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Past as prologue: Entrepreneurial inaction decisions and subsequent action judgments

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ABSTRACT

We add richness and depth to entrepreneurial action theory by investigating the role of entrepreneurial *inaction decisions*—deliberate decisions not to pursue a perceived opportunity—in influencing entrepreneurs' paths both away from and toward action judgments on subsequent opportunities. Doing so, we utilize a sequential decision-judgment perspective to uniquely theorize that entrepreneurs' mental representations qualified by doubt carry over from initial entrepreneurial inaction decisions to consequentially impact assessments of opportunities that follow. Using two multi-stage scenario experiments where 244 founder entrepreneurs made a total of 690 sequential opportunity decisions, we find that initial inaction decisions negatively affect entrepreneurs' likelihood of subsequent action judgments. However, this effect is mitigated when entrepreneurs perceive subsequent opportunities as dissimilar, rather than similar. In that way, the initial inaction decision reduces assessments of the likelihood of subsequent action, but opportunity characteristics, such as dissimilarity, can spur entrepreneurs back toward action.

Executive summary

Despite the importance and value of entrepreneurial action theory (Dimov, 2010; Klein, 2008; McMullen and Shepherd, 2006), extant theory is limited by implicitly viewing *entrepreneurial inaction decisions*, defined as deliberate choices not to pursue a perceived opportunity, as insignificant or inconsequential. We challenge this notion by theorizing that important consequences flow from entrepreneurial inaction decisions. Specifically, entrepreneurial inaction decisions are an important determinant of entrepreneurs' subsequent opportunity judgments. We advance that entrepreneurial inaction decisions rest on mental representations of opportunities qualified by doubt and hypothesize that the doubt underpinning the initial decision carries over to engender a negative relationship between an entrepreneur's initial inaction decision and their judgments of the likelihood of action on subsequent opportunities. Further, we theorize that this relationship is contingent upon whether the initial decision is confirmed or disconfirmed and the degree to which subsequent opportunities are dissimilar to the initial opportunity.

We investigate this line of inquiry via two studies: (1) a free choice multi-stage decision experiment (main study-experiment 1); and (2) an assigned condition with control group multi-stage decision experiment (confirmatory study-experiment 2). We also collected qualitative data from an initial expert survey of entrepreneurs and from experiment participants, where they explained the rationale behind their opportunity decisions. We analyzed the experimental data using multilevel modeling (MLM)

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to account for within- and between-entrepreneur variance, and we analyzed the qualitative data using content analysis techniques.

Altogether, these efforts revealed that entrepreneurs' initial inaction decisions negatively influence their judged likelihood of subsequent entrepreneurial action. Further, characteristics of a subsequent opportunity represented a powerful effect such that the relationship between initial inaction decisions and judged likelihoods of subsequent entrepreneurial action is contingent on the *dissimilarity* of the subsequent opportunity. These findings demonstrate that an entrepreneur's history matters, and entrepreneurial inaction decisions are an important determinant of which opportunities entrepreneurs are likely to later pursue. By focusing on the influence of initial inaction decisions on subsequent judgments, we illuminate facets of entrepreneurship that have not previously been documented and advance entrepreneurial action and opportunity evaluation theory along several fronts.

1. Introduction

The pursuit of entrepreneurial opportunities is at the heart of entrepreneurship. While there are many activities associated with opportunity pursuit, judgments and decisions have been documented as fundamental to the process (Grégoire et al., 2011; Wood and McKelvie, 2015). This is because these cognitive elements ultimately drive whether action on a perceived opportunity is taken or not (Edelman and Renko, 2010; McMullen and Shepherd, 2006). As such, focusing on entrepreneurial cognition advanced entrepreneurial action theory by articulating the decision to act as a defining moment for entrepreneurs (Dimov, 2010; Klein, 2008; Meek et al., 2010). Central to the cognitive approach is an emphasis on the dynamic nature of entrepreneurship whereby individuals interpret circumstances as opportunities and then decide whether or not to pursue them in the form of action, such as the assembly of resources required to develop a new product or service or the establishment of a new business (Autio et al., 2013; Shane and Venkataraman, 2000). This approach provides a detailed account of the antecedents to action decisions (Meek et al., 2010; Mitchell and Shepherd, 2010; Wood and Williams, 2014) as well as the consequences (i.e., outcomes of specific actions one takes) that result from action choices (Bornstein, 2004; Foss et al., 2007).

