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THE AFFECTIVE ROOTS OF RESOURCE-BASED THEORY: HOW FOUNDERS' EMOTION REGULATION ENABLES RESOURCE CREATION IN FIRMS

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Where do firms heterogeneous resources come from? Our qualitative, inductive study of nascent firms over seven years revealed that founders use of emotion regulation behaviors can explain differential resource creation at the firm level. These behaviors deal with three emotion-laden tensions that firm founders faced: (1) self versus other-orientation, (2) economic versus emotional rewards, and (3) short-term versus long-term focus. They help founders reconcile these tensions and facilitate resource creation for their ventures. We therefore call these emotion regulation behaviors emotional reconciling. Emotional reconciling could be construed as a dynamic capability that helps young firms establish a resource base. Our study contributes to the strategy literature by being the first to establish empirically the link between specific emotion regulation behaviors of founders and the emergence of resource heterogeneity at the firm level. It contributes to resource-based theory by separating the theory's main assumptions and outcomes, thereby reducing concerns about potential tautology.

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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' use of emotion regulation behaviors can explain differential resource creation at the firm level. These behaviors deal with three emotion-laden tensions that firm founders faced: (1) self versus other-orientation, (2) economic versus emotional rewards, and (3) short-term versus long-term focus. They help founders reconcile these tensions and facilitate resource creation for their ventures. We therefore call these emotion regulation behaviors "emotional reconciling." Emotional reconciling could be construed as a dynamic capability that helps young firms establish a resource base. Our study contributes to the strategy literature by being the first to establish empirically the link between specific emotion regulation behaviors of founders and the emergence of resource heterogeneity at the firm level. It contributes to resource-based theory by separating the theory's main assumptions and outcomes, thereby reducing concerns about potential tautology.

INTRODUCTION

This study explores how founders of young firms regulate their own emotions and how their emotion regulation influences differences among firms' resource creation. By bringing in affect, this study enriches a mainly cognition-focused understanding of the origins of firms' resource heterogeneity. Understanding the various causes of firms' resource heterogeneity has been of great interest to scholars who seek to understand the firms' competitive advantage through a resource-based lens, because resource heterogeneity is linked to differential value creation and firm rents (Amit and Schoemaker, 1993; Barney, 1991; Peteraf, 1993). As Peteraf and Barney (2003: 311) noted, "Without differentiable resources, resource-based theory makes no contribution of its own and ceases to be a theory discrete from other analytical tools." The causes of resource heterogeneity are also tied to the debate about why firms differ and how that matters (e.g., Nelson, 1991; Rumelt, Schendel and Teece, 1994).

Although resource heterogeneity is a key tenet (according to Peteraf (1993), a "cornerstone") of resource-based theory, the various conditions under which it can arise have so far been given relatively little attention, perhaps because they were originally thought to lie outside the scope of the early resource-based theory research. Our knowledge about the origins of resource heterogeneity is partly based on theoretical speculation about exogenous factors (some of which Nelson (1991:65) calls "rather superficial" explanations) such as chance events or environmental influences, path dependence, governmental largess and unevenly distributed property rights (Barney, 1986; Dierickx and Cool, 1989; Nelson, 1991; Foss and Foss, 2005; Peteraf and Barney, 2003). However, firm heterogeneity can also be an endogenous creation of economic actors (Mahoney and Pandian, 1992). These endogenous factors have largely been linked to managers' cognitive processes such as managers' bounded rationality in search, decision-making, and learning (Castanias and Helfat, 2001; Nelson, 1991; Williams, 1994), cognitive development paths (Helfat

and Peteraf, 2009), heuristics (Busenitz and Barney, 1997) and framing (Alvarez and Busenitz, 2001). As a result of these different cognitive processes, managers “choose somewhat different strategies ... [which] in turn will lead to firms having different structures and different core capabilities” (Nelson, 1991: 69). Although scholars generally recognize that “firms are different because of the actions of managers” (Williams, 1994: 244), actions that are shaped by cognition as well as affect, we know relatively little about how affect influences the endogenous creation of resources and the emergence of resource heterogeneity among firms. Specifically, the strategy literature has yet to develop a fine-grained understanding of various kinds of affect-related managerial actions that produce resource heterogeneity.

To advance our knowledge in this domain, we follow prior suggestion that exploring the intersection of the strategy and entrepreneurship fields of research could provide rich insights (Hitt and Ireland, 2000). In particular, studying firm founders’ behaviors could shed further light on the creation of resources and capabilities in firms (Alvarez and Barney, 2007; Alvarez and Busenitz, 2001; Barney, Wright and Ketchen, 2001). Founders usually face obstacles in providing and securing resources for their unproven organizations and thus experience emotionally intense moments, for example, when faced with investors’ reluctance to fund the development of their business models, customers’ skepticism about the viability of their offerings and organizations (Hargadon and Douglas, 2001), or conflicts among key members of the new firm. Strong emotions can also be elicited by the high uncertainty related to the eventual success of their venture (Baron, 2008) or the personal economic or social-emotional performance below aspiration levels that founders often experience in their entrepreneurial pursuits (Gimeno et al., 1997). Negative emotional episodes can be interspersed with moments of positive emotions when entrepreneurs recognize breakthrough opportunities or achieve meaningful product or market development.

To the best of our knowledge, no prior empirical study has investigated systematically the

various ways in which founders deal with their emotions— called emotion regulation (e.g., Gross, 1998; Gross and John, 2003)—and whether and how these behaviors contribute to resource creation. It might appear non-obvious that emotion regulation performed by *founders* could have important consequences for *firm-level* resources (e.g., financial support), especially when these resources are provided by constituencies other than the founders themselves. To show this link empirically and to illuminate its mechanisms are therefore the main objectives of this study. We ask the following research question: What specific emotion regulation behaviours do founders use, and how and why do these behaviours differentially affect resource creation in nascent firms?

To investigate this question, we adopted an inductive theory-building research design (Eisenhardt, 1989; Yin, 1994) because there are many possible kinds of emotion regulation behaviors that entrepreneurs could use and it is not clear which ones they actually practice (if any at all). More importantly, the links between specific emotion regulation behaviors and organizational resource creation outcomes are neither well understood nor established empirically. We therefore conducted a longitudinal study of six new ventures where founders exhibited varying levels of emotion regulation.

Our analysis of the data revealed that founders' differential use of emotion regulation behaviors at the personal level can explain differential resource creation (resource heterogeneity) at the firm level. Specifically, we show that founders of new firms can foster resource creation by enacting distinct modes (i.e., *how* certain actions are performed) and types (i.e., *what* actions are performed) of emotion regulation. Interestingly, we found that these behaviors cluster around three fundamental tensions for founders, which characterize the building of an organization: (1) self versus other-orientation, (2) economic versus emotional rewards, and (3) short-term versus long-term focus. We propose theoretically that emotion regulation helps founders reconcile the seeming contradictions that are embedded in these tensions), and thereby facilitates resource crea-

tion for their ventures. For example, by considering *other* people's concerns, needs and preferences while performing (*self*-) emotion regulation, founders could reconcile the tension between self and other. We will elaborate this and other tensions later. We capture this theoretical insight by calling the process whereby founders enact the various emotion regulation behaviors to deal with tensions "emotional reconciling." We theorize that emotional reconciling could be a valuable dynamic capability that helps young firms create a resource base.

