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Influence of the entrepreneur's social identity on business performance through effectuation

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ABSTRACT

The business founder's social identity is crucial to explaining his or her behaviour and attitude in business decision-making. Drawing on three types of entrepreneurial social identity identified by Fauchart and Gruber (2011), this study examines how social identities influence the entrepreneur's way of managing his/her firm and its consequences for business performance. Based on a survey of newly created firms, the results support the conclusion that effectuation channels the effects of specific identities – Darwinian and missionary – on business performance.

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1. Introduction

The decisions the entrepreneur makes in the first years of activity are crucial, as they can limit the firm's evolution (Boeker, 1989; Cardinal, Sitkin, & Long, 2004) and have implications for its performance (Bamford, Dean, & Douglas, 2004; Boeker, 1989; Park & Bae, 2004). Further, although entrepreneurs' way of understanding the business in its initial stage impacts firm-level results significantly, this relationship received little study (Fern, Cardinal, & O'Neill, 2012). Contrary to what one might think, limited growth is not always associated with inability to grow; it may actually reflect the entrepreneur's lack of desire to grow his/her firm (Cliff, 1998). For example, Baum and Locke (2004) propose that the goals businesspeople establish for firm growth are significant factors that influence the firms. Specific findings (Barringer, Jones, & Neubaum, 2005) suggest the importance of incorporating entrepreneurs' different attitudes and aspirations for growth in research. Our study examines the impact of these aspirations on the growth of newly created firms (Davidsson & Honig, 2003). Aspirations are desires, goals, or ambitions—something desired that the individual does not

possess at the moment. How we want to see ourselves, or whom we wish to resemble, strongly influences our behaviour.

Various studies highlight identity as an important predictor of entrepreneurs' decisions and actions (Cardon, Wincent, Singh, & Drnovsek, 2009; Conger, York, & Wry, 2012; Hoang & Gimeno, 2010), but only a few tackle social identity in the context of entrepreneurship. Since firm creation is an inherently social activity (Whetten & Mackey, 2002), entrepreneurs' behaviour is shaped by how they perceive themselves in relation to others (Fauchart & Gruber, 2011).

Alsos, Clausen, Hytti, and Solvoll (2016) argue that a key aspect of entrepreneurship research studies the activities and behaviours undertaken (Davidsson & Honig, 2003). It is precisely Social Identity Theory that helps us to understand and explain the heterogeneous behaviours that founders pursue in the process of setting up a firm. Although different patterns exist, these authors stress effectuation and causation as two different focuses for new firm creation (Saravathy, 2001)—focuses described as one of the most important contemporary perspectives in entrepreneurship research (Fisher, 2012; Perry, Chandler, & Markova, 2012).

Effectuation Theory, as analysed by Saravathy (2001, 2008), understands the entrepreneurial process as a set of given means that can be combined in a range of different possible effects. This theory traditionally perceives individual identity as one precondition or means initiated by the entrepreneurial process, assuming

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that individuals from day one possess a relatively clear and coherent perception of who they are and act based on this perception (Sarasvathy, 2001).

Numerous studies have tried to answer questions about the different nuances relevant to identification and setting up of business opportunities (Shane & Venkataraman, 2000; Shane, 2003), but they ignore the crucial role of the differences in the entrepreneur's conceptions of this role, what the individual's subjectivity adds as he/she becomes founder of a firm (Hoang & Gimeno, 2010). Introducing the concept of the founder's identity can incorporate the individual's thoughts, feelings, and beliefs as an entrepreneur (Rosenberg, 1979).

Starting from the theoretical framework presented, our study contributes to the literature in three ways. First, it extends research on entrepreneurial behaviour and how such behaviour is reflected in decision-making, strategies, and ways of managing the entrepreneur's activity (Alsos et al., 2016; Fauchart & Gruber, 2011; Powell & Baker, 2014; Sieger, Gruber, Fauchart, & Zellweger, 2016). Analysing this relationship can provide evidence on how a particular identity explains an organization's performance during the first years of its life cycle (Baron-Cohen et al., 1999), extending studies that suggest an important link between business identity and business actions (Cardon et al., 2009; Hoang & Gimeno, 2010).

Second, we advance the literature on effectuation (Alsos & Clausen, 2014; Sitoh, Pan, & Yu, 2014; Smolka, Verheul, Burmeister-Lamp, & Heugens, 2016), a field that includes very few empirical studies and that continues to debate future development of the effectuation literature (Read, Sarasvathy, Dew, & Wiltbank, 2016; Reuber, Fischer, & Coviello, 2016).

