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THE ROLE OF COGNITIVE APPRAISALS IN OPPORTUNITY EVALUATION AND EXPLOITATION (INTERACTIVE PAPER)

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Principal Topic

Using cognitive theories of emotion, we investigate cognitive appraisals (i.e., primary appraisal, rationality, irrationality, and coping potential) in entrepreneurial situations to examine the impact of cognitive and emotional processes on the evaluation and exploitation of entrepreneurial opportunities.

Method

We utilize a questionnaire experiment to study the impact of profit margin (high vs. low), personal investment (high vs. low), time to profit (long vs. short), and probability of success (high vs. low) on entrepreneurial opportunity evaluation and exploitation. We present 2 x 2 x 2 x 2 scenarios in a between subjects design to 344 respondents, who provide information about their appraisals and emotions within the context of this situation.

Results and Implications

Manipulation checks indicate successful induction of independent variables, and correlation analyses reveal significant interrelation between evaluation and exploitation. The ANOVA analysis for evaluation result in significant primary effects for profit margin and probability of success, whereas the ANOVA analysis for exploitation shows no interpretable significant effects. This indicates that exploitation and evaluation are associated, yet separable concepts, that personal investment and time to profit are cognitively discounted, and that exploitation is not determined by situational characteristics. Results were further analysed using multiple regression analyses. For evaluation, the independent variables explained 62% of the variance with profit margin ($\beta = .18$), probability of success ($\beta = .39$), time to profit ($\beta = -.08$), situation-specific primary appraisal ($\beta = .41$), rationality ($\beta = .14$), irrationality ($\beta = .12$), and coping potential ($\beta = .08$) as significant predictors. For exploitation, the regression explained 51% of the variance with expertise ($\beta = .13$), age ($\beta = .10$), general ($\beta = .20$) and situation-specific ($\beta = .45$) primary appraisal, rationality ($\beta = .15$), and coping potential ($\beta = .09$) as significant predictors. Furthermore, the relationships between profit margin and exploitation, and between probability of success and exploitation, are fully mediated by situation-specific primary appraisal. Moreover, irrationality significantly correlates with measures of maladaptive negative emotions, but not with adaptive negative emotions.

Overall, our findings indicate that appraisal should be regarded as a central and as more significant determinant of entrepreneurial activity than situational characteristics (especially with regard to exploitation), and that irrational entrepreneurial appraisals are associated with maladaptive emotions.

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