EPIPHANY AND EVOLUTION: HOW DOES ENTREPRENEURIAL JUDGMENT CHANGE WITH TIME? (INTERACTIVE PAPER)

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Principal Topic

An entrepreneur recognizes an opportunity when she forms the judgment that allocating resources in a particular, novel way will lead to a profitable enterprise. When the entrepreneur forms this judgment, she also constructs opinions about how to allocate resources and how they might lead to profitability. In this study, we investigate whether these opinions change over time while the entrepreneur carries on with the new venture development.

We propose that entrepreneurs build knowledge structures in relation to the success of their ventures. We suggest these knowledge structures resemble causal maps in the minds of the entrepreneurs. We also rely on previous research suggesting an evolution of the opportunity after the initial epiphany or discovery. As the entrepreneur engages with the initial idea and tackles the ever-rising issues, the knowledge structures in her mind are continually revised. Over time, experience accumulates, and possibly changes her beliefs about the opportunity and opinions of what factors will lead to profitability. In other words, experience turns into venture-specific expertise when the underlying knowledge structure is refined in response to observation.

We propose that several factors will influence that basic relationship between experience and the refinement of knowledge. Human capital, venture-specific conditions, and personality characteristics are some of those factors we examine.

Data and Implications

We test our model using the Panel Study of Entrepreneurial Dynamics II dataset. The independent variables use mostly existing measures used by other related research. But we create a new set of measures to operationalize refinement in venture-specific knowledge: ruggedness, sharpness, and sameness of knowledge structure. Then we test the hypotheses using conventional and dynamic regression analyses controlling for various individual and firm level factors.

The results are consistent with our theory: accumulated experience with the venture helps the entrepreneurs refine their knowledge. Their opinions about the importance of various factors for profitability change over time as they spend more time with the venture. This change seems to be influenced by individual-level factors as well as the nature of the opportunity. The contribution of the study is the theory and evidence of how one aspect of entrepreneurial judgment evolves over time after the initial epiphany.

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