The Affective Roots of Resource Heterogeneity: How Founders’ Emotion Regulation Helps Create Social Resources in Startups
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Christoph Zott*
Quy Huy**

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* Professor of Entrepreneurship at IESE Business School, 08034 Barcelona, Spain. Ph: +34 93 602 4096 Fax: +34 93 253 4343 E-mail: czott@iese.edu

** Associate Professor of Strategy at INSEAD, Boulevard de Constance 77305 Fontainebleau Cedex, France. Ph: +33 (0)1 6072 4498 Fax: 33 1 6072 4223 E-mail: quy.huy@insead.edu

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Abstract

Where do firms’ heterogeneous resources come from? Our qualitative, inductive study of nascent firms over seven years revealed that founders’ differential use of emotion regulation actions can explain differential creation of social resources at the firm level. We found that founders’ emotion regulation actions cluster around three themes: (1) the founder’s temporal perspective (short-term versus long-term); (2) the nature of founder benefits (economic versus emotional rewards); and (3) the target of founder attention (self versus others). We theorize that founders’ emotion regulation actions centered on these themes influence the incentives of founders and stakeholders and thereby enable the creation of valuable and difficult-to-imitate social resources for their ventures. Social resources include discretionary support provided by founders and stakeholders, as well as founder persistence and stakeholder willingness-to-help. Our study contributes to the strategy literature by showing empirically the link between specific emotion regulation actions and the emergence of resource heterogeneity at the firm level. It specifically contributes to resource-based theory by separating the theory’s main assumptions and outcomes, reducing concerns about potential tautology.
INTRODUCTION

Where do the differential resources that are assumed to provide competitive advantage to firms come from (Peteraf and Barney, 2003)? Understanding the causes of firms’ resource heterogeneity is of central importance to scholars who view competitive advantage through a resource-based lens, because resource heterogeneity is associated with differential value creation and firm rents (Amit and Schoemaker, 1993; Barney, 1991; Peteraf, 1993). In this paper, we seek to enrich a cognition-focused understanding of the origins of firms’ resource heterogeneity by bringing in affect through founders’ emotion regulation (ER) actions. ER actions maintain or modify one’s emotional reactions in order to achieve goal-directed outcomes (Gross and John, 2003; Matsumoto et al., 2008). Examples of ER actions include founders taking actions to reduce their depressive state about not getting funding by actively soliciting other promising sources; or initiating a new interesting activity to prevent their growing boredom from reducing their commitment to their newly created venture.

Our knowledge about the origins of resource heterogeneity has thus far been partly based on theoretical speculation about exogenous factors, such as chance events or environmental influences, path dependence, governmental largess and unevenly distributed property rights (e.g., Barney, 1986; Dierickx and Cool, 1989; Nelson, 1991; Foss and Foss, 2005; Peteraf and Barney, 2003). Scholars have also noted that resource heterogeneity can stem from economic actors themselves (Mahoney and Pandian, 1992). These endogenous factors have largely been linked to managers’ cognitive processes such as bounded rationality, decision-making, framing, and learning (e.g., Alvarez and Busenitz, 2001; Castanias and Helfat, 2001; Nelson, 1991; Williams, 1994; Helfat and Peteraf, 2009). Although it seems intuitive that firms can be
different because of the actions of managers—actions that can be shaped by cognition as well as affect—we know relatively little about how affect influences the differential creation of resources among firms. And although scholars have recently drawn our attention to the potential importance of affect to firm creation (Baron, 2008; Cardon, Wincent, Singh, and Drnovsek, 2009; Perry-Smith and Coff, 2009; Shepherd and Cardon, 2009), we still lack a fine-grained understanding of the various kinds of affect-related managerial actions that produce resource heterogeneity in newly founded firms. We therefore ask the following research questions: What specific ER actions do founders use, and how and why do these ER actions differentially affect resource creation in nascent firms?

We have adopted an inductive, qualitative approach (Eisenhardt, 1989) because extant theories on the role of affect, and specifically ER actions, for resource creation are not sufficiently developed to guide the formulation of precise hypotheses for testing purposes: there are many possible kinds of ER actions that founders can use and it is not clear which they actually practice (if any at all). More importantly, the links between specific ER actions and resource creation outcomes are neither well understood nor empirically established. We therefore conducted a longitudinal, inductive study of six new ventures where founders enacted varying levels of ER actions.

Our analysis of the data revealed that founders’ differential use of ER at the personal level can explain the differential creation of what we call social resources—a e.g., discretionary support and persistence from founders and willingness-to-help from

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1 We use the term “social resources” in this paper to acknowledge their origin, namely venture founders and stakeholders and the social interactions among them, and to distinguish them from other types of resources, such as financial or physical resources. Social resources (e.g., the support and persistence of founders, the trust and effort of employees, or the goodwill and support of investors) are akin to organizational capital such as firm culture (Barney, 1997: 156).
venture stakeholders. To illustrate this core finding, one of the founders in our study explained his persistence by pointing out the emotional rewards he derived from developing a firm: “I really enjoy developing”[a company]. This is the thing that keeps me going.” As this quote suggests, the founder attributed his persistence (“keeps me going”) to a specific ER action, which consists in eliciting pleasurable emotions, such as joy, by deliberately performing company development activities. Our analysis showed that founders’ ER actions center on three themes that relate to the process of firm formation and involve: (1) the founder’s temporal perspective for organization building (short- versus long-term focus); (2) the nature of founder rewards (economic versus emotional); and (3) the target of founder attention (self versus others). We theorize that these ER actions influence the incentives of founders and stakeholders and so contribute to the creation of valuable and difficult-to-imitate social resources for their ventures.

Our study contributes both empirically and theoretically to the strategy literature. We show empirically that the emergence of resource heterogeneity within a pool of young firms can have “affective roots.” Indeed, our study may be the first to establish an empirical link between specific affect-related personal actions of founders and associated resource creation outcomes at the firm level. We thus illuminate the “front end” part of resource-based theory (Peteraf and Barney. 2003) by showing how resource heterogeneity is not just a starting point of resource-based theorizing, but can result endogenously from founders’ affect-related actions. Our model, relying on clearly defined and operationalizable constructs, could enhance the predictive power and definitional clarity of resource-based theory. As well, by treating managers’ ER actions as independent variables, and deriving from them firms’ endowments with
heterogeneous resources, we increase the distance between the main assumptions and outcomes of resource-based theory, thus reducing concerns about potential tautology (Priem and Butler, 2001).

EMOTION REGULATION AND RESOURCE CREATION

A review of the relevant literatures gives us some understanding how ER may be important to founders’ ability to create social resources for their nascent firms. ER includes all of the conscious and unconscious efforts to increase, maintain, or decrease one or more components of an emotion (Gross, 1999). As previously described, ER involves actions that deliberately maintain or modify self emotional experiences to achieve specific goals (Gross and John, 2003; Côté, 2005). Emotions refer to biopsychological systems that involve cognitive appraisal of specific situations in relation to one’s goals and concerns, distinctive physiological reactions and action tendencies, and subjective experience including affect (Frijda, 1986; Ortony, Clore, and Collins, 1988). Emotions typically begin with appraisals or evaluations of events along such dimensions as causation (i.e., “is the event caused by other people or circumstances?”) or degree of control (i.e., “how much control do I have over the situation?”). For example, events appraised as unpleasant and harmful to self and over which one feels having little control cause anxiety or fear (Roseman, 1991). Emotions are important to study in an organization building context because they serve as motivators of behaviour as well as have important social functions, such as informing others of one’s internal states and intentions, evoking responses in others, and providing incentives for others (Keltner et al., 2003).

Some researchers have recognized the importance of founders’ own emotional states, such as greed (Webster, 1976), pride and shame (Goss, 2005), stress (Boyd and
Gumpert, 1984), or grief (Shepherd, 2003). However, we know of very little, if any, systematic longitudinal field research on the various emotions that entrepreneurs experience, how they deal with these different emotions, and how this influences resource creation for their ventures, and hence, the emergence of resource heterogeneity.

