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A Study of Effects of Entrepreneurial Passion and Risk Appetite on Entrepreneurial Performance

Xi FANG¹, Liren AN²

Abstract

Because of the rapid change of industrial environment in past years, the fierce global competition hastens the emergence of entrepreneurs and increases the proportion of new ventures annually. Under the formation of M-shaped society and the emergence of emerging economies, domestic economic environments change so rapidly that small and medium enterprises are facing strict challenges. In face of fiercely competitive environments, the promotion of entrepreneurial performance to acquire competitive advantages is a primary issue for the practical management of entrepreneurs. Aiming at young entrepreneurs in China, the young entrepreneurs in cross-strait youth entrepreneurship bases are surveyed in this study. Total 200 copies of questionnaire are distributed, and 157 valid copies are retrieved, with the retrieval rate 79%. The research results conclude that (1) entrepreneurial passion presents significant effects on financial performance, (2) entrepreneurial passion shows remarkable effects on non-financial performance, (3) risk appetite reveals notable effects on financial performance, (4) risk appetite appears significant effects on non-financial performance, (5) entrepreneurial passion and risk appetite could remarkably promote financial performance, and (6) entrepreneurial passion and risk appetite could notably enhance non-financial performance. Based on the research results, suggestions are proposed to help entrepreneurs create favourable performance and extend survive years.

Keywords: entrepreneurial passion, risk appetite, entrepreneurial performance, youth entrepreneurship

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Introduction

The impact of global economic recession and financial crises not only results in the unemployment tide but also creates opportunities in crises. “*Depression forces innovation*” becomes a good example of businesses coping with such financial crises. In addition to devoting to the change of business model to satisfy new-style consumer behaviors, the incandescent global competition has hastened the change of industrial environment to intensify the competition among enterprises. A lot of unemployment population caused by layoff or failure in seeking employment invests in entrepreneurship. The governments in the world are encouraging entrepreneurship in recent years that research on entrepreneurship has become a critical study with the fastest growth among the studies on enterprises in the world. The business trend of small and medium enterprises therefore is worth emphasis. Especially, small and medium enterprises are encountering strict challenges because of the rapid change of domestic economic environments under the formation of M-shaped society and the emergence of emerging economies. In face of fiercely competitive environments, maintaining entrepreneurial performance for a place in the market is an important management issue for entrepreneurs.

In such an era when the prices of everything, except salary, are rising, it is wondered how an individual could create value for himself/herself. Entrepreneurship offers an alternative. Furthermore, the emergence of Alibaba in the innovative and rapid development of technologies has hastened the trend of entrepreneurship in past years. People with the will engage in entrepreneurship, tending to develop entrepreneurial passion and action with the unique thoughts and creativity and expecting to acquire feedback from the market to develop a successful business model with sophisticated trials. Nonetheless, “entrepreneurship is hard, and maintenance is not easy”. From the aspect of business management, both “hard entrepreneurship” and “uneasy maintenance” are difficult. Nevertheless, it is an important development for enterprises extending the survive years by receiving stimuli and information of environmental changes in the beginning of entrepreneurship, confirming and grasping entrepreneurial opportunities, combining the competency of entrepreneurs, and creating favourable performance through strong entrepreneurship. Accordingly, it is worth discussing how entrepreneurs maintain the entrepreneurial performance.

Literature and hypothesis

Entrepreneurial passion

Kop (2012) regarded entrepreneurship as the process of concentrating some unique resources to create new value. Cardon *et al.* (2013) mentioned about Say's opinion that entrepreneurship was the transfer of resources, from low output and low productivity to high output and high productivity. Hartmann & Herb (2015) indicated that passion had been regarded as an important component of entrepreneurial motivation and success. Passion was the core of entrepreneurship, as it could enhance creativity and recognize new information models, as well as the key in finding and developing entrepreneurial opportunities (Ruvio, Rosenblatt, & Hertz-Lazarowitz, 2010). Rieckhoff & Larsen (2012) regarded entrepreneurship as the incarnation of passion, which allowed entrepreneurs believing that what they were doing was the key to fulfil the entrepreneurial dream and overcome difficulties. Entrepreneurial passion also presented creatively and persistently positive emotion. Based on social psychology, Nunnally (2012) stated that the definitions of passion in the research on entrepreneurship revealed a common point of influence, particularly an active influence. As a result, they defined entrepreneurial passion as the active and strong emotion of an entrepreneur accompanied cognition and personal high-value behaviors. Ruvio, Rosenblatt, & Hertz-Lazarowitz (2010) pointed out entrepreneurial passion as strong and active emotion and conscious approach, allowing the participants of relative entrepreneurial activities perceiving value and meanings as well as perceiving positive emotion in self-identification. In the research on the correlation between entrepreneurial passion and business performance, Shane (2012) defined entrepreneurial passion as the perceivable and powerful positive emotion accompanied entrepreneur cognition and behaviors of personal roles being meaningful and able to highlight self-identification and high individual or organizational value. In consideration of the uncertainty to promote new products and services and the challenge to develop new organization with limited resources, Fagan & Ployhart (2015) proposed that passion could be the "driving force" of entrepreneurship; more specifically, passion could be "the fuel of motive to enhance psychological activities and provide opinions for daily work." In the research on the factors in entrepreneurial intention, Chowdhury *et al.* (2014) defined entrepreneurial passion as "a kind of strong and active emotion and being willing to spend time and energy on entrepreneurship to perceive positive emotion by participating in various entrepreneurial activities which could highlight self-identification". Referring to Shane (2012), entrepreneurs who have not yet or intend to start up a business are researched in this study, where entrepreneurial passion is divided into Initial Passion and Original Passion.

