



# Uncertain but able: Entrepreneurial self-efficacy and novices' use of expert decision-logic under uncertainty



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## ABSTRACT

Entrepreneurs' initial strategy choices are made in the face of inherently uncertain and fundamentally unpredictable futures. Yet, unlike experts, novice entrepreneurs still tend to rely on predictions and forecasts as they move their ideas through the venture creation process. This study examines the role of entrepreneurial self-efficacy (ESE) and situational framing in mitigating the seemingly negative consequences of an "experience deficit" and promoting the use of effectuation - a non-predictive logic associated with entrepreneurial expertise. The results of a randomized experiment show that, in contrast to a control group and a low ESE group, novices who experienced an increase in ESE were more likely to use effectuation under uncertainty. This relationship was mediated by the framing of the situation as an opportunity.

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## 1. Introduction

Entrepreneurs' initial decisions are made in the face of uncertainty, which renders predictive decision-strategies as largely inadequate (Alvarez and Barney, 2007; Brinckmann et al., 2010; Miller, 2007; Wiltbank et al., 2006). Against this backdrop, 'effectuation' – a non-predictive logic used by expert entrepreneurs – is positioned as a viable alternative (Sarasvathy, 2001). Effectual logic does not require foresight but is rather concerned with directly shaping only those elements of the future currently within one's control (Sarasvathy, 2001; Wiltbank et al., 2006). By converging on a specific set of heuristics effectuation research is now starting to flesh out the logic's implications for the entrepreneurial process (Read et al., 2009; Sarasvathy, 2008). Yet, despite the rapidly growing volume of scholarship devoted to effectuation (Perry et al., 2011), research on its antecedents remains limited in scope.

Prior work found that, unlike novices, highly experienced entrepreneurs unequivocally rely on effectuation (Dew et al., 2009). The central assumption in interpreting these findings is that the development of expertise in starting new ventures leads to important changes in how individuals make decisions (Dew et al., 2009). However, this assumption was never directly tested and research to date falls short in rejecting alternatives to experience-based explanations (Baron, 2009). In light of recent studies documenting the use of effectuation by complete novices (e.g., Brettel et al., 2012; Chandler et al., 2011), it is evident that theory still does not adequately explain why entrepreneurs, confronted with identical conditions, vary in their reliance on effectuation?

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We offer a new perspective to explain this question by purposively attending to the other side of the “experience coin” – that is, the study of inexperienced entrepreneurs (e.g., Haynie et al., 2010). This setting represents a highly relevant, if understudied, empirical context and allows us to complement prior research while avoiding the conflation of other explanatory constructs with entrepreneurial experience. Using these boundary conditions as a starting point, we focus our investigation on the role of entrepreneurial self-efficacy (ESE) – a single construct that has not only been shown to impact entrepreneurial decision-making more generally (Chen et al., 1998; Hmieleski and Baron, 2008) but has also been overlooked in prior effectuation research.

## 2. ESE and effectuation: uncertainty as opportunity

Rooted in social cognitive theory (Bandura, 1997), ESE reflects the strengths of one’s confidence in the ability to perform entrepreneurial-tasks (Chen et al., 1998). Importantly, even when lacking any prior experience, individuals may be highly confident (Camerer and Lovallo, 1999; Townsend et al., 2010) and entrepreneurial decisions are often attributed to such (over)confidence in ability (Hayward et al., 2006; Koellinger et al., 2007; Wu and Knott, 2006). These features position ESE as an important antecedent of decision-making in general, but also as a common factor that may be shared by experts and novices alike. Moreover, ESE stimulates heuristic thinking and propagates the belief in the ability to directly shape the environment (Busenitz and Barney, 1997; Wood and Bandura, 1989). Hence, to the extent that effectual logic operates by playing down predictive information but in the same time utilizing proactiveness, agency, and control, ESE is a likely predictor (Saravathy and Dew, 2008).

Into that context, we piece together Dutton and Jackson’s (1987) work on situational framing to better understand how the same uncertain situation may be interpreted through different lenses, thereby evoking different strategic responses. When approaching decision-problems entrepreneurs convert the information they face into meaningful pictures through the imposition of simplified categories such as “opportunity” and “threat” (Dutton and Jackson, 1987). Unlike threats, opportunities carry positive meaning, and are associated with feelings of control (Jackson and Dutton, 1988). These salient characteristics of the opportunity frame provide the theoretical justification linking it to both ESE and effectuation (Gartner et al., 2008; Krueger and Dickson, 1994; Wiltbank et al., 2006). Simply put, when individuals feel confident about their entrepreneurial ability they are more likely to frame an uncertain environment as an opportunity and thus rely on effectual logic in their decisions. Fig. 1 summarizes our hypotheses.

## 3. Method

### 3.1. Participants and design

We conducted a randomized controlled experiment with a three-group between-participant design (Low ESE vs. High ESE vs. Control group). The sample consisted of 93 business students at a Dutch university (57 females and 36 males;  $M_{\text{age}}=23.80$ ,  $SD_{\text{age}}=1.61$ ) who indicated having no prior entrepreneurial experience.

### 3.2. Procedure and materials

An initial questionnaire was used to check whether participants’ scores on relevant variables (e.g., demographics, ESE, meta-cognition, risk-propensity) were identical coming in to the study – that is, whether randomization was successful. Moreover, it served as the vehicle to carry out our experimental manipulation. Next, participants were randomly assigned to receive (bogus) feedback about their entrepreneurial ability. The feedback received was said to have been derived from the scoring of the answers given so far (e.g., Gatewood et al., 2003). Participants in the control group received no feedback. As a manipulation check, ESE was measured again. Next, all participants were instructed to read through a scenario involving the launch of a new venture in which they were to assume the role of the entrepreneur and answer questions about their

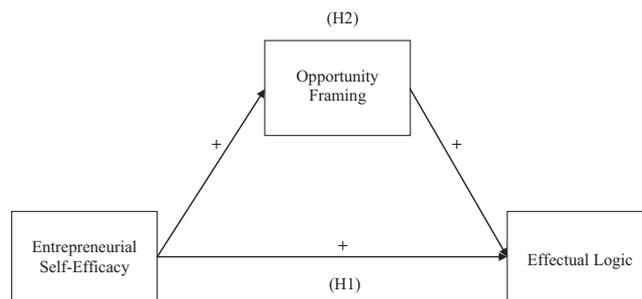


Fig. 1. Conceptual model.

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