Nobody should have to pay an exorbitant rent

RättHyra.nu want to help people who have paid an exorbitant rent for their sublet flat to get back their rightful share of the rent. We run the process to 100% for our clients allowing them to avoid having to face their landlord at the rent tribunal. By taking a share of any disbursement there’s no risk, and if we get nothing back, the customer does not have to pay at all.

Daniel Losinski
Petter Selvehed
Abstract

Rätthyra.nu want to help people who have paid an exorbitant rent for their sublet flat to get back their rightful share of the rent. In Sweden there are 140 000 households that are subletting and approximately 10-15% of them is paying an exorbitant rent. We have noted the general reluctance to not pursue matters like this and throughout 2010 Malmö Rent Tribunal received only 35 cases, which is a clear proof of this. We will help people for a share of potential payback, which means that our customers never have to risk neither time nor money. Our experience in similar cases comes from an event in Copenhagen in 2009/2010 where we represented 43 students och där hyresvärden CBS (Copenhagen Business School) blev skyldig att återbetala nära 500 000 SEK. This brought us the idea that this could be a business due to a similar situation on the Swedish market. Our experience helps us to get back the maximum compensation, which contributes to even greater customer value. Our primary market is university cities where the problem of exorbitant rents is very common. The team consists of Daniel Losinski and Petter Selvehed from the Master's Program in Entrepreneurship at Lund University and Martin Hagforsen who studies his last semester at the Business Law Program at Linköping University with a focus on tenancy law.
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**Business idea**

In Sweden there are 140,000 households that are subletting and they are the victims of the housing crisis. Throughout Sweden, the subletting of apartments is growing rapidly and many are paying high rents. Rent tribunals can be found at eight sites in Sweden and helps with a variety of matters, including rent disputes, and here you can report any exorbitant rent.

To report to the rent tribunal is free but not always that easy. The tenant must begin with a valuation of his apartment and subsequently represent himself in court with the landlord on the other side. The law says that the rent should be in line with the public interest and this requires that you are familiar with the rules and regulations that exist. We know it creates uncertainty about what to do which often leads to that people don’t report.

"There are still many who do not know what rules to apply or you’re in a dependent position, you may rent it from someone you know or you do not want to report because they want to continue renting."

- Elsa Reimer Peterson, operations manager for network jagvillhabostad.nu

Our idea is to help the tenant with this by handling the report, represent them in court and ensure that no legal issues are overlooked. The report and the ruling applies for up to 12 months retroactively. The payment for our representation will be a share of the amount paid back, which means that the customer is also not at risk of losing any money or time on the case. The business model of this type of case is unique and customized so the customer, with minimal effort, should be given the possibility of a fair rent, without having to take a risk on something they are not versed in. The customer does not pay anything if we lose in the rent tribunal so we take any potential risks.

Our primary target group is individuals who lack the knowledge, time and / or commitment to pursue a case on their own. We will focus on individuals but in the long
run also include all accommodations, such as private apartment buildings or student households, where all residents can be included in a class action case.

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**Market plan**

The market in Sweden include individual tenants, individuals and groups living at private landlords as well as businesses, all of which are affected by exorbitant rents. Our focus will be on individuals who are subletting, and below you can see a description of the overall market.

**Description of market**

We will in the first year concentrate on individuals in the major cities of Stockholm, Malmo and Gothenburg as well as student towns such as Lund and Uppsala. These five
cities are the most vulnerable to the housing crisis and therefore we believe that the need is greatest here, plus the team has good knowledge about all these cities. We will engage in Lund and Malmö because of its proximity to Malmö Rent Tribunal and to get a better experience around the processes.

According to Statistics Sweden 2.2 percent of the rent and condominium households are sublet apartments, which is equivalent to 140 000 people. This can be compared to figures from the Malmö Kommunala Bostad AB (MKB) and Lund Kommunala Fastighet AB (LKF), which says that 1.5 percent of their apartments are sublet apartments. We do not know for sure what the difference is due to but one explanation may be the exorbitant rents. Anyone who is subletting may not charge a margin on the rent but exceptions may be made in the event that the apartment is furnished and it is normally a premium of 10-15%. When it comes to condominiums the law says that the rent shall be public, which is difficult for an individual to judge. A common misconception is that a condominium owner is entitled to collect a rent equal to his costs for the apartment, for example association fees and loan rates, but this is not okay. When there are few apartments, many make some money on renting out their apartment, and while in many cities, especially in major and student cities, there is extreme housing shortage, the result is that many charges and accept the huge exorbitant rents.

After the reports were decreasing (halved) between 2004 and 2006, they are now increasing and show a growth trend, at least in Stockholm according to the rent tribunal.

![Graph showing rent trends in Stockholm, Malmö, Göteborg, and total](image-url)
Unfair rent for premises

There are major differences in the handling case of unfair rents for premises compared with those for apartments. In addition, other consequences follow. Does a local tenant experience that he pays a high rent; he shall cancel the rent to a change in conditions. In the dismissal, he shall specify the rent he is willing to pay. Reasonable rent is, unlike the case with residential apartments, a market rent as determined by comparing the equivalent space of the same type in the same locality. A number of parameters such as condition and location are important. Rooms are more unique than apartments, which make them difficult to compare. If the comparison can’t be made by the parties involved the rent tribunal can make this assessment. The landlord can choose not to accept the new rent, with the result that the tenant's contract ends. Is the landlord refusing on reasonable terms and the tenant is terminated, the tenant is entitled to compensation for the loss he suffers from that the contract does not continue. The amount of compensation is determined not by the rent tribunal, but the district court.

All together, this means that we choose not to target local tenants.
The case in Copenhagen has given us good experience in how customers' attitudes are to the service we provide. Following is a summary of comments that we received from those involved in the Copenhagen case, along with our handling of the case.

We have spoken to a number of people who live in sublet apartments and asked what would get them to let someone else deal with a rental case for them. We asked why they chose to pursue the case themselves and got the following response:

- They have a sublet contract with a chance of renewal and a notification would take away the possibility of extension.
- They do not want to end up in disagreement with their landlord as this could terminate the contract early.
• They did not know their rights and how to report.

• They believe they have no chance at the rent tribunal to receive any money.

**Long-term possibilities for revenue**

Franchise - to allow an expansion of operations and future revenues one opportunity is to franchise the concept in foreign markets with similar housing markets such as Sweden.

