



In the eye of the beholder: How regulatory focus and self-efficacy interact in influencing opportunity recognition

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ABSTRACT

Although there is evidence that regulatory focus is associated with opportunity exploitation, there is a lack of research examining its role at the early stages of opportunity recognition. The present study makes two major contributions to address this gap. First, we demonstrate that entrepreneurs' promotion focus is positively related to opportunity recognition, whereas prevention focus is not significantly related to opportunity recognition. Second, integrating two theories of self-regulation – regulatory focus theory and self-efficacy theory – our findings reveal that a high promotion focus compensates for entrepreneurs' low levels of creative and entrepreneurial self-efficacy in opportunity recognition. Our study extends extant cognitive theories of opportunity recognition.

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1. Executive summary

The importance of opportunity recognition as a crucial aspect of entrepreneurial behavior is widely established in the entrepreneurship literature. In particular, the cognitive processes underlying opportunity recognition have received considerable attention in the past years. Furthering our understanding of individual differences in opportunity recognition, we focus on the role of self-regulation in the early stage of opportunity recognition.

Self-regulation refers to the psychological processes by which individuals exercise control over their cognitive, emotional, and behavioral processes. Thus, the self-regulation concept describes how individuals control themselves, focusing in particular on goal setting and goal achievement strategies. Our study focuses on two central theories of self-regulation that have been applied in previous entrepreneurship research, namely the theories of regulatory focus and self-efficacy. Regulatory focus theory describes the strategies that individuals use to regulate their own behavior in goal accomplishment, whereas self-efficacy theory explicates the role of individuals' belief in their capability to exercise control over certain tasks.

We test our hypotheses on the role of regulatory focus and two task-specific aspects of self-efficacy (i.e., creative and entrepreneurial self-efficacy) in opportunity recognition using a sample of 254 entrepreneurs with different industry backgrounds.

The results indicate that a promotion focus positively influences opportunity recognition. In particular, the more an entrepreneur strives for gains and views her/his goals in terms of ideals or aspirations (in contrast to trying to avoid losses and viewing goals in terms of duties and responsibilities) the more business opportunities she/he is able to recognize. In addition, the innovativeness of the opportunities identified also increases with an increasing promotion focus. Beyond this beneficial effect, a

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promotion focus can also compensate for low levels of entrepreneurs' creative and entrepreneurial self-efficacy (i.e., weak beliefs in individuals' skills to successfully master creative and entrepreneurial tasks, respectively). Thus, adopting a promotion focus can offset the negative effects of low creative and entrepreneurial self-efficacy on opportunity recognition.

Taken together, our research demonstrates that the way in which individuals frame their thinking and regulate their cognitions is important for recognizing entrepreneurial opportunities. Additionally, it underlines the interactive and compensatory nature of these processes. The study shows that being mentally oriented toward ideals and aspirations instead of duties and responsibilities provides an advantage in finding innovative solutions to business problems.

Our results are also relevant to entrepreneurship education targeted at enhancing opportunity recognition. Given that a promotion focus can be developed, teaching this framing strategy may result in an increased potential to conceive novel business ideas. Since trainings of self-efficacy are often used in entrepreneurship education, measures which foster the adoption of a promotion focus seem particularly fruitful for individuals who exhibit a lack of creative and entrepreneurial self-efficacy.

