



## The role of entrepreneurs in firm-level innovation: Joint effects of positive affect, creativity, and environmental dynamism

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### ABSTRACT

Innovation is often a crucial ingredient in new venture success but at present, we know relatively little about the role of individual entrepreneurs in encouraging its occurrence. The present research addressed this issue by investigating the joint effects, on firm-level innovation, of two variables pertaining to entrepreneurs (their creativity and positive affect) and a key environmental variable (environmental dynamism). Although it has been predicted that affect plays an important role in entrepreneurship [Baron, R. A., 2008. The role of affect in the entrepreneurial process. *Academy of Management Review* 33(2), 328–340.], relatively little empirical evidence on its effects has been obtained to date (e.g., [Foo, M.D. In press. Emotions and entrepreneurial opportunity evaluation. *Entrepreneurship Theory and Practice*.]). Further, although the link between creativity and innovation has been described in past literature [Amabile, T.M., 1988. A model of creativity and innovation in organizations. In B.M. Staw and L.L. Cummings (Ed.), *Research in organizational behavior* 10, 123–167.], direct evidence for its existence is currently lacking. Findings of the present research indicate that positive affect among founding entrepreneurs is significantly related to their creativity and that creativity, in turn, is positively related to firm-level innovation. Both of these relationships are moderated by environmental dynamism, being stronger in highly dynamic than stable environments.

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### 1. Executive summary

Innovation has often been identified as an essential ingredient in new venture success (e.g., Ireland and Webb, 2007). At present, however, relatively little direct evidence exists concerning mechanisms through which individual entrepreneurs encourage innovation in their companies. The present research sought to add to current knowledge of this process by investigating the joint effects, on firm-level innovation, of two variables pertaining to entrepreneurs (their positive affect and creativity) and a key environmental variable (environmental dynamism). These variables were selected for inclusion on the basis of a thorough review of prior research and theory, which strongly suggests their relevance to new venture innovation. Creativity has often been viewed as an antecedent of firm-level innovation (e.g., Amabile, 1996), while positive affect has been found to influence many aspects of cognition and behavior (e.g., Forgas, 2000; Lyubomirsky et al., 2005), including ones directly relevant to activities entrepreneurs perform in launching new ventures. Recent theorizing and empirical findings (e.g., Foo, in press) indicate that these effects may extend to the domain of entrepreneurship (Baron, 2008). Environmental dynamism, too, has been found to be an important factor in new venture creation (Aldrich, 2000).

The present research tested a model proposing that entrepreneurs' positive affect is related to their creativity and that creativity, in turn, is related to firm-level innovation. Further, both of these relationships are moderated by environmental dynamism, being stronger in dynamic than stable environments. Results offered support for all these predictions.

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The present findings offer several important contributions. First, they provide new evidence for a link between entrepreneurs' creativity and firm-level innovation. In this respect, they help to bridge the gap between individual-level variables such as affect and creativity and the organizational-level variables (e.g., innovation) which are of major interest to the field of entrepreneurship. Second, they provide direct empirical evidence for the role of positive affect in important aspects of entrepreneurship. Such a relationship has been proposed (Baron, 2008), but to date, only a few studies have investigated it directly (e.g., Foo, *in press*; Foo et al., 2009). Third, by providing evidence that environmental dynamism moderates the relationships between positive affect and creativity, and between creativity and firm-level innovation, the present research reflects recommendations by Hitt et al. (2007) to apply a multi-level approach to efforts to understand complex organizational phenomena. This approach has already gained growing use in several branches of management (e.g., Korsgaard et al., 2008) but has only recently been adopted in entrepreneurship research (e.g., Schindehutte and Morris, 2009).

## 2. Introduction

More than 40 years ago, Baumol (1968, p. 67) noted that: "Trying to understand entrepreneurship without the entrepreneur is like trying to understand Shakespeare without Hamlet." Similarly, Shane et al. (2003, p.259) suggested: "The entrepreneurial process occurs because people act to pursue opportunities . . ." Comments such as these indicate that the field of entrepreneurship recognizes the important role of entrepreneurs in new venture creation. At the same time, however, the field focuses major attention on firm-level outcomes—the survival, growth, and profitability of new ventures. This dual focus raises an important question that has been noted by many researchers (e.g., Baron, 2007; Locke and Baum 2006; Shane et al., 2003): How do the characteristics and actions of individual entrepreneurs ultimately influence firm-level outcomes? This is a complex question, and addressing it fully will require the sophisticated multi-level research described by Hitt et al. (2007)—an approach that is increasingly apparent in current entrepreneurship research (e.g., Hmieleski and Baron, 2009; Schindehutte and Morris, 2009).

