THE ROLE OF ADVICE-TAKING ON VENTURE PERFORMANCE (Summary)

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THE ROLE OF ADVICE-TAKING ON VENTURE PERFORMANCE

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Principal Topic

Does the degree to which entrepreneurs make use of advice enhance their performance? People do not make important decisions alone; they often consult others and their decisions are influenced by this process (Bonaccio & Dalal, 2006). Yet, prior research does not pay sufficient attention to this process and instead mainly focuses on entrepreneurs’ endogenous cognitive biases such as overoptimism (Hmieleski & Baron, 2010). If entrepreneurs make use of advice in their decision making, they are more likely to have positive outcomes because they are less likely to make inaccurate judgments. In the present research, therefore, I examine evidence concerning the effects of advice-taking on the venture performance.

To address this issue, the Judge-Advisor-System (JAS) paradigm is applied. Decision makers tend to overweight their own opinion relative to that of their advisor, so-called “egocentric advice discounting” (Krueger, 2003). In the JAS literature, however, there are four conditions that can reduce egocentric advice discounting: (1) expert power of advice, (2) reward power of decision makers, (3) requesting power of decision makers, and (4) distance from initial opinion. Decision makers are more likely to be responsive to the advice when they know advisors to be knowledgeable experts, there is the presence of prepayment for advice, they seek advice more frequently, or advice from others are similar to their own belief. Based on these conditions, hypotheses are proposed and tested.

Method

The sample was used from the Korea Venture Survey (KVS) compiled by the Small and Medium Business Administration in South Korea in 2009. I sent an additional survey primarily designed for this study to 523 of the 2,509 ventures polled in the KVS. In total, 106 entrepreneurs completed the survey (a total usable response rate of 20.3%). Hypotheses were tested using OLS hierarchical regression.

Results and Implications

Overall, the result shows that entrepreneurs’ use of advice has an effect on venture performance. Theoretically, I make a linkage between the Judge-Advisor-System (JAS) and entrepreneurship research. This connection will provide entrepreneurship researchers with richer understanding of entrepreneurs’ cognition and entrepreneurial process. Empirically, I introduce advice constructs and provide evidence of the effects of advice taking on the venture performance.

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