Our study contributes to the strategy literature both empirically and theoretically. 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 behaviors of entrepreneurs and associated resource creation outcomes at the firm level. Furthermore, following Barney's (2001) conjecture that "resource-based models of strategic advantage may need to be augmented by theories of the creative and entrepreneurial process" (p. 53), our study provides two important theoretical insights. First, we illuminate the "front end" part of resource-based theory as articulated by Peteraf and Barney (2003). Our empirically grounded model shows how resource heterogeneity is not just a starting point of resource-based theorizing, but can result endogenously from founders' affect-related actions. Founders' emotions as well as the actions with which they regulate them are not given ex-ante. Since our model is predictive and offers clearly defined, operationalizable constructs, it could enhance the predictive power and definitional clarity of resource-based theory.

Second, by taking managers' (emotion regulation) 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, thereby reducing concerns about potential tautology (e.g., resource characteristics defined in terms of their performance outcomes). Our conceptualization of resource creation as discretionary support and persistence pro-

vided by founders, and as support from other stakeholders, aids in this respect because these services may produce (but are not perfectly associated with) a positive effect on the costs or benefits of a firm's outputs as determined in product markets. Our theory thus suggests a potential way by which resource-based scholars can avoid the risk of circular reasoning (e.g., "valuable resources lead to value") that was noted by Priem and Butler (2001).

THE LINKS BETWEEN EMOTION REGULATION AND RESOURCE CREATION

A review of the emotion regulation literature gives us some understanding how it may be important to founders' ability to create resources for their nascent organizations. Resources are the "specific physical (e.g., specialized equipment, geographic location), human (e.g., expertise in chemistry), and organizational (e.g., superior sales force) assets that can be used to implement value-creating strategies" (Eisenhardt and Martin, 2000: 1107). But as Edith Penrose noted: "It is never resources themselves that are the 'inputs' in the production process...only the services that the resources can render" (1959:25). Building on this insight, we use the term "resource creation" in this paper to denote the creation of services from resources. Accordingly, resource heterogeneity refers to the differential services that are obtained from the resources (e.g., managers working harder and with greater loyalty or commitment in one firm than in another, or investors being more likely to invest more money in one firm than in another). This is consistent with Peteraf's (1993:180) definition of resource heterogeneity as productive factors having intrinsically different levels of 'efficiency' and enabling firms "to produce more economically and/or better satisfy customer wants." At the same time, it also allows for a more dynamic treatment of the phenomenon along the lines suggested by Feldman (2004:307), who views resources (or more precisely, in the context of this paper, the services that they render) as dynamic, "created and recreated through action." A similar dynamic view is espoused by Foss and Foss (2005) who conceive of resources as the outcomes of property-rights driven processes.

Whether and how entrepreneurs regulate their varied emotional experiences could potentially differentially affect their ability to create resources, from themselves (e.g., regarding their own effort and persistence in venture-building) as well as from others (e.g., regarding diverse constituencies' support and loyalty). Indeed, linking resource-based theory with emotion regulation is potentially fruitful because both perspectives share a concern with "economizing," i.e., improving the efficiency of resources in terms of the services that they can render (Williamson, 1991) and with effective adaptation (Peteraf and Barney, 2003: 312).

Emotion regulation actions are behaviors that deliberately maintain or modify self emotional experiences to achieve specific goals (Gross and John, 2003; Côté, 2005). Emotion regulation includes all of the conscious and unconscious efforts to increase, maintain, or decrease one or more components of an emotion (Gross, 1999). Emotions refer to bio-psychological systems that mobilize various components including cognitive appraisal of specific situations in relation to one's goals and concerns, distinctive physiological reactions, action tendencies, and subjective experience including affect (Frijda, 1986). 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?") (Lazarus, 1991). 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 a firm creation 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).

Emerging research on emotion regulation that explores the links between emotion regulation and organizational outcomes has remained largely theoretical, and this research has focused very little on matters of concern to strategic management or entrepreneurship. What we know is

that 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). Emotion regulation represents a key attribute of emotional intelligence (Gross and John, 2003; Salovey et al., 2003). Research has shown the ways in which people regulate their emotions have both intrapersonal (e.g., subjective well-being and stress) and interpersonal effects (pro-social behaviour and closer social relationships with others) (e.g., Côté, 2005; Eisenberg, 2000; Lopes, et al., 2005). Intrapersonal effects could be associated with resource creation from self (founder), whereas interpersonal effects could facilitate resource creation from others (venture stakeholders other than founders). But this literature has empirically investigated mainly mundane social interpersonal contexts (e.g., students in schools) and has not specifically explored a rich variety of emotion regulation actions that are related to the complex context of building new organizations. As a result, we do not know empirically the specific emotion regulation actions that can help or hurt founders' success in creating resources from themselves or from other people.

To the best of our knowledge, empirical research has under-explored 1) the variety of actions that founders perform to regulate their diverse positive and negative emotions, which are elicited by the challenging process of building new firms, and 2) how and why differences in emotion regulation influence founders' success in creating a variety of resources that are necessary to build new firms. This is what we propose to do with our longitudinal field research.

We note, moreover, that founders' emotion regulation can also involve influencing other people's emotions. However, this form of regulation could entail a variety of different actions and social interaction mechanisms the treatment of which exceeds the scope and space of a single paper.

METHODS

Sample Selection and Data Collection

Formulating precise hypotheses about the extent to which founders perform emotion regulation (ER), the kinds of ER they practice, and associated outcomes seemed premature. We conducted, therefore, a longitudinal and inductive theory-building field study of several nascent companies based in the UK, following a case comparison methodology that has been elaborated by qualitative research scholars including Eisenhardt and Graebner (2007).

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. An initial screening process of the ventures that displayed receptivity to our research requests produced 26 ventures.

We recorded entrepreneurial behavior (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 of 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. 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?

On the basis of the data analysis discussed below, we identified six cases that featured noticeably high and low levels of emotion regulation (ER). We decided to look more closely at various ER behaviors and how they influenced organization-level outcomes. We thus followed Eisenhardt's (1989: 537) recommendation for a theoretical sampling approach that involves between four and ten cases in which the phenomenon of interest is "transparently observable". Using a finite number of cases enables qualitative researchers to find a balance between generating a reasonably textured theory and having to cope with large amounts of data (Brown and Eisenhardt, 1997; Huy, 2002). Table 1 presents short descriptions of these six focal cases (names of the companies and respondents are disguised to ensure confidentiality).