2. Introduction

Entrepreneurship scholars generally agree that there are individual differences in opportunity recognition (e.g., Eckhardt and Shane, 2003; Gaglio and Katz, 2001; Gartner and Shaver, 2004; Sarasvathy, 2004). The extant theory on opportunity recognition suggests that these differences are the result of a multitude of cognitive and other psychological processes that enterprising individuals employ in the entrepreneurial process (Baron, 2000, 2006; Busenitz and Barney, 1997; Eckhardt and Shane, 2003; Krueger, 1993; Shane, 2000, 2003; Venkatamaran, 1997). Therefore, it comes as no surprise that in the past years many entrepreneurship scholars have adopted a cognitive perspective (Gregoire et al., 2010b; Mitchell et al., 2002, 2007) in investigating the underlying dynamics of how and why some people and not others are able to discover and exploit particular entrepreneurial opportunities (e.g., Baron, 1998; Gaglio, 2004; Gaglio and Katz, 2001; Gregoire et al., 2010a). A starting point of many investigations is the intuitively appealing argument that entrepreneurs' interpretations of market environments differ from those of other economic agents (Alvarez and Busenitz, 2001; Shaver and Scott, 1991). However, only in recent years have scholars started to explicitly investigate the underlying cognitive mechanisms of *how* opportunities are recognized (Baron, 2006; Mitchell et al., 2007). Along these lines, there is an increasing number of research suggesting that entrepreneurs' self-regulation strategies may play a decisive role in the process of opportunity recognition (e.g., Baron, 2002, 2004; Brockner et al., 2004; Bryant, 2007; Gibbs, 2009; Hmieleski and Baron, 2008a; McMullen and Shepherd, 2002; Ozgen and Baron, 2007; Tang, 2009; Wu et al., 2008). Two central theories of self-regulation are at the core of this research: regulatory focus theory (i.e., explicating the way individuals regulate their own behavior to reach certain goals; cf. Higgins, 1997) and self-efficacy theory (i.e., explaining the role of individuals' belief in their capability to exercise control over certain tasks; cf. Bandura, 1997). Whereas research on the influence of regulatory focus on opportunity exploitation is very scarce (e.g., Hmieleski and Baron, 2008a), there has been some empirical evidence on the role of self-efficacy in opportunity recognition and exploitation in the past few years (e.g., Gibbs, 2009; Ozgen and Baron, 2007). However, our extant knowledge on both mechanisms' role in opportunity recognition has remained fragmented and inconclusive.

First, the as yet only study investigating the influence of regulatory focus on new venture performance (Hmieleski and Baron, 2008a) focuses on the late stage of opportunity exploitation (i.e., a stage when an opportunity has already been recognized and is being exploited) rather than the stage of opportunity recognition (i.e., the stage when a potentially successful business idea is identified or created rather than already exploited; see Shane and Venkatamaran, 2000). Second, most work on the role of self-efficacy in opportunity recognition is conceptual in nature (see Gibbs, 2009), whereas the few empirical studies examine self-reported opportunity recognition (e.g., Ozgen and Baron, 2007) or self-reported opportunity recognition perceptions and beliefs rather than investigating opportunity recognition *per se* (e.g., Gibbs, 2009). Hence, these studies have been criticized to suffer from biased relationships due to common source variance and/or self-report bias (e.g., social desirability, positive/negative affectivity, acquiescence, retrospective and recall bias; see Gregoire et al., 2010c; Podsakoff et al., 2003). Third, despite few promising exploratory studies and recent calls to integrate both theories of self-regulation (e.g., Bryant, 2007), there is as yet no systematic empirical research investigating both mechanisms' roles in opportunity recognition. Thus, despite existing evidence that both are relevant, it has remained unclear how these two central self-regulatory mechanisms interact in promoting opportunity recognition.

The present study addresses these limitations in the existing opportunity recognition literature. Our study makes the following important contributions. First, complementing previous research investigating the role of regulatory focus in the stage of new ventures' opportunity exploitation (Hmieleski and Baron, 2008a), we examine regulatory focus' impact on opportunity recognition in the pre-exploitation phase as called for by previous research (e.g., Brockner et al., 2004). Second, we contribute to the few existing studies on self-efficacy and opportunity recognition by applying a research design which overcomes previous methodological limitations (i.e., collecting data from multiple sources and using other-ratings of opportunity recognition rather than relying on self-report data). Third, integrating the two central theories of self-regulation used in previous entrepreneurship research – regulatory focus theory and self-efficacy theory – we argue and demonstrate that promotion focus and self-efficacy interact in a compensatory manner in influencing opportunity recognition.

The remainder of this article is structured as follows. The following section briefly outlines the basic assumptions of regulatory focus theory and discusses the role the two regulatory foci play in entrepreneurial behavior in general and opportunity recognition in particular. Subsequently, we discuss the existing literature linking self-efficacy and opportunity recognition. We then integrate both theories and hypothesize on their interaction. After describing our methods, we present the study's empirical results. Finally,

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