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COGNITIVE INSIGHT AND ENTREPRENEUR DECISION-MAKING: AN EXPERIMENTAL INVESTIGATION OF SELF- REFLECTIVENESS IN OPPORTUNITY IDENTIFICATION (INTERACTIVE PAPER)

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INTERACTIVE PAPER

COGNITIVE INSIGHT AND ENTREPRENEUR DECISION-MAKING: AN EXPERIMENTAL INVESTIGATION OF SELF-REFLECTIVENESS IN OPPORTUNITY IDENTIFICATION

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Principal Topic

Identifying and exploiting opportunities is frequently described as the most fundamental of entrepreneurial behaviors (Shane & Venkataraman, 2000; Venkataraman, 1997). However, recent work criticizes the teleological basis of most extant theories of the opportunity identification process arguing that many entrepreneurs do not start firms with specific goals or outcomes in mind (Sarasvathy, 2001). Rather, “effectual” entrepreneurs initiate operations with only a general goal in mind (i.e., avoid significant losses). As the market and firm evolves, more specific plans are then formulated and action becomes increasingly more intentional.

In reviewing effectuation theory, however, a major question remains unanswered—specifically, why would clearly specifying goals up-front prevent entrepreneurs from taking advantage of contingencies that may arise during the firm creation process? An unstated assumption implied in effectuation theory appears to be that entrepreneurs fully specifying desired outcomes *a priori* would be less likely (or less willing) to make radical adjustments to their plans. At the base of this assumption is the implied belief that a fundamental decision bias (i.e., escalation of commitment) locks entrepreneurs with strong prior goals into particular courses of action, and, therefore, market dynamism which shifts demand away from the expected trajectory of the market would generate massive losses for the venture.

Method

To explore this question, we conducted an experiment, using a repeated measures design, to examine the role of self-reflectiveness and self-certainty as key dimensions of an entrepreneur’s cognitive insight in the opportunity identification process.

Results and Implications

Our study makes several contributions to entrepreneurship theory. First, we provide an empirical study that addresses one of the key assumptions of effectuation theory—that specification of desired outcomes *a priori* will result in less adjustment to initial plans. Thus, based on the interaction of key individual differences and cognitive framing effects, we identify boundary conditions within which effectuation theory may explain variance in outcomes related to entrepreneur decision-making. Second, we develop measures for and provide an empirical assessment of the role of cognitive insight (i.e., self-certainty/self-reflectiveness) in shaping how entrepreneurs make significant adjustments to prior plans in the opportunity identification process—even when anchored in strong prior goals.

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