

INFLUENCE OF THE MOTIVATION OF ENTREPRENEURS ON THE WILLINGNESS TO TAKE RISKS

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Abstract: The evaluation of the willingness to take risks of the entrepreneurs is a key element for the decision of venture capitalists to invest in entrepreneurship. In this study, the relationship between the motivation of the entrepreneur and the willingness to take risks is analyzed. The multiple regressions analysis between the motivational factors and expenses of new venture in the PSED II dataset shows, that several motivational factors have a significant effect on the expenses of the new ventures. Entrepreneurs who start a business with the motivation for flexibility in life and freedom over their own work approach, have increased spending on the company and are taking a greater risk. This also applies to entrepreneurs who have the desire to influence an organization.

Keywords: entrepreneur, entrepreneurship, motivation, risk, expenses

1 Introduction

Starting a business is a risk for every entrepreneur. The entrepreneur invests her or his time, energy and resources to set up a company. If the foundations fails, the resources are lost in most cases. Despite these risk, there is a high number of entrepreneurs. This leads to the assumption, that entrepreneurs are more willing to take risks than other people. According to Das and Teng, the readiness to take risks is the most striking personal characteristic of an entrepreneur (Das, 1997).

In particular, investors and government agencies want to minimize the risk of their investments in start-ups. Therefore, the risk-taking propensity of entrepreneurs is evaluated for analyzing potential investments. Especially in the first 3 years of the entrepreneurship, the entrepreneur has a direct impact on the company's development since the entrepreneur is very much involved in operating the company's development in this period. The willingness to take risks increases the risk of the investment of investors.

Entrepreneurs start a company for a variety of reasons. These reasons are reflected in the motivation of the entrepreneur. The motivation of the entrepreneur has an influence on the founded company. Therefore, the hypothesis can be established that the motivation to start a business has an impact on the risk of the entrepreneur. A relationship between the motives of an entrepreneur and the willingness to take risks, makes it more accurate and easier to evaluate the risk of an investment in companies.

2 Theoretical framework

The characteristics of entrepreneurs have been extensively studied in the literature (Hornaday, 1982). In particular, the risk-taking propensity of entrepreneurs was examined in several studies. According to Sitkin and Pablo, the risk-taking propensity is defined as the willing to take steps which are considered as risky (Sitkin, 1992).

In a study of 239 entrepreneurs, Begley found out, that the risk-taking propensity was the only unique characteristic of entrepreneurs and non - entrepreneurs in which they differed significantly (Begley, 1995). Koh confirms this in his study. He found out that entrepreneurs have a higher propensity for risk-taking than other people (Koh, 1996). These studies indicate, that entrepreneurs will more likely take risks. The willingness to take risks, can be seen as necessary characteristic traits for entrepreneurs. At the same time, this characteristic trait can endanger the survival success of the founded companies.

The scientific findings do not show a consistent picture of the willingness to take risks between entrepreneurs and other people. McClelland for example found out, that entrepreneurs have an

average expression of the risk-taking property (McClelland, 1961). Kahneman and Lovallo come to an equal result. They have found, that entrepreneurs are not more willing to take risks than other people. The tolerance for risk is not higher of entrepreneurs than with people who are not active in entrepreneurial activities (Kahneman, 1993). Corman, Perles and Vancini came to the conclusion, that entrepreneurs have the same risk as the rest of the population, but do not perceive the risk as a risk. The perception of risk differs between entrepreneurs and other people (Corman, 1988). The studies come to a unified picture of the risk-taking propensity of entrepreneurs in comparison to people who are not entrepreneurially active. In the following, the willingness to take risks of entrepreneurs is compared to managers.

A special focus lies in science on the study about the differences between entrepreneurs and managers. In particular, the willingness to take risks of entrepreneurs and managers was examined. Lane argues in his book from 1982, that the willingness to take risks is the most significant difference between entrepreneurs and managers (Gasse, 1982).

Brockhaus came to a different conclusion 2 years earlier. He found out, that the willingness to take risks does not differentiate between entrepreneurs and managers. He came to the conclusion, that entrepreneurs have only an average degree of risk (Brockhaus, 1980). The difference between the risk-taking propensity of entrepreneurs and managers has also been studied by Babb and Babb and Palich and Bagby. No significant differences between entrepreneurs and managers for the willingness to take risks was found (Babb, 1992) (Palich, 1995). This has already been found in a study of Litzinger in 1961. Litzinger also found no significant difference in the willingness to take risks among owners of motels and hotel managers. (Litzinger, 1961) The operation of managers and entrepreneurs are similar in a number of aspects. Within an organization, managers must act entrepreneurially without owning shares of the company in most cases.

