

# 19

## THE WELL-BEING OF ENTREPRENEURS AND THEIR STAKEHOLDERS

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### Introduction

Over the past decades, research on individual well-being has flourished (Diener, Oishi, & Tay, 2018; Ryff & Keyes, 1995; Kahneman, 1999; Ryan, Huta, & Deci, 2008). In turn, evolving empirical evidence and corresponding theoretical developments have ushered in two dominant views on well-being. The hedonic approach to well-being highlights ‘feeling well’—including cognitive (evaluative) and affective (emotional) components of well-being, while the eudaimonic approach focuses on ‘living well’—including self-directed actions, personal growth, and connections with others.

Entrepreneurship scholars show increasing interest in the relationship between entrepreneurship and well-being (see, e.g., Stephan, 2018, for a review or Wiklund, Nikolaev, Shir, Foo, & Bradley, 2019, for a research agenda). Although current entrepreneurship research focuses mostly on hedonic well-being, entrepreneurship offers an interesting context for both theoretical lenses because of the salience of well-being issues. The entrepreneurial process is rife with challenges (Cardon & Patel, 2015). Failure is common and it can be emotionally draining (Shepherd, Wiklund, & Haynie, 2009). At the same time, entrepreneurs have the opportunity to self-actualize as they craft their jobs to their own idiosyncratic needs (Wiklund, Hatak, Patzelt, & Shepherd, 2018) and thus will draw nonpecuniary benefits (Gimeno, Folta, Cooper, & Woo, 1997). For instance, some ask whether entrepreneurs are happier (hedonic focus) with their career than employees (e.g., Benz & Frey, 2008; Kautonen, Kibler, & Minniti, 2017), and whether they draw greater personal fulfillment (eudaimonic focus) from entrepreneurship (e.g. Shir , Nikolaev, & Wincent, 2018). The hedonic and eudaimonic approaches to well-being are complementary and not mutually exclusive (Ryff,

2019), creating ample opportunities for entrepreneurship research to leverage the unique nature of entrepreneurship and push theory forward.

To date, entrepreneurship well-being research has focused on the founder(s) (Stephan, 2018), yet many stakeholders are crucial to the entrepreneurial process and their well-being is rarely considered. Although still in its infancy, a small number of studies concerning stakeholder well-being within entrepreneurship highlight the potential ahead. For example, entrepreneurs show concern for their *employees* well-being as they grow their firms (Wiklund, Davidsson, & Delmar, 2003), which also impacts the firm's ability to recruit talent (Moser, Tumasjan, & Welpe, 2015). Despite the important role entrepreneurial firms play in the labor market (Haltiwanger, Jarmin, & Miranda, 2013) and the expansive literature on employee well-being (Bliese, Edwards, & Sonnentag, 2017), very little is known about whether employees of new ventures enjoy their jobs. *Resource providers* also play a critical role in the new venture, sharing in the success and failures of the firms they choose to invest in (Drover et al., 2017). Recent studies examining crowdfunding lenders (see Letwin et al., this volume) suggest that the process of investing influences the lenders' affective state (Davis, Hmieleski, Webb, & Coombs, 2017), and has the potential to fulfill psychological needs associated with well-being (Allison, Davis, Short, & Webb, 2015).

The remainder of this chapter takes a holistic view of the entrepreneurial process and explores the ways in which entrepreneurship can impede or enhance well-being not only of entrepreneurs but also of stakeholders, such as employees and investors. Figure 19.1 provides a visual depiction. We begin with an overview of the scholarly traditions foundational to well-being research, followed by a review of the current body of knowledge explicitly concerned with the well-being of entrepreneurs and their stakeholders. We conclude with future research

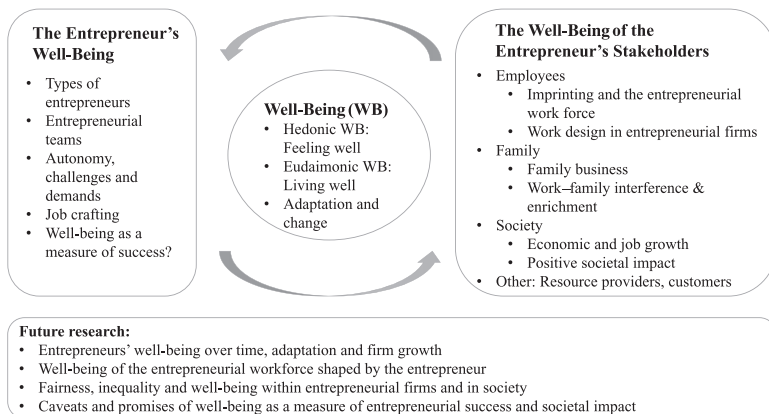


FIGURE 19.1 Well-Being of Entrepreneurs and Their Stakeholders

opportunities including a reflection on whether well-being should be considered an alternative metric for entrepreneurial success.