Actively seeking shared accommodation - active investments in major cases, such as an entire apartment building, where we can bring a class action in the rent tribunal is one approach that generates a more profitable, more effective handling than individual cases.

Competitors to for example BostadDirekt and BoPunkten with fair rent guarantee - our long term experience and the objective of fair rents lead to a mature business where we can guarantee that the landlord takes a fair rent for their apartment to the tenant, this allows for expansion of our business and new revenue channels.

Cooperation with the municipal housing companies - a possible collaboration includes LKF or MKB, which can strengthen our legitimacy and support while they advertise themselves as housing companies that work for fair rents. Collaboration like this is close at hand and would streamline our processes much more.
Industry analysis

The number of cases to the rent tribunal has varied in number in recent years and is largely dependent on the amount of publicity about rents in the media. We feel however that there is no option to appeal their rent that meets client requirements and reluctance to go out in a lawsuit. Below is a brief description of what options you have as a customer.

Operations at the rental and tenancy tribunals

The rent tribunal can mediate disputes between landlords and tenants or between the one subletting and the tenants if the parties themselves can not agree. The rent tribunal also examines certain rents and tenant matters and deal with matters relating to specific management of residential properties. Anyone who buys a property in certain cases require the consent of the rent tribunal to validate the purchase.

The rent tribunal normally consists of three members. The chairman is a lawyer and is called rent council, the other members are so-called interest of members, of whom one is well versed in property management and is familiar with the tenants or tenant-holder relationships. There are eight rent tribunals in Sweden and most of the rent tribunals’ decision can be appealed to the Svea Court of Appeal which is situated in Stockholm.

Other options

There are other ways for people to make a report and enforce their case, but these options often means more work and higher costs. Below are our nearest competitors and alternatives available to us.

The rent tribunal

Individuals can file a claim to the private rent tribunal, this is free but not always that easy. The tenant must begin with a valuation of his apartment and at a later stage represent himself in the rent tribunal, which can be compared with a normal trial, with the landlord on the other side. The rent tribunal is an authority so there is no direct marketing or profit-making, and this is creating additional space for us as an actor. The option of lodging a complaint to the rent tribunal means a lot of work and time and the
fact that having to represent yourself in court do not appeal to everyone. Many do not bother to report because they need to be familiar with the rules and regulations that exist. As much as 90% of the cases ends with a settlement, which means that tenants and landlords meets in their requirements. Statistics show that if one chooses to wait for a subsequent assessment of the rent tribunal board the outcome is generally higher. The rent tribunal, however, is good at convincing the parties to a settlement and this is therefore a situation where our role would bring direct value to our customers because we can negotiate for a fair reimbursement.

The Swedish Union of Tenants

Another organization working for affordable rents are The Swedish Union of Tenants where you can join for an annual fee of 960 kr. They help their members and negotiate with local authority, housing and private landlords that the rent should be set according to the practical value of the apartment, that is, to match the apartment’s quality and standard. This organization is our main competitor and provides support and advice to its members but requires that the “victim” is processing the case and is expected to participate in any litigation at the rent tribunal. The association is a very strong organization with more than half a million members and is clearly our main competitor. The organization does not work retrospectively which means that if the client has not become a member at the beginning, he does not have the same right to advice and support in court. As the target customer for us is mainly students, this is a highly relevant problem because a large proportion are not members of the association and thus lose the right to help from The Swedish Union of Tenants.

Law firm

People can turn to a law firm and make use of their knowledge in the field with associated paperwork and allow them to represent one in court. However, this is a costly alternative and the victims usually gets back a smaller amount of money after the litigation because of the high cost and risk, moreover, the high cost without any guarantee of repayment. This option is possible but nothing that is commonly represented on the market today.
Abstainer

The last option is of course the option to choose none. You pay a high rent but are not familiar with your rights, or there’s no time or energy to take hold of the matter. To reach these people and to also get them to sign a power of attorney is probably an equally tough task to beat the competition.

There are over 140 000 households living in sublet flats, and although there are no statistics on what percentage is paid in exorbitant rent, we know that it’s much and we believe that an estimate of 10% is low. This can be related to the 35 cases at the rent tribunal in Malmö 2010. In Stockholm, 288 cases in 2009, is an increase from 166 complaints in the previous year. Whatever the reason is it shows the enormous resentment that people exhibit to draw the matter further. What we have just described makes us feel that the market has a need for a private operator of such matters that actively assist the victims.
Value chain

The industry today consists of authorities or expensive players. The alternative today is that the victims may take a costly process, or go through the authority themselves this is generally a long process. Our situation and place in the market becomes a much simpler substitute for these players where we do not impose any requirements of our customers more than the background facts and information necessary to assess the reasonableness and to complete the process. Instead of doing all the work yourself or paying the most part to a lawyer, we take a portion of the amount that the customer gets back. This also means that the customer does not need to pay out any money and we bear the full risk. Customer satisfaction is therefore high when the victim does not need to spend some time, no paper work (except to fill out a warrant), not a court visit and no outlay of money, plus, we probably get a better outcome in terms of pure money than if the client pursued the matter on his own.

Market strategy

After examining the various parts of the market, we have found that individuals who live in sublet apartments show the best potential for our business model.

Customers and target segments

The housing market is large and there are different types of homes and they can all suffer unfair rents. Private individuals are an audience that is easy to reach and who are often affected. Housing shortage has led to the effect that many people accept higher rents, but they often do not know on what grounds. Other victims are multiple people living in a shared apartment building and everyone pays for the high rent. In such cases, a class action is entered in which all parties are represented simultaneously. Young people, including students, are a group that does not always know their rights and that will not always cope with the high costs. This target group is often willing to create
justice but do not always know how or are reluctant because of all the paperwork associated with this. In our segmentation, we will initially focus on some of the larger towns and cities, where many students live in sublet apartments. The target audience is primarily people between 18 and 30 years and we believe that this segment both accounts for the biggest share of the market but also a less courted group of our competitors.

