

# The Impact of Span of Control on Entrepreneurial Entry

Vincenzo Mazzotta  
Lumsa University, Rome, Italy  
Email: v.mazzotta@lumsa.it

**Abstract**—Does the level of span of control affect entrepreneurial entry? In this paper, we aim at investigating an individual contextual factor – span of control - affecting entrepreneurial transition. Following existing literature on entrepreneurship and organizational change, we expect to find out that the level of span of control, i.e. the number of workers who are directly coordinated by a supervisor in an organization, positively influences the supervisor tendency to become an entrepreneur. Furthermore, this impact is positively moderated by a CEO position.

The increase of span of control will increase the innovation in the organization by reducing the hierarchy and rigidity in the organization. At the individual level, higher is the level of span of control and higher is the motivation of the individual to act proactively and to set an entrepreneurial orientation, thanks to the chances to experiment different and deviant behaviours

The contribution of this research deals with the possibility to improve the ways to detect potential entrepreneurs in an organization and to set a series of tools to avoid that the best talents may leave the company and may reduce the level of competences in the organization.

**Index Terms**— Span of Control, CEO position, Entrepreneurial transition

## I. INTRODUCTION

The phenomenon of start-up companies and new business formation has stimulated a strong interest by economists and sociologists because it is strictly connected to social mobility since entrepreneurship and self-employment permit people to accumulate wealth.

Entrepreneurial entry, or likelihood or propensity or mobility or entry [1] is defined as the decision made by an individual to found or to lead a new venture [2]. It could be considered an employment choice. The most number of entrepreneurs are those with previous employment experience [3].

Our research starts from the consideration that the phenomenon of professionals starting their own businesses is increasing [4]. We can recognize two different perspectives that have tried to give an answer to the above mentioned issue: on one hand, the contextual approach argues that the social position of the individual in the environment influences his propensity for entrepreneurial activity [5]; on the other hand, the

dispositional approach underlines that the causes for starting an entrepreneurial activity deal with motivational and personal reasons: entrepreneurship is considered a transitory characteristic, a tendency of certain people with different personal characteristics [6] and an aim which leads to different forms, in terms of different recognitions of opportunity and different ways of exploiting them. The basic intuition of the contextual approach is that the position in society is the main driver of an entrepreneurial decision; in this approach, personal features are not considered or, better, are considered as negligible. In details, the most important sociological features that have been investigated in literature are: cultural environment [7], family origins [8], social network [9], workplace interaction [10]. Some authors have identified social and environmental factors affecting entrepreneurial entry: for examples transition is more likely in period of economic growth [11], in small size institutional context [12] or in less welfare supported environment [13]. An existing organization negatively affects the likelihood of an individual to become entrepreneur, since an organization lives for its survival and continuity, pretending commitment and focus of employees at the prescribed objectives. Moreover, bureaucracy in the organizations negatively affects the mental dispositions of their employees by reducing their likelihood to transit to entrepreneurship and by hindering the development of the skills necessary for an entrepreneurial experience [14]; finally, an organizational pre-determined career increases the opportunity cost to quit and move to an uncertain working path. This circumstance appears critical in big companies where career path is less dependent on personal and informal relations and more relied on objective performances and fixed rules. Transition appears influenced by the characteristics of the organization in which an individual works, since working in a big company, for instance, reduces the possibilities to interact with the external environment and increases the relationships within the organizations, thus reducing the entrepreneurial temptation. Moreover, older companies rely more on routines and procedures than on informal behaviors, so that reducing the practice of innovation and change for employees and this negatively affects people transition to entrepreneurship. Finally, older companies are less prompt to innovate and this circumstance negatively impacts the attitude of workers to deviate from prescribed routines and their attitude to change [15]. On

the other hand, higher is the position in the organization, higher are the possibility to acquire an entrepreneurial orientation mindset and a proactive strategic approach, since the possibilities to interact with the external context and to work in a not structured way, without following routines and procedures, are higher [16].