Risk appetite

Research on the characteristics of entrepreneurial activities emphasizes that risk appetite is one of the characteristics (Nunnally, 2012). Specifically speaking, entrepreneurs, in face of highly complicated, dynamic, and uncertain market opportunities, have to present the personality trait of risk taking and the capability to fulfil such risks (Rosenblatt, & Hertz-Lazarowitz, 2010). Baron and Tang (2011) defined risk appetite as the degree of an individual perceiving the risk and challenge of the service institution and the work, i.e. the organizational characteristics tending to risky behaviors or secure conservation (Shi, Wang, & Xing 2015). Tang and Hull (2012) pointed out new entry behaviors as a primary character of entrepreneurship orientation that engaging in new entry behaviors would take higher risks. Entrepreneurs were willing to take risks for grasping opportunities, rather than gambling. Giacomini *et al.* (2011) regarded risk appetite as the risk-taking intention of decision-makers, such risk taking or avoiding intention would affect the degree of time perception and information perception. Generally speaking, risk-taking managers made decisions comparatively faster than the used information was less; whereas, it was the opposite. Chowdhury *et al.* (2014) referred risk appetite orientation to the risk-taking intention of employees. Research revealed that people with high risk appetite made quicker decisions with less information; organizational members generally would avoid risks, but there were differences in individuals. In this case, employee performance completely depended on whether the nature of work was suitable for the characteristics. Chang & Chiu (2012) referred the so-called risk-taking propensity to “different intention of individuals to take a chance” that individual intention to take danger or avoid danger could be used for predicting the time for making decisions. Research showed that managers with high risk-taking propensity made decisions more rapidly than those with low risk-taking propensity. In a public company, people with high risk-taking propensity presented better job performance as the work requested an individual to rapidly make decisions. Kop (2012) regarded risk appetite orientation as an employee’s risk-taking intention. According to the definition of Chang & Chiu (2012), a risk-taking person is more willing to take higher risks that risk appetite is divided into risk taking and risk averse in this study.

Entrepreneurial performance

Shi *et al.* (2015) regarded performance as the overall idea of an enterprise presenting the final result of business activities as well as the achievement of goals. Gibson *et al.* (2014) proposed that entrepreneurial performance was entrepreneur satisfaction with the entrepreneurial result, which could be used for measuring performance. Rieckhoff & Larsen (2012) pointed out corporate performance as the measurement of an enterprise achieving the long-term and short-

term business objectives. Tang & Hull (2012) defined entrepreneurial performance as entrepreneur satisfaction with the operation result of the enterprise. Beattie & Smith (2010) regarded entrepreneurial performance as an important indicator for enterprises inspecting the business activities as well as the measurement of the goal achievement. Chowdhury *et al.* (2014) considered entrepreneurial performance as entrepreneur satisfaction with the success rate and business result of the enterprise. Zhou (2014) defined entrepreneurial performance as entrepreneur satisfaction with the final result of the expected success rate. Zhao *et al.* (2011) explained entrepreneurial performance that entrepreneurs, expecting the substantial results of entrepreneurship, measured the success rate of work to understand the practice of corporate policies. Shane (2012) indicated that organizational performance could be measured with market share, sales level, cost control, profitability, and overall performance, and product design; and, technology development, employee productivity, customer satisfaction, marketing, and company reputation could be the standard of performance measurement. Santarelli & Tran (2013) considered that entrepreneurial performance could be generally divided into objective and subjective. Objective performance referred to various financial indicators, which were mostly accurate and continuous data, such as sales growth and net profit. Subjective performance, on the other hand, referred to non-financial indicators, including subjective decisions of satisfaction and problem solving. Referring to Xu, Wei & Shi (2013), entrepreneurial performance is classified into 1. financial performance, i.e. digit-presented measurable indicators, and 2. non-financial indicators, i.e. immeasurable subjective decisions, in this study.

