldman, Youngdahl, 1997; Link & Siegel, 2007). The need for such skilled employees is so great that Shrader and Siegel (2007) noted that high-performing entrepreneurial firms are more likely to be started by a team of entrepreneurs than individuals as it helps guarantee the presence of several such skilled workers. Despite the importance of developing, attracting, or starting with a strong team to lead to success, there is currently little research on the topic (Carlson, Upton, and Seaman, 2006).

One of the few conclusions that have been found is that to ensure the culture of the firm remains entrepreneurial, a condition for encouraging rapid and on-going growth, firms need to offer their employees autonomy (Schuler, 1986). This autonomy leads to increased levels of innovation in the organization, which in turn can lead to the high levels of success found in high-performing entrepreneurial firms. Schuler further went on to note that autonomy must be further

reinforced through human resource practices, including training and development, compensation, and benefits.

Schuler (1986) also discussed how firms need to ensure that the entrepreneurial climate is reinforced by rewarding those who promote and practice it. Compensation and benefits need to reflect “external equity, are flexible, contain many long-term incentives, encourage high employee participation, offer some employment security, and are administered in a more egalitarian fashion” (Schuler, 1986, pg. 624). These rewards are designed to encourage entrepreneurial skills and practices, including calculated risk-taking, long-term orientation and strategy, and teamwork. They should also be connected to performance, where applicable, so such benefits as bonus plans, profit sharing, and stock options are model possibilities for improving performance (Pfeffer, 1994).

In evaluating and measuring firm growth, it is common over time and prevalent across journals to use either employment growth, revenue growth, or a combination of the two to represent firm performance (Baum and Silverman, 2003; Baum and Wally, 2003; Craig and Dibrell, 2006; Kolvereid, 1992; Lee, 2006; Nicholls-Nixon, 2005; Norburn and Birley, 1988; Robson and Bennett, 2000; Schwenk and Shrader, 1993). We therefore operationalize firm performance into the growth in both revenue and employment, and offer the following hypothesis regarding the relationship between the number of benefits offered and the subsequent growth of the firm.

H2: Total number of benefits offered to employees is positively related to (a) revenue growth and (b) employment growth.

Hypotheses 1 and 2 predict that entrepreneurs’ self management moderates the relationship between size of firm and total number of benefit, and total number of benefit in turn positively

influences firm growth. In combination, this pattern of relationships constitutes what Preacher, Rucker, & Hayes (2007) has called a conditional indirect effect where the indirect relationship between size of firm and firm growth is conditional on entrepreneurs' self management. This form of conditional indirect effect is also referred to as a moderated mediation effect (Edwards & Lambert, 2007, Muller, Judd, & Yzerbyt, 2005, Preacher et al., 2007). Specifically, we expect that because entrepreneurs' self management offsets the potentially positive relationship between size of firm and total number of benefit, there should be a less strongly positive indirect effect between size of firm and firm growth through total number of benefit when entrepreneurs' self management is high.

H3: The indirect effect of the size of the firm on (a) revenue growth and (b) employment growth through total number of benefits offered to employees is conditional on an entrepreneur's level of self management, such that at high levels of entrepreneur's self management this indirect effect is less strongly positive.

METHOD

Sample

To test this theory, we drew on data from the 500 fastest growing entrepreneurial firms in the U.S., including demographic information of the founding entrepreneurs and the benefits each firm offers their employees. As part of a separate survey, we asked each entrepreneur to complete a self management assessment, allowing us to rank each entrepreneur's self-management ability. This study combines these two datasets, allowing us to determine whether entrepreneurs with high self-management are able to reduce the number of benefit offerings to their employees in comparison to entrepreneurs with lower self-management.

To gather data for compensation practices and firm performance, we partnered with Entrepreneur Magazine, using their in-house expertise for gathering performance data and other relevant internal information for each of the 500 fastest growing firms in the United States. Entrepreneur Magazine calculated the ranking for each firm based on a combination of factors, including the percent sales growth and employment growth. There are others studies that combined these two performance variables into a new venture performance (e.g., Ensley, Hmieleski, & Pearce, 2006; Hmieleski & Baron, 2009). In order for Entrepreneur Magazine to consider a business one of the fastest growing entrepreneurial firms in the United States for 2007, a business had to be started between 1998 and 2002.

