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“I WILL PERCEIVE IT WHEN I SEE IT” – ENTREPRENEURS’ PERCEPTION OF FINANCIAL RISK (SUMMARY)

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≈ SUMMARY ≈

"I WILL PERCEIVE IT WHEN I SEE IT" – ENTREPRENEURS' PERCEPTION OF FINANCIAL RISK

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Principal Topic

Do entrepreneurs perceive risk differently than non-entrepreneurs when choosing between investment prospects? Individuals' perception of risk is consistently identified as a key variable influencing both opportunity evaluation – a driver of self-selection into entrepreneurship – and choices under risk. Yet, research on risk perception in entrepreneurship is relatively scarce. Recent contributions have focused on mechanisms that affect entrepreneurs' opportunity evaluation both positively (e.g. desirability of investment outcomes) and negatively (e.g. investment risk). We test on whether risk perception differs between entrepreneurs and non-entrepreneurs when two mechanisms are at play. In particular, we hypothesize that entrepreneurs differ from non-entrepreneurs in their focus of attention as entrepreneurs focus on monetary outcomes while non-entrepreneurs focus on investment risk. We further hypothesize that focus of attention drives differences in risk perception between entrepreneurs and non-entrepreneurs.

Method

To test our hypotheses, we use content analysis of verbal answers and behavioral data from a laboratory experiment. A sample of 72 individuals with and without entrepreneurial intentions participated in a lab experiment designed to measure risk perception directly. Tasks included evaluations and choices between investment opportunities.

Results and Implications

Our results confirm our hypotheses. We show that when faced with choices between risky investment prospects, entrepreneurs significantly differ from non-entrepreneurs both in their focus and perception of financial risk. Entrepreneurs make choices by consistently focusing at the size of possible monetary outcomes whilst non-entrepreneurs focus on probabilities attached to them. Furthermore, entrepreneurs who focus on the size of possible outcomes exhibit a significantly higher perception of risk as compared to entrepreneurs that focus on probabilities. Our main contribution lies in the provision of new insights on the direct link between individuals' risk perception and behavior on task.

Two important practical implications follow from our research. First, we inform stakeholders, particularly investors, on entrepreneurs' behavior and perception under financial risk. We believe these pieces of information will help both to better align their objectives and assessment of risk. Second, our results provide a point of departure for new experimental research on differences between entrepreneurs and non-entrepreneurs in risk perception, particularly by looking at specific pieces of available information on business opportunities.

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