[INSERT TABLE 1 ABOUT HERE]

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 in three broad steps. First, we noticed the prevalence of emotional experiences in the context of building new companies. This first analytical step helped us focus our attention on the initial six extreme cases described in Table 1 with noticeably rich or terse accounts of emotions. Second, we examined more closely accounts by the founders of these six ventures and coded those passages in which they clearly expressed emotions that they had experienced in themselves or witnessed in others. Next, we focused on those passages that clearly involved efforts to regulate (i.e., elicit or modify) the founders' own emotions. We examined in more detail various ER behaviors and grouped them into various ER categories. In doing so, we made an effort to anchor these categories in our data (and not in any pre-conceived notions of possible ER behaviors), and to create

categories that were exhaustive and conceptually distinct. Third, we identified potential outcomes of these diverse ER behaviors that were relevant at the firm level. This sparked our insight that ER of founders could be associated with resource creation for young firms (and not just with the personal emotional well-being of the founder), and that differential use of ER could be associated with differential resource creation, in other words, with the emergence of heterogeneous resources. As already mentioned, we coded and labeled ER action categories and outcomes closely to the meaning of the data. In this way we were finally able to discern eight categories of ER, and various entrepreneurial outcomes linked to ER, which we present below.

FINDINGS ON EMOTION REGULATION AND RESOURCE CREATION

The founders we studied differed both in terms of what ER actions they enacted (ER action types) and how they performed them (ER action modes). For example, some of them paid increasing attention to the needs, perspectives and preferences of *other* firm stakeholders when regulating their *own* emotions (e.g., by taking *other* people's feedback into account while emotionally dealing with a commercial setback). Our research revealed, moreover, that these individual-level behaviors were often (though not always) associated with important firm-level outcomes, which we conceptualize as resource creation for the venture. We also discovered that our key findings cluster around distinct tensions for firm founders. A tension refers to people's experiencing or dealing with two seeming opposing constructs like *self versus other*, or *economic versus emotional reward*, or *present versus future*. Dealing with tensions can elicit emotions such as anxiety, frustration, or even excitement. We found that founders in our study regulated their own emotions to deal with the tensions that they experienced during the organization-building process: (1) *Consideration of self- versus others*, (2) *economic versus emotional rewards*, and (3) *short-term versus long-term focus*. We organize the presentation of our findings around these tensions.

Self Versus Others: Self- And Other-Orientation In Emotion Regulation (ER)

How do founders at any given point in time balance their own needs, perceptions, preferences, and desires with those of other people involved in the business-building process? All of the founders we studied performed some form of ER. We found an interesting pattern in our data, however, concerning the ways in which founders performed ER actions (i.e., *how* they performed these actions), to which we refer as *ER action modes*. Specifically, our data suggest that some founders enacted more other-oriented emotion regulation over time. This means that in regulating their own emotions they paid increasing attention to the needs, goals, and feelings (e.g., desires) of *other* people they interacted with in juxtaposition to their own. Put differently, they integrated *others'* needs and feelings in performing their *own* emotion regulation (Agarwal et al, 2007). Listen, for example, to how Kathy described her way of dealing with an acute cash crisis:

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, 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 – a potentially “depressing” situation – by mobilizing all her energy (“drive, drive, drive”) and professional effort in order to deal with the business problem in a constructive way (“continue to get the business to develop”). Kathy 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 emotions (“everyone else...will get depressed”). Kathy's emotion regulation actions ensured, amongst other things, that others would not feel depressed by the economic crisis, and that the young firm would acquire adequate economic resources to ensure the well-being of its members.

As this example shows, we coded emotion regulation actions as “other-oriented” when founders explicitly referred to others when they described their own emotion regulation actions.

We also coded emotion regulation actions as “other-oriented” when the founders told us they had listened to other people’s feedback as part of their own emotion regulation response. 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 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)

As a result of his proactive advice seeking and integrating other people’s perspectives in his own emotion regulation, Sam not only managed to reduce his frustration and disappointment. It also helped him increase his patience with the venture-building process, and focus on achieving long-term prosperity. This represented an important benefit for the young firm compared with ventures in which discouraged or frustrated founders lost interest, got distracted with other things, or reduced their contribution to the firm in terms of their time and effort.

Our analysis of founders’ self- versus other-oriented emotion regulation behaviors is summarized in Table 2. The table displays time trends in the use of self- and other-oriented ER.

[INSERT TABLE 2 ABOUT HERE]

Table 2 shows that the founders of DRINK and CONSULT, in particular, shifted to other-orientation in emotion regulation relatively early in the development of their firms. The downward sloping arrows (from “self” to “other”) in Table 2 for the two ventures from the first to the second interview indicate these early trends. As for BUDGET, although it seems like a case in which self-oriented emotion regulation actions dominated across all four interviews, the proportion of self- versus other-oriented ER actions declined consistently (from 8:2 to 3:1 to 3:2 to 2:2). More informative perhaps, the qualitative evidence suggests that the founder of BUDGET under-

went 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 fledgling young organization. The founder's overall behaviors (not just his ER actions) show 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 their own firm's business performance.

Within INCUBATE and TECH, we found that self-oriented ER of the founder dominated other-oriented ER, particularly in the later stages of venture development, when the founders were confronted with continued business-building challenges. We depict this focus on self-orientation through an upward pointing arrow. (Note that this arrow does not suggest a *transition* from other- to self-oriented ER, because the qualitative evidence in these cases does not allow us to conclude that the founders of INCUBATE and TECH were originally other-oriented.) As for INVEST, there were simply too few discernible ER actions to infer a dynamic pattern.

Firm-Level Benefits Of Other-Oriented ER: Resource Creation From Others

Our data suggest that as a direct result of the founders' ER actions, other venture stakeholders could provide, through their discretionary acts, emotional, cognitive, and material support to the venture, individually or collectively. Such support might include the direct provision of financial capital (e.g., equity from investors or revenues from customers), or of human capital (e.g., skilled employees joining the venture), or it might simply involve increasing the likelihood that the venture will eventually receive these vital resources. For example, when a prospective investor, according to the founder of DRINK, "was desperately keen to be involved" following the founders' ER behavior, we considered this increased willingness to support the venture as "resource creation from others" even though the investor had not yet signed a formal contract (nor had the entrepreneur accepted his investment.)

In Table 3 we present our grounded definition of resource creation from others as well as further supporting quotes, which are excerpts from interview passages in which they could be clearly identified as outcomes of founders' ER actions.

[INSERT TABLE 3 ABOUT HERE]

Economic Versus Emotional Rewards: ER Actions Affecting Founders' Emotional Rewards

Besides the mode ("how") of ER, we also analyzed the types of ("what") ER actions founders enacted. As described in the Methods section, we distilled eight ER action categories (or types) from our data, which are all listed in Table 4. We discovered that three of these action types – which we call "emotional expanding," "emphasizing emotional benefits," and "eliciting pleasant emotions in venture building" – cluster around the nature of rewards (emotional versus economic) the founders get from their venturing activity. Specifically, these three types of ER actions are associated with highlighting founders' emotional rewards.

