Journal of Economic Behavior & Organization 76 (2010) 15–29

Contents lists available at ScienceDirect

Journal of Economic Behavior & Organization

journal homepage: www.elsevier.com/locate/jebo

The importance of being emotional: How do emotions affect entrepreneurial opportunity evaluation and exploitation?

Dietrich Grichnik[a,*], Alexander Smeja[b,1], Isabell Welpe[c,2]

[a] WHU – Otto Beisheim School of Management, Burgplatz 2, D-56179 Vallendar, Germany
[b] Innovation and Entrepreneurship Group, WHU – Otto Beisheim School of Management, Burgplatz 2, 56179 Vallendar, Germany
[c] Technical University Munich, Leopoldstraße 139, 80804 München, Germany

ARTICLE INFO

Article history:
Received 2 September 2009
Received in revised form 25 January 2010
Accepted 18 February 2010
Available online 30 June 2010

ABSTRACT

We examine the impact of positive (joy) and negative (fear) emotions on distinct phases of the entrepreneurial process. To analyze the effects of emotions on entrepreneurial opportunity evaluation and exploitation we use an experimental design completed by 146 participants from 40 young entrepreneurial firms. As predicted by the emotion-as-information theory and by the concept-priming theory, induced emotions change perception and decision-making of unrelated economic situations, namely entrepreneurial evaluation and exploitation. The results demonstrate that on the one hand, positive emotions affect opportunity evaluation positively and on the other hand, exploitation, negatively. Surprisingly, it is shown that negative emotions influence not only opportunity evaluation, but also opportunity exploitation negatively.

1. Introduction

Traditionally, it is implied that people exhibit perfect rationality and have consistent preferences as they pursue the idea of expected utility maximization (Leiser and Azar, 2008). Therefore, cognitive biases and emotions are assumed to be non-existent. However, many studies challenge the assumption that the standard model is a perfectly rational decision maker (Ben-Shakhar et al., 2007). Researchers following the notion of new institutional economics have started to extend the basic model by assuming bounded rationality (Dequech, 2006; Casson, 2005; Shane, 2000, 2003; Delfgaauw and Dur, 2007) and behavioral scholars are now broadening the model by incorporating robust psychological findings (Kräkel, 2008; Ben-Shakhar et al., 2007; Dew et al., 2008; Hayton et al., 2002).

Entrepreneurship research has only recently begun to focus more on the effect of cognitions and emotions. However, the theoretical and empirical research has been fragmented and limited (Brundin et al., 2008; Cardon et al., 2009; Corbett, 2007; Corbett and Hmieleski, 2007). Nonetheless, several authors (e.g. Baron, 1998; Baron and Ward, 2004; Mitchell et al., 2007) emphasize the importance of cognition within the entrepreneurial context. Defining entrepreneurship as a cognitive process (e.g. Shane and Venkataraman, 2000; Shane, 2003), scholars have analyzed cognitive biases that distinguish entrepreneurs from other groups of people (Baron, 1998; Sarasvathy et al., 1998). For instance, individuals who try to exploit a new opportunity have been shown to be more likely than others to assume that things will turn out well (Baron, 1998, 2004;

* Corresponding author. Tel.: +49 0261 6509 260.
E-mail addresses: grichnik@whu.edu (D. Grichnik), alexander.smeja@whu.edu (A. Smeja), welpe@wi.tum.de (I. Welpe).
[1] Tel.: +49 0261 6509 261.
[2] Tel.: +49 089 289 24800.

0167-2681/$ – see front matter © 2010 Elsevier B.V. All rights reserved.
doi:10.1016/j.jebo.2010.02.010

Simon and Houghton, 2003; Hmieleski and Baron, 2009). Many additional studies have analyzed other cognitive heuristics, such as the planning fallacy (e.g. Keh et al., 2002), the illusion of control (e.g. Keh et al., 2002; Simon and Houghton, 2002), the belief in the law of small numbers (e.g. Keh et al., 2002; Simon and Houghton, 2002), reasoning by analogy (e.g. Simon and Houghton, 2002), risk propensity (e.g. Forlani and Mullins, 2000; Mullins and Forlani, 2005) and certain learning capabilities (Corbett, 2007). Therefore, it has been argued that non-rational decision-making caused by the use of heuristics may be, under certain conditions of environmental uncertainty and complexity, an effective and efficient guide to decision-making (Mitchell et al., 2007; Busenitz and Barney, 1997). Furthermore, it has been argued that cognitive biases are relatively stable for individuals over time, situation and context (Schulman et al., 1993).

