



# Making it personal: Opportunity individuation and the shaping of opportunity beliefs

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## ABSTRACT

We develop a model that focuses on the individuation of opportunity beliefs. We adopt inferences from the ecology literature and integrate those with mental model theory to examine the ‘individuation’ of opportunity as the result of the interplay between industry conditions and person-specific factors. We test our predictions using conjoint analysis of 2880 opportunity decisions. We find that an entrepreneur’s related knowledge, motivation to evaluate the opportunity, prior failure, and fear of failure shape perceptions of opportunity attractiveness as one individuates exogenous opportunity information. We articulate our findings as evidence that when combined with opportunity related data, an individual’s cognitive resources play an important role as one forms opportunity beliefs about the personal attractiveness of pursuing an opportunity.

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## 1. Executive summary

Opportunity beliefs are an important driver of entrepreneurial action, and recent theoretical developments (e.g., McMullen and Shepherd, 2006) have discussed the formation of first-person opportunity beliefs (i.e., “is this an opportunity I could pursue?”). However, prior research has not fully considered how variations in people’s prior experience, knowledge, and task motivation might impact opportunity beliefs. Our research adopts this focus, applying mental model theory’s notion that people’s impressions of future states (Johnson-Laird, 1983) are “individuated” (Fiske and Pavelchack, 1986) as one brings idiosyncratic ‘cognitive resources’ (Grégoire et al., 2011) to bear.

We test our model using an experimental design, decomposing 2880 separate decisions made by experienced entrepreneurs related to their willingness to pursue an entrepreneurial opportunity. We find important differences in entrepreneurs’ opportunity beliefs as a function of individuation. Specifically, we document that interpretations of industry conditions data are shaped as one discerns personal meaning of the exogenous information in light of the entrepreneurs’ own motivation to evaluate the opportunity, fear of failure, and experience with prior failure. The implication, then, is that opportunity impressions are made ‘personal’ by relating one’s own knowledge to the opportunity as well as applying one’s task-specific motivation, fear of failure, and experience with previous business failure. In that regard, the findings from our investigation improve our understanding of how, through individuation, entrepreneur-centric cognitive variables inform the mental models that underlie opportunity beliefs. These insights illustrate the subjective nature of opportunity pursuit, and help explain why opportunities are not equally appealing to all (Dimov, 2010). Hence, we provide an improved awareness for scholars and entrepreneurs about how potential

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biases and opportunity evaluation differences may exist due to individuation. This helps to explain why, given similar conditions, some entrepreneurs chose to act while others do not.

## 2. Introduction

Entrepreneurship requires enterprising individuals motivated to act on promising entrepreneurial opportunities. However, the confluence of individuals and opportunities occurs in dynamic contexts (Shane, 2003; Shane and Venkataraman, 2000). As such, it is important to consider the relationship between the conditions that preside over the opportunity (Plummer et al., 2007), and the factors that determine whether or not those conditions represent a “personally credible opportunity” (Krueger, 2003, p. 106). In that way, an entrepreneur's judgment regarding the potential value of acting on an opportunity is a future-focused subjective interpretation (Barreto, 2012) influenced by their intuition (Mitchell et al., 2005), lived experiences (Corbett, 2005), and ability to draw cause-and-effect parallels (Grégoire et al., 2010a) to name a few. The implication, then, is that entrepreneurial action rests on “interpretations of the circumstances where action is to take place, and the cognitive ‘resources’ that people bring to these circumstances,” such as their dispositions, interests, and experience (Grégoire et al., 2011, p. 1446). At the level of the individual entrepreneur, these considerations ultimately coalesce into *beliefs* about the potential value and viability of opportunities (Grégoire et al., 2010b; Haynie et al., 2009). These beliefs are key drivers of entrepreneurial behavior (Felin and Zenger, 2009; McMullen and Shepherd, 2006), and as such, understanding the processes and factors that inform opportunity beliefs is important to advance our understanding of entrepreneurial behaviors and outcomes.