The reason for choosing to study the 500 fastest growing firms is because we thought that this sample would likely provide better compensation packages with employees than other firms, thereby allowing us more chances to find the significant relationship among entrepreneurs' self-management, compensation practices, and firm performance. If the relationships are not captured in the sample of successful entrepreneurial firm, it would be much less likely for us to expect to see those relationships in less successful firms with slow growth. Compensation data were obtained through direct contact with the firms, while performance data were gathered from publicly available records.

Upon receipt of the spreadsheet, we pulled a subset of the 500 firms and verified the accuracy of the information to ensure the validity of the data. Using this database, value surveys were sent to the 933 founders of the 500 fastest growing firms in the United States. Finally, we received 134 responses (14.1%), of which 14 were not usable due to incomplete data. However, these responses represent 111 unique firms of the top 500 (22.2%). Each value survey response

was paired with compensation practice and performance data supplied by Entrepreneur Magazine to create a master dataset.

Measures

Size of Firm (Independent Variable). We measured the number of employees so that we can estimate the size of each firm. This data were acquired from Entrepreneur Magazine. To reduce the threat of multicollinearity, we summed up the actual number of employees for the year in which the survey data were collected to generate a variable labeled “size of firm.” Previous literature also used this index for measuring firm size (e.g., Hmieleski & Baron, 2009).

New Venture Performance (Dependent Variable). Growth is often believed to be a primary objective of new ventures (Brush & Vanderwerf, 1992; Danson, 1999). Following Ensley et al.’s (2006) and Hmieleski and Baron’s (2009) suggestions, we used both revenue growth and employment growth rate as indicators of new venture performance. The performance data for annual revenue growth and employee growth will be acquired from Entrepreneur Magazine, which reported revenue and employee growth rates over the last four years. New venture growth was measured using the natural log of revenue and employment growth for the four years. Researchers generally agree that an index of new venture performance can be measured using firm revenue and employee growth as an objective performance indicator (Ensley et al., 2006; Keats & Hitt, 1988).

Entrepreneurs’ Self-Management (Moderating Variable). We asked respondents (entrepreneurs for each firm) to self-report on their self management ability. We used a twenty one-item for measuring self-management (Boyatzis & Goleman, 2001). Each of these items provided a statement with an associated five-point Likert scale. For scoring, 1 meant low agreement with the statement and 5 was complete agreement. The scores for the twenty-one self-

management items were averaged together, creating a composite self-management variable. Some example survey items of self management are “I deal calmly with stress,” “I display impulse control and restraint,” “I stay composed and positive, even in trying moments,” and so on. The mean value of self-management was 4.101, with a standard deviation of 0.515 and a Cronbach’s of 0.919.

The Number of Benefits (Mediating Variables). Data on compensation practices (i.e., benefits to employees) from Entrepreneur Magazine included health insurance, life insurance, retirement plans, stock options, company car, tuition reimbursement, telecommuting, and flextime and they were coded as a dichotomous variable (0=not present, 1=present). In addition, companies were allowed to mention any other benefits they offer. Following the procedures outlined by Delery and Doty (1996), we created the compensation practice index by simply adding the number of benefits and perks offered by the company. Thus, this variable will become a continuous variable (from 0 to 8); “0” is no compensation and “8” is eight compensation practices. This additive approach is appropriate because aggregating compensation practices assumes that firms can improve performance by increasing the number of practices (Youndt, Snell, Dean, & Lepak, 1996). This index was used as a proxy for the extent of benefits offered, an underlying continuous scale, which in turn allows the use of regression methodology. Furthermore, as there is no evidence regarding a differential impact of various compensation packages on firm performance, we assigned equal weighting to each practice.

Control Variables. We included four control variables based on the entrepreneurs: (1) the gender of the entrepreneur (coded male=0 and female=1, mean 0.12, standard deviation 0.33), (2) age of the entrepreneur (mean = 47.43, standard deviation = 8.99), (3) the number of businesses previously started by the entrepreneur (mean = 3.05, standard deviation = 4.06), and

(4) whether the current business was started with partners (coded no=0 yes=1, mean = 0.65, standard deviation = 0.48). The number of previous start-ups allows us to account for accumulated venture experience by entrepreneurs. We also controlled for having partners as entrepreneurs starting a business with others would presumably have greater focus on the welfare others, especially if those others are founding partners. Such other-focus could result in offering greater benefits, despite the costs.

