ENTREPRENEURIAL ACTION: NEW PRODUCT DEVELOPMENT DECISIONS UNDER UNCERTAINTY (SUMMARY)

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Recommended Citation
McKelvie, Alexander and Gustafsson, Veronica (2007) "ENTREPRENEURIAL ACTION: NEW PRODUCT DEVELOPMENT DECISIONS UNDER UNCERTAINTY (SUMMARY)," Frontiers of Entrepreneurship Research: Vol. 27: Iss. 6, Article 17. Available at: http://digitalknowledge.babson.edu/fer/vol27/iss6/17

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SUMMARY

ENTREPRENEURIAL ACTION:
NEW PRODUCT DEVELOPMENT DECISIONS UNDER UNCERTAINTY

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Principal Topic

A central tenet of the entrepreneurship literature is that entrepreneurs behave in an uncertain world. All entrepreneurial action, whether embodied as the entering of new markets, the release of a new product or service, altering existing production methods, or founding a new venture, is subject to uncertainty. However, prior research looking into entrepreneurial decision-making has primarily constructed uncertainty as a unidimensional variable, thus ignoring inherent differences in the types of uncertainty entrepreneurs face and the subsequent effects of these on decisions. This is a major limitation to our understanding of entrepreneurs’ decision criteria. In this paper, we unpack the varying effects of uncertainty on software entrepreneurs’ new product launch decisions. We build upon Milliken’s (1987) characterizations of three types of uncertainty (i.e. state, effect, and response uncertainty) and the magnitude of new product launch in these entrepreneurial decisions.

Method

We conduct a conjoint experiment on 90 software entrepreneurs in Sweden. The software industry is notorious for having high levels and types of dynamism. We first operationalize the three types of uncertainty using variables that are relevant for the software industry, such as the predictability and rate of change of technology and customer demand, potential lead-time over competitors, and ability to maintain innovative leadership over time.

Results and Implications

As hypothesized, launch willingness was negatively related to higher levels of uncertainty. However, the most significant effects stem from response uncertainty, in the form of potential lead-time over competitors and ability to sustain innovative leadership over time. This implies that the most important facet of uncertainty pertains to the extent to which entrepreneurs can predict the outcomes of their own behavior. That is, decisions concerning entrepreneurial action are primarily governed by the ability of entrepreneurs to control the future, not their ability to predict the future. Furthermore, the magnitude of launch moderates the relationship between uncertainty and entrepreneurial action, such that willingness to engage in entrepreneurial action is greater when a small-scale launch can be undertaken in uncertain situations. This implies that software entrepreneurs prefer uncertainty reduction strategies over profit maximizing ones. When the rate of change of demand is high however, large scale launch is preferred. Further implications for theory and teaching are discussed.

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