## A Brief History of Assessing Individual Well-Being

Well-being research falls primarily into two conceptualizations—hedonic and eudaimonic.<sup>1</sup> Both approaches were in part inspired by the tendency of psychological research to focus on negative, rather than positive states (Diener, Lucas, & Smith, 1999; Ryff, 1989). Though they are viewed as complementary, studies highlight that hedonic and eudaimonic well-being are not necessarily correlated (Keyes, Shmotkin, & Ryff, 2002) and that individuals differentiate them subjectively (Adler, Dolan, & Kavetsos, 2017). As such, the literature on hedonic and eudaimonic well-being have evolved somewhat independently of each other.

The hedonic approach, commonly referred to as subjective well-being (SWB), assesses overall life satisfaction, pleasant or unpleasant affective experience, and domain satisfaction, such as job or marital satisfaction (Diener et al., 1999). Researchers have used numerous techniques to measure the dimensions of SWB. These include broad measures such as the satisfaction with life scale (Diener, Emmons, Larsen, & Griffin, 1985) and the subjective happiness scale (Lyubomirsky & Lepper, 1999), along with domain-specific scales like the Minnesota job satisfaction questionnaire (Weiss, Dawis, & England, 1967), and the couples satisfaction index (Funk & Rogge, 2007). These instruments vary depending on the context, but each measures an outcome (e.g., positive feelings) rather than the process leading up to the outcome. Interventions that manipulate SWB often only have a temporary effect, leading to questions if there is value in the ‘pursuit of happiness’ as an end in itself. For instance, in their classic study on hedonic adaptation, Brickman, Coates, and Janoff-Bulman (1978) noted the lottery winners and accident victims initially experienced significant changes in how they assessed life satisfaction but returned to their previous levels of happiness as time elapsed (dubbed the hedonic treadmill adaptation effect). More recently, Sheldon and Lyubomirsky (2012) proposed the hedonic adaptation model that highlights mechanisms that erode gains in well-being and identifies moderators that reduce the impact of this erosion.

The eudaimonic approach, also referred to as psychological well-being (PWB), is an assessment of positive psychological functioning. In contrast to the hedonic theories of well-being, eudaimonic theories focus on areas like personal growth and living with purpose—pursuits that might at times even impair hedonic well-being. While this tradition is centered on what it means to be a fully functioning person, leading theories offer differing ideas on which elements lead to PWB (Martela & Sheldon, 2019). As highlighted by Ryan et al. (2008), conceptualizations of PWB are prescriptive in nature and outline pragmatic ways to be fully functioning. For example, Ryff’s (1989) theory suggests that if an individual resists social pressures (autonomy) and continuously realizes their potential (personal

growth), they will score high in PWB. Ryan and Deci (2001) emphasize that the eudaimonic well-being is fostered by the satisfaction of basic psychological needs of autonomy, relatedness, and competence. Thus, scholars offer different configurations of elements that make up the fully functioning human (Ryan & Deci, 2000; Ryff, 1989; Waterman et al., 2010).

Despite the developments of assessing well-being highlighted earlier, the context of entrepreneurship offers numerous opportunities to further refine the ways that scholars assess well-being (cf. Ryff, 2019), using both formulations. For example, examining the length of time between promotions in high growth new ventures and its influence on job satisfaction is likely to glean new insights into domain-specific forms of hedonic adaptation, and with potential implications for adaptation prevention. Furthermore, the balance between social and economic motivations vary between entrepreneurs (Moss, Renko, & Bort, 2019) and is likely to influence how different dimensions of PWB are valued and fulfilled. For example, entrepreneurs who place greater emphasis on social good might value personal connection over personal growth or environmental mastery. Next, we explore the contributions the field of entrepreneurship has offered thus far.

