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DO ENTREPRENEURS ACT ON WHAT THEY KNOW OR WHAT THEY BELIEVE? TESTING COMPETING COGNITIVE THEORIES OF ENTREPRENEURIAL ACTION (SUMMARY)

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≈ SUMMARY ≈

**DO ENTREPRENEURS ACT ON WHAT THEY KNOW OR
WHAT THEY BELIEVE? TESTING COMPETING COGNITIVE
THEORIES OF ENTREPRENEURIAL ACTION**

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Principal Topic

In order to create a new firm, entrepreneurs need to take action and commit resources under conditions of uncertainty (Knight, 1921). Studies have shown that entrepreneurial action could stem from distinct cognitive origins and two overarching themes arise. One theme is the set of learning-action theories (e.g. Corbett, 2005; McMullen and Shepherd, 2006; Shane, 2000) and the other theme comprises of the conviction-based theories (e.g. Åstebro et al., 2007; Cardon et al., 2009; Dushnitsky, 2010). They do not axiomatically contradict each other; nevertheless, in spirit they emphasize different challenges and offer very different explanations of the observed commitment action. In this study, we extend these alternative cognitive theories of entrepreneurial action and test them concomitantly using purely cognitive measures of subjective judgment on key success factors. We theorize that learning-based mechanisms are substitutes of conviction-based mechanisms. Further, we hypothesize the moderating roles of perceived uncertainty and entrepreneurial self-efficacy in these cognition-action relationships.

Methods

We use the Panel Study of Entrepreneurial Dynamics II dataset to examine the effects of entrepreneurs' refinement of venture-specific knowledge (vs. conviction) on their financial investment in the venture. Further, we investigate their substitution effects and the moderating effects of perceived uncertainty and cognitive attributes while controlling for various founder-specific and venture-specific fixed effects. In particular, we develop and utilize two new measures of entrepreneurs' cognitive mechanisms that capture two contrasting cognitive origins of entrepreneurial action: refinement of knowledge or discernment and strength of belief or conviction concerning relative importance of price, quality, niche, timing, marketing, location, design, knowhow, innovation, and intellectual property in the chosen business.

Results and Implications

Initial test results are consistent with our theory and hypotheses as we find that our measures of the founders' venture-specific knowledge and conviction are positively related with and precede their own financial investment in the new venture. We also find that entrepreneurs' knowledge refinement and conviction substitute each other as competing cognitive mechanisms of entrepreneurial action. This study contributes to research on opportunity exploitation and venture development both theoretically and empirically, by disentangling the relationships between nascent entrepreneurs' venture-specific knowledge, conviction, and commitment.

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