Relationship between entrepreneurial passion and entrepreneurial performance

Aiming at the effects of female entrepreneur leadership on business performance, Chang & Chiu (2012) discovered that female entrepreneurs with Type A personality traits showed highly positive correlations with business performance. The so-called Type A personality traits referred to activeness, passion, strong ambition, concentration on job, and being brave in accepting challenges. Taking the examples of small and medium enterprises in eastern and northern Taiwan, Chowdhury *et al.* (2014) discussed the correlation between entrepreneurs' personality traits and entrepreneurial performance and pointed out the notably positive correlations. The personality traits contained passion and friendliness, respecting others, activeness, responsibility, being brave in accepting challenges, and rich imagination. Zhao *et al.* (2011) found out the significantly positive effects of entrepreneurs' personality traits on entrepreneurial spirit, which showed remarkably positive effects on entrepreneurial performance. The personality traits in the study referred to internals, including passion, activeness, diligence, strong

determination, responsibility, and strong leadership. Taking franchise industry in Taiwan as the example, Rieckhoff & Larsen (2012) pointed out the positive effect of entrepreneurial passion of franchise head offices on the business performance of branches. Based on above literatures, the following hypotheses are proposed in this study.

H1: Entrepreneurial passion shows significant effects on financial performance.

H2: Entrepreneurial passion presents notably effects on non-financial performance.

Relationship between risk appetite and entrepreneurial performance

Xu, Wei & Shi (2013) discussed the factors in entrepreneurial performance of small and medium enterprises in Taiwan and discovered that risk appetite in entrepreneurship orientation appeared remarkably positive effects on business performance of newly established small and medium enterprises. In the empirical research on entrepreneurial performance of micro-entrepreneurship, Shane (2012) revealed the notably positive effects of risk appetite in entrepreneurial spirit on entrepreneurial performance. Aiming at the effects of entrepreneurial spirit on entrepreneurial performance, Gibson *et al.* (2014) indicated that higher “risk taking” in “entrepreneurship orientation” could enhance “customer and financial performance” of an enterprise. Kop (2012) pointed out the higher financial risk taking of employees in the investment department of an insurance company, the higher investment performance. It was said the higher risks, the higher rewards. The braver employees in the investment department in taking financial risks would promote the return on investment performance. According to above literatures, the following hypotheses are further proposed in this study.

H3: Risk appetite reveals significant effects on financial performance.

H4: Risk appetite appears remarkable effects on non-financial performance.

H5: Entrepreneurial passion and risk appetite could notably promote financial performance.

H6: Entrepreneurial passion and risk appetite could remarkably enhance non-financial performance.

Research subject and methodology

Research subject and research design

Cross-strait youth entrepreneurship bases in China provide relative information in various places and the characteristics and advantages of enterprises and parks, actively create conditions, offer policies and measures to support and encourage youth employment and entrepreneurship, and establish characteristic and mature cross-strait youth entrepreneurship and employment platforms. The bases contain Beijing Zhongguancun Inno Way, Shanghai Jinshan Industrial Zone, Shanghai Everdisplay optronics, Nanjing Cheung Lee Information Technology Services Ltd. (Cross-trait SME Innovation Park), Kunshan Cross-strait Youth Entrepreneurship Park, Wenzhou Chong Qing Station Employment Service Centers, Hangzhou Yunqi Town, Fuzhou Strait Creative Industry Park, Xiamen strait youth innovation and entrepreneurship record customer base, Xiamen Epweike Creative Spact, Hubei Cross-strati Youth Entrepreneurship Base, and Dongguan songshan lake science and technology industrial park. Aiming at young entrepreneurs of cross-strait youth entrepreneurship bases in China, total 200 copies of questionnaire are distributed, and 157 valid copies are retrieved, with the retrieval rate 79%.

Analysis

Analysis of Variance is applied to discuss the effect of entrepreneurial passion on entrepreneurial performance and further understand the effects of entrepreneurial passion matching with risk appetite on entrepreneurial performance.

Results

Analysis of Variance between entrepreneurial passion and statistical entrepreneurial performance

Based on Analysis of Variance, the differences of entrepreneurial passion in financial performance and non-financial performance are discussed in this section. From *Table 1*, entrepreneurial passion appears remarkable differences on financial performance and initial passion shows higher financial performance than original passion that H1 is supported. Furthermore, entrepreneurial passion presents notable differences on non-financial performance and original passion reveals higher non-financial performance than initial passion that H2 is supported.