Third, by measuring effectuation as a formative construct composed of reflective second-order dimensions (Chandler, DeTienne, McKelvie, & Mumford, 2011; Smolka et al., 2016) without including the measurement dimensions it may share with causation (Chandler et al., 2011), we obtain significant evidence of behaviour derived from this logic.

With this model, we aim to help entrepreneurs to develop optimal strategies for improving their capability to compete in the market.

2. Hypotheses

The influence of identity on behaviour and economic results provides additional explanatory power to analysis of the business initiative, supporting our study. Research in this field starts from the seminal contributions of Schumpeter (1912) and Knight (1921), whose range comprehends the most essential attributes of the entrepreneur: innovation, opportunity recognition, and tolerance of some degree of risk (Baumol, 1968).

In the business environment, the actions and behaviours of a founder or founding team in creation and subsequent development of a firm evolve together, since business activities are infused with meaning resulting from expression of individual identity. As various authors suggest, identities are the main sources of motivation for human behaviour, along with business roles, "a set of socially maintained expectations for behaviour that are linked to positions external to an individual" (Murnieks & Mosakowski, 2007, p. 2).

We complement this focus with Effectuation Theory (Sarasvathy, 2001) and Social Identity Theory (Tajfel, 1972; Tajfel & Turner, 1979), from the field of social psychology, to increase understanding of the reason for the substantial differences between creation processes and the results in different firms. This body of research provides a theoretical link to explain how social identification leads individuals to behave and act in ways that confirm their identities (Hogg & Terry, 2000; Tajfel & Turner, 1979). Instead of evaluating businesspeople and their

characteristics externally, research on business social identity focuses on how individuals identify and understand themselves as businesspeople (Alsos et al., 2016).

Our model is based on Fauchart and Gruber (2011), who identify three main types of business social identity: "Darwinian", "communitarian", and "missionary", using a systematic evaluation of social identities derived from Social Identity Theory (Brewer & Gardner, 1996). The three identities reflect individuals' social relationships in terms of personal and symbolic interaction with others and level of social inclusion. Founders with different social identities not only possess systematically different conceptions of what it means to be an entrepreneur; founders' different self-conceptions strongly influence how they act and behave in establishing their firms (Fauchart & Gruber, 2011).

Darwinian identity describes the "classic businessperson", whose main goal is to establish a strong, successful business. It focuses on assuring the firm's success (Van Praag, 1999). Darwinian entrepreneurs take competitors and other entrepreneurs as their frame of reference, as the social group against which they evaluate themselves. Such entrepreneurs aim to create strong, profitable firms and seek business performance in the broadest sense (Fauchart & Gruber, 2011).

Communitarian identity develops in individuals strongly motivated by a product or service to help a group of people who share related ideas. Creating an authentic identity (Lewis, 2013) is important for belonging to this social group—sharing intimate knowledge with the community and being able to serve from this community. Communitarian identity is strongly committed to the products or activities developed by the firm and to its ability to contribute to the community through these products (Fauchart & Gruber, 2011). Its relationship to this community is highly emotional because it is driven by passion shared in the sector in which it is established. The ultimate goal of communitarian identity is thus to contribute to its closest community through new product development. Goals of sales growth, market share, and profit take second place.

Missionary identity is motivated by the desire to advance a greater cause, and its fundamental goal is to act responsibly. Missionary identities view their firms as platforms from which to pursue their social goals (Fauchart & Gruber, 2011), and these firms aim to adapt to the market, seeking creative solutions and applying their innovation capacity (Fauchart & Gruber, 2011). Since innovation capacity can be an especially important resource for remaining competitive in environments that change rapidly (McGrath, 2001) and can thus foster new product development and innovation (Sirmon & Hitt, 2003), we could view missionary identity as oriented towards improving the firm's innovative character against to competition, and thus as a variable that forms a fundamental part of business performance (Eddleston, Kellermanns, & Sarathy, 2008).

According to the foregoing, Social Identity Theory helps to understand and explain heterogeneity of business behaviour in the process of setting up a new business initiative and that initiative's orientation to its results. Based on these arguments, we find sufficient reason to propose the following hypotheses:

- H1.** Darwinian identity has a positive effect on business performance.
- H2.** Communitarian identity has a positive effect on business performance.
- H3.** Missionary identity has a positive effect on business performance.

Effectuation theory (Sarasvathy, 2001) provides a new framework for observing business phenomena, as well as for understanding how entrepreneurs think and act.

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