To illustrate the notion of emotional rewards, consider how Steve, the founder of CONSULT, commented on what it was like to build and operate a new firm:

I absolutely **love** it. I **enjoy** running a company, I **enjoy** making the decisions. I **enjoy** having the opportunity to be entrepreneurial when I want to be entrepreneurial, so if I have a good idea or my business partner has a good idea, we can sit down, we can have a coffee and in ten minutes we can decide we're going to spend some money and try something else. In a big company, that would take a year. So I **love** that. I **like** the variety. I **like** being operations one day, I **like** being sales the next, I **like** doing some marketing the following day. I **like** to be able to choose my own hours. (Founder CONSULT)

This emphasis on emotional rewards can be contrasted with a focus on economic payoffs from venturing. For example, the main reason why Luke, the founder of INCUBATE, was engaged in business-building was the prospect of becoming personally wealthy. He explained:

At a long-term level, you are **hoping** to build value...if you multiply probability by best outcome, versus multiplying probabilities by average outcomes, there's more of a chance to really make it big being an entrepreneur than being in professional services. (Founder INCUBATE)

Founders need to balance the goal of creating economic wealth with the need for socio-emotional payoffs from the firm-building experience. This may not always be easy and produces internal tensions, for example, when things are not going well for the venture and an increase in business performance can only be potentially obtained at the cost of sustained personal hardship and suffering (e.g., through long hours spent at work). The reverse could also happen, that is, an increase in personal well-being (e.g., through taking more time off from work) could negatively affect business performance. The three types of ER behaviors mentioned in this section not only help the founders regulate their own emotions during business-building, but they also influence the founders' subjective balance between emotional and economic rewards. Jeremy, the founder of BUDGET, a former venture capitalist and an exceptionally strong analytical thinker, described his own psychological balance 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)

Because of space constraints, we describe the three types of ER actions that influence founders' emotional rewards in Table 4.

[INSERT TABLE 4 ABOUT HERE]

Firm-level benefits: Resource creation from self (founder discretionary support).

Thanks to the type of ER action described above (i.e., ER actions influencing the nature of founders' rewards), founders provide their firms with strong support and effort that facilitate venture development. Such founder support can involve making available their own psychological resources – e.g., energy – 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 skills and sustained attention– to address challenges regarding the development of the venture

(e.g., “I left [my former employer] and focused on building a business”). We call this dimension of resource creation from founders “discretionary support,” to convey that the founder made additional effort for the venture over and above what s/he would have normally done. For example, making sales calls to prospective clients gave Sam, the founder of CONSULT, excitement. As a result, he performed this vital activity for the venture with dedication and motivation:

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 **buzz-ing** 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)

Obviously, Sam received emotional benefits from engaging in sales activity, and this should also help building business for the young 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 resources for a new firm. Roman, another investor in CONSULT, validated in an independent interview the link between the founder’s ER and the resulting resource creation for the firm as follows: “Sam cares about the business and he’s working hard at the business; if you **care** about something you get **emotionally intense** about it, but not in a confrontational way.”

Short Term Versus Long Term: ER Actions Affecting The Founders’ Temporal Focus

In terms of the types of (“what”) ER actions founders enacted, we inferred that the remaining five of the eight action types we identified – “reducing boredom,” “eliciting hope,” “emotional toughening up,” “emotional channeling” and “tempering of extreme emotions” – cluster around how founders manage the psychological tension between short-term and long-term requirements for the business. Founders needed to focus on current, short-term business challenges but at the same time not lose sight their future, long-term business-building objectives.

Sam, the founder of CONSULT, described his long-term objectives as follows: “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 Mathew, the founder of INVEST, shared with us: “From time to time, we [co-founders] talk to each other and we say, what do we do if this thing doesn’t work? And you know, there’s all sorts of ideas.”

The psychological tension between short- and long-term considerations is perhaps most salient during periods of stagnation or decline in business performance, or just before an expected yet highly uncertain growth spurt, when the founder needed most to ensure the short-term survival of the business, but at the same time feel the urge to “abandon the sinking ship” or personal hardship in “keeping the ship afloat.” Christine, the founder of DRINK, illustrated her hardship:

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 they also influenced their temporal foci (e.g., short-term versus long-term, present versus future, slow versus rapid progress, etc.). Again, because of space constraints, we describe these five types of ER actions in Table 4.

Firm-level benefits: Resource creation from self (founder’s persistence). Our data show that thanks to the type of emotion regulation actions described above (namely, ER actions influencing the founders’ temporal focus), founders persevered with their venture development even under adversity (e.g., “despite the difficulties I continued with the venture”). For example, when we asked James, the founder of BUDGET, how he coped with stress and with the prospect

of failure and total loss of his investment in the venture, he explained to us:

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 the founder get his mind off depressing concerns about the current state of venture development (specifically, progress he deemed too slow). This type of ER action renewed the founder's patience and helped him refocus on his longer-term business building goals, beyond the specific challenges of the day. Ruth, the HR director of BUDGET, confirmed in a separate interview that with James, "there was quite a bit of **impatience** there." But she also noted his eagerness to reduce his negative emotions and avoid them from spilling over other firm members: "The founders contain tensions between the three of them and work out their problems. They have their argument and then they come out with a solution, rather than it be shared amongst other people." Fred, the firm's chairman of the board, also noted: "Well, obviously the emotions, they usually keep them pretty well in check, certainly when I'm there."

In a related vein, some founders stayed focused on their long-term objectives with their ventures 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 envisioned exit from the business). Accordingly, we call this facet of resource creation from the founders "persistence." Founder's persistence is a valuable resource for a young organization, because the nascent firm is typically vulnerable and dependent on the stewardship from a few dedicated individuals. The founders play a key role in acquiring resources and rallying support for the venture.

Towards An Emerging Model Of Emotion Regulation And Resource Creation

In Table 5 we show the extent to which the founders reported to us their use of various types of ER actions. The table shows that Sam (CONSULT) and Kathy (DRINK) clearly stand out as founders who displayed the greatest variety of emotion regulation actions, drawing, respectively, on eight and seven (out of eight) types, some of them quite heavily. Two other founders, Lars (INCUBATE) and Morten (INVEST), stand out on the other end of the spectrum as those who displayed the lowest variety of emotion regulation actions in our study. They enacted only four and two types of emotion regulation, respectively, and they performed these types very sparsely. The two remaining founders, Jim (BUDGET) and Phil (TECH), enacted six and five ER categories, respectively. These two latter cases can be further distinguished through their degree of other-orientation in performing their emotion regulation actions..

[INSERT TABLE 5 ABOUT HERE]

Since ER actions can produce important resource creation benefits for the ventures, variation in founders' enactment of ER actions matters at the firm-level. This is an important finding, because the link between founders' variety of self-emotion regulation actions and resource creation (both from founders and other firm stakeholders) for new firms has previously not been shown empirically. Based on data from these other stakeholders exclusively, in Table 6 we describe, in aggregated form, the levels of resources created—from self (founders) and other stakeholders—for the firms in our sample. Juxtaposed with the data presented earlier in this study on the modes (Table 2) and types (Table 5) of ER actions used by the founders of these various firms, Table 6 lends support to our argument that founders' ER can be construed as a plausible and potentially important explanation of how heterogeneous resource positions in firms come about. Ventures in which founders used a variety of emotion regulation actions (Table 5) and were other-oriented (Table 2) generally benefited from high levels of resource creation (Table 6).

[INSERT TABLE 6 ABOUT HERE]

As a whole, the findings suggest an emerging empirically grounded model linking founder's ER action types, their ER action mode (i.e., the degree of other- or self-orientation), and resource creation for their ventures (see Figure 1).

