PERCEPTIONS OF AND DECISIONS ABOUT MARKET OPPORTUNITIES: COMPARING MANAGERS AND ENTREPRENEURS

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ABSTRACT

Consideration of risk and potential are crucial elements in decisions to develop new products or enter new markets, whether in established firms, or in an entrepreneur's quest to start a new firm. Entrepreneurial folklore has long viewed entrepreneurs as bold and brash risk-takers, willing to defy all odds in their efforts to develop new technologies or find new market niches that will prove hospitable to their emerging firms. Conversely, managers in many established firms are thought to be risk averse, preferring to introduce line extensions or product modifications instead of riskier, but more innovative, possibly higher potential, new products (Cooper 1984). Our study seeks to better understand any possible differences between managers in established firms and entrepreneurs in the degree to which they perceive market opportunities differently, as well as any differences in their decision-making as they contemplate entry into new ventures.

Theoretical Development

Risk reflects the degree of uncertainty and potential loss which may follow from a given behavior or set of behaviors (Yates and Stone 1992). The notion of potential reflects, in some sense, the opposite of risk: the degree of uncertainty and possible gain associated with the outcomes which may follow from a given behavior or set of behaviors.

Folklore about the risk-taking behavior of entrepreneurs and the risk-averse behavior of managers suggests that one reason for such behavioral differences — if they exist — is that entrepreneurs simply see less risk than do managers in established firms. Seeing less risk, they choose courses of action that, as viewed by others, appear more risky. On the other hand, Timmons (1994) implicitly argues that this folklore is fiction; that managers and entrepreneurs really don't differ as to their risk perceptions and risk-taking behavior. Resolving this debate is an empirical question. Hence:

H1: Entrepreneurs will perceive less risk in a set of proposed new venture alternatives than will managers in established firms.

Entrepreneurial folklore predicts that H1 will be supported; Timmons (1994) predicts not.

An alternative explanation for the folklorical view is that entrepreneurs see greater potential in new venture situations than do managers. If entrepreneurs possess an innate talent for spotting opportunities (Stevenson 1983), it may be that they are able to perceive potential that managers do not see, and therefore pursue opportunities that others view as risky. Hence:

H2: Entrepreneurs will perceive greater potential in a set of proposed new venture alternatives than will managers in established firms.

Stevenson's view that entrepreneurs have an eye for opportunity suggests H2 will be upheld; those who argue that managers and entrepreneurs do not differ perceptually argue it will not.

Entrepreneurial folklore indicates, as already noted, that entrepreneurs are likely to choose riskier courses of action than their risk-averse brethren in established firms. There are several additional reasons to expect that this might be true. These reasons argue for:

H3: Faced with the same set of new venture alternatives, entrepreneurs will make riskier choices than will managers in established firms.

Finally, Baird and Thomas (1985) argue that contextual factors not inherent in a set of risky decision alternatives are likely to influence choices among them. Three additional hypotheses not detailed in this abstract explore particular kinds of circumstances under which managers and entrepreneurs are expected to behave differently in their new venture decision-making.

Method and Results

Our experimental study required two samples: one of entrepreneurs and one of managers in established firms. The entrepreneurial sample included 39 CEOs of firms listed on tabulations of the fastest growing public companies in the United States, published by *INC, Fortune,* and *BusinessWeek* magazines in 1994. The sample of managers consisted of 25 participants in an executive education program for upper level executives at a large Midwestern university.

The results of H1 and H2 indicate that not only do managers and entrepreneurs not differ in their propensity to take risk, but they also exhibit no significant difference in the degree to which they perceive risk in a set of alternative new ventures. From a risk perspective, there appear to be no differences between managers and entrepreneurs in either their propensities or their perceptions involving risk, contrary to folklore. Surprisingly, however, entrepreneurs saw less potential than did the managers in our set of four new ventures. This finding suggests that entrepreneurs may be more circumspect in their appraisal of opportunity than their brethren in established firms.

The results of H3, which provide the first behavioral evidence that the overall riskiness of new venture choices do not differ between managers and entrepreneurs, dispel the folklorical notion that entrepreneurs are brash risk-takers who take dramatically greater risks in new ventures than do managers in established firms. Nonetheless, the results of H4, H5, and H6 indicate that behavioral differences do exist, driven by a variety of contextual factors, including the suitability of market skill to the venture, as well as by a more subtle pattern of interactions among subject status (manager or entrepreneur), market and technical skills, and control over the new venture.

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