Analyses

Tests of hypotheses. We tested Hypotheses 1 and 2 using hierarchical regression with mean-centered predictor variables (Aiken & West, 1991). To test Hypothesis 3, which involved a test of moderated mediation, we used the approach described by Preacher et al. (2007) for testing conditional indirect effects. As discussed in the literature (Cole, Walter, & Bruch, 2008; Edwards & Lambert, 2007; Muller et al., 2005; Preacher et al., 2007), this more recent approach to testing moderated mediation models overcomes some of the methodological shortcomings of earlier approaches such as those based on the causal steps approach of Baron and Kenny (1986). It allows for the examination of conditional indirect effects at different levels of the moderator variable and applies bootstrapping to test the significance of those indirect effects. Specifically, we used the SPSS macro instruction provided by Preacher et al. (2007) to test Hypothesis 3 consistent with Model 2 in their paper (p. 196). In this analysis, we ran the bootstrapping procedure using 5,000 draws. Since the sampling distribution of the indirect effect is rarely symmetrical, bootstrapping method can be used to the assessment of conditional indirect effects (Preacher et al., 2007).

RESULTS

Table 1 shows the descriptive statistics and bivariate correlations among the variables used in this study. We tested the study hypotheses using hierarchical regression with mean-centered predictor variables (Aiken & West, 1991).

“Insert Table 1 here”

Hypothesis 1 predicted an interaction effect between the size of firm and entrepreneurs’ self-management to influence the number of benefits. As shown in Table 2, Hypothesis 1 was supported; there was a significant interaction effect between the size of firm and entrepreneurs’ self-management on the number of benefits ($\beta = -.19, p < .05$). We plotted the interaction using the plotting procedures suggested by Aiken and West (1991). Figure 2 shows this interaction graphically at two levels of entrepreneurs’ self-management (i.e., +1 and -1 standard deviation). As predicted, the relationship between the size of firm and the number of benefits is more positive when entrepreneurs’ self-management is low than when entrepreneurs’ self-management is high.

“Insert Table 2 here”

“Insert Figure 2 about here”

Hypotheses 2a and 2b predicted that the number of benefits would be positively related to revenue growth and employment growth respectively. To test these hypotheses, we regressed each dependent variable on the number of benefits controlling for the predictor variables and the size of firm - entrepreneurs’ self-management interaction term. In support of Hypotheses 2b but not Hypotheses 2a (see Table 3), the number of benefits was positively and significantly related employment growth ($\beta = .21, p < .01$), but not revenue growth ($\beta = .12, p > .05$). Thus, Hypotheses 2a was not supported and Hypotheses 2b was fully supported.

“Insert Table 3 here”

Using Preacher et al.’s (2007) macro (discussed earlier) we probed the conditional indirect effect of the size of firm on revenue growth and employment growth at different levels of entrepreneurs’ self-management (Hypothesis 3a and 3b respectively). Specifically, we tested the significance of the indirect effect at values of entrepreneurs’ self-management equal to plus (high self-management) and minus (low self-management) one standard deviation above and below the mean.

Hypothesis 3a predicted that this effect would be more strongly positive at low levels of entrepreneurs’ self-management. For revenue growth, the results of the bootstrap procedure used by the macro showed that for a value of entrepreneurs’ self-management equal to one standard deviation above the mean, the indirect effect of the size of firm on revenue growth through the number of benefits was not significant ($\beta = .0002$; C. I. = $-.0002, .0010$; $p > .05$); the indirect effect was also not significant for a value of entrepreneurs’ self-management equal to one standard deviation below the mean ($\beta = .0008$; C. I. = $-.0008, .0028$; $p > .05$). Hence, Hypothesis 3a was not supported.

Hypothesis 3b predicted that this effect would be more strongly positive at low levels of entrepreneurs’ self-management. As we predicted, we found a strong support for Hypothesis 3b related to employment growth. For a value of entrepreneurs’ self-management equal to one standard deviation above the mean, the indirect effect of the size of firm on employment growth and was not significant ($\beta = .0003$; C. I. = $-.0002, .0010$; $p > .05$); the indirect effect was significant for a value of entrepreneurs’ self-management equal to one standard deviation below the mean ($\beta = .0014$; C. I. = $.0004, .0031$; $p < .05$). Hence, Hypothesis 3b was fully supported.

DISCUSSION

We have examined the role of entrepreneurs' self management in promoting new venture performance. The results show that entrepreneur's self management moderates the relationship between the size of the firm and the total number of benefits offered, which in turn positively relates firm growth. However, this positive relationship only was significant in the context of an increased rate of growth in the number of employees, but failed to be detected in revenue growth.

