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Understanding entrepreneurial cognition through thinking style, entrepreneurial alertness and risk preference: do entrepreneurs differ from others?

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Abstract

The purpose of this study is to investigate entrepreneurial cognition through thinking style, entrepreneurial alertness and risk preference on an overall sample composed of entrepreneurs, accountants and managers. In this context, potential differences across these professional groups are examined. A survey was conducted on 42 small and medium sized enterprises operating in Ankara. One entrepreneur, one accountant and one manager were selected as respondents from each firm. It was observed that all professional groups included in this study preferred a highly linear thinking style and there were no significant group differences across linear, nonlinear, and balanced linear and nonlinear thinking style. On the other hand, accountants scored lower than the other groups in evaluation and judgment dimension of entrepreneurial alertness. Also it was observed that entrepreneurs, managers and accountants are significantly different on their risk preference. While entrepreneurs' risk preference found to be higher than expected, accountants risk preference found to be lower than expected.

Keywords: Entrepreneurial Cognition, Linear/nonlinear thinking style, Entrepreneurial alertness, Risk preference

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1. Introduction

Entrepreneurship has long been acknowledged as the basic engine for economic growth and wealth creation and researchers have spent so much effort in order to explain this phenomenon through various perspectives. Recently they have postulated that a focus on the role of cognition has the potential to contribute significantly to the study of entrepreneurship (Baron, 1998; Mitchell, Smith, Seawright and Morse, 2002; Krueger, 2003). Based on the general definition of cognitions, Mitchell et al. (2002:97) described entrepreneurial cognitions as “the knowledge structures that people use to make assessments, judgments, or decisions involving opportunity evaluation, venture creation, and growth”.

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The purpose of current study is to address entrepreneurial cognition by examining the differences between entrepreneurs and other people in terms of thinking style, risk preference and entrepreneurial alertness. Thinking style is “one’s preferred manner of using mental abilities to govern daily activities, including understanding and solving problems and challenges” (Vance, Groves, Paik and Kindler, 2007: 168). It refers to an individual’s preferred and habitual approach to using (processing) information. This study investigates two different thinking styles, namely linear and nonlinear thinking styles and attempts to explain whether entrepreneurs possess a high nonlinear thinking style as asserted by some studies and whether they possess a more balanced linear and nonlinear thinking style. Risk preference can be defined as the general tendency or the desire to pursue or avoid risks (Sitkin and Pablo, 1992). Since entrepreneurship includes many risks, such as financial and social risks, risk preference is assumed to be a distinguishing factor. This study also compares entrepreneurs with accountants and managers in risk preference. Entrepreneurial alertness is described by Kirzner (1979) as an individual’s ability to identify opportunities which are overlooked by others. The study is composed of three parts. In the first part, the literature on entrepreneur’s thinking style (cognitive style), risk preference and entrepreneurial alertness is reviewed and the theoretical framework of the study is drawn. In the second part, the information regarding the survey conducted is presented. The survey aims to reveal the thinking style, entrepreneurial alertness and risk preference of three professional groups, namely entrepreneurs, managers and accountants. Also it aims to determine whether there are differences across entrepreneurs and other groups. The last part includes the results of analysis, discussion and suggestions for future research.

2. Literature Review And Hypotheses

2.1. Thinking Style

Research on entrepreneurial cognition has emphasized two qualitatively distinct styles of information processing/ thinking: analytic and intuitive. Analytical or rational thinking style encompasses thinking and decision making that is variously described as objective, sequential, convergent, constrained, logical, critical and detailed. In contrast, intuitive thinking style encompasses thinking and decision-making that is described as subjective, divergent, unconstrained, synthetic, simultaneous, feeling, holistic and creative (Nickerson, Perkins and Smith, 1985; Sadler-Smith, 2004; Allinson, Chell and Hayes, 2000). In this study, the first style of thinking will be named linear and the second style will be named nonlinear thinking as suggested by Vance et al. (2007).

Intuitive individuals are likely to discover opportunities by observing cues or signals through unfamiliar and unorganized information that is processed in a holistic manner (Olson, 1985). This can help them identify an opportunity and motivate them to take action, as shown by the study of Miner (1997) who found intuition to be an important thinking mode of expert idea generators (Kickul, Gundry, Barbosa and Whitcanack, 2009). Therefore, nonlinear thinking style may be useful for the entrepreneur especially in the beginning of entrepreneurship process, opportunity identification. On the other hand, Olson (1985) also states that when individuals rely on linear, sequential processing of information, this will enable them to evaluate and plan for the new venture. So, linear thinking style may help entrepreneur display competency in judging and evaluating information and selecting actions to implement skills that are needed in the later stages of new venture creation (Kickul, 2009). It can be asserted that entrepreneurs utilize both nonlinear and linear dimensions in their overall cognitive processes, and employ either a linear or a nonlinear thinking style depending on situational factors and the different entrepreneurial and functional needs within an enterprise. This ability to use either linear or nonlinear thinking where warranted as “balanced” thinking style means balance in linear and nonlinear thinking (Groves, Vance and Choi, 2011).

In order to investigate whether entrepreneurs really have this balance in thinking, entrepreneurs should be compared with other professionals. We expect that accountants exhibit a preference for linear thinking because of the nature of their work and accounting training. Findings of several empirical studies conducted on accountants and accounting students support this view in some way (Vassen, Baker and Hayes, 1993; Schlomer and Schlomer, 1993; Abdolmohammadi, Read and Scarbrough 2003; Groves et al., 2011). On the other hand, in their famous study, Allinson et al. (2000) compared a sample of 156 entrepreneurs and 564 managers at multiple levels and reported that entrepreneurs are more intuitive than the general population of managers. In other words, they provided empirical support for the view that entrepreneurs adopt an intuitive approach. Many researchers also agree with this view that nonlinear thinking is crucial to entrepreneurship because of the rapidly changing and ambiguous environment where

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