## Well-Being and the Entrepreneur

Entrepreneurs enjoy a great amount of autonomy in terms of how they design their jobs (Baron, 2010), giving the entrepreneur a unique ability to craft their daily work in a way that capitalizes on their unique differences (e.g., Wiklund Hatak, Patzelt, & Shepherd, 2018). The motivations behind entrepreneurial pursuits also vary considerably, ranging from the opportunity-based start-ups that rise to industry leadership (Coad, Daunfeldt, Holzl, Johansson, & Nightingale, 2014) and social entrepreneurs that seek to change society (Stephan, Patterson, Kelly, & Mair, 2016) to necessity-based start-ups that may never gain institutional legitimacy (Webb, Bruton, Tihanyi, & Ireland, 2013). Thus, the experience of the entrepreneur is not only different from paid employment but is also different between entrepreneurs.

There is some evidence that on average entrepreneurship leads to higher cognitive evaluations of well-being, for example, job and life satisfaction. For example, utility derived from the independence associated with self-employment increases job satisfaction (Benz & Frey, 2008). Advanced matching methodologies allow ruling out systematic differences between entrepreneurs and paid employees (e.g., in demographic, income, and health variables) by creating counterfactual comparison cases. Such studies demonstrate higher life satisfaction among entrepreneurs (Binder & Coad, 2013; Kautonen et al., 2017). However, some contingencies are important to note.

Necessity entrepreneurs tend to experience lower well-being than opportunity entrepreneurs (Stephan, 2018). Cross-country comparisons suggest that institutions hostile towards entrepreneurship negate any positive relationship between

well-being and entrepreneurship (Fritsch, Sorgner, & Wyrwich, 2019). Previous entrepreneurial experience also plays a role in well-being—inexperienced entrepreneurs have more difficulty recovering from day-to-day job stress (Kollmann, Stöckmann, & Kensbock, 2019). Perceptions of firm performance, either financial (e.g., Laguna & Razmus, 2019) or social (Kibler, Wincent, Kautonen, Cacciotti, & Obschonka, 2019) also enhance or impede well-being. Poor firm performance is also emotionally taxing (Shepherd et al., 2009) and impedes an entrepreneur's autonomy (van Gelderen, 2016).

Autonomy is a key component of positive psychological functioning (Ryff, 2019) and fundamental to entrepreneurship (Covin & Wales, 2019). The autonomy of entrepreneurs allows a great deal of latitude in what tasks they perform (Baron, 2010). For example, Craig Newmark the founder of Craigslist remained in a customer-facing role instead of becoming chief executive. A prevailing theme in the work design literature is that individuals place great value on autonomy and utilizing their skills (Parker, 2014). Entrepreneurs generally score high on need for achievement (Frese & Gielnik, 2014) and find many opportunities to fulfill this need inside their firm (Baron & Henry, 2010). Thus, so long as entrepreneurs retain autonomy and focus on tasks they enjoy, they can fulfill other key psychological needs that lead to higher assessments of well-being (Shir et al., 2018).

However, autonomy in entrepreneurship is not guaranteed (van Gelderen, 2016; Van Gelderen, Shirokova, Shchegolev, & Beliaeva, 2019). Entrepreneurs are typically portrayed as the archetypical 'lone hero', but in practice, they are beholden to their stakeholders, including investors, customers, employees, and external regulators. The entrepreneur's ability to focus on autonomous and enjoyable tasks is largely contingent on their ability to manage these relationships effectively. As firms mature, the role of the entrepreneur evolves (Mathias & Williams, 2018) and they become increasingly dependent on finding the right people to fill roles within the firm (Forbes, Borchert, Zellmer-Bruhn, & Sapienza, 2006). Entrepreneurs also face issues like conflict with early investors (Collewaert, 2012), conflict with family (Carr & Hmieleski, 2015), and corrupt regulators (Baron, J. Tang, Z. Tang, & Zhang, 2018). In sum, the entrepreneur's stakeholders influence the entrepreneur's well-being. Next we highlight that this relationship is reciprocal—the entrepreneur also plays an important role in the well-being of their stakeholders.