[INSERT FIGURE 1 ABOUT HERE]

The model depicted in Figure 1 shows that ER actions performed by founders can create resources for their ventures – from the founders themselves, or from other stakeholders. This positive relationship between ER action types and firm-level outcomes is moderated by the founders' "other- or self-orientation" in ER (i.e., by the adopted ER action mode). Specifically, we suggest, based on our data, that self-orientation has a negative moderating impact. Phil, the founder of TECH, for example, paid attention to his own emotions, which he frequently regulated using various ER actions (see Table 5). But Phil performed these behaviors in a largely self-oriented fashion, failing to take into account the perspectives of other stakeholders. Destruction rather than creation of resources from others was the result: Phil lost the support of his senior management team, and of 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 positive moderating effect of other-orientation (or, a negative moderating effect of self-orientation) on the relationship between ER actions and resource creation from others (see Figure 1).

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 predominantly self-oriented ER by the founder, 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. Founder's persistence could become "dogged," self-serving, and dysfunctional for the firm. In our

model, we show a negative moderating effect of founder's self-oriented emotion regulation on the positive relationship between emotion regulation and resource creation from self (specifically, persistence). Although the hypothesized moderating effect would not reduce the *strength* of the founder's persistence, it would affect its *usefulness*, or more precisely its *contribution to the young firm's development*. The dotted line in Figure 1 denotes this effect. It is dotted, (1) because it relates only to founder persistence as an outcome and not to services from self in general (we did not find empirical evidence that suggest self-oriented emotion regulation would affect the founder's discretionary support), and (2) because it refers to the usefulness of the founder's persistence for the firm (and not to the strength of persistence displayed by the founder).

Overall, our findings suggest that ER can be beneficial under certain circumstances, but they do not imply that *more* ER of the founder (in a quantitative sense) is necessarily *better* for the venture. Drawing on a broad repertoire of actions to address specific contextual conditions is more adaptive than frequently performing a narrow set of self-oriented ER actions.

DISCUSSION AND CONCLUSION

A core tenet of resource-based strategy is that firms' resources are heterogeneous (Amit and Schoemaker, 1993; Barney, 1991, 1997; Peteraf, 1993; Peteraf and Barney, 2003). But what are the origins of resource heterogeneity? Where does it come from? What are the contributing factors and mechanisms that can explain its emergence? In this article, we have begun to reveal the micro-foundations of firms' resource-based strategy, focusing on affect-related behaviors of firm founders. Our findings yield fine-grained insights into the micro psychological processes that shape differences in young firms' resources. The findings suggest that the emergence of resource heterogeneity can have "affective roots," that is, it can be explained by the ways in which founders deal with their affective states during the venture-building process. Obviously, we do not suggest that emotion regulation is the only mechanism to generate heterogeneous resources, but it

is one enabler that has been largely overlooked by strategy and entrepreneurship scholars.

Why Does Emotion Regulation Help Create Resources For Ventures?

Why is ER useful in an organization building context? In analyzing our data and asking *why these emotion regulation modes and types, and not others*, we inferred three subsets of ER actions, each related to a distinct that firm founders grappled with: (1) *Consideration of self- versus others*, (2) *economic versus emotional rewards*, and (3) *short-term versus long-term focus*. Table 7 shows how we assigned theoretically various emotion regulation actions (i.e., modes and types) to each tension, and what the main associated firm-level benefits are. We also indicate—tentatively—which phases of venture development each of the tension might be most salient, which will require distinct ER actions.

INSERT TABLE 7 ABOUT HERE]

Emotional Reconciling And Resource-based Theory

Since resource-based theory takes resource heterogeneity as a starting point in its chain of logic aimed at explaining differential intra-industry firm performance, and our model shows resource heterogeneity as an output, our research provides an opportunity for embedding our proposed model of founders' emotion regulation actions (see Figure 1) in a broader resource-based framework. Our affect-based theory on the origins of resource heterogeneity could form the “front-end” of a more developed resource based theory (RBT), and advance RBT by mitigating some of the key concerns that have been leveled against it (e.g., Priem and Butler, 2001). To accomplish this, we build on and extend the resource-based framework developed by Peteraf and Barney (2003). Figure 2 shows a tentative integration of our model within that framework.

[INSERT FIGURE 2 ABOUT HERE]

Focusing on the organization-building context, we propose to complement this framework by considering the notion of resource creation. Resources that are endogenously created

during organization-building could potentially affect the costs and perceived benefits of the firm's products and services (e.g., the financial capital received from an investor could be invested into R&D to improve product quality, or into marketing to improve service quality), but they do not automatically lead to the creation of economic value (e.g., the firm may be developing the wrong type of products for its chosen market segment). The extended framework shown in Figure 2, therefore, complements and enhances classic resource-based theory in several respects. First, it mitigates the concern about potential tautology (see Priem and Butler, 2001:28) by conceptualizing founders' emotion regulation actions (specifically, emotional reconciling), resource characteristics (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. Emotion regulation, and more specifically emotional reconciling, could help explain the creation of resources with desirable properties (see Barney 1997), such as firm specificity (e.g., related to the founder's persistence with "her/his baby"), social complexity or causal ambiguity (e.g., committed, collective support provided by employees or members of the top management team to a specific firm as a result of emotional benefits experienced in co-creating a specific nascent firm). Put differently, expectations and luck (Barney, 1986) or accumulation over time (Dierickx and Cool, 1989) may not be the only mechanisms that can help managers recognize and realize the value of key resources. ER provides another way to create these resources.

Second, in traditional resource-based theory the value of resources is determined on the demand side, which is implicitly assumed, and remains external to the theory (see Priem and Butler, 2001: 29-30). Here, we do not need to make these simplifying assumptions. Our theory is more about enhancing the productivity of existing resources (founder, other stakeholders) that are critical to the success of any young firm, rather than identifying a distinct set of valuable and

unique resources. Put differently, our theory internalizes the mechanisms that can render existing resources valuable and unique for each firm.

Third, our theory is operationally valid, in the sense that is “practicable for managers to manipulate the key independent variables” (Priem and Butler, 2001: 31). This is because our theory of emotion regulation is anchored in observable managerial behaviors. There is no a priori reason why a manager should not be able to engage in these behaviors. Our theory is a theory of action and it is actionable.

Summary Of Contributions And Future Research

Our study contributes to resource-based theory by offering a new, previously under-explored explanation of why firms can have heterogeneous resources, namely due to founders’ emotion regulation behaviors (see Figure 1). By delineating the endogenous, affect-based drivers of resource heterogeneity, we address an empirical gap in the strategy literature, which has hitherto focused on exogenous, cognition-based factors (e.g., Nelson, 1991; Peteraf and Barney, 2003; Williams, 1994). To the best of our knowledge, this study is the first to develop the affective roots of resource-based theory. Our empirically grounded model, moreover, can be used to extend resource-based theory (see Figure 2), which yields several important theoretical advances. These theoretical advances could also help improve future empirical investigations of resource-based theory, which to date have largely relied on quantifying the amounts of certain resources controlled by a firm (understood as resource heterogeneity) and correlating them to measures of firm performance. Newbert (2007: 131) found that only “an overwhelming minority of resources examined (only 10 of 26, or 38%) have received empirical support.” Our research suggests that it may well be worth considering *how* (and not just *which* or *how many*) resources are engaged to produce differential services for a firm. That is, our research ties into recent developments to explain superior resource management by suggesting relevant affect-related management actions

(e.g., see Holcomb, Holmes and Connelly, 2009; Sirmon, Hitt and Ireland, 2007).

