FACTORS THAT DISTINGUISH AMONG ENTREPRENEURS' DECISIONS AND MARKETING STRATEGIES: A RISK-BASED TYPOLOGY OF SUCCESSFUL ENTREPRENEURS

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ABSTRACT

Among the most critical elements in the development of any new venture strategy are the entrepreneur's analyses and decisions regarding entry into new and sometimes uncharted markets. While various aspects of the entry decision have been studied (cf. Green, Barclay, and Ryans 1995; Golder and Tellis 1993; Kerin, Varadarajan, and Peterson 1992; Szymanski, Troy, and Bharadwaj 1995), it is surprising that little research has been done to consider the relationships among the key dimensions of market entry strategies, the risk entailed in market entry decisions, and the individual-level factors that influence such risky decisions. Thus, in this paper, we examine factors that distinguish among entrepreneurs willingness to take more or less risk when making new market entry decisions, where these differences in risk are shown to reflect the timing and scale dimensions of market entry strategies.

Theoretical Development

New venture risk reflects the likelihood and magnitude of losses that might result from pursuing a given new venture (Yates and Stone 1992). Risk's likelihood element and market entry's timing dimension are linked through Dickson and Giglierano's (1986) boat-based metaphor of entrepreneurial risk. "Sinking the boat" reflects the likelihood that a new venture will fail to reach satisfactory sales (p. 61), and "missing the boat" is the likelihood that a very attractive opportunity will be overlooked, dismissed, or lost because of competitor preemption or changing markets (p. 62). The magnitude element of risk and market entry's scale dimension are linked through March and Shapira's (1987) definition of risk as the size of a possible loss (p. 1407), or in nautical terms, the size of the boat that could be sunk or missed.

Risk Propensity is an individual's general tendency toward either taking or avoiding risk (Sitkin and Pablo 1992) and reflects a natural preference for "betting the odds" versus "taking the sure thing" (Lopes 1987). This suggests that what distinguishes big risk taking entrepreneurs willing to act as pioneers from those who would rather act as followers is more closely linked to risk propensity—which reflects who they are—than to a non-need based factor like risk perception—which reflects what they see. Thus, we hypothesize:

H1: Entrepreneurs who select new ventures high in both the likelihood and magnitude elements of risk will be characterized by higher levels of risk propensity, compared to entrepreneurs who select new ventures that are high in the magnitude element of risk, but low in the likelihood element of risk.

Risk Perception is a decision maker's assessment of the risk inherent in a particular situation (Sitkin and Pablo 1992). To the extent that a set of decision alternatives is viewed as less risky by one observer than by another (Palich and Bagby 1995), the observer who views such a set as less risky may choose from the set a relatively riskier alternative—one with predicted outcomes that are either more variable or entail more hazard—than an observer who views the entire set as more risky (Sitkin and Weingart 1995). Since March and Shapira (1987) argue that alternatives with a high likelihood of loss are rejected as gambles, perceptual differences should reflect choices among ventures differing in their magnitudes of loss. Hence:

H2: Entrepreneurs who select new ventures that are high in the magnitude element of risk, and low in the likelihood element of risk will be characterized by perceptions of less overall risk in the choice set, compared to entrepreneurs who select low likelihood, low magnitude of loss new ventures.

Method and Results

The sample consists of 78 CEOs of firms listed on tabulations of the fastest growing public companies in the United States, published by *INC, Fortune,* and *Business Week* magazines in 1994 (208 firms) and 1996 (332 firms). Embedded within a survey was a 2 x 2 full factorial within subjects experimental design that was used to manipulate the likelihood and magnitude of loss associated with the outcomes of four prospective new ventures. Two logistic regressions were used to analyze the data. The dichotomous dependent measure for each was the subject's new ventures choice, as specified by each hypothesis, and the independent variables were subjects' risk propensity (5-item scale) and risk perceptions (a three-item scale for each of the prospective new ventures, averaged for the four ventures).

Our hypotheses were confirmed indicating that those entrepreneurs able to tolerate a greater likelihood of loss, when magnitude of loss is also high, are characterized by higher risk taking propensities, while those entrepreneurs able to tolerate larger potential losses when likelihood of loss is low, perceived less overall risk. We further showed that risk perceptions did not influence the choices subjects made in H1, nor did risk propensity influence subjects' choices in H2.

We conclude by proposing a risk-based typology of successful entrepreneurs that includes four types. The *Bold Entrepreneur*, 13 percent of the sample, prefers an early launch of a large boat and is characterized by a higher than average propensity for taking risk. The *Experimental Entrepreneur* prefers an early launch of a small boat, but traits and cognitions could not be assessed as this type comprised just 4 percent of the sample. The *Shrewd Entrepreneur*, the largest type representing one-half of our sample, prefers a later launch of a large boat and is characterized by both a lower propensity for risk taking than the bold entrepreneur and lower risk perceptions than the patient entrepreneur. Finally, the *Patient Entrepreneur*, one-third of our sample, displays the most conservative new venture selection behavior preferring a later launch of a smaller boat. This type sees more risk that the shrewd entrepreneur and possesses a lower propensity for risk taking than the bold entrepreneur.

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