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Entrepreneurial decision-making amidst uncertainty and resource constraints in the SIDS context: a research agenda

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Introduction

Background

- Entrepreneur(ship)
 1. Are vital for economic development (commercialization of innovation) (Acs, Desai & Hessels, 2008)
 2. Are influenced by their context (uncertainty and resource constraints) (Murmann & Sardana, 2012)

Problem

- Lack of theoretical framework to study decision-making in context characterized by both uncertainty and resource constraints



Introduction (cont'd)

Research Question

- How do entrepreneurs make decisions amidst uncertainty and resource constraints?

Objective

- Develop a theoretical framework and research propositions of entrepreneurial decision-making amidst uncertainty and resource constraints





Introduction (cont'd)

Effectuation “Theory”

- Entrepreneurs use a control logic when making decisions under uncertainty

Entrepreneurial Bricolage Theory

- Making do by applying combinations of the resources at hand to new problems and opportunities





Introduction (cont'd)

Empirical Context

- Emerging economies (Hoskisson, 2000)
- Small Island Development States (SIDS) as a sub-segment
 - Small size and isolated from large markets (Dolman, 1985)
 - Vulnerable to external economic shocks (Guillaumont, 2010)
 - Weak governance and institutional structures (McGillivray *et al.*, 2010)





Literature Review

Entrepreneurial Risk Management

- Traditional trade approaches: e.g. risk propensity
- Cognitive approaches: gather, assimilate and process information – RPQ rationality (Lipshitz & Strauss, 1997)
- Weakness: bounded rationality (Simon, 1955)
- Heuristics and cognitive biases (Busenitz, 1999)



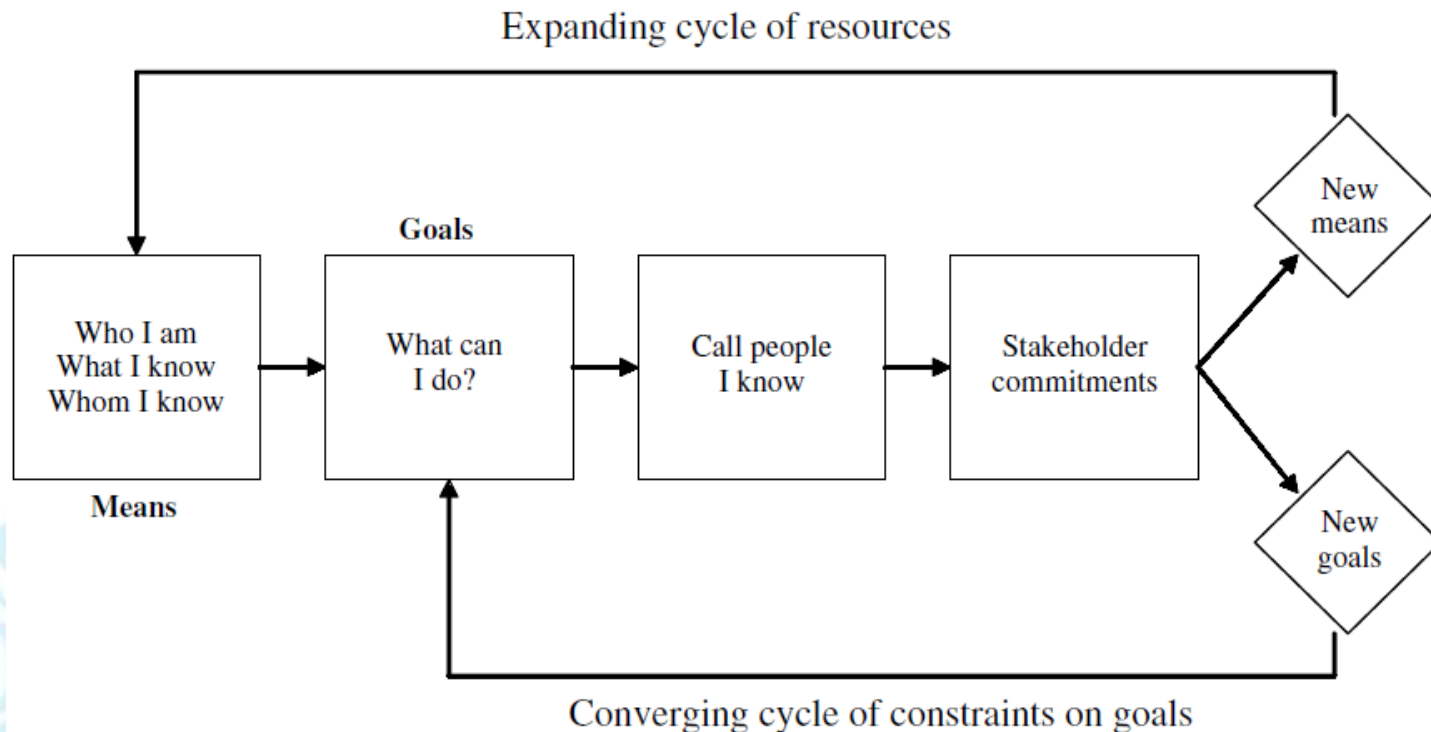
Literature review (cont'd)