**Differentiation**

The differentiation of our offering compared to existing competitors in the market is mainly that we offer a service throughout the process in which the customer does not need to do more than fill out a letter saying that we are handling the matter. We are also available in a simple way and is closer to the market when we are not an agency or large law firm. On the cost issue, we differ also when our customers don't need to pay out money in the process without paying for litigation outcomes and pay the fee, depending on the amount. Being a member of an organization and pay an annual fee that might be of use are often felt a bit strange to the customers that we target towards. With our options, people contact us when it suits them and only pay for results. This, combined with our modern image of channels that reach the target audience does set us apart from our competitors.

**Marketing**

Marketing will later become our strongest competitive advantage. We will be where our main target customers, people between 18 and 30, visible and have a push- rather then pull-strategy.
Protection

It is difficult to create a public protection to the service as everyone has the right to go to the rent tribunal, and all are entitled to pay a reasonable rent. The Rent Tribunal exists for such cases and are available for those affected. Rätthyra.nu are there for the affected, and supplements the implementation of the process to facilitate and take care of all the work. By offering our services and by contributing to charity, our business model to create a temporary protection for potential competitors and distinguish us from existing players in the market.
Other restrictive protection

There is no protection against a service of this kind where individuals can complete the process themselves and offer to help them with this. Personal data will be treated as PUL, and then we will carry out matters with the client’s permission in the form of a letter and it is only this document that must be correctly designed and valid for us to get running processes.

Sustainability

The long-term sustainability of the activity, where the goal is to get rid of the rents in the housing market, is stable as it can remain profitable for the landlord to take over the lease. The “punishment” is relatively low when the landlord only needs to repay the amount plus a relatively low rate (10%). This means that people can take chances and take out the rents with the result that the market is left for us.
hyra prövad. Vi kommer, åtminstone till en början, att välja de case som är mest intressanta och då tror vi att minst var 20:ë:efill ansökan kommer att gälla ett ärende med en potentiell återbetalning på mer än 25 000 kr.

• I de 5 timma, som vi beräknat att förarbetet och värderingen av dessa case kommer att ta, så ingår 4 timmar till att värdera 20 ärenden (10-15 min/ärende) samt 1 timme till samtal och arbete med det aktuella ärendet.
• Vidare räknar vi 300 kronor för telefon och porto för att skicka fullmakt med kuvert till hyresgästen för påskrift.
• Ett ärende hos hyresnämnden är idag ganska standardiserat och vi räknar med en total tid på 2 timmar i rätten.
• Tid för efterarbete inklusive återbetalning och uppföljning beräknas till 1 timme.
• Resultat efter kostnader hamnar då på 5 900 kr per ärende.
• Att gå till hyresnämnden kostar ingenting för en privatperson och eftersom vi kommer dit som representant kommer det inte kosta oss något mer än för arbetet vid en eventuell förlust. Några rättegångskostnader kommer med andra ord aldrig att vara aktuella.
Organization

Management and staff

The company will start as a limited company and will primarily be driven by three people. The ownership of the company is shared equally among the three driving people (see below).

The values that permeate Rätthyra.nu

- Entrepreneurial spirit - determination and drive that with his own commitment to seize new opportunities.
- Social responsibility - creating value and justice for others and contribute to society.
• Business opportunity - the market that is creating an opportunity for a profitable business.

The company's key competences, and be in the knowledge of tenancy law, which largely comes from the experience of previous cases. Furthermore, a large proportion of customer contact to be made electronically, so our marketing and customer contact via the site also becomes important. The company will consist of the following persons:

**Martin Hagforsen** is studying his fourth and final year on the business law program at Linköping University. He has a particular interest in the tenancy law and has written his candidate thesis within this area. Martin also has much practical experience in real estate after working on a few of the largest real estate company in parallel. Martin will be responsible for cases in Uppsala and Stockholm.

**Petter Selvehed** is an entrepreneur with a background in marketing / sales, business development and business. Petter studies in the master's program in Entrepreneurship in Lund and has been involved in many projects, which has given him a wide and valuable network of contacts. Petter is the project manager and will be responsible for cases in Stockholm and Gothenburg.

**Daniel Losinski** has a bachelor's degree in marketing and is an entrepreneur with experience in several of his own company. Daniel himself has been affected by unfair rents, both as an exchange student at CBS in Copenhagen as well as the sub letter in Lund. This experience has given him a good picture of the market and important knowledge of how this process works. Daniel also has a good record of e-marketing. Daniel will be
responsible for cases in Lund and Malmö.

**Summary of skills schedule**

The skills scheme provides the basis of what we share in the team will work with. As for the external parties, we have identified the skills we hope to receive from each person and role.

Our key competencies are a major component of the legal elements and there is Martin a very important and critical resource within the company, even if Petter and Daniel have some expertise in this area. Martin's legal experience is impossible to replace, but would ultimately entail severe costs for both the organization and development.

In addition is our web partner, Arvid Littmark, a very important role and is also the sole of his expertise in web and customer management online. However, this is less of a risk when we take all the material and because this resource is relatively easily replaced.
Genomförande

Nedan följer ett schema på de planerade händelseförloppen under de första kvartalen 2011.


Den vanligaste kontrakts tiden för andra handsuthyrningar är 12 månader och därför beräknar vi att i snitt få skjuta upp ärendet med 6 månader. Därefter tillkommer 2-3 månader för självhanteringen av ärendet samt 1 månad för utbetalning av pengarna från hyresvärden, varför vi slutligen beräknar en fördröjning på i snitt 10 månader.

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Projektmoment

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<td>Alpha Version (Kampanjsida) Release</td>
<td>Marknadsföring för kampanjsida</td>
<td>Identifiera potentiell kunder</td>
<td>Ordna Särskilda Problem från Alpha</td>
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Gannt-schema

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<td>Marknadsanalys/ marknadsföring</td>
<td>Säljaktiviteter</td>
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Marketing Initiatives and Media

In February 2011 RättHyra.nu and Daniel Losinski became nominated for the "Pioneer of the Year 2011" which is a competition designed to stimulate the development of socially, economically and environmentally sustainable enterprises. We were one of ten selected for the finals which consisted of both an Internet vote, where the public could vote, the jury's choice. The result was that we got 1250 votes from the public and thus won the "voice of the people" against the second who had just over 900 votes. In the jury selection, we were not among the top three on the ground that we did not have enough environmental contribution, which was one of the cornerstones of the competition. The results from the public, however, is what matters most to us and is also a testament to the great need and support that exists among individuals in Sweden.