Despite the importance of opportunity beliefs, extant understanding of the processes and variables that drive and influence opportunity belief formation is limited. We do know that opportunity beliefs are a matter of perspective taking (Ruby and Decety, 2001). Specifically, in order for entrepreneurial action to occur, interpretations of opportunity circumstances must be approached from a first-person perspective (“imagining I will take action”) and hence action is underpinned by the belief that there is an attractive opportunity available for “me” (i.e., a first-person opportunity belief) given my desires, experience, resources and so on (McMullen and Shepherd, 2006). Because entrepreneurship requires action, and one will not act without confidence that he or she can realistically profit from that action (Dimov, 2010), first-person opportunity beliefs are the penultimate driver of entrepreneurial behavior. As such, understanding the cognitive processes and factors the drive first-person opportunity belief formation is critical if we are to credibly explain and predict the conditions under which entrepreneurial action is likely to occur. Hence, our focus in this study is on the formation of first-person opportunity beliefs.

At their core, opportunity beliefs are self-centered mental images or “theories” about the potential reward for a particular action versus the cost of that action (McMullen and Shepherd, 2006). To do this, entrepreneurs judge the possibility of an “opportunity” not by seeing it directly, but by seeing changes in variables related to opportunity (Baron and Ensley, 2006). While there may be many sources of exogenous data that stimulate opportunity beliefs, it is the interpretation of information that ultimately matters. In the first-person perspective these interpretations are focused on “me” (as the decision maker) and discerning what the data mean as I envision a path of action and the likely outcome of that action (Fiske and Taylor, 1991; Shepherd et al., 2007). As this process unfolds, it is unlikely that opportunities would be seen as “evenly appealing” (Dimov, 2010, p. 1124) because each individual brings their own unique knowledge, experience, and disposition to bear as they construct mental images of the opportunity. Yet, this is where existing scholarship falls short. The research to date has been instrumental in articulating the phenomena and processes of opportunity belief formation (McMullen and Shepherd, 2006; Shepherd et al., 2007), but is largely silent on how variations in cognitive resources and dispositions potentially shape opportunity beliefs. As a result, we have limited knowledge about how entrepreneurs “individuate” an opportunity as they use their idiosyncratic knowledge and experience to discern the meaning of opportunity related data. Consequently, researchers have largely been unable to identify the circumstances under which an opportunity might be seen as more or less attractive to a specific individual, inhibiting our understanding of the individual-opportunity nexus (Shane, 2003). This gap in knowledge motivates the following research question: How does the interplay between environmental data (e.g., industry conditions) and individual factors (e.g., disposition, experience, etc.) influence beliefs about the personal attractiveness of pursuing an opportunity? To address this question, we develop a theoretical model of opportunity individuation by identifying environmental and individual-level factors that are likely to stimulate and shape opportunity beliefs.

Our framework is based on the notion that entrepreneurs attend to specific information channels (e.g., low cost sources of opportunity information) in order to gain insight on the potential of an opportunity (cf. Fiet, 2007). In that spirit, we adopt the logic and inferences made in the population ecology (e.g., Baum, 1996; Hannan and Freeman, 1989) literature that suggests industry conditions are a salient information channel that conveys opportunity information in a way that stimulates opportunity impressions. To explain how these impressions are formed, we draw on mental model theory's assertion that as people process information they create cognitive images to represent reality and make predictions (Johnson-Laird, 1983; Rouse and Morris, 1986) and personally relevant mental models are subjected to an ‘individuation’ process (Fiske and Pavelchack, 1986) where impressions are shaped as person-specific factors are brought to bear. The implication is that one uses specific ‘cognitive resources’ (Grégoire et al., 2011) to develop opportunity beliefs. Hence, we consider the relatedness between the opportunity and the entrepreneur's existing knowledge (Haynie et al., 2009), motivation to evaluate the opportunity (Miner et al., 1989), experience with prior entrepreneurial failure (Hayward et al., 2010), and fear of failure (Mitchell and Shepherd, 2010) as key individuating factors. We test our model using a conjoint experiment (cf. Choi and Shepherd, 2004; McKelvie et al., 2011; Mitchell and Shepherd, 2010) for which we ask a sample of entrepreneurs to form beliefs about an opportunity based on the characteristics of the industry environment surrounding the opportunity. This allows us to investigate the interplay between

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