As far as macro level factors are concerned, some authors have sought out a series of social and environmental factors which influence entrepreneurial entry: for instance, managerial transition increases in periods of economic growth [17], in small size institutional context [18] or in less welfare supported environment [19].

The opposite perspective, the dispositional one, states that personal characteristics are the only ones which, apart from the social aspects, influence (i.e accelerate or retard) the entrepreneurial decision. Arguably, these characteristics and traits are considered key component in entrepreneurial transition. Some personal features recognized by scholars are: risk perception [20], entrepreneurial ability, personality variables [21] and perceptual variables [22].

#### *A. The Influence of Span of Control on Entrepreneurial Transition.*

In the Organizational Literature, span of control is defined: “the number of workers who are directly coordinated by a supervisor in an organization” [23]. This concept doesn’t take into consideration the hierarchical level of the supervisor, but only accounts for the resources guided, without distinguishing between full-time or part-time job. The increase of the level of span of control positively influences supervisors to delegate activities and to identify clear strategies (transparency of information) and to better select the collaborators, in terms of autonomy and empowerment. The disadvantages of a high level of span of control are the risk of decisional bottle necks about the supervisor and the risk that the supervisor may lose the control of his collaborators.

A high level of span of control requires a selection of high quality managers, to let the advantages of this kind of organization to overcome the risks and drawbacks of delegation.

Ceteris paribus, a low level of span of control organization implies a taller organization (in terms of hierarchical levels); while a higher level of span of control means a flatter organization. This means that it exists a reverse relation between the level of span of control and the number of hierarchical levels in an organization. Therefore, lower levels of span of control determine higher costs for an organization and higher complexity in terms of the flows of communication among the various levels of the structure.

Some studies have demonstrated that a flat organization is more effective about the information circulation from the top managers to the lower levels of the organization [24]. Another stream of research has identified a positive impact of decreasing levels of span of control on a series of variables: job satisfaction, level of satisfaction among patients in the healthcare industry, reduction of organization turnover [25]. Other studies [26]

have underlined that any organizational structure may have advantages and disadvantages for an organization.

Higher is the standardisation of job and more convenient is to increase the level of span of control. More complex is the job and more talented are the human resources and more convenient is to increase the level of span of control. Less talented and motivated are the resources and more appropriate is to reduce the level of span of control in order to control the performance and not reduce the quality of the output.

The tendency of organization to reduce the hierarchical levels and to make organization flatter is common and it depends on the introduction of new technologies and on the velocity of changes in the external environment, which requires higher flexibility in an organization and a higher capacity – at a decisional and operative levels - to quickly respond to the challenges and turbulences coming from the external environment.

Moreover, Hatrup&Kleiner since 1993 [27] have underlined the tendency of the organizations to reduce the number of intermediate hierarchical levels. Finally, since in last few years the businesses tend to be more knowledge-based, the model of information circulation in the organizations will be more based on a multi-directional approach which allows all the stakeholders to better control company’s performances.

The classical theories have agreed on the conclusion that an optimal level of span of control is comprises between 8 and 12 units [28]. The recent theories agree that an average optimal level of span of control may be rounded between 15 and 20 units.

This average range is influenced by a series of contextual variables, such as the characteristics of the organization, the industry, the geographical context, the managerial and operative skills and competencies, the nature of the industrial processes, etc; the complexity of these influences may it difficult to set up a general optimal range of span of control in an organization. Finally, new technologies increase the optimal level of span of control because it makes easier and reduces the costs of performances’ distant control and self-control and it allows to increase the level of task discretion increasing empowerment without jeopardizing the level of productivity.

Many researchers advocate the importance of flatter organization to reduce the complexity and bureaucracy of the organizations.