On March 31, 2011 TV4’s business news sent a 2 minute news feature both locally and nationwide where our business and name was highlighted repeatedly. This feature increased traffic to the website www.rätthyra.nu and gave several potential customers. At the same time it contributed to the renewed attention in other media such as Sydsvenskan, Home & Rental and more. This type of publicity is the best for our business and free.
Vår första betalda marknadsföringsinsats kommer att ske i Maj, dels med syfte för att ge underlag om marknad men också till att skapa kontakt med fler kunder. Vi kommer att satsa 3000 kr, 1000 kr på AdWords och 2000 kr på Facebook. Reklamen kommer att riktas till den kampa nj vi kommer att ha på vår egen sida och som erbjuder användaren en gratis värdering av deras hyra. I praktiken innebär det att de lämnar kortfattad info om sin lägenhet och hyra (adress, storlek, antal rum med mera) som behandlas enligt personuppgiftslagen (PUL), varefter vi gör en värdering och återkopplar till användaren. På så sätt får vi möjlighet att bilda oss en uppfattning om marknaden, samtidigt som vi får den inledande kontakten med våra potentiella kunder. De som är intressanta kommer vi att erbjuda våra tjänster till.

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</table>

Vi har beräknat att insatsen kommer att ge oss ca 1650 besökare direkt från annonserna och ca 10 % extra från folk som tipsar varandra. Av de 1650 besökarna på hemsidan uppskattar vi att i snitt var 30:e besökare kommer att nyttja erbjudandet genom att fylla i formuläret. Det skulle ge oss cirka 65 ärenden att följa upp, varifrån vi tror att cirka 15 ärenden skulle vara intressanta att gå vidare med.

Profitability and financing
See attachment 1 & 2.
Styrkor:
• I snitt 85 % effektivare ärendehantering jämfört med om någon driver ärendet själv.
• Vi är självfinansierade vilket gör oss oberoende och flexiblare.
• Vi har en bra närvaro och kännedom inom sociala medier där den allra största delen av vår marknad finns.
• När kontakt med marknaden, eftersom vi alla är studenter och har varit drabbade av överhyra.
• Stor konkurrensfördel i form av att vara ungt, drivet, flexibelt och obyråkratiskt.
• Vi har goda kunskaper inom hyresrätt, framför allt i form av Martin som är specialiserad på området.

Svagheter:
• Vi har inte samma erfarenhet och styrka som vår konkurrent Hyresgästföreningen.
• Saknar tyngden som Hyresgästföreningen besitter, dels i form av 500'000 medlemmar och dels därför att de har en väldigt stor bredd och därmed bli väldigt synliga.
• Har inte kapaciteten för telefonkontakt/support med våra kunder utan räknar med en effektiv hantering på nätet, där kunderna själva kan följa sitt ärende.

Möjligheter:
• Endast en "riktig" konkurrent i form av Hyresgästföreningen. De är dessutom stora och orörliga vilket gör dem väldigt oflexibla.
• Trots att Hyresgästföreningen är en stor konkurrent och en av våra största svagheter (se ovan) så kan vi förhoppningsvis med de inledda diskussionerna om potentiellt samarbete vända detta till våra styrkor.
• Att aktivt söka upp oseriösa hyresvärdar är än så länge obruten mark.
• Om en hyresvärd blir fälld för att ha tagit ut överhyra är den enda kostnaden han får, förutom att betala tillbaka överhyran, att betala ränta på det överskjutande beloppet. Denna kostnad är liten (omkring 10 %) i förhållande till överhyran och ger därför inga stora incitament att inte ta ut överhyra. Med andra ord är det troligt att hyresvärdar kommer fortsätta ta ut överhyra trots många vinnande domar. Detta skulle alltså innebära en fortsatt stor marknad trots goda framgångar i hyresnämnden.
Vår styrka med ett litet och dynamiskt team innebär också ett hot eftersom varje person har en väldigt stor roll i företaget. Att någon skulle lämna företaget skulle vara väldigt kostsamt och tidskrävande att ersätta.

Kunderna drar sig från att anmäla för att inte tappa möjligheten att använda ditt boende som en framtida referens.

Det är i dagsläget låga inträdesbarriärer på marknaden och tills att vi etablerat våra partnerskap kommer vi att vara känsliga för konkurrens.

Risk

Åtgärder/ Hantering

Någon av de tre nyckelpersonerna lämnar företaget.

Drivkraften är en av våra styrkor och svår att ersätta. Se kompetensschemat för hur vi arbetar för att täcka eventuella kompetensförluster.

Dåligt kassaflöde med anledning av långa genomsnittlig "kredittid"

Vårt avtal inkluderar möjligheten att nå en förlikning med hyresvärden redan innan hyresnämnden. Därmed kan vi erbjuda hyresvärden en "rabatt" med 20% mot vår beräknade återbetalning, vilket skulle motsvara vårförändrad arbetskostnad.

Vårt syfte är vår egen undergång

Eftersom en återbetalnings- skyldighet inte innebär någon extra kostnad för en hyresvärd tror vi inte att vårt arbete har en tillräckligt långsiktig påverkan för att stoppa marknaden helt.

Kommunala bostadsbolag tröttnar på att göra lägenhetsvärderingar åt oss, trots att de har skyldighet att göra detta enligt lag.

Vi kommer att arbeta för en nära och god relation med dem för att i möjligaste mån undvika en disput.

Kunderna väljer att säga upp kontraktet

Vi tar ut en administrativ avgift á 500 SEK vid uppsägning i syfte att undvika avbrott.

Då vi aktivt söker upp oseriösa hyresvärdar finns risken vi råkar på någon kriminell.

Vi avsäger oss ärendet vid tecken på hot och riskerar enbart alternativ-kostnaden för att dra vid ärendet.
Risk: Vilken typ av risk är det som menas?

Sannolikhet: Hur stor sannolikheten är att en risk inträffar på en skala mellan 1-5, där 1 är lägst och 5 är högst.

Konsekvens: Vad kostnaden är för inträffad konsekvens på en skala mellan 1-5, där 1 är lägst och 5 är högst.

Sannolikhet x Kostnad: Den totala risken och kostnaden sammanvägd.

