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PROSPECTING FOR NEW ANSWERS TO OLD PARADOXES IN ENTREPRENEURIAL RISK TAKING (SUMMARY)

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Principal Topic

Although cognitive theory has been adopted to explain entrepreneurial risk behavior, the complex interaction between personal and situational variables in stimulating or inhibiting entrepreneurship has yet to be explored. In this study, we focus on risk perception and the decision to start a new venture. We suggest that both depend on the framing of the new venture as a potential gain or a potential loss. “Gains and losses, of course, are defined relative to some neutral reference point.” (Kahneman & Tversky, 1979: 274) Accordingly, we hypothesize that the location of the reference point and the consequent framing of the new venture depend on two variables: (1) the current position of the individual, operationalized in terms of his/her employment situation (employed vs. unemployed); and (2) the manner in which the new venture is presented (emphasizing its positive aspects/chances of success vs. emphasizing its negative aspects/chances of failure). In addition, we suggest that the framing of the venture is also influenced by an individual’s risk propensity. We empirically test the effects of these variables (employment status, venture presentation, and risk propensity) on risk perception and the decision to start a new venture.

Method

Participants were presented with four scenarios in a quasi-experimental, repeated-measures design. All scenarios presented a situation where the respondent was invited by a friend to start a new business. The scenarios differed only in the current employment status of the respondent and in the way the option of starting the venture was presented. Participants indicated the level of risk they perceived in the option of joining the friend and whether they would actually join. They also completed measures of risk propensity and other control variables.

Results and Implications

Our results expand previous research by clarifying how personal and situational variables influence one’s decision to start a new venture. Given these findings, we address two paradoxes: (1) why some people start new businesses and others don’t, and yet they exhibit similar risk propensities; (2) how the framing of the situation may enhance or inhibit risk-seeking and why previous research has found divergent results.

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