Emerging research on emotion regulation (ER) that explores the links between ER and firm-level outcomes has remained largely theoretical, and has tended to focus on individual level concerns. Individuals differ in their ability to regulate their emotions, some choosing more successful strategies than others, which allow them to attain desired emotional states and outcomes that are beneficial to their social adaptation and long term well being (Mayer and Salovey, 1997). Different emotions can influence entrepreneurs’ subsequent thinking and action in different ways (Baron, 2008; Lerner and Keltner, 2001).

How people regulate their emotions also has interpersonal effects (pro-social behaviour and closer relationships with others) (e.g., Côté, 2005; Lopes, et al., 2005). ER influences one’s emotional expression and behaviour and shapes the emotional tone of the social encounters (Hochschild, 1983; Grandey, 2003). Emotions can be subconsciously contagious in a social milieu (Hatfield et al., 1994) and influence the quality of social interaction. This social influence effect suggests that ER can matter for firm creation. However, the few empirical studies on founders’ affect have produced equivocal results. For example, scholars have examined the affect-related constructs of “expressiveness”—the ability to express one’s feelings (Baron and Markman 2003)—and “passion” (e.g., Baum and Locke 2004; Chen, Yao and Kotha 2009). Baum and Locke (2004) argued that “passion” influences founders’ competence and motivation, positively impacting venture development. But Chen et al. (2009) found
that “passion” does not matter for resource mobilization, echoing previous conjectures about investors’ preference for cognitive evaluation criteria (Kaplan and Strömberg 2004; MacMillan et al. 1985).

Empirical research, in short, has under-explored what actions founders of new firms take to regulate the variety of emotions that are elicited by the challenging process of building new firms, and how and why differences in ER influence their success in creating a variety of social resources that are critical to build new organizations.

METHODS

Sample Selection and Data Collection

To identify entrepreneurs who had recently launched new firms or were in the process of creating them, we searched a UK business school’s database of alumni who had become involved in entrepreneurial ventures after graduation. The resulting list contained 230 people, whom we contacted by e-mail to explain the purpose of our research. We asked for entrepreneurs who (1) had launched a company within the past 18 months or were planning to do so in the next six months; (2) had their headquarters in the Greater London area; and (3) were willing to participate in a research project that might involve a substantial time commitment. We guaranteed participants complete confidentiality and anonymity. We aimed to study entrepreneurs in the early stages of creating their companies for two reasons: first, we wanted to avoid sampling based on outcomes (e.g., survival); and second, few researchers have systematically explored these early stages. We focused on a confined geographical area to minimize sample variation due to environmental factors (e.g., sociopolitical context, business climate, available resources). Our initial screening process produced 26 ventures.

We recorded entrepreneurial action (in real time and retrospectively) mainly
by interviewing the founders. Most had graduated from the same top-tier business school, had high GMAT test scores (around 700), had an average of about five years’ professional experience before enrolling in the MBA program, and could access the school’s vast and high-powered alumni network.

Beginning in February 2002, we conducted face-to-face interviews, mostly at work sites, with all 26 entrepreneurs. We established a personal rapport with them individually. Each interview in the first round lasted between one and two hours. The second round of interviews took place between October and December 2002, the third in October–November 2003, the fourth in January–February 2005, and the fifth in June–July 2009. We asked open-ended questions and prompted respondents to provide concrete examples to minimize recall and decontextualized rationalization biases. Typical questions on emotion regulation were: Can you tell us about some emotionally high and low moments in the last period? How did you deal with them? What consequences, if any, did this have on your own thinking and actions, and those of people you interacted with?

In analyzing more deeply various ER actions and how they influenced organization-level outcomes, we followed Eisenhardt’s (1989: 537) recommendation for a theoretical sampling approach that involves between four and ten “extreme” cases in which the phenomenon of interest is “transparently observable.” For these cases we sought to obtain confidential access to a variety of stakeholders to validate and contextualize founders’ accounts. Interviews with these third parties lasted between 15 minutes and two hours, depending on people’s availability and propensity to elaborate their perspectives. Table 1 presents short descriptions of these six focal cases.
During private interviews, these founders were essentially making sense of their reactions to events they considered important to them and how they dealt with them. The events and emotions they reported were often of an enduring nature and could be reproduced mentally in a relatively reliable manner (e.g., feeling worried about investors’ reluctance to fund their ventures), as opposed to less consequential, episodic emotional experiences that could be forgotten quickly (e.g., reporting on being upset by a computer malfunction that was fixed a few days later) (see Robinson and Clore, 2002). Regular interviews with founders over seven years should also reduce recall and ex-post rationalization biases of known outcomes. As noted, we also interviewed people who interacted frequently with the founders, such as their close partners, direct reports, board members, and key investors to allow us to validate their and the founders’ accounts. All of these steps enabled us to triangulate our findings to build stronger interpretations (Yin, 1994).

Data Analysis

We used the case-replication method, in which cases serve as independent experiments that either confirm or reject emerging insights (Eisenhardt, 1989). We analyzed our data by iterating among the following broad steps. First, we noted the prevalence of emotional experiences in the context of building new companies. Most entrepreneurs reported emotionally intense situations. We found, however, that there were stark differences in the way entrepreneurs described their emotional experiences: some presented very richly textured accounts of emotional situations and how they dealt with them, whereas others’ descriptions were very terse ones—even when de-
scribing situations, like the firing of a partner, that could have been intensely emotional. This first step helped us focus our attention on the six extreme cases described in Table 1 with noticeably rich or terse founders’ accounts of emotions (the first and last three firms respectively). Second, we examined the founders’ accounts more closely and coded the “quotes” in which they clearly expressed emotions they had experienced themselves—for example, joy, frustration, anger, and fear. We focused on those quotes that clearly involved efforts to regulate (i.e., elicit or modify) their own emotions.

Initially, we coded data together to develop a list of empirically grounded ER actions to generate first-order concepts (Van Maanen, 1979) that describe specific ER actions. Each of us independently went through these interviews to code various ER actions according to our initial shared definitions. We then compared our codings and discussed any disagreements we had. Several coding iterations were performed as we refined our ER first-order concepts to increase their discriminate validity.

In the third step, we engaged in axial coding (Strauss and Corbin, 1998) to build up more abstract second-order themes that applied over multiple first-order concepts that reflect more closely the data. This step yielded more abstract descriptions. For example, we assigned the two following first-order concepts, a) actions that make salient the emotional rewards of firm development to the founders and b) actions that allow the founders to expand the variety of these emotional rewards, to the following second-order theme: actions that affect the nature of founder rewards.

We then identified the firm-relevant outcomes of various ER actions. This produced the insight that founders’ ER could be associated with the creation of social resources for the firms and not just the emotional well-being of the founders, and that
differential use of ER could be associated with differential creation of social resources.

As we pushed our analysis further, we discovered an important moderating condition, which we called *self versus other-orientation*. We found that various ER actions are more likely to lead to beneficial firm-relevant outcomes if they take into account the perspectives and needs of other stakeholders rather than concentrating on those of the founders. Finally, we used interviews with other firm stakeholders to triangulate our findings.

**FINDINGS ON EMOTION REGULATION AND RESOURCE CREATION**

The founders we studied differed both in terms of the types of ER actions they enacted and how they performed them. In Table 2 we show the extent to which the founders reported their use of various ER actions. The table shows that Sam (CONSULT) and Kathy (DRINK) clearly stand out as founders who displayed the greatest variety of ER actions, drawing, respectively, on eight and seven (out of eight) categories, some of them quite heavily. Two other founders, Landis (INCUBATE) and Morten (INVEST), stand out at the other end of the spectrum as those who displayed the lowest variety of ER actions. They enacted only four and two ER categories, respectively, and they used these very sparsely. The two remaining founders, Jim (BUDGET) and Phil (TECH), enacted six and five ER categories, respectively.