Åtgärd: Åtgärder för att motverka/ förhindra uppkomsten av respektive risk.
Attachment 1
Attachment 2
Attachment 3

Rätthyra.nu in Media:

Entreprenörer mot ockerhyror, Skånska Dagbladet
Ett vinnande engagemang, Mittuniversitetet
Pioneer of the Year, poty.se
http://embed.tv4play.se/tv4play/v0/tv4video.swf?vid=1552894, TV4
http://www.hemhyra.se/Sidor/hyreshjalp.aspx, Hem & Hyra
http://www.sydsvenskan.se/lund/article1438096/Ratt-hyra-som-affarsidé.html, Sydsvenskan
Theoretical reflection, BUSP01

Motivation from an entrepreneurial perspective
- what keeps entrepreneurial teams together and motivated over time?

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Examiner: Tomas Karlsson
Date: 30 May 2011
Abstract

TITLE: Motivation from an entrepreneurial perspective - what keeps entrepreneurial teams together and motivated over time?

DATE: 30 May 2011

COURSE: BUSP01, Theoretical reflection, Master Programme in Entrepreneurship, 15 ECTS

AUTHORS: Daniel Losinski

KEY WORDS: Motivation, entrepreneurship, team structure, ambitions, uncertainty

PURPOSE: The purpose of this theoretical reflection is to develop a deeper understanding of the different types of motivations that exists and how it influences the success of an entrepreneurial project.

METHODOLOGY: This theoretical reflection will be written as an autoethnography, based on my own experiences from the Masters Programme.

THEORETICAL PERSPECTIVES: The essay has been inspired by an inductive approach whereby theories of motivation and related sub-topics have been studied.

EMPIRICAL FOUNDATION: The empirical research was conducted through the learning journals that have been recorded every week during the past six months, along with other observations during the Programme.

CONCLUSIONS: It is important to assess the sustainability in your goals and expectations and then bare them in mind when assessing proposals of projects and colleagues. By following your heart and aim high you will reach higher achievements, but don’t aim higher then your resources allow you to. Motivation is one of the most important inputs for a success but excellent high motivation does not need necessarily mean higher results.
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1 Introduction

It is common sense that motivation variables are direct predictors of venture growth. However, Baum and Locke claim that passion and tenacity have no direct impact on venture performance. It is obvious that motivation is one of the most important cornerstones behind a successful project. With this paper, and from my own standpoint, I want to reflect upon what might be the reasons behind why some entrepreneurial teams keep their motivation and while others lose it.

1.1 Background

Motivation is, for natural reasons one of the key factors that will determine a business success. Davidsson and Klofsten (2003) state that “a minimum requirement for development is that at least one person is highly motivated...” and continues with “…that the other key actors are committed to the business idea”. This is a statement that most people would probably agree to, but what’s interesting here is what creates this motivation and what makes it last in the long run? Motivation is obviously closely connected to an entrepreneur’s short- and long-term goal with the business as well as on what basis an entrepreneurial project is being preceded.

The reason why I have chosen to reflect upon entrepreneurial motivation is due to the experiences I have gained during the Master’s Programme in Entrepreneurship. Those experiences have given me the insight of the different kinds of motivation that exists and, in some cases, taught me how they can influence the work and success in an entrepreneurial project.

1.2 Purpose

The purpose of this theoretical reflection is to develop a deeper understanding of the different types of motivations that exists and how it influences the success of an entrepreneurial project.

In specific, this paper will examine my motivation for pursuing a specific project and to stay with it in the longer run. To accomplish this I will examine relevant theory about several sub-topics such as; motivation, friendship and team composition, risk/ uncertainty and goals and ambitions. Thereafter I will analyze by comparing them to my own experience within the projects and the program.

I do not want to give recommendations for other entrepreneurs as it written on the basis of my own experiences and learnings from the program and should not work as a scientific study. However, it can be useful for entrepreneurs when they intend to start a new business, as he/ she can evaluate the level of motivation of the different areas and eventually leverage or work to improve any of them in order to grow.
1.3 Limitations

The empirical is to the largest extend taken from my learning journals that have been recorded as well as other experiences that have been gained during the program. This empirical data must be seen as rather small and therefor also limiting.

I do not want to provide recommendations but rather considerations for coming entrepreneurs, from my own experiences and on what I think are good things to consider regarding motivations. However, as this will be written as an autoethnography it will be based on my own assumptions and experiences, which is also limiting the results.
2 Methodology

The structure will below be presented along with the autoethnography research method. Further I will explain why I have chosen this research method as well as how it has shaped the outcome of the reflection.

“What you find in any quest depends mostly on what you set out to find, and where you choose to look for it” - Miles and Huberman (1994)

The theoretical reflection has been inspired of the inductive reasoning, as it to a large extent has been influence by the empirical data. The understanding and the perspectives about what is relevant information have also influenced the formation concerning the theory-, empirical- and result- chapters. Miles and Huberman (1994) express the researchers search for information as follows:

2.1 Autoethnography

In qualitative research, the research takes its standpoint in peoples own definitions of what is going to be studied, in contrary to a quantitative research method (Seymour (2007), s. 47). This theoretical reflection has been written as an autoethnography, which recently has become a popular form of qualitative research. (Anderson, 2006) An autoethnography is written from the writers’ own perspectives and experiences. (Duncan, 2004). Duncan continues, “an important assumption by qualitative researchers and autoethnographers is that reality is neither fixed nor entirely external but is created by, and moves with, the changing perceptions and beliefs of the viewer”. Schön (1987) emphasizes in his article Education the reflective practitioner that everyone’s descriptions are of different kinds, as it depends to the person’s purposes and knowledge, as well as values, strategies and assumptions that make up our “theories” of action.

Another important thing to think of when applying a qualitative research method is to not generalize the information. (Seymour, 2007). To formulate a generalization for all start-ups just based on my own experiences and knowledge could be a mistake. As Duncan (2004) also comments, autoethnographic studies are more suited to creating theories then testing them.

2.2 Method for data collection

Below are the methods for collecting the data presented. First is the learning journal, which will work as the foremost source of data and second are other observations of projects in class and how they have developed during the program.
2.2.1 Learning Journals
Since December 2010 I have been recording video Learning Journals for about 5 minutes once a week. The learning journals consisted of reflections that have been made upon the past weeks goals and progress. A few main purposes can be distinguished; First, to capture the progress of my own entrepreneurial process, in terms of my own development. Second, it made me reflect on the business progress that was going on, in contrary to my normal behavior of just going on without reflection. This helped me with understanding the processes and the development ahead in the business projects. Third, it allowed me to reflect upon theories that were studied in class and which wouldn’t have been reflected upon without the learning journals. However, recording a journal like this is hard in the aspect of sharing emotions of the more soft values, compared to how the actual progress in the project is going. Therefore, the learning journals have turned out to me more focused on the progress than on the process.

