Entrepreneurs Choose Persistence Over Adventure

Daniel Holland
Associate Professor, Huntsman
Scholar Lead Faculty Fellow

Email: daniel.holland@usu.edu
Office Phone: 435.797.3132

When considering potential new opportunities, entrepreneurs typically contemplate the possible financial and non-financial benefits that may be generated and the probability of successfully starting the business. Unsurprisingly, if the new opportunity is perceived to be able to generate a lot of benefits, the entrepreneur will be more likely to pursue the opportunity. Similarly, the higher the perceived probability of success, the greater the motivation to start the business. Entrepreneurship research has shown that these two factors also have a multiplicative effect on motivation in that the attractiveness of the opportunity increases even more dramatically when both value and probability are high.

Interestingly, the same maximizing effect does not seem to apply when entrepreneurs are making the choice of whether or not to persist with a new venture that they have already started. Recent research by Dan Holland, Associate Professor of Entrepreneurship at the Huntsman School of Business, and his colleague Robert Garrett at Louisville University, found that persistence decisions significantly differ from start-up decisions. Holland and Garrett presented 135 entrepreneurs with a variety of decision scenarios to determine the key factors that influence their choices. They found that when entrepreneurs are comparing their existing business with another possible opportunity, they tend to choose to persist with the current business as long as the current business has comparatively high value or a higher probability of success. In other words, the findings suggest that if the potential value of the current business is higher than the alternative, then the probability of success has a muted influence on the decision. Or, if the probability for a successful outcome in the current business is higher than the alternative, then the impact of the value factor is not as prominent.

There are a number of possible explanations for why entrepreneurs are less concerned with maximization and seem to have a bias towards sticking with the current business. For example, there are substantial societal pressures to persist. In general, society does not expect people to pursue every opportunity they see, even promising ones, but there is often an expectation that a person should persist with something they have started. Another potential explanation may be the switching costs associated with changing from one business to another. Entrepreneurs make financial, social, and psychological investments in any business that they start and exiting that business and starting a new one may leave a sense of loss regarding those previous investments, even if the new opportunity has great promise.
There is an upside and a potential downside to entrepreneurs' tendency to persist. New venture creation is a difficult journey that is full of roadblocks, setbacks, and turns. Entrepreneurs must be able to persist in order to overcome such challenges and ultimately create a successful business. On the other hand, persistence can be detrimental if entrepreneurs become overly attached to their current firms and they reject new opportunities that could have resulted in greater returns on investment. Time and resources may be more productively spent elsewhere. This type of research will help entrepreneurs to increase their understanding of decision-making processes and ultimately make higher quality decisions when considering persistence or the pursuit of new opportunities.