[INSERT TABLE 2 ABOUT HERE]

Altogether, we identified eight distinct founder ER actions. Table 3 illustrates how we coded various quotes (column 1) using different first-order concepts (column 3) and the associated definition of each of these concepts (column 2). The table also shows the two second-order themes (column 4) we identified: ER actions associated with the *founders’ temporal perspective*, such as short-term versus long-term focus,
and those associated with the nature of the founders’ rewards (economic or psychic).

For example, following the same logic as explained before, we grouped the first-order concepts of “emphasizing emotional benefits” and “eliciting pleasant emotions in firm development” under the second-order theme of “ER actions affecting the nature of founders’ rewards.”

In the presentation of our findings below, we focus on those data that helped us build our concepts, and suggest a causal link between the founder’s ER and resource creation for the venture, because this link has not yet been shown empirically in the literature, and has been under-explored theoretically. (For easier interpretation, code indicating emotion regulation is shown in **bold**.)

**ER Actions Relating to Founder Temporal Perspective**

Five of the “first-order concept” categories shown in Table 3—which we call “reducing boredom,” “eliciting hope,” “emotional toughening up,” “emotional channeling,” and “tempering of extreme emotions”—cluster around the “second-order theme” related to the challenge of simultaneously managing short- and long-term requirements for the venture. Founders needed to focus on current, short-term business tasks but at the same time keep sight of their future, long-term business-building objectives. Sam, the founder of CONSULT, described his long-term objectives: “I want something that’ll last. It’ll probably be bought up, it might change its name, it might do all sorts of things, but to have something that could survive without me being there is quite important.” But short-term considerations often risk undermining their long-term perspective, as Matthew, the founder of INVEST, shared with us: “From time to time, we
co-founders] talk to each other and ask, what do we do if this thing doesn’t work? And there’s all sorts of ideas.”

The challenge of handling both short- and long-term considerations is perhaps most salient during periods of stagnation or decline in business performance, or just before a highly uncertain potential growth opportunity. At these points, founders have most need to ensure the short-term survival of their business, and can feel torn between the urge to abandon ship and in the struggle to keep it afloat. Christine, the founder of DRINK, described her challenge as follows:

The products are just flying. We’ve got these rewards, and the importers are really starting to listen. It’s just starting to get a head of steam in it. I’m spread very thinly. Emotionally, how do I cope? That’s a really good question. **I live in hope**, I know how to fight fires and I know how to get things in very fast…. **Yes, I live in hope**, but it’s getting really very dicey now personally. I mean, I’m just pulling it back, but it’s just too far. It’s gone way too far on the personal finance side. I don’t have a credit card I can use. All of that’s gone. (Founder DRINK)

The ER actions mentioned in this section not only helped the founders regulate their own emotions during business-building, but also influenced their temporal perspectives (e.g., short-term versus long-term, present versus future). Due to space considerations, we describe only one type of ER action in depth below to convey the richness of our data and summarize the other four ER types of action in Table 3.

**Managing boredom from slow venture development.** We expected to study entrepreneurs to be very busy because creating a new firm involves many time-consuming tasks (Delmar and Shane, 2004). we were surprised to find that some entrepreneurs experienced boredom due to long periods of down-time or slower-than-expected venture development. Some founders took deliberate action to deal with this unpleasant emotion and reduce it. These entrepreneurs did not perform personal ac-
tivities (e.g., sports, music, other hobbies) to regulate their work-related boredom, but enacted killing-two-birds-with-one-stone actions that reduced their boredom and simultaneously helped firm building, e.g., through the reformulation of their firm’s strategy. This managing boredom from slow venture development helped founders stay focused on the current development needs of their young firms despite their feeling that it might be psychologically tedious.

CONSULT, for example, went through a phase of slow growth about two years after its inception, due to a sharp slowdown in demand in its particular product-market niche. The senior executives of the firm deliberated whether they should adapt to the changed business environment by adopting a strategy of zero growth, and focusing on being profitable instead, but decided against it because this would have been too boring for the management team. Sam, the co-founder, explained:

Having a small, profitable business is very nice, but at the end of the day I think we’d all get too bored with it. So we decided that gentle growth is the right thing. Try a few things, don’t spend any silly amounts of money, stay profitable, and increase revenues at a reasonable rate. Also, we’ll be looking for new lines of business, and we’ll be looking to extend our current lines of business. (Founder, CONSULT)

To avoid boredom, the founders decided to grow their venture, despite the unfavorable business environment for that type of strategy. The founder’s ER action entailed a mobilization of his personal resolve to achieve the new organizational goal and had important implications for the creation of social resources: from self, and from other members of the management team that he led, as suggested by the use of “we” to support the adopted growth strategy for the venture. This ER action also influenced the means to pursue growth, involving innovation and market share increases as opposed to cost cutting. Interviews conducted within CONSULT suggest that firm
members were excited by innovation and pursuing multiple lines of business.

Another founder, Lars of INCUBATE, also experienced boredom because of the small scale of his venture. Yet his response was to keep operating on a small scale and focus on becoming profitable. In doing so, however, he let boredom erode his personal interest in the firm over time and eventually abandoned the venture.

We had a turnover of about, I suppose, €5 million. That’s small, and most of what you’re dealing with on a day-to-day basis is, you know, whether your warehouse manager is off sick and whether there’s been a flood in the back of the office, or whatever. Frankly for me, not terribly motivating seeing this compared with the excitement that I’ve had in the previous three years…So that was the point where I was essentially deciding that I was probably going to move myself out of the business. (Founder, INCUBATE)

Lars did not perform the kinds of ER action that would have allowed him to reduce his boredom from slow venture development. As a result, his motivation to persist declined and the venture ultimately lost one of its founding members.

**Firm-level benefits: Resource creation from self (founder’s persistence).**

ER actions that relate to founders’ temporal perspective could help founders persevere with their venture development especially when they faced difficulties. For instance, when we asked James, the founder of BUDGET, how he coped with stress produced by thinking about the future, which entails the prospect of failure and total loss of his investment in the venture, he explained:

Of course I worry about it, of course I think about it and of course I’m impatient because I want it to move forward much more quickly. But at the same time I’ve got to be realistic about it, because otherwise I would just end up being totally stressed all the time. I find exercise very helpful. I go to the gym. If there is any pent-up frustration, if I’ve had a bad day, because you live by the day, then that’s a good way of getting rid of it. (Founder BUDGET)

Reducing negative emotions through physical exercise helped this founder get his mind off depressing concerns about unsatisfactory progress in venture develop-
ment and an undesirable future. This type of ER action renewed the founder’s patience and helped him refocus on his longer-term business building goals, beyond the specific daily challenges. Ruth, the HR director of BUDGET, confirmed in a separate interview that James typically felt “quite a bit of impatience.” But she also noted how he acted to reduce his negative emotions and avoid them from spilling over onto other employees in a harmful way. Andrew, BUDGET’s lawyer, described James as follows:

In emotional highs and lows, he is this very calm, constant person. I’ve dealt with other people in business who clearly do veer from one extreme to the other, completely the opposite of how James deals with things. The occasional moments that he looks as if he’s under pressure, he still maintains his basic calm. He ticks away. I don’t know what he does in private, if he lets it out some way. But when he’s facing the world, he constantly keeps his calm. (Lawyer BUDGET)

In a related vein, some founders stayed focused on their long-term objectives despite alternative employment opportunities, and/or they extended their personal time horizon with the venture (i.e., they prolonged the length of time they had originally planned to dedicate fully to the venture until their planned exit from the business). We call this social resource “founder persistence.” Founder persistence is valuable to nascent firms, which are vulnerable and dependent on the stewardship of a few dedicated individuals.

ER Actions Relating to the Nature of Founder Benefits

Regarding the ER actions founders enacted, we inferred that the remaining three of the eight first-order action categories we identified—“emotional expanding,” “emphasizing emotional benefits,” and “eliciting pleasant emotions”—refer to the nature of founders’ rewards; more specifically how founders can complement their potential economic rewards with ER actions that bring them emotional rewards. Other
scholars have described this as “psychic income” (e.g., Gimeno et al., 1997) or non-wealth related rewards (see Amit et al., 2000).