2.2.2 Other
Besides the learning journals and my own experience, which will be used as the primary source, observation of other projects will also be used in the empirical data. Those would not be subject to any deeper analysis but as this paper will reflect upon what makes motivation to sustain over time, the results in the class in general makes a good contribution to the paper.

2.3 Criticism of the sources
The learning journals have served as a very sound basis for reflections upon my entrepreneurial process. However, they have also been a source for stress in times that have been very busy and other things have been prioritized. In those cases the quality of the learning journal might have lacked and the content might have been forced instead of “natural”.

It is important to note that the learning journals have been recorded as a part of the course and the entrepreneurial projects that has been going on. They have also been submitted to the program director, which might have influenced the honesty regarding problems, relationship issues and similar that might be interpreted as negative for the projects outcome. This has not been made on purpose but might rather be a natural way of flattering the progress of the work.

Regarding the observations of the other projects in class, it must be emphasized that those are seen from my own perspective and therefore not confirmed to be perceived in the same way by the involved persons.
3 Theory

In this chapter theory about topics related to motivation will be presented. It will be presented in a few sub-topics; first will be a part about motivation in general, then friendship, team structure, a chapter about risk and uncertainty, and finally goals and ambitions.

3.1 Motivation

A person cannot win a game that they do not play. As the pursuit of entrepreneurial opportunity is an evolutionary process in which people select out at many steps along the way, decisions made after the discovery of opportunities — to positively evaluate opportunities, to pursue resources, and to design the mechanisms of exploitation — also depend on the willingness of people to “play” the game. (Shane et al. 2003)

The above text proposes that the success of an entrepreneurial project depends on his/ hers willingness of becoming en entrepreneur. But it also gives a good picture of the motivation behind entrepreneurship. In the article by Shane et al (2003), they studied several motivation concepts and their effect on entrepreneurship that previous research has explored. (Shane et al. 2003) In The Business Platform that was developed by Davidsson and Klofsten, eight cornerstones where identified in order to serve as an instrument for assessing the development of start-ups. Here, prime motivation is described as one of the core stones, set with a basic requirement of the “at least one person is highly motivated and that the other key actors are committed to the business idea.” (Davidsson and Klofsten, 2003)

The concept of need for achievement (nAch) is probably the one that previously have received most attention. This was already studied when McClelland (1961) found that individuals with high level of nAch are more likely to engage task with individual responsibility, require individual skill and effort and have a higher level of risk. Collins et al. in 2000 concluded this, along with other studies, that nAch is an effective tool to distinguish successful and unsuccessful groups of firm founders.

Tolerance for ambiguity is another trait for entrepreneurs but with mixed support for its importance, and which still could go in line with the argument for risk taking since entrepreneurs constantly face uncertainty in their everyday environment. Locus of control is another motivational trait is mentioned along with the “task specific” motivation traits self-efficacy and goal setting, in which to last one have rather poor research in.

However, a study that was made by Tracy, et al. in 1998 showed how the goals for financial performance, growth and innovation were all significantly related to their corresponding outcomes. (Shane et al. 2003)
Shane et al. conclude that some or all of the motivations influences the transition between stages in the entrepreneurial process. Further, they claim that if the motivation for one stage it is quite plausible that it will only be motivation for that particular stage and on no others.

In another study made in 1998 Vijaya and Kamalanabhan five other core motivations were identified even though with similar meaning; the entrepreneurial core motivations, the work core motivation, the social core motivation, the individual core motivation and the economic core motivation. (Vijaya and Kamalanabhan, 1998)

3.2 Friendship Within Entrepreneurial Teams

Francis & Sandberg explore friendship in entrepreneurial teams with a specific attention to the performance of the venture. They explain how friendship within entrepreneurial teams may serve as a basis for creating a venture and might both expert positive influences. Examples of such can be enhance teams effectiveness in solving “wicked” problem and stimulate heroic efforts in difficult times, which all might improve the venture’s performance and increased turnover. However, if there are any conflicts within the friendship it might as well have an impact on the venture. The article also describes how members of a team that was started among friends are less quick to leave the team during a start-up. All in all, they claim the friendship increases the likelihood of survival for a new venture. Through their research Francis & Sandberg’s suggests 13 relationships, built on foundation in the literature on friendship, entrepreneurial teams, and strategic decisions.

One of the key factors that Francis and Sandberg emphasizes for a long lasting friendship and business success is trust, as well as communication and cooperation. One who also emphasized the importance of trust is Doney et al. (1998). They mean that trust can facilitate and enhance relationships but also lower transaction costs. In their study they view the concept of trust from a national culture perspective of which a framework that
describes five cognitive trust-building processes is developed. This framework is further meant to explain how trust is being developed in business context and could therefore serve as help for entrepreneurs. (Doney et al., 1998)

<table>
<thead>
<tr>
<th>Trust-Building Process</th>
<th>Primary Base Discipline</th>
<th>Underlying Behavioral Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculative:</td>
<td>Economics (Dasgupta, 1988; Williamson, 1985)</td>
<td>Individuals are opportunistic and seek to maximize self-interest.</td>
</tr>
<tr>
<td>Intentionality:</td>
<td>Social psychology (Rempe &amp; Holmes, 1986)</td>
<td>Individuals are geared toward others, as opposed to themselves (e.g., motivated to seek joint gain).</td>
</tr>
<tr>
<td>Capability:</td>
<td>Sociology (Barber, 1983; Butler &amp; Cantrell, 1984)</td>
<td>Individuals differ in their competence, ability, and/or expertise and, thus, the ability to deliver on their promises.</td>
</tr>
<tr>
<td>Transference:</td>
<td>Sociology (Granovetter, 1985; Strub &amp; Priest, 1978)</td>
<td>Individuals and institutions can be trusted; connections in a network are strong and reliable.</td>
</tr>
</tbody>
</table>

