

Outcome of Entrepreneurial Cognitions: Opportunity Recognition Venture Creation and Counterfactual Thinking

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Abstract

In recent times, the application of ideas and concepts from cognitive science has gained importance within entrepreneurship research. It is believed that the constructs, variables and relationships within the cognitive perspective offer research concepts and techniques that are well suited to the analysis of problems that require better explanations of the contributions to entrepreneurship. This article, with a strong backing of literature, briefly explains the outcome of entrepreneurial cognitions such as opportunity recognition, venture creation and counterfactual thinking.

Key words: Entrepreneurial cognitions, Opportunity recognition, Venture creation, Counterfactual thinking.

Introduction

In order to be successful, all entrepreneurs must possess some sort of entrepreneurial motivation and spirit. However, high-technology entrepreneurs usually depend on the transfer of knowledge learned or created at other existing organizations. Entrepreneurial knowledge is typically transferred by the personal acquisition of the knowledge from the source organization. To acquire knowledge, an individual must have been exposed to the source of knowledge. Different knowledge development systems create different sets of capabilities, which collectively build different types of competences. Different types of knowledge development systems and competences create different types of entrepreneurs (Wright, 1997).

Entrepreneurship, cognitions and entrepreneurial cognitions

There is a greater need for definitional development so as to understand how entrepreneurs think and make decisions. The term 'entrepreneurial cognition' consists of two different concepts. For arriving the combined meaning of these two terms, the domain of each term is considered and defined separately.

Entrepreneurship

Entrepreneurship is usually about very determined people, people who make their own circumstances and break and succeed. Entrepreneurship is fundamentally about people and ideas. Entrepreneurship differs from Business. To stay in business, an entrepreneur has to match that idea or dream with what a customer thinks and what he or she wants, and again this requires understanding people. In other words, entrepreneurship is about individuals who create opportunities where others do not, and who attempt to exploit those opportunities through various modes of organizing, without regard to resources currently controlled (Stevenson & Jarillo, 1990).

Cognitions

Cognition and cognitive psychology concern themselves with the study of individual perceptions, memory, and thinking. Cognitions have been defined as all processes, by which sensory input is transformed, reduced, elaborated, stored, recovered, and used (Neisser, 1967). Cognitive psychology emerged to help explain the mental processes that occur within individuals as they interact with other people and the environment around them.

Entrepreneurial Cognitions

Based on the definitions of entrepreneurship and cognitions, entrepreneurial cognitions is defined as follows: entrepreneurial cognitions are the knowledge structures that people use to make assessments, judgments, or decisions involving opportunity evaluation, venture creation, and growth. In other words, research in entrepreneurial cognition is about understanding how entrepreneurs use simplifying mental models to piece together previously unconnected information that helps them to identify and invent new products or services, and to assemble the necessary resources to start and grow businesses (Mitchell, et al., 2002).

Outcome of Entrepreneurial Cognitions

The cognitive viewpoint may be seen to serve well as an effective tool in probing and explaining the previously unexplained phenomena within the entrepreneurship research domain. The outcome of entrepreneurial cognitions is explained below:

Opportunity Recognition and Venture Creation

Over the last decade, research and theory development in the field of entrepreneurship has moved from the study of individual differences/personal characteristics toward integrated models of entrepreneurship as a process. The founding of an organization to pursue an entrepreneurial opportunity is otherwise called as an "Entrepreneurial Event". Similarly, entrepreneurship is viewed as the process of creating value by combining resources to exploit an opportunity. The recognition of the opportunity may be the critical first step of the entrepreneurship process (Hills, 1995).

Entrepreneurial activity involves new venture creation and new entry into promising markets. These efforts revolve around a core process: recognizing opportunity (Kirzner, 1973). Opportunity recognition does have distinctive characteristics that can be identified and tested. In particular, the opportunity search and identification characteristics of individual entrepreneurs tend to fall into two broad categories: a solo activity that involves creativity by opportunistic entrepreneurs who have a good feel for the market and a network activity, that is, entrepreneurs who learn of opportunities through contacts with others and assess their viability through open discussion and trial and error; a sequence of activities carried on by the entrepreneurs who learn of opportunities on their efforts and assess them using their cognitive skills. These two opportunity recognition modes, in turn, are uniquely related to other personal preferences and features of business creation.