The level of span of control encompasses a series of implications at an individual and at a firm level: at a level of the supervisor (individual level), the increase of the level of span of control will affect the supervisor level of competences to cope with the organizational complexity positively. Moreover, a supervisor despite his hierarchical level, will be more involved in coordinating human resources than in accomplishing operative tasks, by widening the spectrum of competences. At a level of the collaborator, the increase of span of control increases the worker’s wellness, because he could perceive a lower control by his supervisor. On the contrary, one of the worse aspects of a high span of control is a sense of

stressful guidance which limits the feeling of independence and empowerment. The increase of span of control increases the engagement of workers and the relational trust climate in an organization. Collaborators feel themselves important and empowered by the supervisor and they increase their job satisfaction and their career expectations.

The disadvantages of low span of control are: the tendency of the supervisor to be too involved in operative activities, the increase of hierarchical levels, the increase of organizational complexity and costs for the company and the higher distance between the Top Management and the operative units. The increase of span of control enhances the level of activities delegation, to identify clear strategies (transparency of information) and to better select the collaborators in terms of autonomy and empowerment.

At a firm level, the increase of the level of span of control will increment the efficiency and the level of empowerment of the organization [29]. Moreover, *ceteris paribus*, the increase of span of control will reduce the notches of the organizational chart while the decrease of span of control will increase the notches of the organizational chart, positively affecting complexity and bureaucracy.

The average level of span of control also impacts on the quickness of the decision making process and on the costs of the organizational structure (in terms of bureaucracy and efficiency).

A flatter organization, at a certain level of workers, can bring the following advantages:

- To speed up the decisional processes, thanks to lower numbers of approvals for any request; this allows companies to respond quickly to the business issues and to the turbulences which come from the market.
- Quicker communication between higher-level managers and staffers and a higher knowledge of the strategic objectives by the staff and higher control of top management on the operative activities of the firm.
- Lower costs for the lower presence of middle managers in the organization.

The increase of span of control will increase the innovation in the organization by reducing the hierarchy and rigidity in the organization. Moreover, a flat organization will implement less procedures and less standardised processes; this will reduce the application of routines and will increase the capability of the organization to adapt to the rapid changes of the external environment. In this kind of context, it increases the entrepreneurial orientation of the employees who will be more prompt to propose changes and innovation in the processes and ways to accomplish tasks, since they feel themselves more autonomous and less controlled by the supervisors.

The increase of span of control reduces the repetitiveness of behaviours; this circumstance favours the adoption of innovative and proactive behaviours, which are typical of entrepreneurial contexts; this is why lower is the bureaucracy in an organization and higher

will be the propensity of a worker to transit to entrepreneurship; on the contrary, higher is the repetitiveness of the worker's tasks and power will be the individual propensity to become an entrepreneur. This circumstance can be explained at a both cognitive and motivational levels: at a cognitive level, the repetitiveness of organizational behaviours and the rigidity of the organization and of the procedures let the employee to perceive limited possibilities to engage and to improve and innovate his activities; on the other hand, the increase of autonomy and discretion will let the individual to recognize and disclose improvements areas of his activity.

At a motivational level, higher is the level of span of control and higher is the motivation of the individual to act proactively and to set an entrepreneurial orientation, thanks to the chances to experiment different behaviours (deviating choices).

Flatter organizations, indeed, tend to have a more entrepreneurial approach which stimulate employees to mind (cognitive level) and to act (motivational-behavioural level) in an entrepreneurial manner. Moreover, the capacity to pursue a creative and innovative idea – that is not only to mind a good idea but also to move resources to implement that – is strongly influenced by the organizational context.