The different risk-taking by entrepreneurs and other people is based, according to a variety of authors, on the different perceptions of risk. Studies show that people perceive identical situations differently. For example, Nutt was able to show that people assess situations as riskier than others (Nutt, 1993). Begley also describes in his article, that the risks of entrepreneurs is regarded only as a moderate risk (Begley, 1995).

Sheppard argues that entrepreneurs are optimistic people who underestimate the risk of an enterprise. They have a greater belief in their own success of the company than the result of an objective assessment of the situation of the company (Shepperd, 1996). This reasoning follows Simon, Houghton and Aquino. Through a changed perception way, entrepreneurs estimate the risk for the company founders significantly smaller as it is regarded by other people. This has a major impact on a company's development (Simon, 1999).

Therefore, the question arises whether the assumption of risk, and thus the willingness to take risk is the decisive characteristic, if the risk of a situation is not perceived as a risk. That is why entrepreneurs distinguish from non - entrepreneurs rather in the perception of risk and in the willingness to take risks (Palich, 1995).

Cromie and O'Donoghue point out, that entrepreneurs take a manageable and achievable risk. Entrepreneurs evaluate and calculate the risk which they take and weigh up the advantages and disadvantages (Cromie, 1992). These risks are calculable because entrepreneurs can rely on their own skills and experience. This gives them the opportunity to assess the risk properly (Cunningham, 1991). Other authors even go a step further in the way that it is one of the most successful features of entrepreneurs to avoid risks (Miner, 1990). Literature review

shows that entrepreneurs have a higher willingness to take risk, which is based on a differentiated perception of risk. In order to get a differentiated picture on the willingness to take risks as well as to predict it better, it will be set into relationship with the motivation of entrepreneurs.

In literature, there is no study which investigates the influence of the motivation on the risk willingness. In this paper, the relationship between the willingness to take risk and the motivation is analyzed. In addition to that, the research question is investigated, if different motivational factors have a sophisticated influence on the willingness to take risks.

2 Methodology

2.1 Research Goal

The aim of the study is to investigate the relationship between the willingness to take risks of entrepreneurs and the motivation of entrepreneurs. The willingness to take risks is examined in particular on the basis of the willingness to invest in the new company.

Hypothesis

Different motivational factors of entrepreneur have a sophisticated influence on the willingness to take risks.

2.2 Sample and data collection

To investigate the relationship between the motivation of the entrepreneur and the willingness to take risks, in this scientific article the data from the PSED II dataset is used for secondary analysis. The PSED II data set comes from the University of Michigan. In 2006, 31,845 persons were called in the US and 1,214 people were identified who were in the process to start a new company. In the first year, the motivation of entrepreneurs was recorded and then for 5 years, financial data was recorded each year of the established company.

The PSED data are an indicator of 12.6 million nascent entrepreneurs in the US. The PSED II data set was also weighted based on US Census data to be nationally representative. PSED II was performed without a control group. The data from PSED II consists of a total of about 8000 variables.

The PSED II record contains the motivation of entrepreneurs in form of 14 motivating factors was initially recorded at the time the company was founded.

The scale had 5 items to choose from and included the following response options: 1. No extent, 2. A little 3. Some 4. A great, 5. A very great extent. The exact question was identical for each motivation cofactors. "To what extent was that important -- no extent, a little, no extent, a little, some, a great, or a very great extent?" The question was put in front of the motivation factors which were as followed.

- W1. To achieve a higher position in society.
- W2. To have greater flexibility for your personal and family life.
- W3. To continue a family tradition.
- W4. To be respected by your friends.
- W5. To have considerable freedom to adapt your own approach to work.
- W6. To give yourself, your spouse, and your children financial security.
- W7. To follow the example of a person you admire.
- W8. To build a business your children can inherit.
- W9. To earn a larger personal income.
- W10. To achieve something and get recognition for it.
- W11. To develop an idea for a product.
- W12. To have a change to build great wealth or a very high income.
- W13. To fulfil a personal vision.
- W14. To have the power to greatly influence an organization.

In a multiple regression analysis, the relationship between the motivation of the company founders and the expenditure is

analyzed. The expenditure is the geometric mean of the expenditures over 3 years. A significant correlation indicates the fact that certain motivational factors have an impact on increased spending on business start-up and thus have an impact on the risk of the entrepreneur.