Table 1. Analysis of Variance of entrepreneurial passion

Variable		F	P	Scheffe post hoc
Entrepreneurial passion	Financial performance	10.235	0.000**	initial passion>original passion
	Non-financial performance	13.438	0.000**	original passion>initial passion

* stands for $p<0.05$, ** for $p<0.01$

Analysis of Variance between risk appetite and statistical entrepreneurial performance

Based on Analysis of Variance, the differences of risk appetite in financial performance and non-financial performance are discussed in this section. From Table 2, risk appetite shows significant differences on financial performance and risk taking reveals higher financial performance than risk averse that H3 is supported. Moreover, risk appetite appears remarkable differences in non-financial performance and risk taking presents higher non-financial performance than risk averse that H4 is supported.

Table 2. Analysis of Variance of risk appetite

Variable		F	P	Scheffe post hoc
Risk appetite	Financial performance	16.282	0.000**	risk taking>risk averse
	Non-financial performance	18.614	0.000**	risk taking>risk averse

* stands for $p<0.05$, ** for $p<0.01$

Effects of integrating risk appetite into entrepreneurial passion

Based on Analysis of Variance, the differences of risk appetite and entrepreneurial passion in entrepreneurial performance are discussed in this section; besides, the interaction between risk appetite and entrepreneurial passion is discussed with Two-way Analysis of Variance to test the promotion of risk appetite. From Table 3, risk taking in initial passion presents the highest financial performance, while risk taking in original passion shows the highest non-financial performance that H5 and H6 are supported.

Table 3. Analysis of Variance between entrepreneurial passion and statistical entrepreneurial performance

Variable	Financial performance			Non-financial performance		
	F	P	Scheffe post hoc	F	P	Scheffe post hoc
Entrepreneurial passion	10.235	0.000**	initial passion>original passion	13.438	0.000**	original passion>initial passion
Risk appetite	16.282	0.000**	risk taking>risk averse	18.614	0.000**	risk taking>risk averse
Entrepreneurial passion*risk appetite	33.935	0.000**	11>21>12>22	36.571	0.000**	21>11>22>12

* stands for $p<0.05$, ** for $p<0.01$

Conclusion

The effect of entrepreneurial passion on entrepreneurial performance is discussed in this study. The results show the significant effect of entrepreneurial passion on entrepreneurial performance. Ones with entrepreneurial passion present responsibility, diligence, activeness, strong ambition, concentration on job, being brave in accepting challenges, rich imagination, and strong leadership and could create higher value for the enterprises to further promote the entrepreneurial performance. Furthermore, risk appetite appears notable effects on entrepreneurial performance. Apparently, high rewards reveal high risks. After an entrepreneur understands and carefully evaluates possible uncertain risks, risk appetite refers to the higher risk taking, the higher vigilance that the return on investment could better achieve the expected goal. Ones with the will of entrepreneurship should carefully consider personal characteristics of being entrepreneurs. In other words, ones with entrepreneurial passion could persist, rather than dissatisfying with current job; ones who are willing to invest long time in the job present the spirit to exclude difficulties and do not abandon. It is necessary to take high risks in order to acquire rewards from entrepreneurship. In the development of newly establishing businesses, each mistake might be a deadly strike on an entrepreneur, such as cash flow shortage, over confidence, slow product promotion and technology update. One can merely survive in the changeable market by breaking through the past frame, being cautious of new environments and new challenges, and not ignoring each potential uncertain risk.

Suggestions

According to the research conclusion, the following suggestions are proposed in this study.

1. Colleges and universities are suggested to promote entrepreneurship related courses and activities, such as innovation and market information search, and arrange meetings with entrepreneurs so that the youth could be acquainted with people related to entrepreneurship and acquire diverse entrepreneurial knowledge. Most current entrepreneurial activities and courses are held by the government that the acquisition of information is limited. Holding entrepreneurial activities and courses by colleges and universities would greatly help entrepreneurs.
2. A newly established enterprise presents small size, few employees, short resources, and low awareness in the beginning that it is rather difficult to recruit or retain excellent talents. The turnover rate is relatively high. In order to maximize organizational effectiveness, a personal with the character of passion, high learning intention, diligence, and optimism shows higher job engagement and job satisfaction to promote entrepreneurial performance. For this reason, managers should employ employees with risk-taking intention and specific work demands. It is a reference for new ventures recruiting employees and retaining talents.
3. It is not easy to make profits in the beginning of establishment. Relying on external personal connection cannot permanently manage an enterprise. The management and proper strategies of entrepreneurs, the market potential, the non-reproducibility, and the practicability of plans are the primary factors in entrepreneurial performance. It is therefore suggested to participate in entrepreneurial activities in order to enhance entrepreneurial passion and acquire diverse entrepreneurial knowledge and entrepreneurial experiences from successful entrepreneurs and further promote personal confidence in entrepreneurship and entrepreneurial competence. The success of entrepreneurship depends on sufficient skills, knowledge, and accumulation of life.

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