In particular, Dobrev and Barnett [30] have demonstrated that the pursuit of an innovative idea is simplified by the presence of an informal and fluid working environment, which embodies a lower level of bureaucracy and rigidity. Moreover, an empirical study made in 2013 [31] has proven that in an organization, in case the supervised workers are more competent, they need a lower level of control and supervision from the direct coordinator and tend to be more motivated and proactive: in those contexts, the level of span of control tend to be higher; another finding of this research deals with the confirmation that a more capable and experienced supervisor, who has an higher knowledge of the activities to be made and of the characteristics of his collaborators may lead more people effectively, by increasing the level of span of control. Entrepreneurial transition requires higher capabilities of an individual to assume many different and flexible behaviours; since the increase of the level of span of control enlarges the heterogeneity of a working team, it requires more capability of the supervisor to vary his behaviours in order to optimize the level and the quality of interactions in a team. Finally, the raise of span of control reduces the possibility of a hierarchical career development, measured in terms of hierarchical steps in the organizational chart.

Other authors argue that an existing organization negatively influences the individual tendency to become an entrepreneur because an organization lives for its survival and requiring the commitment and focus of the workers on the predetermined objectives [32]. Moreover, bureaucracy in the organizations negatively influences the mental disposition of workers to shift to the entrepreneurial transition and reduces the development of the skills needed for becoming an entrepreneur [33];

about the cognitive level, this condition leads to reduce the perceived expected value derived from the decision to transit to entrepreneurship. Therefore, working in the same company increases the rigidity of the worker to live in a comfort zone and to repeat the same behaviors. Other researchers have demonstrated that, since the entrepreneurial behavior requires a variety of behaviours, attitudes and tasks to accomplish less the individuals undergo repetitive activities and limited amount of knowledge and behaviours, more they are prompt to become an entrepreneur [34]; moreover, job mobility positively influences the individual risk attitude since the cost opportunity of leaving a predetermined career path is lower. This is why belonging to big companies increases the opportunity to shift from a defined career path to a more uncertain and risky professional path. Finally, Job Mobility increases the interactions with the external environment and this circumstance positively stimulates the entrepreneurial temptation.

The circumstance that Job Mobility may increase individual weak ties is fundamental to arise his opportunities to improve his career; the basic logic of Heider's balance theory [35] is that strong ties connect people who are similar and weak ties connect people who are different. Therefore, an individual may contact persons of higher status only via weak ties. For these persons, weak ties offer a chance to contact someone of a status outside the status range of their own network.

The increase of diverse working relations may increase the individual capability to interact with different working contexts; this kind of people may have a strong tendency to learn, to change and to improve and they are less influenced by rigidity of organization routines.

We may argue that the increase in job mobility will foster the tendency of the individual to be flexible and to adapt to external environments. Finally, an increase in job mobility will increase the access of the individual to a series of information, thanks to the boost of his personal network and relational ties.

So, higher is Job Mobility, higher will be the level of individual network of worker which represents an asset which may positively influence his decision to become an entrepreneur.

All this premised, we can formulate the first hypothesis:

*Hypothesis 1: Span of Control positively influences the entrepreneurial transition.*

## B. CEO Position.

Many studies have underlined that the hierarchical position in an organization has a room in explanation of the phenomenon of entrepreneurial transition [36]. The transition to entrepreneurship is positively influenced by the characteristics of the activities in which an individual is involved; therefore, we guess whether, in the proposed model, the CEO position may moderate the individual propensity to entrepreneurship thanks to the increased possibilities of interactions with the external environment and the augmented chances to interact with innovative contexts, which may stimulate his entrepreneurial temptation. Since entrepreneurial organizations embody

three main characteristics: innovation, risk-taking and proactivity [36] the CEO position allows to exploit the acquired expertise and the professional network for the decision to become an entrepreneur.

CEO are able to detect, create and exploit opportunities and to motivate their collaborators in a more effective way than other people. This entrepreneurial behaviours occurring in an organization positively influence the probability that a CEO may quit and decide to start a new venture.

It has been demonstrated that CEOs spend many time to promote and facilitate the integration and alignment of the team [37]. In a Top Management Team, it exists a positive impact of span of control on the level of CEO engagement and CEO attention on internal relations in the team [38]. This leads a CEO to develop and reinforce a series of managerial competences about the human resources management which may be useful for engaging in a new entrepreneurial venture. Moreover, higher is the Top Management Team size and more is the time that CEO commit to take part to meeting with diverse team in order to increase the alignment of the staff.