## Well-Being and the Stakeholders of Entrepreneurial Firms

Entrepreneurs at the helm of successful new ventures have a widespread impact (Coad et al., 2014). They are a key driver of job creation (Haltiwanger et al., 2013), and change the nature of work by pioneering innovative practices not found in established firms, such as unlimited vacation (e.g., Netflix) and work time allocated to pursue passion projects (e.g., Google). Compassion-driven entrepreneurs

introduce innovative business models focused on helping those in need (Miller, Grimes, McMullen, & Vogus, 2012), such as creating meaningful work for those who are marginalized through work–integration business models. Family-owned firms provide opportunities for the current generation of family members as well as subsequent generations (Shepherd & Zacharakis, 2000), potentially in perpetuity (e.g., Wegmans). As such, the impact of entrepreneurship on well-being extends beyond the entrepreneur, impacting numerous stakeholders as well (cf. Wiklund et al., 2019). Next, we discuss this impact on the new venture employees, family members, and society at large.

Entrepreneurial firms are intimate environments (Ensley, Pearce, & Hmieleski, 2006). As opposed to established firms with large bureaucracies, work at new ventures is largely defined by the preferences of the entrepreneurs (Baron, 2010). Thus, the experiences of those working within a new venture—the entrepreneurial workforce—are unique and idiosyncratically shaped by the needs of the firm and its founder(s) (Aldrich & Ruef, 2006). The imprint on the firm left by the entrepreneur is significant but can be a double-edged sword in terms of employee well-being.

There is ample evidence that the behavioral traits of leaders impact the well-being of their subordinates in both positive and negative ways (Inceoglu, Thomas, Chu, Plans, & Gerbasi, 2018). These impacts are amplified in new ventures due to their lack of formality (Sine, Mitsuhashi, & Kirsch, 2006) and human resources functions (Rauch & Hatak, 2016). For example, the entrepreneur can help employees find meaning and personal growth in their work, key components of eudaimonic well-being (Keyes et al., 2002), via charisma (Arnold, Turner, Barling, Kelloway, & McKee, 2007) and passion (Cardon, 2008; Hubner, Baum, & Frese, 2019). However, dark personality traits, such as narcissism, can be prevalent among entrepreneurs (Hmieleski & Lerner, 2016), and they can fuel toxic work environments, which inhibit employee well-being (Mathieu, Neumann, Hare, & Babiak, 2014). Such toxic work environments are often only resolved after the founder is removed from the firm, highlighted in cases like Uber and WeWork.

There is also a strong link between the work of the entrepreneur and their families' well-being, especially when their firms incorporate family members directly, be it as co-owners or supporting family members (Miller, Wiklund, & Yu, 2019; Nordstrom & Jennings, 2018). Similarly, research on the work–family interface of entrepreneurs whose businesses are not co-owned by or employ family members suggest a potential for work–family conflict as well as enrichment (Nguyen & Sawang, 2016). The potential for conflict arises from entrepreneurs' varied work demands, for example, long work hours or use of family assets to secure business loans. Work–family enrichment is not as well understood and accounts often focus on the social support provided by family members (see Stephan, 2018). Yet the benefits might be broader, for instance, family duties can increase employee's focus at work (Dumas & Perry-Smith, 2018), suggesting that the entrepreneurs' family might also be an indirect source of firm productivity.

Entrepreneurship impacts society by contributing to economic growth (van Praag & Versloot, 2007). However, the scope of these benefits remains an open question (Wiklund et al., 2019). Some evidence suggests that small and medium-sized ventures are partially responsible for growing wealth inequality (Carney & Nason, 2018), while others highlight that entrepreneurial firms reduce wealth inequality by breaking down monopolies and spreading opportunities across more individuals (Packard & Bylund, 2018). At the same time, entrepreneurial firms can also stimulate positive social change through the mitigation of health and social inequalities, increasing the well-being of individuals and communities beyond their firms' boundaries (Stephan et al., 2016).

