SHEDDING SOME NEW LIGHT TO THE OLD QUESTION IF ENTREPRENEURS ARE RISK TAKERS (INTERACTIVE PAPER)

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Principal Topic

The question “why some people, and not others, discover and exploit those opportunities” (Shane & Venkataraman, 2000: 218) is still one of the core questions in entrepreneurship research. As starting a new business is generally perceived to be a high-risk activity, entrepreneurs have long been regarded as being risk-takers. Yet, though some authors identified significant relationships between entrepreneurs and the propensity to take risks, results were often inconsistent or contradictory. Hence, the attitude towards risk taking amongst entrepreneurs has not been shown to be different from other people. Though, a fair amount of research about entrepreneurial risk taking has been done before, there is—as far as to our knowledge—no study to date that explicitly contrasts both heuristic biases optimism and overconfidence in their effects on entrepreneurial decision-making behavior under risk. Our paper addresses this gap.

Method

We design an incentive compatible decision game with 67 nascent entrepreneurs. We further utilize a questionnaire including scales related to dispositional optimism, risk propensity, and the perception of risk in each situation. We record demographic variables, such as gender and age.

Results and Implications

Our findings show how potential heuristic biases influence entrepreneurial decision-making across different situation in which risk plays a role. Therewith, our work contributes to previous research by shedding some new light to the old question if entrepreneurs are risk-takers. Moreover, we add from a methodological perspective. Entrepreneurship has sometimes been criticized for using static measurements that do not capture dynamism. Taking up this critique, we use an experimental design that allows us to collect real-time data about decision-making behavior. The main contribution our paper makes to the entrepreneurship literature is that it hypothesizes and empirically contrasts the impact of two different kinds of heuristic biases on the perception of risk and thus, on entrepreneurial decision-making under risk. By analyzing the influence of overconfidence in personal judgments on risk perception and consequent decision-making on one hand, and the effect of dispositional optimism on risk perception and consequent decision-making on the other hand, we explicitly compare both biases.

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