We also contribute to the emotions in organizations literature by advancing the concept of emotional reconciling, which represents a set of ER actions that allow firm founders to deal with the tensions often found in the context of organization building. Research on emotion regulation has seldom explored how top managers deal with tensions in complex contexts such as building new firms. We extend the ER literature with a contextualized, novel, and fine-grained concept.

This study also raises a number of intriguing questions that could be investigated in future empirical or theoretical research. For example, why do founders and managers differ in their propensity to use emotion regulation behaviors? Under what circumstances does ER convey a sustainable competitive advantage to firms? What other affect-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, emotion regulation actions, and the process of firm formation co-evolve over time? Longitudinal, process research may be needed to shed further light on some of these issues.

To conclude, our study identifies emotion regulation, and in particular emotional reconciling, as important mechanisms contributing to the creation of heterogeneous resources in entrepreneurial ventures. Our study provides insight into the origins of firms' resource-based strategy by linking founders' affect-related behaviors to resource creation at the firm level. We hope that this research will spark more work on the micro-foundations of strategy to enhance our understanding of how firm founders and managers come to create differentiated resource positions and thereby lay the foundations for value creation and future rents.

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TABLE 1
Cases and Interviews Per Case

Case	Business Description	Founder Interviews	Interviews With Others¹	Interview Total
BUDGET	Formed in September 2001 to operate high-quality limited service hotels. Develops sites for new budget motels in partnership with financiers and brand owners. Negotiates license agreement, interprets brand standards, implements these standards and optimizes required resources.	5	11	16
CONSULT	Founded in May 2000 by former partners of a well-known large global IT consulting firm. Provides IT-supported consulting services to large and mid-sized companies.	5	5	10
DRINK	Founded in September 2002 to build a whiskey distillery with a production capacity of 40,000 cases per year. At the same time, produces and markets a range of innovative white spirits using only natural ingredients for consumers of alcoholic beverages around the world.	5	8	13
INCUBATE	Founded in December 2000. Originally, aimed at helping large companies develop new ventures. Then changed business model to acquiring ailing on-line retail businesses (e.g., for pet food and for gardening products), consolidating these businesses and running them on a common IT infrastructure.	4	2	6
INVEST	Provides financial services and specialist financing for European early-stage hi-tech companies, especially in biotech, computing and communications infrastructure. After several years of operations, in 2002 essentially had to wind down first fund and get re-started as a company by raising a new fund.	5	3	8
TECH	Founded in December 1999 to provide wireless telephony solutions for offices and factories. Develops technology that turns mobile phones and headsets into extensions of corporate networks and gives portable data devices and smart phones access to local area networks.	5	8	13
TOTAL		29	37	66

¹ Others include co-founders. Some stakeholders provided more than one interview. Therefore, the interview count in each cell of this column might be greater than the total number of stakeholders.

TABLE 2
Patterns Of Self- Vs. Other Orientation In Emotion Regulation

	First Inter- view	Second In- terview	Third Inter- view	Fourth In- terview	Total
DRINK self	8	4	3	5	20
DRINK other	5	6	7	5	23
CONSULT self	3	1	1	4	9
CONSULT other	3	3	7	2	15
BUDGET self	8	3	3	2	16
BUDGET other	2	1	2	2	7
Subtotal self	19	8	7	11	45
Subtotal other	10	10	16	9	45
INCUBATE self	1	1	4	2	8
INCUBATE other	2	2	0	0	4
TECH self	2	0	3	8	13
TECH other	0	2	0	1	3
INVEST self	0	1	0	0	1
INVEST other	0	0	0	2	2
Subtotal self	3	2	7	10	22
Subtotal other	2	4	0	5	11

Table entries:

Number of reported self-oriented (“self”) and other-oriented (“other”) ER actions by venture and by interview, focusing on the early business-building phase (first four interviews). E.g., “8” in the upper left-hand cell of the table denotes that we found eight codes for self-oriented ER actions in the first interview with the DRINK founder.

Note: The arrows in this table depict a possible shift from self- to other-orientation in emotion regulation (for DRINK, CONSULT, and BUDGET) as indicated by a greater ratio of other-oriented ER vs. self-oriented ER; or a possible emphasis on self-orientation in emotion regulation (for INCUBATE, and TECH) as indicated by an increasing ratio of self-oriented ER vs. other-oriented ER

TABLE 3
Resource Creation (RC) Outcomes of Founders' Emotion Regulation Actions

RC Outcome	Definition	Illustrative Quotations²
Resource Creation From Others	Receiving emotional, cognitive, and material support for the new venture from other people, or increasing the likelihood of receiving such support from others, for example, through building trust and loyalty with them (e.g., between the founder and other TMT members).	<p>"So [the VCs...are] hungry for us." (Founder, DRINK)</p> <p>"I refused to take no for an answer. Managed to get them back to the table, and eventually they put the money in." (Founder, TECH)</p> <p>"Our clients are really paying us money to do stuff." (Founder, CONSULT)</p> <p>"As a team it made us very close." (Founder, DRINK)</p> <p>"That gives some stability to the team" (Founder, DRINK)</p> <p>"We trust each other and we find each other's opinions very useful" (Founder CONSULT)</p>
Resource Creation From Self: Discretionary support	Working hard to ensure successful venture development: Making available own emotional resources – energy and effort – for the venture. Making available own cognitive (including decision-making) resources to resolve important issues regarding the development of the venture.	<p>"You've got to give it one hundred percent." (Founder, BUDGET)</p> <p>"I got a new lease of energy...I probably for the next two weeks worked a hundred hours a week, making just maybe a hundred phone calls a day, very intensely. We just worked like dogs. I worked like a dog" (Founder, TECH)</p> <p>"I'm constantly going, 'Okay, what am I going to do, what am I going to do, what am I going to do?' You don't sit there and despair. It's constant - solution, solution, solution." (Founder, DRINK)</p> <p>"We'll get [a solution] that will be much more valuable and much more thought-through" (Founder, INCUBATE)</p>
Resource Creation From Self: Persistence	Staying with a chosen course of action regarding the venture development, even if it is personally difficult. Staying with the venture even though there are difficulties. Extending one's personal time horizon with the venture.	<p>"You keep pushing on" (Founder, BUDGET)</p> <p>"Once you've been through a few [ups and downs with your venture]...you get on with it, really." (Founder, INCUBATE)</p> <p>"So why would I not, you know, continue the artistry?" (Founder, DRINK)</p> <p>"I want to continue" (Founder, INVEST)</p> <p>"When we started off, it was three to four years, but then of course reality hit and we realized that it doesn't work that quickly. So I think it will be, at the end of the day, about a ten year plan" (Founder, CONSULT)</p>

² These quotes are excerpts from coded passages of our data where they could be identified as consequences of founders' emotion regulation actions.