Balancing the goal of creating economic wealth with the socio-emotional payoffs from firm-building may not always be easy, for example, when things are not going well and founders perceive that an increase in business performance might only be possible at the cost of prolonged personal hardship (e.g., long hours spent at work). The reverse could also happen, that is, an increase in personal well-being (e.g., taking more time off work) could negatively affect business performance. ER actions such as “emotional expanding,” “emphasizing emotional benefits,” and “eliciting pleasant emotions” not only help the founders regulate their own emotions during business-building, but they also influence their subjective tradeoff value between emotional and economic rewards. James, the founder of BUDGET, a former venture capitalist and an exceptionally strong analytical thinker, described his own psychological reward-related tradeoff as follows:

Let’s be honest. If I was going to make no money out of it, I wouldn’t do it. One of the prime motivations in setting up a business to me is to make enough money that you end up financially secure. I’d love to repeat this exercise, because I think it’s a fantastically exciting performance. But the other driver is actually being able to create something, being able to say, see that hotel there? That’s our hotel. We built it, we run it. This is our business. (Founder BUDGET)

To convey a fine-grained understanding of our data in light of space considerations, we describe “emotional expanding” in greater depth below. “Emphasizing emotional benefits” and “eliciting pleasant emotions” are summarized in Table 3.

**Emotional expanding during organization building.** Some founders became emotionally attached to new targets that emerged during the organization building process. To illustrate, some founders developed a new concern for the welfare of em-
ployees and their families, a concern that did not seem salient or important to them when they first created their firms. When this concern was added to their original desire to create personal wealth, we called this action “emotional expanding,” because this ER action increased the variety of founders’ emotion-related benefits associated with building the venture. These additions complemented founders’ valuing of economic benefits. Our data also suggest that this particular ER action could produce important social resource creation benefits for the firm, for example, when this attachment led founders to devote a high amount of their time, energy, creativity, and efforts to the new firm.

To illustrate the concept of emotional expanding, some entrepreneurs developed a passion (Cardon et al., 2009) for the venture’s product or service. James, the co-founder of BUDGET, had worked for a venture capital firm before becoming an entrepreneur. He had not been interested in the hotel business. When we asked him why he had started his business in the particular product-market domain of budget hotels, he replied that he had, “no emotional attachment for budget hotels. I am not passionate about budget hotels. But I am passionate about the fact that there is a wonderful value creation opportunity there.” Three years after this first interview with us, James had become emotionally passionate about budget hotels. In other words, he had added a new passion for the hotel business to his passion for building a value-creating venture:

I am really passionate about building a venture. You know, I’m not going to say that the venture could be in anything, because clearly that’s not true. I’m passionate about hotels. I want them to be the best they can be. (Founder, BUDGET)
As the quote suggests, adding a new object for his passion motivated James to create the best possible product (“the best they can be”). This ER action generated personal energy and creativity—founder discretionary support—for developing the venture’s new offerings; all important social resources for the young firm.

In another case, Sam, the co-founder of CONSULT, mentioned during his first interview with us that he enjoyed that his business gave him, “a real opportunity to be enthusiastic, because I love being enthusiastic about things.” The object of Sam’s attachment in the early days of the venture was clearly the venture creation opportunity (a somewhat abstract concept) itself. Later, Sam discovered the joy of being responsible for other people and of arranging his time flexibly. He added these new-found objects of emotional attachment to his existing ones. As he elaborated:

I enjoy the responsibility of having an organization, of paying mortgages and school fees for twenty-two other people. I do enjoy that. I enjoy the fact that I can choose on a day-to-day basis what I do. I can be flexible with my time ... But I’m going to put more than double back in. (Founder, CONSULT)

Sam experienced true joy in assuming responsibility for the livelihood of his employees’ families and the temporal freedom of the entrepreneur. That joy reinforced the emotional payoff he would receive from his firm-building activity, and it contributed to his making extraordinary efforts, in terms of time spent working for the venture (“put more than double back in”). This example again suggests a causal link between the founder’s ER action (here: emotional expanding), and creation of social resources for the firm (here: level of effort put in by the founder).

Firm-level benefits: Resource creation from self (founder discretionary support). Thanks to ER actions influencing the nature of founders’ perceived rewards, founders provide their firms with high energy that facilitates venture development.
This can involve making their own motivational resources available for the venture (e.g. “I gave the venture development one hundred per cent of my energy”). It can include devoting their cognitive resources—e.g., decision-making, creativity, and sustained attention—to addressing the challenges of developing the firm (e.g., “I left [my former employer] and focused on building a business”). We call these social resources provided by founders “discretionary support,” to convey that founders make additional efforts for the venture over and above what they would normally have done. For example, Sam, the founder of CONSULT, found making sales calls to prospective clients exciting. This emotional excitement allowed him to perform this vital activity with dedication:

For me sales were completely new. It gave me the adrenalin buzz that I got originally from starting the company, having never done this... Once you get up, you have to get a completely different mindset on, just saying right, I’m going to make twelve sales calls this morning and that’s it... I have three cups of coffee, wait until I’m sitting there buzzing with caffeine, and then I just go for it. So that was what was getting me out of bed...I knew I was the best person to give it a go. (Founder CONSULT)

Sam received emotional rewards (excitement) from engaging in sales activity, which help building business for the firm. Randy, an investor in CONSULT, confirmed this in a separate interview: “Sam enjoys working for himself. He gets a lot of satisfaction from it.” The founder’s joy helped the young firm because this emotion increased the founder’s motivation and effort level, which are important social resources for a new firm.

**ER Actions Relating to Target of Founder Attention**

As we analyzed our data more deeply, we noted that although each ER action could be assigned to one of the eight first-order categories shown in Table 3, it could be characterized further as “self-oriented” or “other-oriented.” This distinction refers to
the target of founders’ attention in performing ER. Other-oriented ER means that in regulating their own emotions founders considered others’ needs and reactions (Agrawal, Menon, and Aaker, 2007). How Kathy described how she dealt with a cash crisis is illustrative:

It’s very, very tough [to deal with cash crises]. It’s like chicken. **You don’t blink. You keep driving.** And it’s very tempting not to, and if I don’t, everybody else will kind of sit down and get depressed. **You just drive, drive, drive very hard and push more to continue to get the business to develop.** Personally it’s quite grueling. (Founder, DRINK)

Kathy dealt with the extreme shortage of cash and the impending bankruptcy of her young business by mobilizing all her energy (“drive, drive, drive”) and effort to deal with her challenges in a constructive way (“continue to get the business to develop”). She did not allow herself to be paralyzed by anxiety or depression. Her stamina, discipline, and will-power could be considered remarkable in and of themselves. But what is noteworthy here is that in dealing with her own intense emotions (depression, pain, fear) caused by the difficult economic situation, Kathy anticipated other people’s reactions and emotions (“everyone else…will get depressed”). Kathy’s ER actions ensured, among other things, that others would not feel depressed by the crisis, and that the young firm would acquire adequate economic resources to ensure the well-being of its members.

We also coded ER actions as “other-oriented” when the founders told us they had considered other people’s feedback as part of their own ER action. For example, when CONSULT experienced a period of slow growth, the founder of the company, Sam, listened carefully to his investors, which helped him temper his own frustration.

I think [the slow growth] is a bit frustrating. But then **I also have a reality check. I do talk to investors, for example, and say things like how do you think we’re doing?** Most of them say you know, [Sam,] I know you’re a bit
disappointed with how it’s going, but I’m glad you’re still there, and boy, you should see some of my other investments—and that makes me feel good again. So I just remind myself that we are all ambitious people, we want this thing to grow really quickly, but we’ve got to be sensible about it. There’s no point forcing growth for growth’s sake. (Founder, CONSULT)

By proactively seeking advice and integrating other people’s perspectives in his ER, Sam reduced his frustration and disappointment. This helped him increase his patience with the firm-building process, which benefits the young firm compared with ventures in which discouraged or frustrated founders lost interest, got distracted by other things, or reduced their contribution to the firm in terms of time and effort.