Emotion, on the other hand, is said to be an affective experience that arises from an event (Côté, 2005). Emotions are relatively intense; however, they do not last very long (e.g. Frijda, 1986; Lazarus, 1991; Levenson, 1994). Therefore, the assumptions of rationality, as well as that of consistent preference, are both challenged as soon as emotion is considered. The role of emotion and the importance of being emotional have attracted growing attention in economics over the past decade (Elster, 1996, 1998; Frank, 1988; Loewenstein, 1996, 2000). However, it is surprising that emotions have only recently been recognized to play a significant role in the entrepreneurial process (Goss, 2005a,b, 2008; Cardon et al., 2005; Foo, 2010; Foo et al., 2009). To overcome this lack of research and structure, Baron's (2008) recent theoretical contribution builds on existing general psychological research findings of emotions and cognitions to explain the effects of positive emotions in the entrepreneurial process.

Leaning on a wide-ranging body of psychological research, it has been denoted that emotions provoke strong effects on cognition (e.g., Forgas, 2000; Isen, 2002). Furthermore, two general explanations exist as to why emotions may play an even more important role in an entrepreneurial context, than in a general organizational setting. Firstly, the environments in which entrepreneurs act are usually unpredictable and uncertain. In such situations, emotion can determine specific actions or decision-effects, which it may not shape in environments that are less uncertain and less unpredictable (e.g., Forgas and George, 2001; Hsu et al., 2005). Secondly, specific tasks that entrepreneurs perform, such as decision-making and judgment (Ireland et al., 2003) are ones that have been previously shown to be strongly affected by emotion (Baron, 2008). Hence, economic models that allow for bounded rationality and incorporate the effect of emotions are more appropriate within the entrepreneurial context.

Thus, on the one hand, the relevance of emotions in entrepreneurship seems even more important than in many other organizational settings. On the other hand, very little theoretical and empirical work exists concerning the notion of emotion and its influence on entrepreneurship. Hence, to exploring such relationships to gain a better understanding in an entrepreneurial context seems crucial. Existing literature and research examining these issues so far has been limited in three important ways.

The first of these is to explain the effect of emotions on opportunity exploiting. Baron (2008) focuses on the effects of emotion on stress tolerance and the ability to acquire new resources. Although these aspects may be important, it has remained virtually unchallenged that resource allocation and risk-taking is at least as important in order to exploit new ideas successfully. Accordingly, it seems essential to expand on Baron's theoretical model by including these elements. Moreover, other theoretical explanations such as the emotion-maintenance hypothesis that may explain the influence of emotion on certain entrepreneurial cognitive processes have not yet been presented by Baron (2008).

The second of these limitations is that despite the growing theoretical interest among scholars, very little empirical economic research on emotion has been conducted (Bosman et al., 2005). Although more specific psychological research links emotion with cognitive processes, this relationship has to date been documented in only a few narrow experimental setups. There have not been many complementary analyses in more realistic settings (e.g. Kliger and Levy, 2003; Chuang and Lin, 2007). To our knowledge there has been very little work so far that examines the relationship between emotions and entrepreneurship empirically and almost no experimental approaches to studying entrepreneurship and emotions. For instance, Brundin et al. (2008) analyzes how and why emotional displays of managers influence the willingness of employees to act entrepreneurially. Although this work offers an interesting starting point, it is limited in one aspect. It does not distinguish between the different aspects of the entrepreneurial process. This is a troubling oversight given that opportunity evaluation and exploitation may not always be correlated with emotional states in the same direction. Thus, there is the need for additional empirical research that is more entrepreneurially focused than that of past research and that would enable a differentiated analysis of the effect of emotions in distinct entrepreneurial phases.

The third limitation is that the effect of emotion and entrepreneurship so far has been analyzed only on the basis of correlations from self-reported data (Brundin et al., 2008; Foo et al., 2009). However, to identify causal interactions between emotions and the entrepreneurial processes, it is necessary to induce emotions in an experimental setting. Nonetheless, it is important to provide the utmost flexibility to non-student participants, and therefore it might be necessary to offer an online experimental tool. Although psychological research uses various tools to induce emotions such as mood-suggestive photographs, autobiographical recalls, film clips and music tracks, not all of these methods seem feasible to induce positive and negative emotions via an online experiment (Göritz and Moser, 2006).

The goal of this investigation is to address these gaps to gain greater understanding of distinct entrepreneurial phases by focusing on the effects of positive and negative emotions in opportunity evaluation and exploitation, and to assess them through an experimental online research setting. Hence, this research makes some important contributions to previously conducted research. First, it offers additional support for the general need to incorporate emotions in economic modeling. Furthermore, it expands on Baron (2008), proposing a certain influence of emotions incorporating additional aspects of