HOW EFFECTUAL AND CAUSAL ENTREPRENEURIAL REASONINGS LEAD TO BIASES DIFFERENTLY (SUMMARY)

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HOW EFFECTUAL AND CAUSAL ENTREPRENEURIAL REASONINGS LEAD TO BIASES DIFFERENTLY

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Principal Topic

The topic is to examine the relationships between effectuation and biases, taking causation as the reference point. To do that, we base our theoretical development on recent advances in JDM, i.e. the theory of contingency judgment in illusion of control (Blanco, Matute, and Vadillo, 2011; Blanco and Matute, 2015) and the evolutionary theory of overconfidence (Johnson and Folwer, 2011). In particular, we hypothesize that more effectuation leads to less overconfidence bias and more illusion of control; and that, on the contrary, more causation leads to less illusion of control bias and more overconfidence. Overconfidence denotes the overestimation in predicting one’s own performance (Busenitz, 1999; Gudmundsson and Lechner, 2013), and illusion of control refers to the behavior of an individual over-attributing how much one’s skills and actions can improve performance (Langer, 1975).

Method

We conducted two studies to test our hypotheses following the full-cycle research approach (Chatman and Flynn, 2005). First we tested our conceptual model in the field using a survey of 123 entrepreneurs of nascent ventures, and then sought to establish causation by testing our model in an experiment with 178 students. In the survey, we measured individual entrepreneurs’ use of effectuation and causation, and in the experiment, we manipulated the effectuation and causation approaches of students.

Results and Implications

Unraveling the opposite patterns of relationships helps ground the burgeoning effectuation theory to more established cognitive science theories and helps shed light on entrepreneurial decision-making.

Our study is the first, to our knowledge, to link two streams of entrepreneurship research—effectuation and heuristics. We also provide compelling evidence that causation impacts biases. Notably, effectuation increases illusion of control while lowering overconfidence with the reverse effects for causation. Our findings suggest that what seems an intuitive, general and perhaps obvious relationship—approaches to follow or deviate from rationality impact cognitive biases—is in fact multifaceted, specific and heterogeneous. We unravel the contrasting patterns of these multifaceted relationships that effectuation and causation have on biases, which helps ground the burgeoning effectuation to JDM literature and can hold keys to unlocking entrepreneurial cognition. Lastly, since effectuation consists of a set of heuristics, which are generally learnable (Merriënboer, 1997), effectuation can have a large impact not only on entrepreneurship research but also entrepreneurship education (see Neck and Greene, 2011).

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