



# How to become an excellent entrepreneur: The moderating effect of risk propensity on alertness to business ideas and entrepreneurial capabilities



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## ABSTRACT

Under the fierce pressure of the dynamic environments that characterize the emerging economies, an entrepreneur must develop capabilities such as autonomy, innovativeness, risk-taking, and proactiveness to survive the competition. This study examines how alertness to business ideas helps build entrepreneurial capabilities and its contingencies in China's emerging economy. The empirical result indicates that the effect of alertness to business ideas on innovativeness, risk-taking, and proactiveness are both positive and significant. The effectiveness of alertness to business ideas on entrepreneurial capabilities is contingent on different levels of risk propensity. In particular, the alertness to business ideas leads to a significantly higher level of autonomy, innovativeness, and proactiveness with higher level of risk propensity.

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## 1. Introduction

The concept of alertness to business ideas as one of the most prominent influential factors of entrepreneurial capabilities is still underdeveloped. Besides, risk propensity can exert influence on the value and performance of human capital (Kirzner, 1997; Markman and Baron, 2003; Busenitz and Barney, 1997; Jiao et al., 2013). When an entrepreneur's alertness to business ideas is vague or low, his entrepreneurial capabilities contribute to low entrepreneurial performance (Kaish and Gilad, 1991; Gaglio and Katz, 2001). In fact, entrepreneurs have been found to have different degrees of alertness to business ideas, which could be inherited or acquired (Alvarez and Busenitz, 2001; Shane and Venkataraman, 2000; Iyer, 2016). Little empirical research has been done on the effect of alertness to business ideas on entrepreneurial capabilities.

More recently, researchers have noticed that risk propensity may affect the result of an entrepreneur's entrepreneurial performance (Sitkin and Pablo, 1992; Forlani and Mullins, 2000; Stewart and Roth, 2001). Although informative, this stream of research fails to answer these important questions: how does alertness to business ideas affect entrepreneurial capabilities? What is the role of an entrepreneur's risk propensity in the relationship of alertness to business ideas and entrepreneurial capabilities? We seek to answer these questions by examining how alertness to business ideas affect entrepreneurial capabilities,

which are composed of four factors, such as autonomy, innovation, risk-taking, and proactiveness. Moreover, we examine the moderating effect of risk propensity on alertness to business ideas and entrepreneurial capabilities.

In particular, we hypothesize that alertness to business ideas can positively affect entrepreneurial capabilities. When an entrepreneur has a high degree of alertness to business ideas, he/she also has a high degree of entrepreneurial capabilities. In contrast, when an entrepreneur has a low degree of alertness to business ideas, he/she is not sensitive to entrepreneurial opportunities, and has a low degree of entrepreneurial capabilities. Furthermore, we hypothesize that an entrepreneur's risk propensity plays a moderating role on the relationship of alertness to business ideas and entrepreneurial capabilities. We provide empirical support for the above hypotheses using data from a large sample survey in China. We adopt a quantitative research method based on questionnaire surveys on different kinds of enterprises in China.

In all, our study explores how alertness to business ideas affects entrepreneurial capabilities, which are composed of four factors, namely autonomy, innovation, risk-taking, and proactiveness. Moreover, we examine the moderating effect of risk propensity on alertness to business ideas and entrepreneurial capabilities. In doing so, we intend to make two contributions. Primarily, as one of the first studies in this area, this paper will lead to a set of theoretically grounded propositions on how entrepreneurs capitalize on alertness to business ideas, specifically in the Chinese context. These findings, therefore, provide important direct and practical implications for firms operating in other emerging

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economies. Second, the study will help to enhance our understanding of the role of risk propensity in excellent entrepreneurs. When entrepreneurs have a high-risk propensity, the effect of alertness to business ideas on autonomy, innovativeness, and proactiveness is relatively high.

## 2. Theoretical background and hypotheses development

### 2.1. The effect of entrepreneurial alertness on entrepreneurial capabilities

Entrepreneurial alertness can be defined as a knowledge framework, which people use to make an assessment, judgment or decision, on opportunity assessment, risk creation, and growth (Mitchell et al., 2002). It indicates that entrepreneurial alertness is related to collecting, handling, and using information (Allinson and Chell, 2000; Allinson and Hayes, 1996). As per Mitchell et al. (2002), entrepreneurial alertness can help us to know how entrepreneurs think and do things, and provide a theoretically restrictive and measurable assessment of their uniqueness. Entrepreneurs are more likely to exploit opportunities when they possess more knowledge of customer demand for the new product, necessary advanced technologies, greater managerial capability, and greater stakeholder support (Choi and Shepherd, 2004).

Entrepreneurial alertness can affect an entrepreneur's capabilities, such as proactiveness, innovativeness, risk-taking, and autonomy. Some scholars analyze entrepreneurial alertness from a cognitive perspective, and they perceive entrepreneurial alertness as a group of information-handling skills that promote opportunity recognition (Gaglio and Katz, 2001). Grant (2000) observe that entrepreneurial proactiveness is the result of a rational process. Entrepreneurs scan the environment to find opportunities, and then they actively promote their views to start their projects by adopting a proactive approach (Grant, 2000). Tang (2016) finds that entrepreneurial alertness has a mediation effect between personal turbulence and innovation capability.

