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Journal of Business Venturing

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

Perceived psychological distance, construal processes, and abstractness of entrepreneurial action

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ARTICLE INFO

Keywords:

Entrepreneurial action
Construal level theory
Cross-lagged panel analysis
Panel Study of Entrepreneurial Dynamics
(PSED)

ABSTRACT

In this paper we develop the concept of abstractness as an underlying theoretical structure of entrepreneurial action, specifically to connect individual perception of psychological distance to entrepreneurial action. We draw on construal level theory to model distance and abstractness, using construal as the mechanism where, in new venture creation, entrepreneurs are expected over time to engage in more abstract action when they perceive greater psychological distance. Based on longitudinal data from 350 entrepreneurs, results from cross-lagged panel analysis indicate that psychological distance shapes the actions of entrepreneurs over time through social distance and hypotheticality. These findings advance entrepreneurial action research, practice, and pedagogy by showing that the apparently implicit relationship between entrepreneurial perception and entrepreneurial action may actually be quite explicit, when abstractness of action is seen as a construal-mechanism-based function of psychological distance.

Executive summary

At least since Kirzner (1980) argued that entrepreneurship depends in part upon perception, the role of perception in relation to entrepreneurial action has been under scrutiny (Casson, 1982; Corman et al., 1988; Gaglio and Katz, 2001; Krueger, 1993; Krueger and Carsrud, 1993; Krueger and Brazeal, 1994; Krueger and Dickson, 1994; Krueger, 2000; McGrath and MacMillan, 1992; Palich and Bagby, 1995; Sarasvathy et al., 1998; Simon et al., 2000; Simon and Houghton, 2002; and others). Thus, the unbundling of both perception (i.e., which perceptions lead to action?), and entrepreneurial action (which actions relate to a given set of perceptions?) has been an ongoing task, with each improvement in explanation prompting an even better one (e.g., Baucus et al., 2014; Lerner et al., 2018; Van Gelderen et al., 2015). It is within this dynamic research context that we have conducted a study that fills the gap needed to connect specific perceptions of entrepreneurs (in particular, those perceptions that distinguish perceived psychological distance); to specific entrepreneurial action (particularly types of entrepreneurial action that may be expected based upon their level of abstractness).

In our research we use construal level theory (CLT—as further explained below) as the theoretical mechanism to explain the connection of perception to action, to answer the research question: To what extent is the abstractness of entrepreneurial action (from

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<https://doi.org/10.1016/j.jbusvent.2018.01.001>

Received 23 February 2017; Received in revised form 20 December 2017; Accepted 3 January 2018

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primarily “thinking” to primarily “doing”) related to the perception of psychological distance? We suggest that a targeted application of CLT can help to answer this research question; and thereby can advance entrepreneurial action research, practice, and pedagogy by showing, in particular, that the apparently implicit relationship between entrepreneurial perception and entrepreneurial action may actually be quite explicit, when abstractness of action is seen as a construal-mechanism-based function of psychological distance.

We reason that psychological distance, an entrepreneur's perception of “near or far” with respect to a goal (Trope and Liberman, 2010; Wilson et al., 2013), is an especially useful form of perception to investigate, because CLT suggests that perceived proximity (proximate = near; distal = far) results in construals: personal comprehensions, interpretations evaluations, and regulation of observations about the social environment (Trope and Liberman, 2010); which then shape the types of entrepreneurial action that range on an abstractness continuum from primarily thinking (most-abstract), to primarily doing (most-concrete). The perception/action implicitness gap needs to be narrowed, because a great many theoretical and practical problems arise due to the implicit vs. explicit linkage between individual perception and entrepreneurial action such as prematurely plunging into a venture, rashly recoiling from the risk, or precipitately pivoting away from an idea.

We develop and test hypotheses based upon the literature-to-date suggestion that psychological distance and entrepreneurial action abstractness are likely to be positively related: specifically, that over time, high temporal, spatial, social, and hypotheticality psychological distance are related to higher abstractness of action (in four-levels: (1) thinking, (2) thinking-about doing, (3) doing-to-inform thinking, and (4) doing). Based on longitudinal data from 350 entrepreneurs, results from cross-lagged panel analysis indicate that only through social and hypotheticality distance, but not through temporal or spatial distance, do perceptions shape the actions of entrepreneurs over time.