3. Results

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	4,608E+12	14	3,291E+11	1,425	,158
Residual	2,056E+13	89	2,310E+11		
Total	2,517E+13	103			

Table 1: Result of the multiple regression analysis of the motivational factors and the expenses of the entrepreneurship

Table 1 shows, that the model is not significant with a p value of 0,158. The relationship between the motivation of an entrepreneur and the expenses of the founded company is therefore not significant.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,428	0,183	0,055	480624,2152

Table 2: Analysis of variance of the motivational factors and expenses of the entrepreneurship

The model explains 18,3% of the expenses of founded companies. With all factors, which influence an entrepreneurship, the motivation of an entrepreneurs explains a big part.

Model	B	T	Sig
(Constant)	193723,075	,721	,473
AW1.IMP: HIGHER POSITION IN SOCIETY	-.89425,760	-1,543	,126
AW2.IMP: GREATER FLEXIBILITY IN LIFE	119060,968	2,070	,041
AW3.IMP: CONTINUE FAMILY TRADITION	15391,087	,392	,696
AW4.IMP: RESPECTED BY FRIENDS	-34381,032	-,630	,530
AW5.IMP: FREE. TO ADAPT WORK APPROACH	-98580,331	-1,902	,060
AW6.IMP: FINANCIAL SECURITY	40772,045	,776	,440
AW7.IMP: FOLLOW EXAMPLE PERSON ADMIRE	22923,850	,487	,627
AW8.IMP: BUILD BUS KIDS CAN INHERIT	10275,225	,278	,782
AW9.IMP: EARN LARGER PERSONAL INCOME	-12805,507	-,226	,822
AW10.IMP: ACHIEVE AND BE RECOGNIZED	40952,886	,789	,432
AW11.IMP: DEVELOP IDEA FOR A PRODUCT	-62579,065	-1,255	,213
AW12.IMP: BUILD GREAT WEALTH	-31585,031	-,586	,560
AW13.IMP: FULFILL A PERSONAL VISION	-73799,251	-1,645	,104
AW14.IMP: POWER TO INFLUENCE AN ORG	127675,541	2,313	,023

Table 3: Coefficients of the relationship between motivational factors and the expenses of entrepreneurship

There is a significant relationship between the desire of greater flexibility in life and the expenditure for the company. The p-value is 0.041 with a value of $B = 119060,968$.

Another motivation factor has a significant impact on the company's expenses. The desire of power to influence an organization has a significant ($p = 0.023$) influence on the established company. The impact is positive and $B = 127675,541$. The desire for freedom to apply the own work approach in life, also has a low P - value of 0.060 and a B value of 119060,968.

There is no significant relationship between the other recorded motivational factors and the expenses in the PSED II data set. No significant association was observed with the remaining 11 motivational factors from the PSED II data set. These are the factors "Higher position in society", "continue family tradition", "respected by friends", "financial security", "follow example person admire", "build business did kids can inherit", "earn larger personal income", "achieve and be recognized", "develop idea for a product", "build greater wealth", "fulfill a personal vision".

3 Conclusion and discussion

The results provide information on the risk of investments in entrepreneurship. The risk of the investments can be evaluated among other factors based on the motivation of the company's founder. The study shows, that there is a relationship between the motivation of entrepreneurs and the expenses of the founded companies. Therefore, a relationship between the motivational factors of the entrepreneur and the willingness to take risks can be established.

The model of the 14 motivation factors and the expenses of the founded country is not significant. Looking at each of the motivational factors separately, a different result can be concluded. Entrepreneurs who start from the motivation for flexibility in life and freedom over their own work, have an increased spending on the company and are taking a greater risk. This implies, that people who are motivated by the independence in life, are more willing to invest in their companies and take a higher risk. It can be assumed, that people who are striving for independence do not focus on the return on investment. These entrepreneurs are ready to invest more money and take a higher risks to achieve the goal to become independent.

Entrepreneurs who focus on financial rewards, like the motivational factors "financial security", "earn larger personal income" and "build greater wealth", focus on the return on investment and therefore take less risks. Another category of entrepreneurs are striving for social recognition like entrepreneurs who are motivated by the motivational factors "higher position in society", "respected by friends" and "follow example person admire". Taking too much risk would ruin the reputation of the entrepreneur and therefore lower the social standing in the society. Only if entrepreneurs are successful and their companies survive, they can achieve their goals.

The significant relationship between the desire to influence an organization and the expenses of companies can be explained by the fact that the organization is bigger and the influence of the entrepreneur is higher when there is a high investment in the company.

The motivation of an entrepreneur can predict the willingness to take risks. Especially three motivational factors of an entrepreneur have an influence on the expenses of companies. Venture capitalists as well as government agencies should consider the motivation of entrepreneurs to evaluate the risk of their investment.

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