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INTERACTIVE PAPER SESSION

EMOTIONS AND THEIR IMPACT ON DECISION-MAKING AND NEW VENTURE FAILURE

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Principal Topic

This study uses ecological rationality and an investigation of emotions and overconfidence to better understand the entrepreneurial decision-making process. Researchers have found that emotions will change the cognitive interpretations in individuals (Ford, 1996, Berkowitz, 2000). Damasio (1994) explains that the system dedicated to reasoning and decision making is the same system involved in emotions. We propose that although overconfidence may cause the failure of some new ventures, the emotions of the entrepreneur will also play a role by impacting the rationality of the choices and decisions that an entrepreneur makes.

In order to understand the role of emotions in this process, we adapt the appraisal theory of emotions (Roseman, 2001, Scherer, 2001). This theory explains that in a particular moment of appraisal of the environment, individuals experience several emotions depending upon how consistent that environment is with their goals and motives. These emotions could range anywhere between positive (joy, elation, happiness, etc) and negative emotions (disgust, frustration, sadness, etc). As such, we build a number of hypotheses based upon the role of emotions within the new venture process.

Based upon Frederickson’s (1998; 2003) work on positive emotions and creativity; and Roseman’s (2001) research on motive and reward maximization, we first propose that an entrepreneur’s positive emotions will have a positive and significant impact on the success of the venture. However, when an event is motive inconsistent, aversive, and uncertain, an individual’s is likely to minimize punishment and separate from the situation. In this instance, our second proposition suggests that negative emotions will lead to venture failure. Lastly, from Hayward et. al (2005), we know that baseless overconfidence in founders’ knowledge and experience is related to the failure rates of start ups. As such we build propositions regarding venture success and failure that are based upon the emotions derived from baseless overconfidence.

For scholars, our study not only enables us to show emotions to be a critical component of the ecological rationality model but also provides us with a framework that could explain factors leading to the success or failure of new ventures. This research gives a clear idea of how and why overconfidence can impact the outcomes of new ventures.

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