TABLE 4
Entrepreneurs' Emotion Regulation (ER) Action Types (or Categories)

ER Action	Definition	Illustrative Quotations from Founders ³
ER Actions Affecting Nature Of Founder Rewards		
Emotional expanding during organization building	Adding new objects of emotional attachment (which 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 families to the desire of creating personal wealth.	"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)
Emphasizing emotional benefits of organization building	Emphasizing emotional rewards (e.g., fun) from business-building more heavily than immediate economic rewards, or other rewards or disadvantages. This may involve comparing emotional rewards from business-building to benefits and/or drawbacks the founder would have had from a hypothetical alternative (e.g., working as an employee for a corporation).	"I like working for myself. I remember working for a big company and I just didn't like it . I mean, okay, you get a nice salary and you can hide behind a big brand, but it doesn't do me anything." (INVEST) "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)
Eliciting pleasant emotions in venture development	Performing actions during venture building that elicit emotions such as fun, excitement, enthusiasm, or joy. These actions are aligned with the entrepreneur's personal interest and motivation, and are often conducted without expectation of any external reward.	"[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 is too shallow a word. It's deeper than that—a sense of flow, of being alive ." (DRINK) "Building business is very exciting ." (INCUBATE)
ER Actions Affecting Founder Time Horizon		
Managing boredom from slow venture development	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.	"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. That's really going to be for me

³ For easier interpretation of the quote, code indicating affect is printed in **bold-face type**.

ER Action	Definition	Illustrative Quotations from Founders ³
		the next stage... We now want to move on [and grow] again.” (CONSULT)
Rekindling of hope regarding venture prospects	Telling oneself -- based partly on substantive evidence, but more as a statement of unsupported optimism -- that the future prospects of the venture will be better than its current ones.	<p>“I can see the light at the end of the tunnel. And I know that when this business is successful it’s going to be worth a decent amount of money.” (BUDGET)</p> <p>“It’s like looking for the signs of spring...if there is external momentum being generated, I keep going.” (DRINK)</p>
Emotional channeling toward venture development	In a context where founders are faced with competing priorities, potential distractions from the business, 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, for example, entertainment, family, hobbies, other jobs.	<p>“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)</p>
Tempering experience of specific emotions during venture development	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.	<p>“We just need to be a bit more dispassionate, step backwards and ask questions objectively.” (BUDGET)</p> <p>“I fluctuated between sort of a state of tiredness and complete alertness, but I went to the gym and I’m feeling renewed.” (TECH)</p>
Emotional toughening up in the face of adversity	Dealing with adversarial circumstances (e.g., financiers who hesitate to invest) which 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. Alternatively, deliberately not letting felt emotions influence beliefs or actions that will help achieve important organizational goals.	<p>“We fear that people who invest in [funds like ours] will be very aggressive, but in a way we won’t be surprised if it happens...we’re preparing ourselves for that. (INVEST)</p> <p>“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)</p>

TABLE 5
Emotion Regulation (ER) Action Types (Categories) Used By Founders

ER Action Category	BUD-GET	DRINK	CON-SULT	INCU-BATE	INVEST	TECH
ER Actions Affecting Nature Of Founder Rewards						
Emotional expanding during organization building	YES	MUCH	YES	YES		
Emphasizing emotional benefits of organization building	MUCH	YES	MUCH		YES	YES
Eliciting pleasant emotions in venture development	YES	MUCH	YES	YES		YES
ER Actions Affecting Founder Time Horizon						
Managing boredom from slow venture development			YES			
Rekindling of hope regarding venture prospects	YES	YES	YES			
Emotional channeling towards venture development		MUCH	YES		YES	YES
Tempering experience of specific emotions during venture development	MUCH	MUCH	MUCH	YES		MUCH
Emotional toughening up in the face of adversity	YES	MUCH	YES	YES	YES	YES

Table entries:

MUCH – On average more than one quote per interview

YES – At least one quote (but equal or less than one quote per interview on average)

TABLE 6
Differential Resource Creation And Emerging Resource Heterogeneity

	Resource Creation From Self (Founder)	Resource Creation From Others (Stakeholders)
D R I N K	<p><u>Discretionary support</u>: Founder invests high personal energy and effort into the venture.</p> <p>“For Christine the venture was her life, it was her passion, and she was very motivated, because it was what she wanted to do.” (Barbara, former employee)</p> <p><u>Persistence</u>: Founder makes continued efforts, and does not let up; nor consider any alternative jobs or activities.</p> <p>“For her, there’s no line between work and play; actually, work is play.” (Theresa, senior executive)</p> <p>High</p>	<p>Stakeholders show strong adherence and loyalty. Venture receives strong personal support from board members and employees. E.g., whole company participates in devising an interim range of innovative drink products.</p> <p>“There was an idea of a new [product]... Everyone wanted to be involved, everyone wanted to help. I mean everyone, really everyone, even the nanny that worked for Christine.” (Barbara, former employee)</p> <p>High</p>
C O N S U L T	<p><u>Discretionary support</u>: Founder constantly searches for new business opportunities when the core market slumps.</p> <p>“Sam will quite happily work weekends or work on a Sunday or whatever. He will put the effort in.” (Roman, investor)</p> <p><u>Persistence</u>: Founder shows continued high enthusiasm and dedication to the business.</p> <p>“[We want to] create something of value in terms of, you know, people feel they belong, and something that, you know, something that persists” (Mathew, co-founder)</p> <p>High</p>	<p>Stakeholders give strong discretionary support. E.g., consultants collectively search for new business opportunities. Stakeholders develop strong adherence and loyalty to new organization.</p> <p>“We decided as senior managers to actually go out and get involved in projects ourselves because we didn’t have very many employees and we needed to bring revenue in.” (Lorenzo, employee)</p> <p>High</p>
B U D G E T	<p><u>Discretionary support</u>: Founder kicks into “high gear” with the acquisition of a hotel chain.</p> <p>“Taking on a lot of hotels all at once, they got lots of things to sort out, so we didn’t see the directors very much.” (Sevin, general manager)</p> <p><u>Persistence</u>: Founder displays continuous, steady effort.</p> <p>“[James] is very committed.” (Ruth, HR director)</p> <p>High</p>	<p>Stakeholders give strong discretionary support (e.g., managers volunteer to get personally involved with operation of new hotels). Very low turnover among employees.</p> <p>“We’ve got a lot of very good employees, and we realize how hard they work.” (Ruth, HR director)</p> <p>High</p>