**Figure 1: Trust-Building Processes, Base Disciplines, and Underlying Behavioral Assumptions**

The authors claim that there is a growing need to understand how culture and trust interact as companies are trying to leverage the benefits of trust in an increasingly diverse and global market. They do further explain how crucial it is for companies with ambition of becoming multi-national that they must learn how to engender trust in employees, customers, and at their suppliers. Below are the part of the trust development process that are being discussed in the article explained:

**Figure 2: Proposed Model of National Culture and the Development of Trust**
3.3 Team Structure

Fitzsimmons & Douglas (2010) were recently able to confirm the negative interaction they had explored between perceived feasibility and perceived desirability through a large multi-country sample. Literature argues that entrepreneurial intentions depend on those perceptions, but such interaction had never been explored. Their study resulted in a new classification of up-coming entrepreneurs; accidental entrepreneurs, natural entrepreneurs, and inevitable entrepreneurs. (Fitzsimmons & Douglas, 2010)

In the article Entrepreneurial Motivation by Shane et al. egoistic passion is mentioned as a central part for loving your business and keeping your motivation up. However, regarding to a study by Baum and Locke (2004) passion and tenacity don’t have an impact on venture performance. Noteworthy is also another study in 2003 by Ruef et al. that was made on five group mechanisms and which showed that “homophily and network constraints based on strong ties have the most pronounced effect on group composition”. (Ruef et al. 2003)

3.4 Uncertainty and attitude towards failure

The entrepreneurial attitude against risk has already been mentioned where Shane et al. (2003) concluded that business owners’ willingness to take risk is generally moderate. Further, pursuing an idea or business is never easy and as an entrepreneur you should always be prepared on failure at some point as an inevitable part of the process (Shane et al., 2003). In an article from 2009, Politis and Gabrielson examined the reason for why some entrepreneurs had developed a more positive approach towards failure then other. Their findings concluded that previous start-up experience as well as experience from closing down a previous business, were strongly related with a more positive attitude towards failure. Moreover they could determine that a closure due to poor performance is a very valuable source of learning, in comparison to personal reason that doesn’t provide the same result.

Regarding risk taking, which is another motivation of interest, McClelland (1961) also claimed that individuals with high needs for achievements would have moderate tendencies to take risk. However, this reasoning has to
some extent been convinced by later studies. Such studies have both shown that firm owner don’t differ significantly from the general population and in entrepreneurship literature have risk-taking propensity been defined as the willingness to take moderate risks. (Shane et al. 2003)

3.5 Goals and ambition

Goals, together with ambition, energy and stamina are what Shane et al. argues are the four different cornerstones behind drive. It is well known that higher goals in general lead to higher achievements (Locke & Latham, 1990). When goal-directed energy is sustained over a longer time, it is called persistence or tenacity and the writers’ claims that self-efficacy or task-specific confidence is one factor for sustaining such an effort over long periods.

In an article by Segal et al. they studied reason for people becoming entrepreneurs. They compared the motives push, where you are some how forced to becoming an entrepreneur through for example finding yourself a satisfying job, to pull where the entrepreneur choses to be so because he seeking independence, self-fulfillment or wealth. Their results indicates not only individuals intentions of becomes entrepreneurs are due to “pull-factors” but also that becoming an entrepreneur is significantly predictable through their tolerance for risk, perceived feasibility and net desirability. (Segal et al 2005)

In another study named The Relationship of Entrepreneurial Traits, Skill, and Motivation to Subsequent Venture Growth, Baum and Locke (2004) proved that goals, self-efficacy, and communicated vision showed directs effects on venture growth. They also concluded that communicated vision and self-efficacy were related goals, as well as that higher goals lead to higher performances (Baum and Locke 2004), which confirms what Locke and Latham above have already stated.

Figure 4: Three intentions that are considered for becoming an entrepreneur

Perceived net desirability of self-employment (NDSE)

Tolerance for risk (TR)

Perceived feasibility (self-efficacy) of self-employment (SE)

Self-employment Intentions
4 Reflections and Discussion
Based on my learning journals and my experiences from the program are below my reflections on the theory.

4.1 Opportunity seizing
During the beginning of this program I was very determined of wanting to pursue any of the research projects that I knew was going to be presented in class. Regarding to the research by Segal et al. I would say this would rather be cooperation on a pull basis as it was my own desire of the challenge and opportunity I wanted to capture. However, after being presented the projects I did not recognize any of them as being a good match for my own skills and competencies. From that point I was in a position to choose a new project to continue on and without having a good though of what I wanted to do. After considering a few options I chose to pursue the opportunity with [redacted] together with my classmate [redacted]. I felt great potential for the projects, our competencies were a perfect match and B was a great colleague to work with in every aspect. However, after some time I felt lack of the same motivation as [redacted] was showing and in order to not pull him and his ambitions I decided to jump the project. In order to explain this through the theory it is possible that this was a project which I landed in more of “push” reasons then I initially though. What I mean is that I kind of was forced to choose a project and in that situation I believe the “honeymoon-time”, that often comes when starting up something new, made me like the project more then I would normally. In the learning journal, which started just after this choice, (Learning Journal 1, 3 Dec 2010) I am explaining the problem with having several projects going on at the same time. This might also have been a reason for the lack of motivation that occurred but mainly I think it was due to distorted perspective for being in a “push” position.

Baum & Locke claimed that passion and tenacity had no direct impact on venture performance. As an employee I can see how you can still accomplish your role with success and score good results even without passion. However, regarding to my experiences the lack of both passion and tenacity in an entrepreneurial project have definitely showed out to have a big importance for the persistence of a business, something that have been seen in the case with [redacted] [redacted] have won several prizes and doing a great progress and is definitely a proof of the study by Shane et al., which showed that self-efficacy or task-specific confidence is one strong factor for sustaining such an effort over long periods. [redacted] had put in a great effort of keeping the project running this well.