These important firm-level benefits become even more salient when we contrast Sam’s other-oriented ER action with that of Phil, the founder of TECH, who used largely self-oriented ER actions to reduce his own worry and unhappiness about being asked to step down as CEO of the firm he had founded (which he referred to as “my baby”). That is, Phil mainly took into account only his own goals and desires in regulating his emotions. For example, he lobbied intensely against the search for a new CEO, because this threatened his own personal career ambitions within the company he had helped create, even though attracting a new competent leader would benefit the young firm as a whole. His lobbying efforts eventually led to the creation of a dual CEO position, a compromise that would prove dysfunctional for TECH. The mounting tensions between the “co-CEOs” resulted in Phil writing e-mails in which he blamed the new CEO for not generating sales. Writing such e-mails allowed Phil to convey information and reduce his anger as he vented it. This mode of self-oriented ER action met his self-oriented need (i.e., feeling better personally), but at the firm level aggravated the tensions among board members, which culminated in Phil’s dis-
missal. As Phil recounted, “I was fired when I sent this email. And, in retrospect, I probably shouldn’t have sent it.”

Our analysis of founders’ self- versus other-oriented ER actions shows that the founders of DRINK and CONSULT, in particular, evolved to other-orientation mode in ER relatively early in the development of their firms. As for BUDGET, although it seems that founders’ self-oriented ER actions dominated across all four interviews, the proportion of self- versus other-oriented ER actions declined consistently. More informative perhaps, the qualitative evidence suggests that the founder of BUDGET underwent a process of shifting from self- to other-orientation, triggered by the acquisition of a number of hotels with a large number of staff. This exogenous shock could have easily derailed the fledging young firm. The founder’s pattern of actions (not just his ER actions) shows that at this very juncture he made a transition toward other-orientation. For example, together with his business partner, he began to meet regularly with the general managers of the acquired hotels, and showed concern for their personal well-being, not just focusing on the firm’s business performance.

Within INCUBATE and TECH, we found that self-oriented ER dominated other-oriented ER, particularly in the later stages of firm development, when the founders were confronted with continued business-building challenges. As for INVEST, there were simply too few discernible ER actions to infer any pattern of self- or other-orientation.

**Firm-level benefits of other-oriented ER: Creation of social resources from others.** Interestingly, we found that founders’ ER of self could influence others to support the venture. Listen to how Christine, the founder of DRINK, describes how she elicited pleasant emotions in herself by exploring future possibilities for her firm
I love exploring the new, sharing the new. The building of the concept and then seeing it come alive is really, really fascinating. I see something and for me it’s so clear. I can see the contours. I see the shape, everything it could be. It’s like everyone else is looking at the same piece of art and they think, you do? We don’t see that. Then the form starts to become clear. It doesn’t have to be the form as I originally saw it, and often it isn’t, but other people come around and get huge satisfaction out of it. (Founder DRINK)

Christine anticipated that “other people” could not see what she initially saw. They might have harbored severe doubt. The fact that Christine displayed fascination about the concept and sharing her excitement with others likely influenced others to “come around” and share her vision, as she reflected. Jordi, an industry expert whom Christine approached for advice, confirmed in a separate interview to us that “people are cautious about taking on people they don’t know about. Now that’s where the passion of someone like Christine is very useful…So I helped her.” And Theresa, a senior executive of DRINK also validated that, “Christine has a quality that enables her to see not just the next step or the step after that, but ten steps forward …We were just drawn in to her idea and her vision and her energy to execute it.”

Our data thus suggest that founders’ ER actions that are other-oriented are frequently associated with the creation of social resources involving others, for example, the willingness-to-support of investors, or of new employees. Within DRINK, CONSULT and BUDGET, we could not find a single self-oriented ER action associated with resource creation from others. In ventures where the founders used predominantly self-oriented ER (INCUBATE, INVEST and TECH) we found very little evidence of resource creation from others. But we found much evidence to the contrary; for example, stakeholder support declined significantly as a result of the founder’s self-oriented ER actions.
In Table 4 we summarize in aggregated form the levels of social resources created in each of our sample ventures—from self (founders) and other stakeholders. Combined with the evidence we presented earlier, Table 4 supports our argument that founders’ ER can be viewed as a partial yet plausible explanation of how heterogeneous resource positions in firms come about. Ventures in which founders used a variety of ER actions and were other-oriented generally benefited from high levels of social resource creation.

[TABLE 4 ABOUT HERE]

**Toward an Emerging Model of Emotion Regulation and Resource Creation**

Figure 1 summarizes graphically an empirically grounded model linking founders’ ER actions, the degree of other- or self-orientation of these actions, and creation of social resources for their ventures.

[FIGURE 1 ABOUT HERE]

The model depicted in Figure 1 shows which ER actions performed by founders can create social resources for their ventures. We can capture the main implications of our predictive model in the following propositions:

**Proposition 1:** Founders’ ER actions relating to their temporal perspective (i.e., managing boredom, rekindling of hope, emotional channeling, tempering specific emotions, and emotional toughening up) increase founders’ persistence with their ventures.

**Proposition 2:** Founders’ ER actions relating to the nature of their rewards (i.e., emotional expanding, emphasizing emotional benefits, and eliciting pleasant emotions) increase the discretionary support founders give their ventures.
Proposition 3: Founders’ ER actions are positively associated with stakeholders’ willingness-to-support the venture.

These beneficial relationships between ER action types and firm-level development outcomes are moderated by the founders’ “self- or other-orientation” in ER. Specifically, we suggest that self-orientation has a negative moderating impact. Phil, the founder of TECH, for example, was attuned to his own emotions, which he regulated using a variety of ER actions (see Table 2). But Phil performed these actions in a largely self-oriented fashion, often ignoring the perspectives of other stakeholders. The result was destruction of social resources: Phil lost the support of his senior management team and other important stakeholders, such as members of the board of directors. In fact, he lost the company he founded, as he was ultimately dismissed by the board after fighting a long and hard battle to keep his position; the firm assets were eventually sold off. This suggests a negative moderating effect of self-orientation on the relationship between ER actions and resource creation from others (see Figure 1).

Proposition 4: The higher the degree of self-orientation exhibited in founders’ ER, the weaker the positive effect of founders’ ER on the creation of social resources that are provided by other stakeholders.

The example of Phil and TECH also highlights another noteworthy nuance to our model, in that the founder’s persistence may not always represent a benefit for the firm. As in the case of TECH, if persistence is the result of a founde’s predominantly self-oriented ER, such persistence might harm the firm’s development. Persistence could, for example, prevent the young firm from evolving beyond a self-oriented founder who has lost the support of other firm members. We therefore depict a negative moderating effect of founders’ self-oriented ER on the positive relationship between ER
and resource creation from self (persistence). Although the moderating effect would not reduce the strength of the founder’s persistence, it would affect its usefulness for the firm’s development. The dotted line in Figure 1 denotes this effect. It is dotted (1) because it relates specifically to founder persistence as an outcome and (2) because it refers to the usefulness of the founder’s persistence, and not to its strength.

Proponent 5: The higher the degree of self-orientation in founders’ ER, the weaker the positive effect of founders’ ER on useful founder persistence for the venture.

Overall, our inductive theory on founder ER provides an additional new explanation of resource heterogeneity at the firm level, although we carefully note that ER is unlikely to be the only cause. Our model further delineates some of the boundary conditions related to the benefits of founders’ ER. We do not subscribe to the simplistic conclusion that more founder ER (in a quantitative sense) is necessarily better for the firm’s development. As our model suggests, drawing on a broad repertoire of ER actions to deal appropriately with specific contextual conditions, for example, is likely more adaptive than performing frequently a narrow set of self-oriented ER actions.