Theoretical Implications

Our presented research makes four distinct research contributions, three theoretical and one practical. The first contribution is our finding that there is an interaction effect of entrepreneurs' self-management X the size of the firm on the number of benefits being offered. The theoretical relationship between the size of firm and the total number of benefit has been well established in previous literature. However, limited studies have previously investigated such a role of entrepreneurs' self-management between these relationships. To date and to the best of our knowledge, this paper is the first empirical study testing how entrepreneurs' self-management impacts the offering of fringe benefits to employees. Additionally, empirical research attempting to link entrepreneurs' emotional competencies and firm strategy is also limited, even though entrepreneurs provide a significant impact on such strategic decisions and business policy. This study helps further the understanding of entrepreneurs' emotions in influencing firm decisions such as the number of benefits offered. Therefore, we believe that our research opens many doors to new avenues of empirical studies focused on the psychology of entrepreneurs.

A second important contribution of this research is to further clarify the role employee benefits play in promoting new venture performance. Based on our sample, it seems clear that the number of benefits offered to employees helps to increase employment growth; however, we

cannot say the same about a direct affect to growth in revenue, which is the primary objective in an entrepreneurial venture. There are a couple of potential explanations for this unexpected outcome, starting with our concession that fringe benefits are likely not the main motivator of increased financial performance in firms. Additionally, several conceptual and empirical works have demonstrated the relationship between entrepreneurial orientation or entrepreneurial behavior being a significant driver of firm financial performance (e.g., Covin & Slevin, 1989; Pearce, Kramer, & Robin, 1997; Rauch, Wiklund, Lumpkin, & Frese, 2009). Given these well established and dominant research streams in Entrepreneurship literature, extrinsic benefits to employees may be a weak predictor of revenue growth to begin with, especially in entrepreneurial firms.

The last major theoretical contribution of this study comes from our findings that illustrate the role of entrepreneurs' self-management in promoting employment growth, but not revenue growth. We find this result to be in line with classic motivation theory (e.g., Herzberg's motivation-hygiene theory). Herzberg's (1959) two-factor theory distinguishes between motivators and hygiene factors. Motivators induce positive satisfaction, arising from intrinsic conditions within the job itself, such as responsibility, recognition for achievement and personal growth. Hygiene factors, on the other hand, do not increase satisfaction, but rather decrease dissatisfaction. Such hygiene factors are extrinsic to the work itself, including job security, wages/salary and potentially fringe benefits. Essentially, these factors are needed to avoid a level of employee dissatisfaction that leads to turnover, whereas motivation factors are needed in order to motivate an employee to perform at a higher level. In the context of this study, the firm benefit offerings are best classified as hygiene factors, enticing new hires and keeping staff in place, yet failing to motivate staff to achieve entrepreneurial goals. The use of self-management in these

firms not only reduces the offerings of hygiene factors that merely increase employment levels, but also motivate staff “when self-management norms are explicit and practiced over time, team effectiveness improves dramatically, as does the experience of team members themselves. Being on the team becomes rewarding in itself and those positive emotions provide energy and motivation for accomplishing the team’s goals” (Goleman et al, 2002).

Practical Implications

Researchers can use this article to better understand the disparity of the benefits offered across firms, despite these businesses having similar levels of success. Practitioners, on the other hand, can benefit from this study by understanding the potential benefits of high self management and incorporate our findings into cost-benefit analyses of developing and maintaining their own self-management versus offering additional fringe benefits to their employees. While self-management can be improved through learning and practice (Bar-On, 1996; Goleman, 1995; Mayer and Salovey, 1995), practitioners also have to understand that entrepreneurs’ self management is a necessary, but not sufficient, condition of entrepreneurial success, in terms of financial performance. By managing and regulating both their own and employees’ emotions, entrepreneurs can create fertile ground for their new venture to increase financial performance.

Limitations

Despite the research and practical contributions of this study, it is not without limitations. First, our sample is confined to top performing entrepreneurs, so while the examination of the impacts of emotional intelligence on such factors is an underexplored area in the field of entrepreneurship, we are unable to ensure the generalizability of such research to all entrepreneurs. Further investigation of this and similar models should be applied to entrepreneurs

overall in order to derive conclusions about which aspect or aspects of emotional intelligence are of the greatest benefit to entrepreneurs.

Second, our metrics measuring the types of benefits offered were quite limited. We were only able to attain information about the presence or lack of any given benefit; we did not have the degree to which any of these benefits were offered. Furthermore, we lacked information on other forms of compensation, including wages, mentoring programs, training resources, or quality facilities and resources for employees to use at work. As such, the effects measured in this study may actually be understated. In follow-up studies, we intend to explore these aspects in greater detail, yielding a more nuanced analytic metric for clarity on aspects of these effects.