4.2 Friendship and trust
Instead of continuing with [redacted] I decided to continue with [redacted] whom I had met just some time before. I believe that my belief in cooperation with [redacted] could to some extent be explained through the framework made by Doney et al. and where transference is stated as one of the base disciplines in a trust-building process.
We barely knew each other from before but we had similar friends and his entrepreneurial reputation and surrounding created the trust. In the cooperation with Petter there have been mutual trust in several aspects (Learning Journal 7, 4 Feb 2011). For instance in such an basic thing as shared responsibility with mutual trust is definitely something that can be connected to what Francis and Sandberg explained with improved performance. This can as well As Doney et al. claimed it could easy be how trust could facilitate and enhance relationship as well, when looking on how our relationship has devolved during this year. Their research and recommendations about the understanding of the interaction between trust and culture should mainly serve for companies with a multi-national ambition or at macro-level. However, I believe that this can as well be used as help on a micro level as well. With a risk a going slightly outside of the topic, I mean that this type of understanding has been useful even in a multinational class and where communication is vital even though cultural barriers could be very high sometimes.

“Friendships may hold teams together and stimulate heroic efforts during difficult times. They also may serve as the basis for forming new teams.”

– Francis & Sandberg (2000)

Another criteria to evaluate while choosing partners might be through their motives with becoming entrepreneur. Through the projects I have attended, that the need for achievement is definitely a strong motivational factor. Brandon in AirOhMail did for example have a very high nAch and why I think he went to far with his project. I also think that this is a factor that lasts over time and which could also be confirmed by the persistency in the same project.

4.3 Risk-taking

Shane et al. and McClelland have both studied how risk is perceived in an entrepreneurial environment and have come to different conclusions regarding entrepreneurs’ tendency against risk. However, instead of studying risk from a motivational perspective I would rather like to study motivation from a risk perspective. What I mean is that I see the risk factor as a challenge and something that often makes an entrepreneurial opportunity more fun. (Learning Journal 2 and 3, 17 Dec 2010) For me, risk is a challenge that often gives me motivation to proceed with an entrepreneurial project, where it’s the unknown that is triggering me. I would even say that I am more inspired by a project with a high rather then low degree of risk.

“Only the one who sleeps avoid mistakes.
A problem is a opportunity.”

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1 Own translation from Swedish: “Bara den som sover gör inga misstag. Problem är en
It could be natural to think that a high degree of risk is equal to higher ambitions and goals. Regarding to Locke & Latham, it would in that case lead to higher achievements as well. It is possible that a higher level of risk-taking can lead to higher achievement – the one who sleeps aren’t able to win – but it is contradictive at the same time. Even if we look on it from Locke & Lathams perspective, where they say that higher goals leads to higher achievements, it can just work to a certain point until the risk gets to high. My own experiences on goals are however from another perspective. Because when analyzing the goals I have set in my learning journals I have realized that they are almost only short-term goals.

4.4 Type of entrepreneurs
Looking at Fitzimmons & Douglas classifications of entrepreneurs, the natural entrepreneur should be the preferred entrepreneurial type. For me, I have had both perceived feasibility and desirability strong at the beginning of each project. I do however think that both of those have to be matched up by the rest of the team (or externally) as well. Because I think those variables are varying over time and then it is especially important that people around you can cover up in order to keep a very high intention in the team in total. External help for this can for instance be through the feedback we have got through the business plan submissions we have participated in. After getting some hands-on feedback from there the team often gets motivation but it can equally lower the motivation with a bad feedback. (Learning Journal 5, 21 Jan 2011)

A motivational problem that we have had in the work for FairRents lately is that lack of motivation for continuing with the cases we have received. I have put a lot of thinking into what the reason behind this is, as those cases actually is a proof of a successful business and marketing. Maybe that problem is that we have focused too much on the short-term goals so that when we have actually reached them, we have lost focus from the long-term.

One of the findings from Politis and Gabrielson study (2009) was that closure due to poor performance was a stronger source for learning then personal reasons. This is something I cannot agree with though. I believe that poor performance in an earlier project might give you a good base for e.g. managerial and financial decisions in coming ventures then personal reasons. However, along with the setback with two failures due to personal reasons and from which I have learned a lot for future businesses. Those are learnings for motivational and group-compilation, something that I assesses to the foremost cornerstones when setting up a business. This is partly in line with Davidsson and Klofstens research where they found that motivation (but not group development of an operational organization) was the key cornerstones.
5 Results

The purpose was to develop a deeper understanding of the different types of motivations that exists and how it influences the success of an entrepreneurial project. Below will the summed up results be presented.

5.1 Conclusions

The conclusion will be presented in to a few subjects to be presented briefly.

5.1.1 Stick to the plan and listen to your heart

Set your goals and expectations pre-election and try to stick to those. Also think of what you want to accomplish through your commitments; wealth, world-peace or new friends? Try to think of if they will be sustainable in the long-term keep focused. It’s the goal that’s important, not how to get there. It’s easy to get charmed by the moment and go with something you didn’t intend to. In that case, it is possible that you will realize this later after the honeymoon period and lack motivation.

5.1.2 Risk expectancy

Planning ahead also involves assessing the risks you are willing to take. Then higher risk along with right conditions, then higher will you most probably be able to reach. However, too high risks will in all probability lead to a failure as well. All in all, the level of risk should be evaluated through what your resources allows you to accomplish and what you are able to put at risk.

5.1.2 Choose carefully

I was lucky to end up with very good teammates in the projects I have pursued and those have been really helpful for my own development. However, only in class there are a few I would never have been able to work with and there are several cooperation’s where the focus in more on the team then on the project. To take an opportunity and test-work with both the colleague and project prior to a long commitment is definitely a learning opportunity.

Also, I will think of my own competencies and personal characteristics as something to match with my teammates. However, I we have learned, personal (homophily and network) ties are the strongest and those should therefore work as the primarily selection criteria. This is also useful for fulfilling sufficient perceived desirability and feasibility. Use your network and resources such as mentors to accomplish this.
5.2 Conclusive discussion

As a few final words I would like to make a last reflection on the meaning of motivation in the entrepreneurial project. This paper has been arguing over the importance of the motivational factors for achieving success in a business and indeed it is. I do however believe that it can be compared to the importance of a lowest level of social and analytical intelligence, and equally with those doesn’t an excellent level of motivation directly lead to higher chance of success. After reaching this “level” of motivation I believe the chances are equal or might even be for disadvantage with a too high level, as it might lead to lack of objectivity. In other words do I believe that then higher level of motivation, the higher is the chance for success – but only to a certain level.
6 Reference List

Below are all references that have been used for this theoretical reflection presented. They are presented in the following order; published references, scientific articles and Internet sources.

6.1 Published references


6.2 Scientific articles