Although immensely valuable, the richness of these contributions is intently focused on the antecedents and consequences of *action decisions* and thus masks the potential dynamics associated with *entrepreneurial inaction decisions,* defined as deliberate choices not to pursue a perceived opportunity. At first glance, this does not appear to be problematic because action/inaction decisions are dichotomous choices made by entrepreneurs where they must either decide to move forward or not, hence the antecedents to action and inaction decisions are the same. For example, prior scholarship points to variations in factors such as uncertainty (McKelvie et al., 2011), doubt (McMullen and Shepherd, 2006) and fear (Mitchell and Shepherd, 2010) that are negatively related to entrepreneurial action and thus, by extension, positively charge inaction decisions. In that way, the antecedents to inaction decisions have been illuminated by the same research designed to determine when entrepreneurs decide to act.

The same, however, cannot be said for the *consequences* of inaction decisions because this choice reflects a trajectory separate and distinct from action decisions (McMullen, 2015). Specifically, when entrepreneurs decide to act, there are clear consequences that flow from action with various research streams noting that entrepreneurs do things like refine the opportunity (Ardichvili et al., 2003) and commit scarce resources (Baker and Nelson, 2005) on the road to exploiting the opportunity (Bakker and Shepherd, 2015). By contrast, when entrepreneurs decide not to act, there are seemingly no behaviors to observe, and thus what happens next (i.e., the consequences) is ignored because the potential of human agency has yet to be exercised. Put differently, scholars are focused on action, and the effect of entrepreneurial inaction decisions are considered insignificant events where there is nothing further of interest. The net effect is that the literature to date assumes that an inaction decision is the end of the opportunity pursuit story.[1]

We challenge this implicit assumption by advancing that entrepreneurial inaction decisions have important overlooked consequences both for entrepreneurship theory and for entrepreneurs making such decisions. Our position is grounded in two key realizations. First, recent advances in entrepreneurial action theory conceptualize opportunity pursuit as a process of interlaced activities (Dimov, 2011; McMullen and Dimov, 2013; Shepherd, 2015). When we move from single to multiple opportunity models (Gruber et al., 2008; Hill and Birkinshaw, 2010), the interconnectedness between initial decisions and subsequent judgments come into focus and gives rise to the possibility that the outcome of an initial opportunity inaction decision can be consequential in the judgments that follow. Second, the intent focus on action as the outcome of interest has crowded out an important stream of cognition literature detailing that individuals differentially recall, rationalize, and respond to past inaction versus action decisions, and these considerations matter for what actions do or do not happen next (see Anderson, 2003 for a review). Put differently, cognitive science research indicates that one's past inaction decisions can produce downstream effects when it comes to the judgments and decisions that follow (Anderson, 2003; Tykocinski et al., 1995; Zeelenberg et al., 2006). In line with this, anecdotal evidence suggests such dynamics in entrepreneurs' decision making, as well-regarded entrepreneurs like Amazon founder Jeff Bezos frequently discuss past inaction decisions as a factor in how they think about potential opportunities today (Stillman, 2014). In light of this, we explore the following research question: *Can initial entrepreneurial inaction decisions influence entrepreneurs' subsequent opportunity action judgments?*

We investigate this question by first advancing a conceptual model that posits entrepreneurial inaction decisions rest on mental representations of opportunities qualified by doubt, and that these dynamics become engrained in memory and evoked in

[1] This assumption is not explicit, but rather it exits in the form of what Kuhn (2012) called a "shared theoretical structure and methodological approach about which there is a high level of consensus" (Cole, 1983: 112), a situation that Burrel and Morgan (1979) note can lead to an overly narrow view.