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ADJUSTING OVER AND UNDER – ENTREPRENEURIAL HEURISTICS AND TEMPORAL DYNAMICS (SUMMARY)

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Principal Topic

Exploring the dispositional characteristics of entrepreneurs is one of the many approaches that have explained why individuals choose entrepreneurial careers over others (Hyytinen et al., 2013). Studies have examined individuals' risk tolerance (Stewart & Roth, 2001), optimism (Hmieleski & Baron, 2009), and over-confidence (Koellinger et al., 2007) within this realm of research. Yet, most studies are focused only on a snapshot of entrepreneurship – the career choices of individuals or the influence of dispositional characteristics on their venture performance. Even though individuals start up based on their biased prediction, it is unlikely that such expectations hold after business results become available. This leads to our research question: Under what conditions, and how might entrepreneurs' optimism and overconfidence change (or not) over time? We investigate dynamic relationships between entrepreneurs' assessments of their venture performance and their confidence/optimism levels over time. We argue that while entrepreneurs have optimistic views about their business start-up and confidence about their skills to succeed, they eventually correct their assessment of their business success upon learning from financial results.

Methods

We use panel data (2001-2005) obtained from a questionnaire-based survey of new-venture founders (2,181 firms), conducted by the Japan Finance Corporation. The dataset includes detailed information on entrepreneurs' background and financial data over time, from various industries – ideal to address our research questions.

Results and Implications

Three contributions emerge. First, by drawing on insights from the cognitive literature we investigate whether or not and to what extent entrepreneurs adjust their goals and expectations as they engage in their start-up activities. We attempt to capture the dynamic process, in particular, the changes in heuristics over time. Second, we examine the moderating impact of environmental characteristics to see how levels of external uncertainty influence entrepreneurs' cognition. Third, we empirically substantiate our arguments through a survey-based panel data of new-venture founders – to the best of our knowledge, one of the very first such endeavors in the literature. Rarely do we see empirical research of entrepreneurs with multiple survey points in their entrepreneurial processes. Overall, our study contributes not only to the entrepreneurship literature by offering the dynamic view, but also to cognition/decision-making literatures by investigating the interaction between heuristics and environment in an entrepreneurial setting.

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