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REWARDS AND INNOVATION IN NEW VENTURES (INTERACTIVE PAPER)

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≈ INTERACTIVE PAPER ≈

REWARDS AND INNOVATION IN NEW VENTURES

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Principal Topic

Employees belong to the most critical resources for any organization (Aldrich & Ruef, 2006) and most entrepreneurs and new ventures rapidly face issues of attracting, motivating and retaining employees. It is generally acknowledged that base pay and other financial rewards are not the only driving force behind employee behavior, meaning that other rewards that reside in the employment relationship and the nature of the work are considerable motivators as well (Bloom & Milkovich, 1995; Guest, 1999). Rewards are supposed to affect different kinds of motivation, namely extrinsic and intrinsic motivation. Non-monetary rewards will create a better working climate that is related to higher intrinsic motivation, increased creativity, and therefore higher levels of innovation. Furthermore, new ventures often offer variable incentive compensation in addition to fixed base pay for monetary compensation to their employees. To encourage innovation, it may be necessary for new ventures to induce risk taking (Hayton, 2005). In exchange for accepting higher risk, employees must be given the opportunity to realize higher incomes from variable incentive compensation. This paper investigates the effect of non-monetary rewards and monetary rewards granted to employees on innovation in new ventures.

Method

This study uses survey data collected from new private technology ventures in France. A four-page survey requested information on HR policies and practices and firm characteristics from HR manager of each new venture. We test our hypotheses using regression analysis.

Results and Implications

We find that the non-monetary rewards are positively related to the overall innovation of the new venture. We further find that the non-monetary rewards are positively related to each form of innovation, i.e., product innovation, process innovation and organizational innovation. However, we find that the relationship between variable incentive compensation and the different forms of innovation of the new venture is not significant. The results imply that new ventures which focus on providing non-monetary rewards such as career development opportunities, regular performance appraisals, or work-life balance are more likely to achieve higher levels of innovativeness compared to new ventures which focus on incentive compensation such as cash bonuses or stock-based compensation.

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