These impacts are based on cognitive and motivational reasons. At a cognitive level, many researchers have demonstrated that CEOs who become entrepreneurs expect that the profit got by the new venture will overcome all the costs associated with the decision to transit to entrepreneurship. This threshold depends on the level of the risk and the opportunity cost suffered by the manager who transit to the new working status [39]. At a motivational level, a managerial position makes people more confident about their potential and their capability to accomplish engaging tasks and to cope with complex projects. Finally, other authors [40] have demonstrated that the access to information and the level of interaction with the external environment positively influence the decision to become an entrepreneur. Furthermore, these scholars have demonstrated that the level of interaction is positively affected by the hierarchical position hold in an organization; this means that a CEO may have more chance to access to a series of key information for transit to entrepreneurship.

All this premised, we can formulate the first hypothesis:

*Hypothesis 2: CEO position positively moderates the impact of Span of Control on entrepreneurial transition.*

## II. DISCUSSION AND IMPLICATIONS

This study contributes to the literature by conducting a novel investigation on the role of Span of Control on the phenomenon of entrepreneurial transition. Moreover, previous studies, following the contextual approach, have been focused on the effect of organizational characteristics: employer's age, size, industry or employee organizational position [41] without considering as independent variable the level of Span of Control. This study tries to extend these two literatures introducing also a multilevel perspective in understanding factors contributing in entrepreneurial transition.

Organizational variables alone do not sufficiently explain the dynamics of transitions [42]. The nature of all the variables, different in nature, and how they could explain the phenomenon of transition is still relatively unknown. This is why the link between organizational behavior variables and entrepreneurship may help to better understand the complex phenomenon of individual career in the long term.

From an empirical perspective, these results confirm that an increasing level of span of control increases the likelihood of being nascent entrepreneur because it develops a series of relational and personal skills which may be relevant in influencing the decision to becoming an entrepreneur.

These findings could have important implications also for practitioners. May try to propose actions (training programs, educational programs, etc.) to stimulate manager to design new forms of organizational structures, in order to comply with the deep expectations and ambitions of employees – for instance the organic model – in order to balance the advantages of structured organizations with the flexibility of new models.

These findings have also implications for organizational leaders in order to figure out actions and plans to avoid that higher levels of Span of Control could stimulate the decision to transit to entrepreneurship, thus weakening the human capital of a firm. Moreover, despite the common tendency of organization to downsize their structures, by reducing the chain of command and by expanding the level of span of control, the relationship between span of control and employee satisfaction or performance is still under investigation because the results are still not consistent.

Finally, organizations which want to enhance the entrepreneurial orientation of their personnel can design structures and incentives in order to cultivate an entrepreneurial climate and corporate entrepreneurship.

This study, of course, has some limitations. First, due to the fact that the initial entrepreneurial stage is more uncertain than an established and mature one, uncertainty on results could have an impact on this stream of research. Secondly, the need to test the hypothesis in other geographical context or to make trans-national comparisons seems important in order to reinforce the robustness of the research and of the findings gathered.

Finally, this study could be a starting point for future investigations: it could be a way to go deeper into the analysis of the foundations of entrepreneurship and on the analysis of the rationale of the process from the entrepreneurial intention to the entrepreneurial entry. To broaden the understanding of the phenomenon, it should be interesting to look beyond other variables as moderators, for example work experience, industries, level in the organization.

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**Vincenzo Mazzotta PHD MBA** is an Adjunct Professor of Business Management and Financial Management & Markets at Lumsa University (Rome). He also teaches Financial Management at the University of Arkansas Rome Center.

His research interests deal with the foundations of entrepreneurial intentions, considering both the dispositional and the contextual approaches. He also studies the strategic decision making process and the impact of personality traits on organizational behavior.