	Resource Creation From Self (Founder)	Resource Creation From Others (Stakeholders)
T E C H	<p><u>Discretionary support</u>: Founder invests himself thoroughly in the business, but in a way that eventually alienates others.</p> <p>“His drive was a key part of moving the company forward from the beginning” (Daniel, BoD chairman)</p> <p><u>Persistence</u>: Founder holds on to his “baby” until fired.</p> <p>“When he had to hand over more operational responsibilities [to the newly hired CEO], he didn’t like that.” (Kevin, co-founder)</p> <p>High (but with negative consequences for the company)</p>	<p>With ongoing problems, stakeholder support weakens. Emerging rifts at board level, bitter personal disputes among TMT members. Dismissal of CEO, personnel cuts.</p> <p>“I work pretty serious hours and really try to make this work.” (Stanislav, employee)</p> <p>First High, Then Low</p>
I N C U B A T E	<p><u>Discretionary support</u>: When things do not go as planned, founder disconnects from the business.</p> <p>“Everyday was a battle, because it was a very big challenge. That brought him a lot of worries, which in a way I would say even affected his health.” (Susan, wife)</p> <p><u>Persistence</u>: Partly under pressure from his wife, returns to previous job.</p> <p>“Landis is still living with his wife and kids. He’d rather have money sooner...He was massively, massively under pressure from his wife” (Kurtis, co-founder)</p> <p>“</p> <p>Low</p>	<p>Weak support from stakeholders, except co-founders, whose enthusiasm for the venture fades over time. Lack of external finance, low sales. Hidden tensions within TMT.</p> <p>“We had the first major falling out at that point because Landis negotiated in a non-partner way.” (Kurtis, co-founder)</p> <p>“[The employees] were like workers in a factory.” (Susan, wife)</p> <p>Low</p>
I N V E S T	<p><u>Discretionary support</u>: Founder displays a professional attitude, expends measured (not extraordinary) effort.</p> <p>“Michael likes to do a good job.” (Alex, BoD member)</p> <p><u>Persistence</u>: Founder decides to stay with venture, but partly motivated by lack of alternatives.</p> <p>“When the business got into difficulties, [Michael] still stood by it.” (Alex, BoD member)</p> <p>Medium</p>	<p>Political in-fighting, conflicts about strategy, pursuit of economic self-interest. TMT members mainly motivated by financial stake in business.</p> <p>“Some became very bitter and angry about what was happening” (Nelson, former senior partner)</p> <p>“[The TMT members] would be falling out on some things and working together incredibly well on other things.” (Alex, BoD member)</p> <p>Medium</p>

TABLE 7
Addressing Tensions Through Emotion Regulation

	Founder Orientation	Nature of Founder Rewards	Founder Time Horizon
Tension	Self- versus other-orientation	Economic versus emotional rewards	Short-term versus long-term focus
Emotion Regulation Action	<ul style="list-style-type: none"> · Other-oriented emotion regulation 	<ul style="list-style-type: none"> · Emotional expanding · Emphasizing emotional benefits · Eliciting pleasant emotions in venture building 	<ul style="list-style-type: none"> · Reducing boredom · Eliciting hope · Emotional channeling · Emotional toughening up · Tempering the experience of specific emotions
Main Associated Firm-level Outcomes	<ul style="list-style-type: none"> · Resource creation from others 	<ul style="list-style-type: none"> · Resource creation from self (discretionary support) 	<ul style="list-style-type: none"> · Resource creation from self (persistence)
Relevant Phases of Venture Development	Growth phases during which external resources are needed (e.g., for ramping up operations)	Phases of high uncertainty and/or adversity, when founder needs to be particularly psychologically strong (e.g., startup phase, lack of cash)	Phases of stagnation or slow decline, when founder might be tempted to distance herself from the venture

FIGURE 1
How Founders' Emotion Regulation Affects Resource Heterogeneity

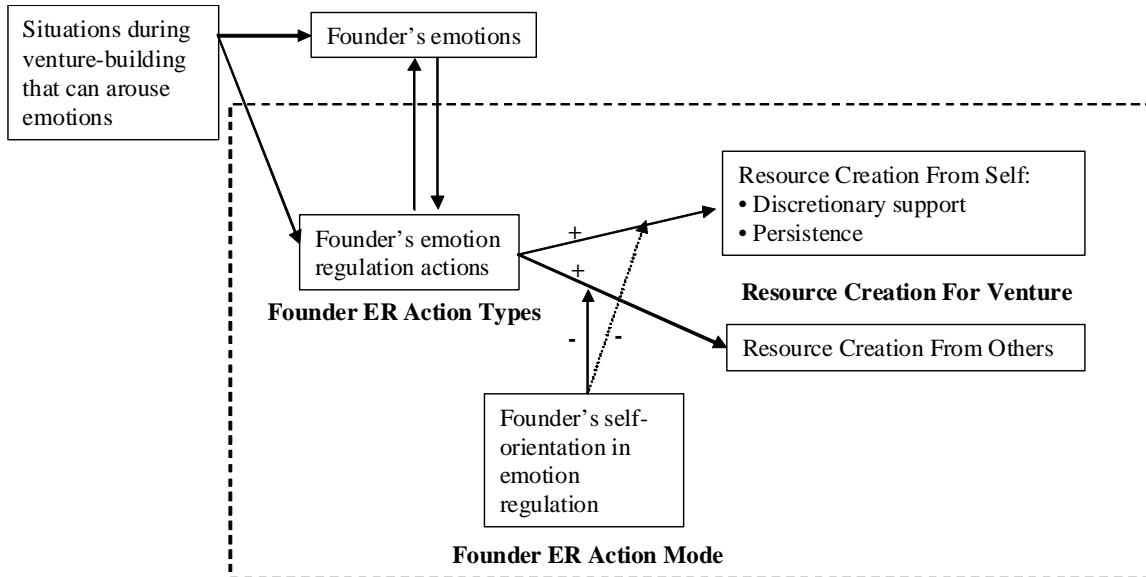
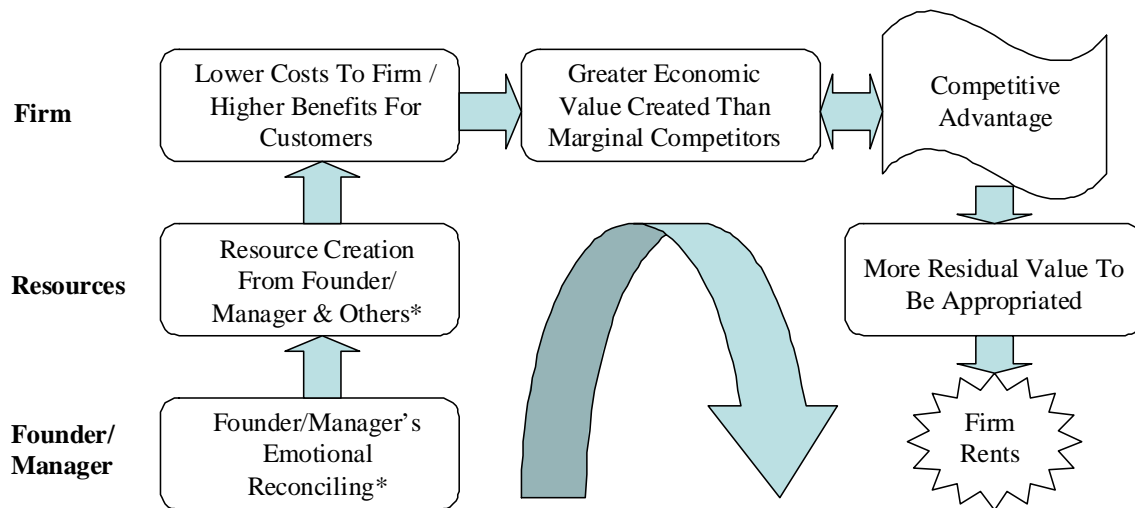


FIGURE 2
Emotional Reconciling And Resource-based Theory (Logical Chain)



Source: Adapted from Figure 3 in Peteraf and Barney (2003). * Denotes novel elements.