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THE DECISION TO EXPLOIT: DO EXPERIENCED ENTREPRENEURS USE EVALUATION CRITERIA LIKE VENTURE CAPITALISTS? (INTERACTIVE PAPER)

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Principal Topic

The entrepreneurship literature has explored many aspects and phases of entrepreneurship, including pre-exploitation, exploitation and beyond (Shane & Venkataraman 2000, Shane 2000). Several studies have also examined how venture capitalists (VCs) evaluate potential opportunities for investment (Amit, Glosten & Muller 1989, MacMillan, Siegel & Narasimha 1985, Harvey & Lusch 1995, Shepherd 1999). Little is known, however, about the entrepreneur’s criteria for deciding whether to exploit a given opportunity (Choi & Shepherd 2004). The omission of entrepreneurial evaluation criteria from the literature suggests a prevailing assumption that discovery and evaluation of opportunities occur simultaneously. We suggest that discovery and evaluation represent distinct phases of pre-exploitation entrepreneurship (Bishop & Nixon 2006). Furthermore, exploring the criteria entrepreneurs use could help explain why and when some people and not others might choose to exploit an opportunity (Shane & Venkataraman 2000, Choi & Shepherd 2004). This leads us to pose the following research question: do entrepreneurs learn with experience to use evaluation criteria more like venture capitalists?

Method

We conducted a multi-method design to examine how experienced entrepreneurs evaluate opportunities. The design included a demographic survey, a ranking exercise and a policy-capturing experiment conducted online to 14 entrepreneurs in a Midwestern metropolitan area. The subjects ranked 14 Venture Capitalist criteria for funding opportunities, and then engaged in a policy-capturing experiment, evaluating their likelihood of pursuing opportunities simulated in 30 scenarios.

Results and Implications

Preliminary results suggest that the differences in way experienced entrepreneurs and novice entrepreneurs rank VC evaluation criteria are significant. However, these results also suggest that experienced entrepreneurs are not significantly closer to the evaluation rankings of VCs than inexperienced entrepreneurs. This could imply that entrepreneurs in general evaluate opportunities differently from VCs – they don’t necessarily conform to VC criteria as institutional theory would suggest. Furthermore, while entrepreneurs presumably learn from experience, their priorities for evaluating opportunities do not necessarily converge with those of Venture Capitalists. Future exploratory studies could examine how entrepreneurs evaluate opportunities (without suggesting VC criteria) and whether their criteria change as a function of experience. Finally, the entrepreneur-VC dyad could be further explicated in a principal-agent context to determine when, despite priority incongruence, opportunities are funded.

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