Many definitions of entrepreneurship have increasingly focused on opportunity as central to understanding the phenomenon. There is still little known about the sensitivity of entrepreneurs to opportunities or the cognitive processes they use to identify opportunities. The following is the cognitive process entrepreneurs generally undergo to identify the relevant opportunity and thereby create a new venture (Hills, 1997).

Entrepreneurs' Opportunity Recognition Capabilities

Developing the capabilities for the identification of new business opportunities is a must for entrepreneurs. It would be easy for those entrepreneurs who have considerable experience base with opportunities.

Self-perceived Entrepreneurial Alertness

Many entrepreneurs strongly see themselves as "entrepreneurially alert." Overwhelmingly, entrepreneurs have a 'special alertness' toward opportunities; see new business opportunities 'naturally'; and even enjoy casually thinking about new opportunities.

Importance of Venture Ideas and Creativity

A "venture idea" is not necessarily an "opportunity". Generally, entrepreneurs do not have problems coming up with ideas for businesses. They do accept that creativity is important and like to be creative. Entrepreneurs who are networked to opportunity sources may not need to be creative as those who are not, because they have access to a wider range of information and 'creativity' through network ties.

Evaluation of Opportunities

The entrepreneurs consider intuitive judgment to be an important part of judging market potential. Their intuitive judgment process is supported by the Business Skills Cognition of the entrepreneurs for assessing the identified opportunities and thereby choosing the best one which is, then, transformed as a venture. Hence, this stage is very significant for the entrepreneurs in the process of recognition of opportunities.

Venture Creation

New ventures are the source of considerable economic growth and a primary source of wealth creation. Venture creation greatly depends on venture support capabilities, space for innovation, compensation that encourages risk taking and an entrepreneurial culture and heritage. Every venture strategy requires capital and an enlightened and forward-looking entrepreneur.

Counterfactual Thinking

One aspect of cognition appears to be potentially relevant to entrepreneurship, but which has not yet been investigated, a mechanism known as counterfactual thinking (Mandel & Lehman, 1996).

This involves the tendency to imagine “what might have been” in a specific situation if the person in question had acted differently in it, and it appears to be relevant to entrepreneurship for several reasons. First, counterfactual thinking is closely linked to the experience of regret over missed opportunities. In fact, it appears that thinking over about what might have happened if these opportunities had not been missed is one important cause of the intense feelings of regret many persons experience in such situations.

Second, recent findings (Roses, 1997) suggest that counterfactual thinking is especially likely in situations where individuals experience disappointing outcomes. Entrepreneurs, of course, often meet with such setbacks in the early days of their new ventures (Hatten, 1997). Moreover, their commitment to their ideas, businesses, and products, is frequently intense, thus magnifying the negative emotions generated by these disappointments. For these reasons, it seemed possible that entrepreneurs would be more likely than other persons to engage in counterfactual thinking. Consistent with this reasoning, attempts could be made to understand whether entrepreneurs are more likely than other persons to engage in counterfactual thinking with respect to situations involving missed opportunities and if so, they experience more or stronger feelings of regret over missed opportunities than other persons.

Conclusion

Cognitive mechanisms into the study of entrepreneurship may provide researchers with important conceptual tools invaluable in understanding not only “the mind of the entrepreneur”, but also factors that influence entrepreneurs’ success as well. Entrepreneurial cognition theory reveals that cognition is associated with entrepreneurship, entrepreneurial performance, and the creation of economic independence by individuals, and within firms, industries, and economies. The utility of the entrepreneurial cognition perspective is sufficient to suggest that within entrepreneurial cognition research, sufficient technical machinery is available to give researchers the means to better define and measure the contribution of “entrepreneurial people” to the tasks of entrepreneurship: opportunity recognition, opportunity evaluation, venture creation, and wealth building in general.

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