Effectuation “Theory”

- Control rationality (Sarasvathy, 2001)
- Heuristics: 1. affordable loss, 2. goal ambiguity
- Cognitive biases: 1. overconfidence, 2. illusion of control
- Strategies: 1. pre-committed stakeholders (Sarasvathy & Dew, 2003), 2. exploitation of contingencies (Dew *et al.*, 2010)

Literature review (cont'd)

Effectuation “Theory” and Innovation



Source: Dew et al., (2010)

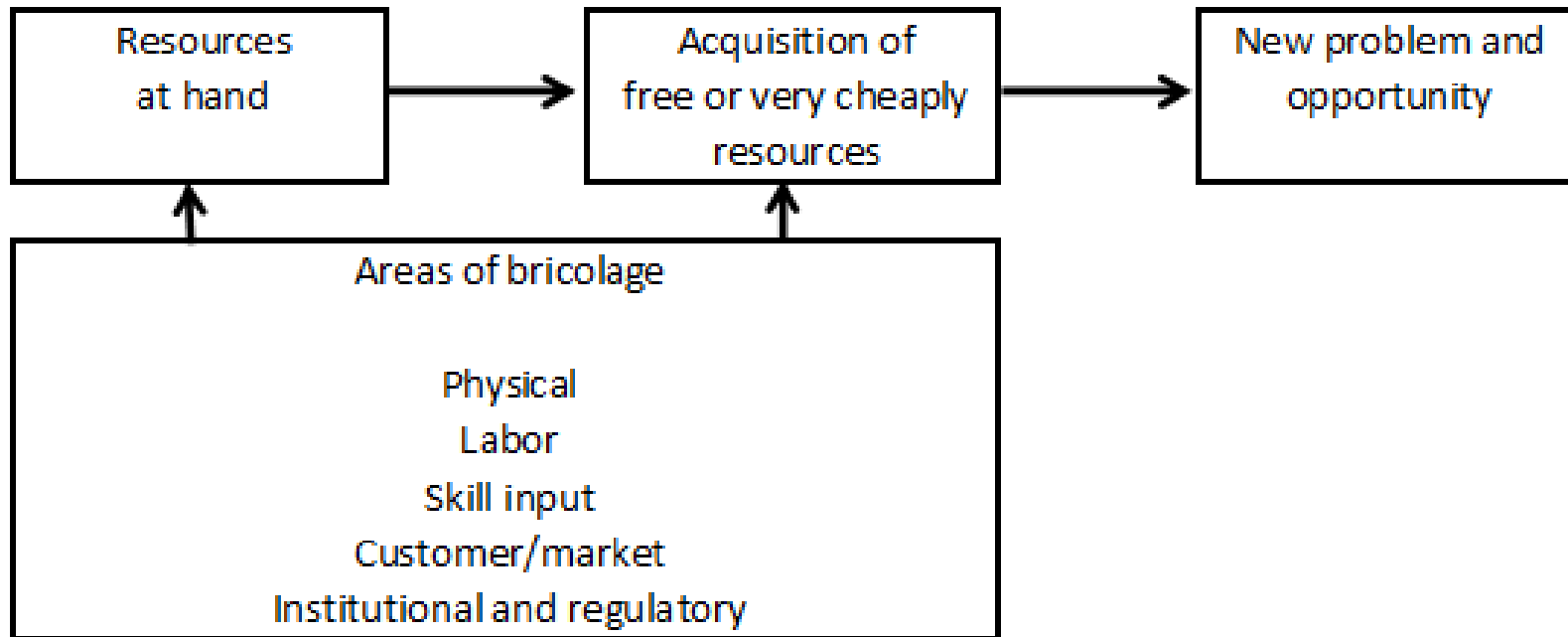
Literature review (cont'd)

Entrepreneurial Bricolage Theory

- “making do by applying combinations of the resources at hand to new problems and opportunities” (Baker & Nelson, 2005, p. 6)
- Making do: create something from nothing (Di Domenico *et al.*, 2010)
- Resources: at hand and are available for free or very cheaply; It is also the refusal to accept the limitations imposed by the resources according to ‘collective wisdom’ or routines that have been universally accepted (Di Domenico *et al.*, 2010)
- Application areas: physical, labor, and skills inputs, customer/markets, and to institutional and regulatory environment (Baker & Nelson, 2005)

Literature review (cont'd)