### Future Research: The Entrepreneur

Research concerning entrepreneurship and well-being is steadily increasing, although much remains unknown. As highlighted earlier, the majority of studies thus far assess the subjective well-being of the entrepreneur (cf. Stephan, 2018) and may be a key reason for mixed results regarding whether entrepreneurs are happier than those in paid employment. Entrepreneurship can offer substantial autonomy yet is demanding and stressful. The balance between autonomy and demands shifts over time as the firms grows, relationships with new stakeholders are formed or existing relationships renegotiated. For instance, investors often seek controlling shares in new firms thereby limiting entrepreneurs' autonomy; they will force particular strategies upon the entrepreneur especially during times of setbacks that may threaten their investment (Reymen et al., 2015). In other words, entrepreneurs' levels of hedonic and eudaimonic well-being may wax and wane depending on the inner and outer workings of their firms. More generally, ups and downs are common during the venturing process, which hardly ever has a linear trajectory (McMullen & Dimov, 2013). Yet research on entrepreneurs' well-being hardly considers such dynamics. Future studies can better illuminate the impact of the entrepreneurial process on the well-being of entrepreneurs and their stakeholders over time (Lévesque & Stephan, 2019).

Adaptation theories (cf. Brickman, Coates, & Janoff-Bulman, 1978) of well-being might be particularly suited to provide insights into the ups and downs of the entrepreneurial process. Hedonic or potentially eudaimonic (Waterman, 2007) adaptation highlights that the effect of a major life event on well-being wanes over time. Similar to Brickman and colleagues' (1978) findings on lottery winners and accident victims where changes in well-being due to major events were temporary, the highs (lows) from entrepreneurial success (failure) are likely to be temporary in nature and dependent on how entrepreneurs appraise these events (Jenkins et al., 2014). Adaptation may also lead to self-reinforcing processes. For instance, entrepreneurs may adapt to the well-being 'highs' they derive from achievements, influencing their hedonic baseline (Diener, Lucas, & Scollon, 2006).

This may lead them to seek out ever-greater challenges over time to experience personal growth and happiness, ultimately leading to exhaustion.

Next, the entrepreneur's role within the firm changes as the firm grows (Mathias & Williams, 2018; Wiklund et al., 2003). This change has upsides and downsides for the entrepreneur, in particular along the well-being dimensions of competence and relatedness. For example, the expansion of available resources is likely to enhance an entrepreneurs' ability to deliver their product or service. However, as the firm grows the entrepreneur has little choice but to delegate, which could be challenging (Wiklund et al., 2003) and turn them from doing the actual job to managing others (Kuhn & Galloway, 2015). Thus, their sense of mastery and competence may be reduced as the firm expands (Wiklund et al., 2003). As the firm grows, it must also professionalize (Flamholtz & Randle, 2012), and many entrepreneurs believe that growth will impede the sense of familiarity within the firm (Wiklund et al., 2003), which could reduce their sense of relatedness with other employees. In fact, the fear of losing that level of relatedness within the firm is the single most important factor that deters entrepreneurs from wanting to expand their businesses (Wiklund et al., 2003).

### **Future Research: Stakeholders**

Although employees are critical to the success of a new venture, virtually nothing is known about the entrepreneurial workforce and more specifically, their well-being and how that may be influenced by the entrepreneur's well-being. Given the small size of most firms, especially in their infancy, the behavior of the entrepreneur is likely to have a direct impact on the well-being of employees. As highlighted earlier, the experience of working within a new venture is a distinct context and offers several important avenues for exploration, including influences from the characteristics of the entrepreneur, from the nature of job design, and from that of the performance and direction of the firm.

First, the attributes of the entrepreneur permeate throughout the firm, and often with a lasting effect. For example, previous studies highlight positive relationships between narcissism and firm performance (Wales et al., 2013). However, as noted by Miller (2015), what is positive for the firm, may not be positive for all stakeholders. Evidence suggests that the effects of narcissistic leadership on followers is dependent on how 'close' followers are to those leaders. For employees with more opportunities for direct observation, narcissistic leaders have negative impacts on employees (Nevicka et al., 2018). This suggests that entrepreneurs who exhibit the 'dark triad' traits (Hmieleski & Lerner, 2016) are likely to inflict psychological harm on the people around them especially those that they are in direct contact with. Furthermore, new ventures vary in the quality of the human resource practices (Rauch & Hatak, 2016), leaving employees further exposed to poor and even abusive behavior, such as seen at Uber (Edelman, 2017). Future research in this area can advance entrepreneurship research while



also contributing to the rapidly emerging research on leadership and well-being (Inceoglu et al., 2018).

