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Editorial

Entrepreneurial decision making: A paradigm rather than a set of questions Introduction to special section based on Lally–Darden–Humboldt Young Entrepreneurship Scholars' Retreat 2006

In October 2006, the young entrepreneurship scholars' retreat took place near Berlin, Germany — for the first time outside North America. This invitation-only academic salon is devoted to the exploration of fundamental theoretical and empirical questions in the domain of entrepreneurship. In the lovely atmosphere of Castle Liebenberg, 42 participants, roughly half of them from the United States and Canada, roughly half of them from Europe, and one from Asia, presented papers and intensively discussed their work.

The retreat took place under the heading *entrepreneurial decision making*. All papers underwent a thorough double blind peer review and numerous revision rounds. Seven papers reached a publishable state. Four of them appear as a special issue of Small Business Economics, co-edited by Don Siegel and myself (Schade and Siegel, 2008). Three of them form this special section of the Journal of Business Venturing.

Why is entrepreneurial decision making an important topic? (1) Because it leads to a number of interesting research questions or (2) because decisions are at the core of what entrepreneurs and venture capitalists do? From my perspective, the latter is certainly correct but slightly misses the point, and the first implies jumping too short. Let me further elaborate on this statement.

Examples for decisions of entrepreneurs are whether or not to exploit an opportunity, how to enter a market, how to react to competitors, or whether or not to terminate the business. Examples for decisions of venture capitalists are whether or not to invest into a business, whether or not to re-invest, how much consulting to allocate to a business, or what exit strategy to pursue. As these examples show, entrepreneurial decision making is rather a paradigm[1] than a set of questions; a paradigm that might be applied to a variety of research questions. It is a paradigm because it proposes *a specific way to look at things*. Applying this paradigm, the question "who is the entrepreneur", for example, would be analyzed based on economic decisions rather than personality inventories from psychology; the question "What impact do networks have on entrepreneurial phenomena?" would not be answered by analyzing the network structure, but in terms of the decision of an entrepreneur of whether or not to contact a specific person or to maintain a relationship or how much time to invest into networking (for more examples see Schade and Burmeister (2008)).

Understanding decision making often requires detailed data, preferably on an individual level. For many cases, data from questionnaire experiments, laboratory experiments, or conjoint experiments are especially suited for the analysis of decisions (Schade and Burmeister, 2008; Schade, 2005). Whereas questionnaire experiments already have some tradition in entrepreneurship (e.g., the study on the representativeness bias by Busenitz and Barney (1997) and the study on the status quo bias by Burmeister and Schade (2007)), some authors elicit hypothetical decisions based on cases (e.g., Simon et al., 1999), and laboratory experiments are still somewhat rare (Camerer and Lovallo, 1997 with a study on market entry that these authors may or may not have seen as a contribution also to entrepreneurship).

However, as two of the studies in this special section, the studies of Ding, Nowak, and Zhang as well as Townsend, Busenitz, and Arthurs, clearly demonstrate, there are also non-experimental sources of data well-suited for the analysis of decision making. Using non-experimental data is possible whenever research design and statistical analyses allow for the exclusion of alternative explanations of the findings.

The reason why I call entrepreneurial decision making a paradigm, however, is not only due to the way to look at phenomena and data requirements but because the specific perspective on phenomena requires specific theory, too. I will demonstrate this by analyzing in some detail the question of which markets a startup firm is going to enter. One take on this, based on the strategy literature, would be to look for specific resources (Alvarez and Busenitz, 2001): Does the entrepreneur have the specific skills to tackle the problems that may arise after entering for example, a biotechnology market? A decision making take on this would try to specify and model the exogenous (consumers, technology etc.) risks as well as the endogenous (competitors, suppliers etc.) risks.

[1] According to Kuhn (1996) a scientific paradigm has four elements. It includes (1) the subject that is to be observed and scrutinized, (2) the questions that are supposed to be asked and probed for answers in relation to this subject, (3) the structure of these questions, and (4) the interpretation of the results of scientific investigations.

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A so-called "normative" approach would then assume rationality and make prescriptions about behavior, a "descriptive" approach would rather look at how decision makers typically behave and use descriptive models for predictions (e.g., Kleindorfer et al., 1993). The models to be applied here mostly stem from (normative or descriptive) decision or (normative or descriptive) game theory (for the latter see Camerer (2003)). For the example at hand, the risk that the "technology" may fail or consumers may not accept the biotechnological product will be tackled as an exogenous factor: Risk perception and risk propensity are both examples for factors that could be derived from decision theory to better understand this part of the behavior. The risk that too many competitors could enter the market with substitutive products could, for example, be modeled as a simultaneous market entry problem that has been analyzed in game theory (Selten and Güth, 1982).

Hence, entrepreneurial decision making could be seen as a concept that complements other concepts such as the resource-based view of the firm or theories of the entrepreneurial firm based on dispersed knowledge (Dew et al., 2004) and helps deriving accurate explanations and predictions of entrepreneurial phenomena. In fact, a long-term perspective on theory development in entrepreneurship could be seen in integrating these theories to a holistic approach. In the field of entrepreneurship, integrating such theories is more natural than, say, in management, since often it is the individual that is in the focus of the analysis.

The papers in this special section are somewhat reflective of these thoughts: They all share the perspective by putting the individuals' decisions in the middle of the analysis.

Yuan Ding, Eric Nowak, and Hua Zhang investigate the entrepreneurial decision on which stock market Chinese entrepreneurial firms should list. With their unique hand-collected firm-level data set, the authors argue that the decision to list is a question of entrepreneurial signalling and a trade-off between long-term and short-term financial benefits. The authors find that those firms that decide for domestic listing on the Shenzhen second board market have higher P–E ratios, lower IPO cost, and less complex regulation requirements than those listed on the international Hong Kong second board market. Thus, the authors contend that listing on Shenzhen is related with realizing short-term benefits rather than strategic consideration such as long-term growth.

David M. Townsend, Lowell M. Busenitz, and Jonathan Arthurs shed light on the decision to start a venture by distinguishing the impact of outcome expectations and ability expectations. With their longitudinal study of 316 entrepreneurs and the separate measurement of both constructs, the authors are able to argue that rather confidence in own abilities than confidence in optimistic outcomes predicts the decision to start a venture.

Dawn Detienne addresses the role that entrepreneurial exit plays in the entrepreneurial process. She argues that the entrepreneurial process is insufficiently understood without the inclusion of exit. She demonstrates the importance of entrepreneurial exit to the individual entrepreneur, the industry, and the economy. Building on the model by Cardon et al. (2005), Dawn Detienne systematically analyzes how an exit strategy develops, what the reasons for ceasing the entrepreneurial option are, and from what kind of exits an entrepreneur can choose.

The retreat where these and many other papers were presented was sponsored by the Lally School of Management and Technology at Rensselaer Polytechnic Institute, the HANIEL Foundation, the Deutsche Kreditbank AG, and the Society for Economics and Management at Humboldt-Universität zu Berlin. In addition to the financial assistance that made this retreat possible, I would like to thank my team at the Institute for Entrepreneurial Studies and Innovation Management that supported me in organizing this inspiring event, and the team of the Management School at Deutsche Kreditbank for making us all feel very welcome. Special thanks go to Katrin Burmeister who helped me in organizing the review process from the first submission to the final versions of this special issue.

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