Conclusion

The results of our analysis point to several interesting conclusions about top performing entrepreneurs. Such entrepreneurs' self-management appears to create a more desirable environment for employees, even in the face of denying the very benefits these employees desire. In essence, an entrepreneur high in self-management is better able to control him- or herself when dealing with the numerous pressures faced by rapid growth and uncertainty in business. Employees appreciate such self control, recognize it as a rare and precious commodity, and subsequently find greater enjoyment in their work environment. So we find that Scrooge, indeed, was not such a bad guy as short-term stinginess can lead to greater long-term returns for all parties involved.

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Table 1 *Descriptive Statistics and Correlations*^a

	Mean	SD	1	2	3	4	5	6	7	8	9
1 Gender	.12	.33	-								
2 Age	47.43	8.99	-.08	-							
3 Number of Previous Businesses	3.05	4.06	-.09	.14	-						
4 Partners	.65	.48	.03	-.07	-.15	-					
5 Size of Firm	79.05	113.52	-.09	-.04	-.03	.01	-				
6 Entrepreneurs' Self-Management	4.10	.52	-.13	-.06	.18*	-.07	.09	-			
7 The Number of Benefits	4.46	2.03	.08	-.18*	-.10	.27**	.23**	-.17	-		
8 Revenue Growth	1.65	1.16	.09	-.07	-.13	.07	.06	-.12	.19*	-	
9 Employment Growth	3.35	1.20	-.04	-.05	.02	.03	.76**	.09	.39**	.25**	-

^a Means, standard deviations, and correlations for variables were calculated between individuals ($n = 134$).

* $p < .05$, ** $p < .01$

Table 2 Results of Hierarchical Regression Analysis Predicting Psychological Empowerment

	The Number of Benefits		
	Step 1	Step 2	Step 3
<i>Gender</i>	.03 (.53)	.03 (.51)	.05 (.51)
<i>Age</i>	-.19 (.02)	-.20* (.02)	-.21* (.02)
<i>Number of Previous Businesses</i>	-.05 (.04)	-.01 (.04)	-.01 (.04)
<i>Partners</i>	.22 (.37)	.20* (.35)	.20* (.35)
Size of Firm		.27** (.00)	.35*** (.00)
Entrepreneurs' Self-Management		-.19* (.32)	-.20* (.32)
Size of Firm × Entrepreneurs' Self-Management			-.185* (.00)
<i>R</i> ²	.10	.20	.23
<i>df</i>	4, 113	6, 111	7, 110
<i>F</i>	3.18**	4.72***	4.73***

Standardized coefficients are reported with standard errors in parentheses.

* $p < .05$, ** $p < .01$, *** $p < .001$

Table 3 Results of Hierarchical Regression Analysis Predicting Work Outcomes

	Revenue Growth				Employment Growth			
	Step 1	Step 2	Step 3	Step 4	Step 1	Step 2	Step 3	Step 4
<i>Gender</i>	.09 (.34)	.08 (.35)	.08 (.35)	.08 (.35)	-.04 (.33)	.02 (.22)	.05 (.20)	.04 (.19)
<i>Age</i>	-.06 (.01)	-.07 (.01)	-.07 (.01)	-.05 (.01)	-.06 (.01)	-.05 (.01)	-.07 (.01)	-.02 (.01)
<i>Number of Previous Businesses</i>	-.10 (.03)	-.08 (.03)	-.08 (.03)	-.08 (.03)	.04 (.03)	.05 (.02)	.06 (.02)	.06 (.02)
<i>Partners</i>	.06 (.24)	.05 (.24)	.06 (.24)	.04 (.25)	.13 (.23)	-.01 (.15)	.01 (.14)	-.03 (.13)
<i>Size of Firm</i>		.05 (.00)	.12 (.00)	.08 (.00)		.76*** (.00)	.97*** (.00)	.89*** (.00)
<i>Entrepreneurs' Self-Management</i>		-.11 (.22)	-.12 (.22)	-.09 (.23)		.01 (.14)	-.01 (.12)	.03 (.12)
<i>Size of Firm × Entrepreneurs' Self-Management</i>			-.07 (.00)	-.04 (.00)			-.29*** (.00)	-.25*** (.00)
<i>Size of Firm × The Number of Benefits</i>			-.11 (.00)	-.10 (.00)			-.21** (.00)	-.20** (.00)
<i>The Number of Benefits</i>				.12 (.07)				.21** (.04)
<i>R²</i>	.03	.04	.05	.06	.01	.58	.67	.70
<i>Df</i>	4, 113	6, 111	8, 109	9, 108	4, 113	6, 111	8, 109	9, 108
<i>F</i>	.91	.85	.77	.82	.2	26.0***	27.2***	27.9***

Standardized coefficients are reported with standard errors in parentheses.