Second, entrepreneurs not only craft their own job but also design the jobs of their employees. Future research could usefully draw on research on work characteristics, which are an important influence on employee well-being, innovation, and performance (Parker, 2014). Research on how entrepreneurs are designing the work of their employees would contribute both to research on entrepreneurship and stakeholder well-being, as well as offer new insights to work design research, which only very recently has begun to investigate how laypeople design work. On one hand, research on work design shows that those without dedicated training in this area privilege individual extrinsic incentives and rewards instead of designing intrinsically motivating work (Heath, 1999; Parker et al., 2019). On the other hand, reports in the media suggest that work design in a new firm can have intrinsically motivating features such as giving employees autonomy, flexibility, and challenging tasks. Due to their lack of legitimacy, small and young firms may have to offer such enriched work to attract talent. Moreover, smaller firm size means that there is ample opportunity for employees to utilize a variety of skills due to lack of specialization and division of labor that typically can only be created when firms grow. In sum, research is needed to advance our understanding of on the nature of good work design in the entrepreneurial firms.

Third, studies suggest a strong link between perceptions of fairness and well-being (Ford et al., 2018). This is likely to be the case of highly successful start-ups—where the distribution of stock options can yield astronomical wealth for those who obtain them. Yet employee well-being may be more effectively stimulated through enhancing employees' perception of participation in organizational decision-making, which is the critical ingredient through which employee ownership schemes (including stock options) impact well-being (Weber et al., 2019). This is not only an underexplored area of research but is also a practically relevant one for new firms where resources are limited. Moreover, equal distribution of ownership across the firm might not have the expected effects either as such structural mechanisms do not necessarily translate into perceived participation opportunity and thus fairness for employees (Weber et al., 2019), for example, when interests of minority employees get sidelined. The related aspect of pay inequalities within new firms also lack systematic study. Pay inequalities within new firms might be large as entrepreneurs see them as an effective way of motivating employees. However, the effectiveness of such inequalities in motivating performance and enhancing employee well-being is far from clear and can be negative (Breza et al., 2018)

Fourth, entrepreneurship has positive and negative implications for society as a whole. For example, some of the most successful start-ups within the last decade ushered a new era of connectedness via social media platforms, bringing with it public criticism on the very nature of entrepreneurship and their power. Indeed,

platform-based new firms such as Taskrabbit and Uber create self-employment, the nature of which has been alternatively lauded as a new avenue to self-realization and flexible work or as precarious work where the pressure to obtain positive ratings lead to free labor, low pay, and diminished well-being of the platform workers (Prassl, 2018).

## Conclusion

Finally, should well-being be used as a metric for success? Entrepreneurs value their own well-being and that of their employees, and consider both as indicators of their success (Wach et al., 2016). Thus, future research could consider entrepreneurs' and employees' well-being alongside economic firm performance (e.g., profitability, market share, revenue, and employee growth) to offer a more holistic understanding of performance in line with what matters to entrepreneurs. Research is needed to explore when and how the two align and diverge. Interventions to support micro-entrepreneurs have already started to apply dual metrics of well-being and financial performance. For example, a randomized control trial showed that a microcredit intervention increased the financial performance but not the well-being of entrepreneurs (e.g. Karlan & Zinman, 2011). One reading of these findings is the need to pay attention to the type of well-being. The intervention might have raised the aspiration of the entrepreneurs, and thus, they do not necessarily feel happy and content (hedonic well-being) but now start to strive for fulfillment and eudaimonic well-being. Efforts to assess the social impact of enterprises through the well-being of beneficiaries may meet similar challenges. For instance, social enterprises that empower their beneficiaries to lead lives that are more autonomous and to make their own choices may appear unsuccessful if their social impact is accessed through beneficiaries' life satisfaction (hedonic well-being). Indeed, empowerment may enable these beneficiaries to question their life situation and to strive for personal growth instead of being content with what they have (Mair et al., 2012). Moreover, if well-being is used as a success metric, we also need to devote more research attention to understanding the processes and consequences of entrepreneurs' well-being for their stakeholders and their firms.

## Disclaimer

We have no known conflicts of interest to disclose.

## Note

1. Seligman (2018) offers a combination of the two approaches via the PERMA (Positive Emotion, Engagement, Relationships, Meaning, and Accomplishment) model.

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