DISCUSSION AND CONCLUSION

What are the contributing factors and mechanisms that explain the emergence of firms’ resource heterogeneity? Our study starts to reveal some of the micro-foundations of firms’ resource-based strategy, focusing on founders’ affect-related actions and how they help create social resources for nascent firms. Our findings suggest that the causes of resource heterogeneity can be explained by the ways in which founders regulate their emotional states during the firm-building process. Obviously, we do not suggest that ER is the only mechanism to generate heterogeneous resources, but it is one affect-based enabler that has been largely overlooked by strategy and entrepre-
neurship scholars to date.

Why Does Emotion Regulation Help Create Resources for New Firms?

Our findings reveal that founders’ ER addresses three themes that characterize the early startup phase: founders’ temporal perspective, the nature of rewards, and the target of attention. We interpret these themes as tensions, which refer to the subjective perception that focusing on one particular goal (or need) seems incompatible with the pursuit of another (Lewis, 2000). The first tension, *short-term versus long-term perspective*, involves a dynamic trade-off across time horizons. Here, founders psychologically integrate the need to focus on current, short-term business challenges with the imperative not to lose sight of the future. This tension is addressed, amongst other things, by ER actions that help founders deal with their current emotional stress while simultaneously taking a long-term perspective: *managing boredom from slow venture development*, which helps the founder stay focused on the present business development needs of the venture despite recognizing that this focus may not elicit pleasant emotions; *rekindling of hope regarding venture prospects*, which reinforces the founder’s positive belief in the future potential of the business; and *emotional channeling, tempering of extreme emotions*, and *emotional toughening up*, which protect the founder from becoming too discouraged by adverse business conditions that may appear overwhelming at first sight and in the short term.

By enacting any or several of these ER actions, founders reconcile seemingly opposing temporal perspectives. ER related to temporal perspectives can help founders resolve the difficult trade-off linked to perceived limited personal resources that are required by a short- versus a long-term focus. To illustrate, eliciting subjective hope about a better future can help “create” additional personal resources for the founder (in the
form of renewed psychological energy) to persevere and stay committed to the venture during difficult times. This boosts founders’ motivation to bear prolonged uncertainty (McMullen and Shepherd, 2006) and fosters acceptance of a long time horizon. Furthermore, these ER actions could elicit stakeholders’ support. A long-term vision seems to represent a universally accepted desirable leadership prototype (Dorfman et al., 2004). Stakeholders’ positive feelings toward founders can increase the motivation and extra effort they expend in helping leaders achieve organizational goals (Luque et al., 2008). Founders’ ER can thus promote greater alignment between their own and other stakeholders’ incentives (Jensen and Meckling, 1976; Gottschalg and Zollo, 2007).

The second tension, *economic versus emotional rewards*, considers how founders psychologically complement the goal of creating economic wealth with the need for socio-emotional payoffs (which Gimeno et al. (1997) denote as “psychic income”) from the venture-building experience. This inner integration appears most needed when things are not going well for the venture and an increase in business performance appears obtainable only at the cost of increased personal hardship or emotional stress. The trade-off can be addressed by, among other things, the types of ER action that increases emotional rewards for founders: *emotional expanding*, through which founders add new objects of emotional attachment related to their venture-building activity; *emphasizing emotional benefits*, which involves founders putting more weight on emotional rewards, especially in comparison with those they gained from previous professional experiences; and *eliciting pleasant emotions in venture building*, when the founder deliberately engages in business-building activities that are emotionally rewarding (eliciting fun, joy, excitement).
By enacting these types of ER action, founders fuel their intrinsic motivation, creating new incentives for themselves (Deci, 1975; Gottschalg and Zollo, 2007). These additional incentives can lead to the creation of valuable social resources for the venture. For example, a stronger subjective emphasis on emotional rewards helps founders generate additional energy and discretionary effort to support their ventures during periods of uncertainty, adversity, or low performance (Gimeno et al., 1997).

In addition, this category of ER actions can also lead to enhanced social resources involving other stakeholders. Recent research has found that leaders’ emphasis on stakeholders’ values versus economic values can influence employees’ extra effort, which relates to firm performance (Luque et al., 2008). Leaders who emphasize predominantly economic values, such as profit maximization and shareholder supremacy, tend to elicit negative emotions among their employees, who perceive their leaders as autocratic, instrumental, and emotionally insensitive (Ghoshal, 2005). In contrast, leaders who emphasize “soft” benefits, such as emotional rewards, can elicit positive emotions that energize extra motivation and effort among followers (Dorfman et al., 2004). Thus, founders’ ER could lead to greater “values” alignment between themselves and other stakeholders (Jensen and Meckling, 1976; Gottschalg and Zollo, 2007)—not in terms of extrinsic (monetary) rewards, but in terms of intrinsic (psychic) rewards.

The third tension, self- versus other-orientation, takes into account how founders psychologically integrate their personal needs and desires with those of other people involved in the firm-building process. By enacting other-oriented ER, founders not only regulate their own emotions, but also temper their own agency—which could be perceived by others as egocentric—and thus address the delicate balancing act between
self and others’ needs. Addressing others’ needs strengthens other stakeholders’ incentives to support the venture, and increases the odds of obtaining resources from them.

By enacting other-orientation, founders also show benevolence, which is a key antecedent to trust-building (Mayer, Davis, and Schoorman, 1995). Benevolence is the extent to which a person is perceived to want to do good for others, aside from any ego-centric motives. Whitener and colleagues (1998) argued that managers’ actions demonstrating consideration and sensitivity for other people’s needs and interests, and refraining from exploiting others for the benefits of one’s own interests, is part of trustworthy action. And enhanced trust increases the odds of cooperative actions (Dirks and Ferrin, 2001).

Founders’ Emotion Regulation and Resource-based Theory

Because resource-based theory (RBT) takes resource heterogeneity as a starting point in its chain of logic aimed at explaining differential intra-industry firm performance, our affect-based model (see Figure 1) could form the “front-end” of a more developed RBT and advance it by mitigating some of the key concerns (e.g. tautology) that have been leveled against it (Priem and Butler, 2001). Figure 2 shows how we propose to extend the resource-based framework developed by Peteraf and Barney (2003) with our model.

RBT assumes that the firm’s ability to generate lower economic costs or increase perceived customer benefits is a function of the firm’s superior critical resources (Peteraf and Barney, 2003), which are heterogeneously distributed across firms. We propose to complement RBT with a new mechanism for the differential creation of
social resources in the early days of a firm. Social resources can affect the costs and perceived benefits of the firm’s offerings (e.g., the extra effort put in by the founders or employees to serve customers could yield improvements in perceived service quality). Our theory thus endogenizes a mechanism that generates a firm’s competitive advantage. According to Barney (1997) that advantage could be sustainable if the resources at its origin are valuable, rare, and costly to imitate. The cost of imitation hinges on resource properties such as causal ambiguity and social complexity (Barney, 1997:154–8), which social resources can possess. Causal ambiguity, for example, refers to a lack of understanding of the links in the causal chain from the ways social resources are created through founders’ ER actions to their effects on competitive advantage.

Indeed, our data suggest that founders may be constrained by their belief systems about the usefulness of emotions and ER. Consider Landis, the founder of INCUBATE, who has an engaging, lively personality (which he shows in personal interactions), yet maintains a strictly task focus-cognitive perspective on business. According to his belief system, emotions are not helpful for business effectiveness and therefore should not interfere with business decisions: “One of the things that we’d always said to ourselves was that we would let rationality get the better of emotion, so if we saw something was not going to work, we wouldn’t do it.” Personal beliefs about emotions and ignorance about their potential resource creation benefits (in other words, causal ambiguity) can therefore explain (at least partially) sustainable competitive advantage.