Through this study, we contribute to the research literature that further improves explanations for how individual perception relates to acting entrepreneurially (McMullen and Dimov, 2013). We now can address several puzzling anomalies in entrepreneurial action research such as, for example, why perceptions sometimes have such a profound effect on entrepreneurial action. With a cross-lagged panel analysis we demonstrate how perceptions of social distance can be magnified in a self-reinforcing and possibly momentum-building loop. Other examples include, why doubt leads to hesitancy (McMullen and Shepherd, 2006) possibly stemming from hypotheticality distance perception; why action from self-efficacy has in the past been asserted to come from multiple assessments and analyses (Gist and Mitchell, 1992) instead of coming directly from perceptions (of social distance or hypotheticality); or why an inaction gap is assumed to exist (Van Gelderen et al., 2015) rather than expanding the scope of action to include an abstractness continuum (more abstract to more concrete) which then encompasses what previously might have been misconstrued as inaction because it was not sufficiently concrete, instead being thinking-based action. With respect to practice, we also can address some of the persistent problems that arise in venturing, teaching, and public policies that our findings can inform. These include mitigating the effects of social pressure on venture perceptions, explaining the problem with overemphasis on business plan preparation in entrepreneurship education, and suggesting the need to match the expectations from incubators vs. SBDCs to their capacity to transform perceptions into action.

1. Introduction

In 2003 a venture team of first-time entrepreneurs (which included an author on this paper) called it quits. Their venture was an Internet-based peer-to-peer video sharing and education platform, not unlike the now relatively well-known companies YouTube (introduced in 2005) and Udacity (introduced in 2010). They were first movers into this space, but they didn't continue due to conflicting perceptions of what action to take next. One founder perceived new venture creation to depend upon perfecting the technology before approaching the market. Other co-founders perceived new venture creation to depend more on launching the service in market, and less on fine-tuning the technology. Eventually, they chose the former. Why? What explains such perception-based preference for entrepreneurial action, as taken in the case of these new entrepreneurs—and similar preferences for actions taken in other cases of entrepreneurs much like them?

This question is important, because—as in the foregoing example—something happens in the apparently implicit relationship between entrepreneurial perception and entrepreneurial action that is not well understood. We know that without action, there would be no entrepreneurship (McMullen and Shepherd, 2006). And, since almost anyone can be an a priori entrepreneur (McMullen and Dimov, 2013), what animates entrepreneurship is not just what entrepreneurs think (Mitchell et al., 2007), but what they do (Gartner, 1989; McMullen and Shepherd, 2006). Still, knowledge gaps remain in developing explanations for the entrepreneurial process of thinking and doing (Baron, 2007; Bird et al., 2012; McMullen and Dimov, 2013; Randolph-Seng et al., 2015)—in particular to connect specific perceptions of entrepreneurs to specific entrepreneurial action. Therefore in this paper, we examine how the perceptions of entrepreneurs result in construals (Ross, 1987)—the personal processing of observations about the social environment—which then lead to entrepreneurial action that ranges on an abstractness continuum from primarily thinking (most-abstract), to primarily doing (most-concrete).

Helpfully, each construal in the perception-to-action process represents a type of perception: an underlying assessment of psychological distance—“near” or “far” relative to a goal (Trope and Liberman, 2010; Wilson et al., 2013). Since the goal of interest in our analysis is new venture creation, we argue in this paper that underlying assessments of psychological distance produce decision preferences that shape the composition of entrepreneurial action in new venture creation. In the case of the venture team in the opening case, their actions can be traced to differences in the individual perception of psychological distance: that is, which potential pathway as perceived by each person was nearer or farther in relation to the common goal of new venture creation. We therefore desired to answer the following research question: To what extent is the abstractness of entrepreneurial action related to the perception of psychological distance? We suggest that a targeted application of construal level theory can help to answer this question;

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