Entrepreneurial Bricolage Theory and Innovation



Source: Baker & Nelson (2005)

Theoretical Framework

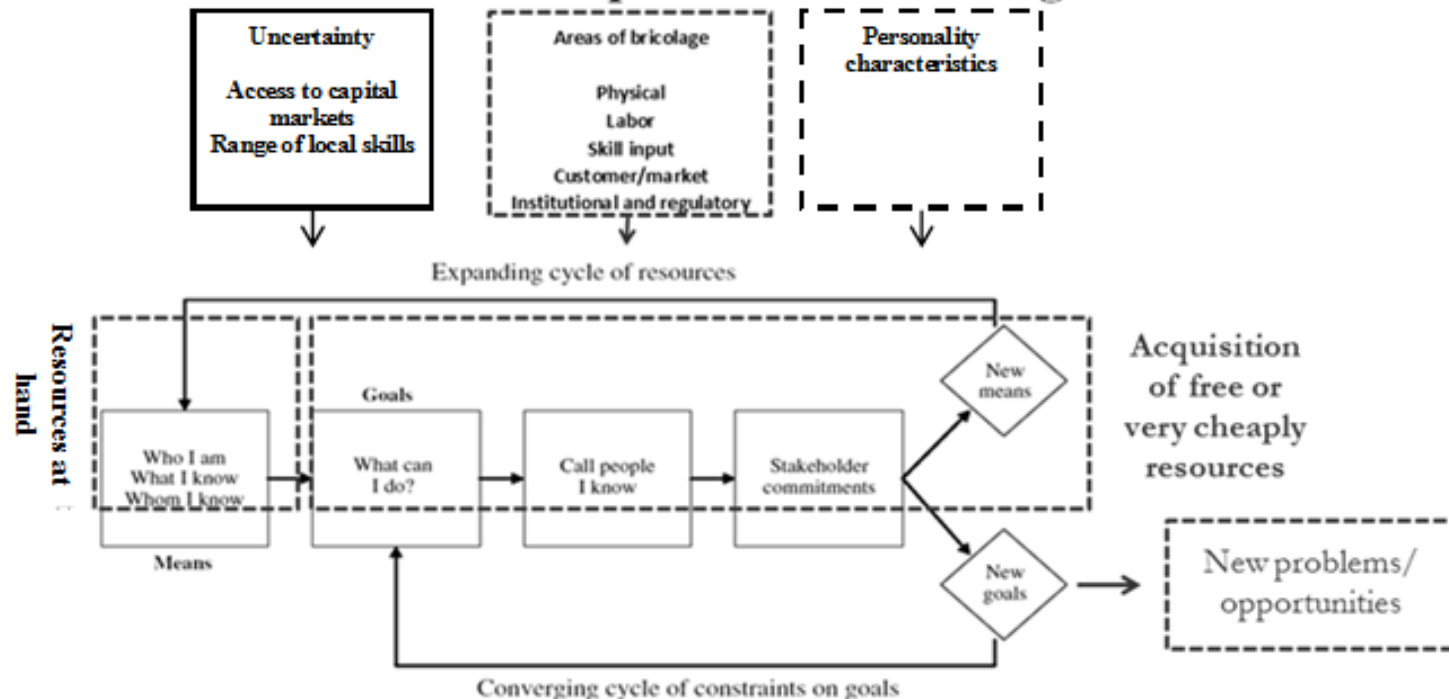
Theoretical Integration

	Effectuation	Entrepreneurial Bricolage
Assumption 1	Social co-shaping process	Social co-shaping process
Assumption 2	Means available	Make do with resources
Assumption 3	Control rationality	NA
Heuristic 1	Affordable loss	Free or cheaply
Heuristic 2	Goal ambiguity	Shape new problems/ opportunities
Strategy 1	Network to increase means	Network to increase resources
Strategy 2	Exploitation of contingencies	Challenge limitations imposed
Biases	Illusion of control and overconfidence bias	NA

Theoretical Framework (cont'd)

Theoretical Integration

Effectuation + entrepreneurial bricolage theories:





Propositions

SIDS Context

- Spatial dimension (Zahra & Wright, 2011)
 1. The limited access to capital markets, 2. the very narrow range of local skills



Propositions (cont'd)

Propositions

1. **Entrepreneurs operating in the SIDS context will perceive the access to capital markets and wide range of local skills as uncertain**
Under these conditions entrepreneurs
 2. ... use the affordable loss heuristic
 3. ... use the goal ambiguity heuristic
 4. ... experience moderate levels of overconfidence bias and illusion of control
 5. ... will not use pre-commitment from stakeholders
 6. ... recombine resources at hand with acquired resources
 7. ... will exploit contingencies
 8. ... produce service innovations that embody new means-ends relationships



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Thank You