* $p < .05$, ** $p < .01$, *** $p < .001$

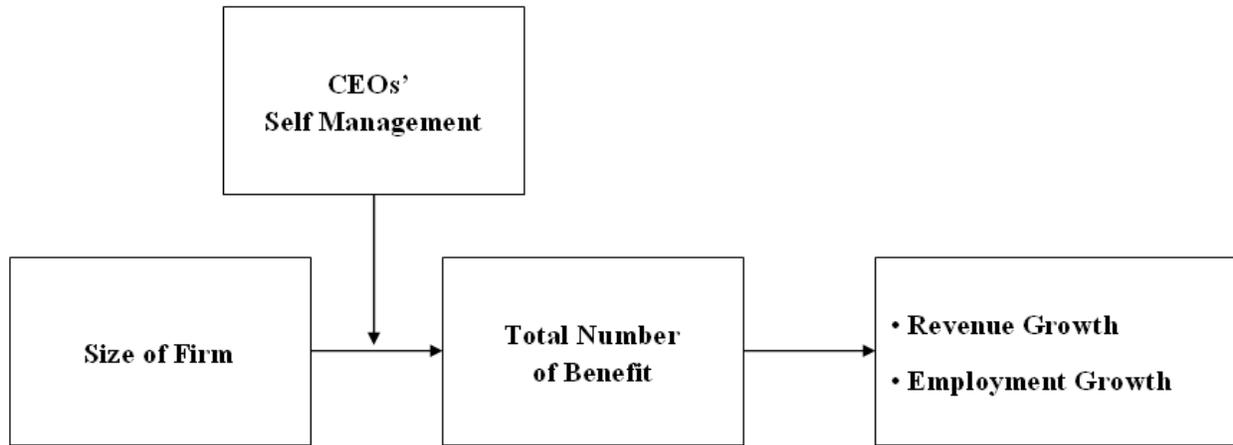


Figure 1. Summary model of hypothesized relationships.

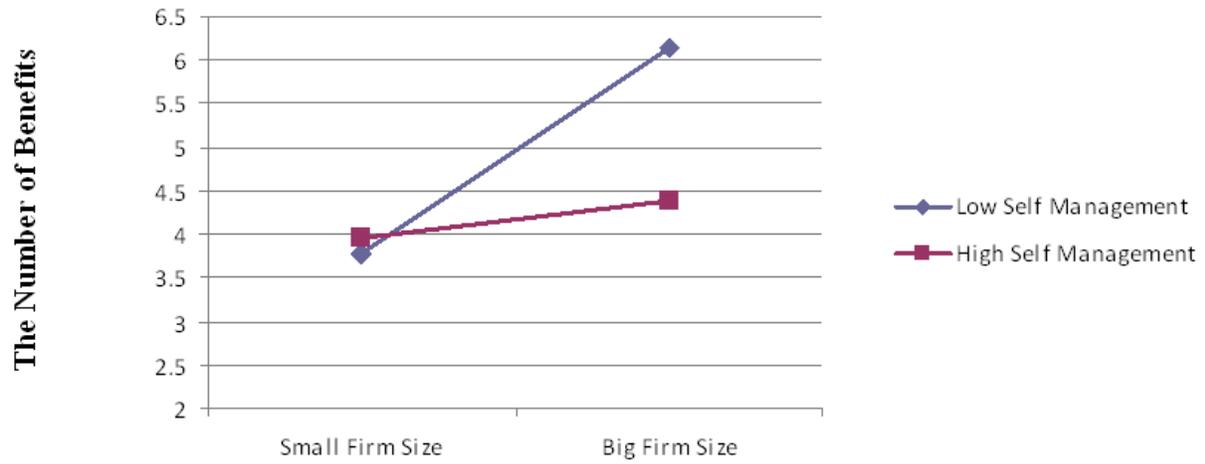


Figure 2. Moderating effect of Entrepreneurs' Self Management on the relationship between Size of Firm and Total Number of Benefit.