In the entrepreneurial process, entrepreneurial alertness is the focal point, followed by other things. When entrepreneurs have entrepreneurial alertness, they can seize entrepreneurial opportunities. Entrepreneurial opportunity refers to the following circumstances: catering to market demand by creatively combing through goods, services, raw materials, and organizational method (Casson, 1982; Schumpeter, 1934). It is evident that only entrepreneurial alertness can help an entrepreneur to recognize an entrepreneurial opportunity, whereas other people may not be able to do so. After entrepreneurs seize an opportunity, they carry out entrepreneurial activities, and the entrepreneur's capabilities are formed through these activities.

There is previous research that examines entrepreneurial alertness from an organizational behavior perspective (Busenitz, 1996; Kaish and Gilad, 1991). They elaborate that the difference between entrepreneurs and non-entrepreneurs is the behavior of information seeking. In different phases of opportunity recognition, there are different types of entrepreneurial alertness, including information accumulation, information transformation and information selection.

Therefore, we can see that entrepreneurial alertness is a necessary factor in the process of an entrepreneur's capabilities formation. We propose a hypothesis as follows:

**H1.** Entrepreneurial alertness to business ideas will have a positive effect on entrepreneurial capabilities.

### 2.2. The moderating effect of risk propensity

Risk propensity refers to the probability of outcome, the possibility of correlation results, and the variation function of subjective value distribution (Stewart and Roth, 2001). In other words, risk propensity means the cognitive probability of obtaining profit, which is required

to succeed in hypothetical scenarios, while the other scenarios provide less profit, and even a worse outcome (Brockhaus, 1980).

There is cumulative research to show that risk propensity can be classified into three types: low, middle, and high. Some researchers point out that an entrepreneur has a relatively high-risk propensity compared with a manager (Busenitz, 1999). Psychologists try to examine the entrepreneur's risk propensity, and they consider that an individual who tries to set up an enterprise has the propensity to grasp opportunities, and he/she would not be opposed to the idea of exposing himself/herself to an environment with an uncertain outcome (Collins & Moore, 1970). However, some researchers point out that some entrepreneurs risk propensity is middle (Mancuso, 1975; Meyer et al., 1961), whereas some successful entrepreneurs pursue low risk to extend his/her career life.

There are other studies, which show that when entrepreneurs have different risk propensity, it could lead to different entrepreneurial decisions (Hadida and Paris, 2014). An entrepreneur with a high-risk propensity may choose a high-risk industry. Besides, a visionary investor should consider whether the entrepreneur's risk propensity matches his own risk propensity (Forlani and Mullins, 2000; Jiao et al., 2015; Saridakis et al., 2016).

In short, in the process of an entrepreneur's capabilities formation, he/she must first possess an entrepreneurial alertness to business ideas, and in the next step, his risk propensity would have an effect on the process (Politis, 2005; Shepherd, Douglas and Shanley, 2000). Thus, we propose a hypothesis in the following:

**H2.** Entrepreneurial alertness to business ideas will have a higher effect on entrepreneurial capabilities of an entrepreneur with a higher level of risk propensity (Fig. 1).

## 3. Method

### 3.1. Data

We conducted a survey over four months in China. First, we conducted a field survey. The analysis unit was the firm, and the surveyed firms were active in the following industries: high technology (21.2%), traditional manufacturing (20.6%), construction and real estate (3.6%), service (42.4%), and others (12.1%). In addition, the sample comes from the Yangtze River Delta region (50.9%), the Beijing-Tianjin-Tangshan region (1.2%), the Pearl River Delta region (0.6%), central and western China (45.5%), and northeastern China (1.8%).

The survey questionnaire covered alertness to business ideas, risk propensity, and entrepreneurial capabilities among other things. The primary informants from the respondents were generally the chief executive officers (CEO), chairmen of the board of directors, or presidents of companies. Subsequently, the questionnaires were mailed to some other respondents, and they were contacted again to confirm whether they had received the questionnaires, and were asked to return the survey promptly (Sivadas and Dwyer, 2000).

To check for possible biases in the responses, we compared the early respondents with the late respondents (Armstrong and Overton, 1977). The last 25% to submit their responses were considered late and were

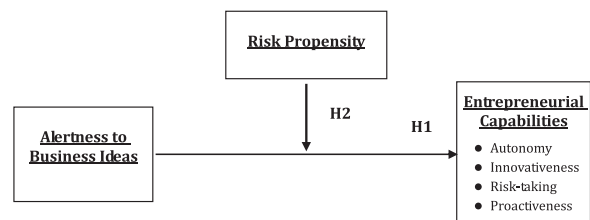


Fig. 1. Conceptual model and hypothesized relationships.

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