We attempt to contribute to this ongoing endeavor by investigating the joint effects on firm-level innovation, of two variables pertaining to entrepreneurs (creativity and positive affect) and a key environmental variable (environmental dynamism). Specifically, we investigate a model suggesting that entrepreneurs' positive affect is related to their level of creativity and that creativity, in turn, is related to firm-level innovation. The model further proposes that both of these relationships are moderated by environmental dynamism, being stronger in highly dynamic than in relatively stable environments. Consistent with literature in several different fields (e.g., Forgas, 2000; Lyubomirsky et al., 2005), we define affect as referring to a broad range of subjective feeling states. Thus, affect encompasses both moods, which are often relatively long-lasting in nature but not focused on specific events or objects (e.g., cheerfulness, depression), and emotions (e.g., anger, sorrow, joy) which are often shorter in duration and are more specifically directed toward a particular object (e.g., a person, object, event; Frijda, 1993).

Affect refers both to relatively stable, cross-situational tendencies to experience specific subjective feelings (i.e., dispositional affect) and to temporary shifts in such feelings generated by specific events (i.e., state or event-generated affect). We suggest that since innovation is a continuing process, it is more likely to reflect stable affective dispositions on the part of entrepreneurs than fleeting or temporary affective reactions to specific events. Thus, we focus on stable, dispositional affect in the present research. It is important to note, however, that although dispositional and state affect derive from different sources (biological processes and perhaps genetic influences on the one hand versus discrete external events on the other), a substantial body of research indicates that they produce parallel effects in many situations (see Lyubomirsky et al., 2005, for a detailed review). Thus, although the distinction between dispositional and state affect is important, one key goal of the present research (investigating the role of affect in creativity and firm-level innovation), we suggest that focusing on relatively stable (i.e., dispositional) affect is appropriate.

The present study offers several contributions. First, and most generally, it seeks to contribute to current efforts to relate the characteristics of individual entrepreneurs to important firm-level outcomes. Clarifying the mechanisms through which individual entrepreneurs influence firm-level outcomes such as innovation is an essential task if the field of entrepreneurship is to attain full understanding of the new venture creation process. Second, this research provides empirical evidence on the role of positive affect in entrepreneurship. Such a role has been predicted on the basis of existing theory and research (Baron, 2008; Lyubomirsky et al., 2005), but has only recently become a subject of ongoing research in the field of entrepreneurship (e.g., Foo, *in press*; Foo et al., 2009). In the present research, potential relationships between positive affect and important aspects of new venture creation are empirically examined. Affect has been found to exert strong and consistent effects on many important organizational processes, ranging from performance appraisals, job interviews, and organizational citizenship, to actual task performance (e.g., Brief and Weiss, 2002; Isen and Labroo, 2003). Further, it has been suggested (Baron, 2008; Mitchell et al., 2007,) that affect may have especially strong effects in the domain of entrepreneurship for two important reasons. First, the environments in which entrepreneurs operate are often highly unpredictable and replete with rapid change. Research on the influence of affect indicates that it is precisely in such environments that it exerts its strongest effects on cognition and behavior (e.g., Forgas, 2000; Forgas and Smith, 2007). Second, affect has been shown to strongly influence several tasks entrepreneurs perform in launching and operating new ventures—decision making and judgment, forming productive working relationships with others, persuasion, and eliciting high levels of enthusiasm in others (e.g., Diener and Seligman, 2002; Forgas, 2000). These considerations, plus growing empirical evidence for the important role of affect in the entrepreneurial process (e.g., Foo, *in press*), strongly suggest the usefulness of further investigations designed to clarify the potential role of affect in key aspects of entrepreneurship.

The present research also offers new insights into the potential link between entrepreneurs' creativity and innovation by new ventures. Such a relationship has been suggested by many researchers (e.g., Shane, 2003), but here this relationship is investigated

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