Social resources can also be characterized by social complexity, which implies that they cannot always be systematically managed and influenced. Such a form of “social engineering may be beyond the abilities of most firms” (Barney, 1997: 157). Our data
once again support this view. Some founders (like Morten, the founder of INVEST), seem to prefer low-affect action. They regulate their rising emotions through suppressive strategies, which include denying the existence or importance of emotions, or refusing to talk or think about them (Matsumoto et al., 2008). In other words, ER is a socially complex task, and could therefore be difficult to imitate.

To summarize our theoretical contributions, this study mitigates the concern about potential tautology in RBT (Priem and Butler, 2001: 28) by conceptualizing founders’ ER actions, social resources (e.g., discretionary support and persistence from founders) and outcomes (economic value) independently, so that any analytic statement relating these concepts to each other will not be true by definition. Expectations and luck (Barney, 1986) or accumulation over time (Dierickx and Cool, 1989) may not be the only mechanisms that help managers recognize and realize the value of key resources. ER provides another way of creating them.

Our study raises a number of intriguing questions that could be investigated in future research. What other emotion-based mechanisms foster the creation of heterogeneous resources? How generalizable are the findings from this study across young firms (e.g., in a larger sample), across cultures (e.g., in countries other than the UK), and across firm types (e.g., in more established firms)? And how do founders’ emotions, ER actions, and the process of firm formation co-evolve over time? Longitudinal, process research may complement hypothesis testing studies in illuminating these issues further.

To conclude, our research provides insight into the origins of firms’ resource-based strategy by linking founders’ emotion-related actions to resource creation at the firm level. We hope that this research will spark more work on the micro-foundations of
resource-based strategy to enhance our understanding of how firm founders and managers lay the foundations for value creation and future rents.
REFERENCES


<table>
<thead>
<tr>
<th>Case</th>
<th>Business Description</th>
<th>Founder Interviews</th>
<th>Interviews with Others&lt;sup&gt;2&lt;/sup&gt;</th>
<th>Interview Total</th>
</tr>
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<tbody>
<tr>
<td>BUDGET</td>
<td>Formed in September 2001 to operate high-quality limited service hotels. Develops sites for new hotels in partnership with financiers and manages the operations of the newly built motels under well-known brands.</td>
<td>5</td>
<td>11 (co-founder, 2 senior executives, 2 middle managers, lawyer, chairman of the board, investor)</td>
<td>16</td>
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<tr>
<td>CONSULT</td>
<td>Founded in May 2000 to provide IT-supported consulting services to large and mid-sized companies. Specializes in procurement (e.g., outsourcing) solutions, but also offers recruiting services.</td>
<td>5</td>
<td>5 (co-founder, 2 employees, 2 investors)</td>
<td>10</td>
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<tr>
<td>DRINK</td>
<td>Founded in September 2002 to build a whiskey distillery. At the same time, produces and markets a range of innovative white spirits.</td>
<td>5</td>
<td>8 (2 co-founders, 2 employees, former chairman of the board, current chairman)</td>
<td>13</td>
</tr>
<tr>
<td>INCUBATE</td>
<td>Founded in December 2000. Originally conceived as an incubator, changed business model to acquiring and combining ailing on-line retail businesses.</td>
<td>4</td>
<td>2 (co-founder, wife)</td>
<td>6</td>
</tr>
<tr>
<td>INVEST</td>
<td>Provides financial services and specialist financing for European early-stage hi-tech companies. After several years of operations, in 2002 essentially had to wind down and restart.</td>
<td>5</td>
<td>3 (2 senior executives, former investor and board member)</td>
<td>8</td>
</tr>
<tr>
<td>TECH</td>
<td>Founded in December 1999 to develop provide wireless telephony solutions for offices and factories.</td>
<td>5</td>
<td>8 (co-founder, former chairman of board, senior executive, middle manager, wife)</td>
<td>13</td>
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<tr>
<td>TOTAL</td>
<td></td>
<td>29</td>
<td>37</td>
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<sup>2</sup> Others include co-founders. The interview count in each cell of this column might be greater than the total number of stakeholders because some stakeholders provided more than one interview.
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<tr>
<th>ER Action Category</th>
<th>BUDGET</th>
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<td>ER Actions Affecting Nature of Founder Rewards</td>
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<td>Emotional expanding during organization building</td>
<td>+</td>
<td>++</td>
<td>+</td>
<td>+</td>
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<tr>
<td>Emphasizing emotional benefits of organization building</td>
<td>++</td>
<td>+</td>
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<tr>
<td>Eliciting pleasant emotions in venture development</td>
<td>+</td>
<td>++</td>
<td>+</td>
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<td>ER Actions Affecting Founder Time Horizon</td>
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<td>Managing boredom from slow venture development</td>
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<td>Rekindling of hope regarding venture prospects</td>
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<td>Emotional channeling toward venture development</td>
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<td>Tempering experience of specific emotions during venture development</td>
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<td>Emotional toughening up in the face of adversity</td>
<td>+</td>
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<td>+</td>
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Table entries:

++—On average more than one quote per interview
+—At least one quote (but on average equal or less than one quote per interview)
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<tr>
<th>Representative Quotes</th>
<th>First-order Concept Definition</th>
<th>First-order Concept Label</th>
<th>Second-order Theme</th>
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<tr>
<td>“I’m a bit bored at the moment. I want the company to be growing…That’s going to give me the biggest excitement ever, when we’re recruiting heavily again and we’re building new parts of the organization and we’re winning work to support that frequently.” (CONSULT)</td>
<td>Taking deliberate action to reduce boredom that may creep in as the development of the venture takes longer than expected, or the venture moves into a phase of stable slow growth or stagnation.</td>
<td>Managing boredom from slow venture development</td>
<td>Founder time horizon</td>
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<tr>
<td>“I can see the light at the end of the tunnel.” (BUDGET) “It’s like looking for the signs of spring…if there is external momentum being generated, I keep going.” (DRINK)</td>
<td>Telling oneself—based partly on substantive evidence, but more as a statement of unsupported optimism—that the venture’s future prospects will be better than its current ones.</td>
<td>Rekindling of hope regarding venture prospects</td>
<td>Founder time horizon</td>
</tr>
<tr>
<td>“I refused to give up. I got a new lease of energy in terms of wanting to make something happen with the business. For the next two weeks I worked a hundred hours a week, making just maybe a hundred phone calls a day, very intensely, to try and find investors. I worked like a dog. I just tried to save the business.” (TECH)</td>
<td>In a context where founders are faced with competing priorities or potential distractions, or where there is a risk of energy dispersion: making a deliberate effort to apply, concentrate, or focus emotional energy on conducting activities that relate to building the organization (as opposed to family, hobbies).</td>
<td>Emotional channeling toward venture development</td>
<td>Founder time horizon</td>
</tr>
<tr>
<td>“We just need to be a bit more dispassionate, step backwards and ask questions objectively.” (BUDGET) “I fluctuated between sort of a state of tiredness and complete alertness, but I went to the gym and I’m feeling</td>
<td>Reducing intensity of own existing negative emotions such as fear, anger, frustration, depression; or reducing own existing positive emotions such as comfort, pride, and joy regarding aspects of the venture development.</td>
<td>Tempering experience of specific emotions during venture development</td>
<td>Founder time horizon</td>
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<tr>
<td>“We fear that people will be very aggressive, but in a way we won’t be surprised if it happens…we’re preparing ourselves for that.” (INVEST)</td>
<td>Dealing with adversarial circumstances that can cause negative emotions by framing the situation or reappraising it so that negative emotions do not even come up. Not thinking about issues that one knows in advance will arouse undesirable emotions.</td>
<td>Emotional toughening up in the face of adversity</td>
<td>Founder time horizon</td>
</tr>
<tr>
<td>“You get very emotionally robust and tough. That’s why normal day-to-day business doesn’t upset you particularly. It’s like water off a duck’s back.” (DRINK)</td>
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<tr>
<td>“As you develop the business there are other things that become important as well besides the financial opportunity… You now employ [a large number of] people, so you have a responsibility for those people, and you want them to enjoy themselves, or at least be happy in work.” (BUDGET)</td>
<td>Adding new objects of emotional attachment that emerge during the organization building process. Increasing the variety of founders’ emotional desires associated with building the venture. For example, adding concern for the welfare of employees and their.</td>
<td>Emotional expanding during organization building</td>
<td>Nature of founder rewards</td>
</tr>
<tr>
<td>“I like working for myself. I remember working for a big company and I just didn’t like it.” (INVEST)</td>
<td>Emphasizing emotional rewards (e.g., fun) from business-building more heavily than economic rewards. This may involve comparing emotional rewards from business-building to benefits and/or drawbacks from a hypothetical alternative (e.g., employee).</td>
<td>Emphasizing emotional benefits of organization building</td>
<td>Nature of founder rewards</td>
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<td>“I wouldn’t have been enjoying [working for a consulting firm]. I don’t think financial salary is a reasonable measure for me. I’m very happy with what I’m doing now.” (CONSULT)</td>
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<td>“[Building a firm has] the spirit of adventure and exploration. I never know what’s going to happen, and it’s that edgy feeling of what’s going to hit you, which is fun. Fun</td>
<td>Performing actions during venture building that elicit emotions such as fun, excitement, enthusiasm, or joy. These actions are aligned</td>
<td>Eliciting pleasant emotions in venture develop-</td>
<td>Nature of founder rewards</td>
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<td>Representative Quotes</td>
<td>First-order Concept Definition</td>
<td>First-order Concept Label</td>
<td>Second-order Theme</td>
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<td>is too shallow a word. It’s deeper than that—a sense of flow, of being alive.” (DRINK)</td>
<td>with the entrepreneur’s personal interest and motivation, and are often conducted without expectation of any external reward.</td>
<td>opment</td>
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<td>TABLE 4: Differential Resource Creation and Emerging Resource Heterogeneity</td>
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<td><strong>DRINK</strong></td>
<td><strong>Creation of Social Resources from Self (Founder)</strong></td>
<td><strong>Creation of Social Resources from Others (Stakeholders)</strong></td>
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<td>Discretionary support: Founder invests high personal energy and effort into the venture. “For Christine the venture was her life, she was very motivated.” (Barbara, former employee)</td>
<td>Stakeholders show strong willingness-to-support. E.g., whole company participates in devising an interim range of innovative drink products. “There was an idea of a new [product]… Everyone wanted to be involved, everyone wanted to help, even the nanny that worked for Christine.” (Barbara, former employee)</td>
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<td>Persistence: Founder makes continued efforts, and does not let up; nor consider any alternative jobs or activities. “Cash flow was awful. Christine re-mortgaged her house for the business.” (Theresa, senior executive)</td>
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<td><strong>High</strong></td>
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<td><strong>CONSULT</strong></td>
<td>Discretionary support: Founder constantly searches for new business opportunities when the core market slumps. “Sam will happily work weekends or work on a Sunday or whatever. He will put the effort in.” (Roman, investor)</td>
<td>Stakeholders provide strong support. For example, consultants collectively search for new business opportunities. “We decided as senior managers to actually go out and get involved in projects ourselves because we needed to bring revenue in.” (Lorenzo, employee)</td>
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<td>Persistence: Founder shows continued high enthusiasm and dedication to the business. “[We want to] create something that persists” (Matthew, co-founder)</td>
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<td><strong>BUDGET</strong></td>
<td>Discretionary support: Founder kicks into “high gear” with the acquisition of a hotel chain. “James is very hands on, very willing to get involved in anything that needs to be done.” (Andrew, lawyer)</td>
<td>Stakeholders give strong discretionary support (e.g., managers volunteer to get personally involved with operation of new hotels). Very low turnover among employees. “I personally just wanted to try and help wherever I could with that implementation.” (Sevin, general manager)</td>
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<td>Persistence: Founder displays continuous, steady effort.</td>
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<td><strong>Creation of Social Resources from Self (Founder)</strong></td>
<td><strong>Creation of Social Resources from Others (Stakeholders)</strong></td>
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<td>“[James] is very committed.” (Ruth, HR director)</td>
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<td><strong>High</strong></td>
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<td>T E C H Discretionary support: Founder invests himself thoroughly in the business, but eventually alienates others. “His drive was a key part of moving the company forward from the beginning” (Daniel, BoD chairman) Persistence: Founder holds on to his “baby” until fired. “I think that because it was his baby, he could not let go. It must just have torn his heart.” (Stanislav, employee) <strong>High (but with negative consequences for the company)</strong></td>
<td>With ongoing problems, stakeholder support weakens. Emerging rifts at board level, bitter personal disputes among TMT members. Dismissal of CEO, personnel cuts. “I’m incredibly emotional and passionate, and so is Phil. We had fairly heated discussions.” (Stanislav, employee) “The trust was broken between board members and Phil.” (Kevin, co-founder) <strong>First High, Then Low</strong></td>
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<td>I N C U B A T E Discretionary support: When things do not go as planned, founder disconnects from the business. “Every day was a battle” (Susan, wife) “Landis wasn’t able to sacrifice.” (Kurtis, co-founder) Persistence: Under pressure, returns to previous job. “Landis went back to consulting.” (Kurtis, co-founder) <strong>Low</strong></td>
<td>Weak support from stakeholders, hidden tensions within TMT. “We had a major falling out because Landis negotiated in a non-partner way.” (Kurtis, co-founder) “[Employees] were like workers in a factory” (Susan, wife) <strong>Low</strong></td>
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<td>I N V E S T Discretionary support: Founder displays a professional attitude, expends measured (not extraordinary) effort. “Michael likes to do a good job.” (Alex, director) Persistence: Founder decides to stay with venture, but partly motivated by lack of alternatives. “[Michael] still stood by the business.” (Alex, director)</td>
<td>Political in-fighting, conflicts about strategy, pursuit of economic self-interest Among TMT members. “[The TMT members] were concerned about internal politics to protect their interest.” (Alex, BoD member) “Some became very bitter and angry about what was happening.” (Nelson, former senior partner)</td>
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<td>Creation of Social Resources from Self (Founder)</td>
<td>Creation of Social Resources from Others (Stakeholders)</td>
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FIGURE 1: How Founders’ Emotion Regulation Affects Resource Heterogeneity

- **Founder ER Action Types**
  - (a) ER actions relating to founder temporal perspective:
    - Reducing boredom, eliciting hope, emotional toughening up, emotional channeling, tempering of extreme emotions
  - (b) ER actions relating to nature of founder rewards:
    - Emotional expanding, emphasizing emotional benefits, eliciting pleasant emotions

- **Founder ER Action Mode**
  - Self-orientation in ER
  - + (P1, P2)
  - - (P5)
  - - (P4)
  - + (P3)

- **Resource Creation For Venture**
  - (a) Social Resources From Founder:
    - Persistence
    - Discretionary support
  - (b) Social Resources From Others:
    - Willingness-to-support

FIGURE 2: Emotional Regulation And Resource-based Theory (Logical Chain)

- **Firm**
  - Lower Costs To Firm / Higher Benefits For Customers
  - Greater Economic Value Created Than Marginal Competitors
  - Competitive Advantage
  - More Residual Value To Be Appropriated

- **Resources**
  - Creation Of Social Resources*

- **Founder/Manager**
  - Founder / Manager’s Emotion Regulation*

Source: Adapted from Figure 3 in Peteraf and Barney (2003). * Denotes novel elements.
Europe Campus
Boulevard de Constance
77305 Fontainebleau Cedex, France
Tel: +33 (0)1 60 72 40 00
Fax: +33 (0)1 60 74 55 00/01

Asia Campus
1 Ayer Rajah Avenue, Singapore 138676
Tel: +65 67 99 53 88
Fax: +65 67 99 53 99

Abu Dhabi Campus
Muroor Road - Street No 4
P.O. Box 48049
Abu Dhabi, United Arab Emirates
Tel: +971 2 651 5200
Fax: +971 2 443 9461

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