

Application of New Theory in Entrepreneurship: Social Cognition

Ryan L. Matthews, r.lmatthews@hotmail.com

Kelly R. Hall, krhall@stetson.edu

Lucy M. Matthews, lucy.matthews@mtsu.edu

Introduction

The introduction of Social Cognition Theory (SCT) widens our understanding of how individual differences may affect the individual “thinker.” SCT states that individuals are reliant on large amounts of stored knowledge (Fiske & Taylor, 1984). SCT is appropriate for the study of entrepreneurship because it links “thinking” from within an individual to the act of “doing” (Fiske & Taylor, 1984). The basic premise of entrepreneurship is action or doing (McMullen & Shepherd, 2006b). Our perspective paper contributes to entrepreneurship literature by building upon insights gained through prior studies related to cognition and by introducing and making a compelling case about of the value of social cognition theory for deepening our understanding of entrepreneurship.

LITERATURE REVIEW

Cognition

Definitions of cognition abound. Cognition has been defined broadly as “life is cognition” (Cruse, 2003) and more narrowly as “human only” characteristics (Cruse, 2003). We define cognition as: A mental action or process of acquiring knowledge and understanding through thought and experience (Fiske, 1993; Fiske & Taylor, 1984, 2008). This definition fits for multiple reasons. First, entrepreneurship and the foundation of entrepreneurship is action (McMullen & Shepherd, 2006a). This action comes from behavior which is derived from thought (Baumeister & Masicampo, 2010; Powell, Lovallo, & Fox, 2011). These thoughts are derived from mental action which is a foundational element in the definition of cognition (Fiske, 1993; Fiske & Taylor, 1984, 2008). Second, this definition discusses the importance of acquiring knowledge through experience. Prior knowledge is instrumental in entrepreneurship (Ardichvile, Cardozo, & Sourav, 2003; Corbett, 2007). Lastly, this definition of cognition is generally accepted in the fields of psychology (Fiske & Taylor, 1984, 2008) and entrepreneurship alike (Busenitz & Lau, 1996; Corbett, 2007).

The three key words in the above cognition definition are actions, behavior, and thought. These words are used as linkages between theory and entrepreneurship; therefore the following definitions are used within the context of this research. Actions are described as an act or process of doing something (Fiske & Taylor, 2008). Behavior is defined as the way one acts or conducts oneself in response to a particular situation or stimulus (Fiske & Taylor, 2008). Finally, thought is defined as an act or process of remembering someone or something that occurs while using one’s mind actively to form connected ideas (Fiske & Taylor, 2008).

Social Cognition Theory (SCT)

Social cognition concerns how people make sense of other people and themselves. Fiske & Taylor (1984) expanded making sense of other people and themselves by initiating a linkage between “thinking” and “doing”, with “thinking” being an important element of social cognition. Thinking is known as having an adaptive mind or one that enables its owner to override automated action plans (Macrae & Bodenhausen, 2000). The doing portion of social cognition is an output of thinking, upon which the action that guides behavior is a flexible manner (Macrae & Bodenhausen, 2000).

Basic features of social cognition include social schema and some concern with real world issues (Fiske & Taylor, 1984, 2008). Social schema is defined as a cognitive structure that embodies one’s overall knowledge about a given topic (Fiske & Taylor, 1984, 2008). This knowledge includes both relevant attributes (independent, friendly, competitive) and relationship attributes (what your independence has to do with friendliness). General knowledge about ourselves and others empowers us to be effective in a competitive world.

Cognition in Entrepreneurship

In recent years, cognitive research in entrepreneurship has flourished. The most widely accepted definition of entrepreneurial cognition is knowledge structures that people use to make assessments or decisions involving business recognition, evaluation, formation and growth (Mitchell, Busenitz, et al., 2002). Applying social cognition in entrepreneurship allows researchers to address thinking-doing linkages more directly (Mitchell et al., 2007).

Action is at the heart of being an entrepreneur; entrepreneurial action refers to behavior in response to a decision with ambiguity about a possible opportunity for profit (McMullen & Shepherd, 2006a). Action can be conceptualized as the creation of new products, new processes, entry into new markets or the creation of new ventures. Whether entrepreneurial action occurs depends in the decision of whether or not to act (McMullen & Shepherd, 2006a). This sense of doubt can block or delay action (Lipshitz & Strauss, 1997). An unwillingness to engage in the unknown is deemed responsible for preventing prospective entrepreneurs from engaging in entrepreneurial action (Douglas & Shepherd, 2000).

An entrepreneur's cognition (conscious and unconscious) originates in human interaction and communication providing a more extensive understanding of recognition and exploitation of opportunities (De Carolis & Saporito, 2006). Entrepreneurial cognition research has significantly expanded over the last 15 years. Examples of cognition in entrepreneurship topics investigated include the following: 1) Whether or not entrepreneurs' thinking patterns differ from those of non-entrepreneurs (Busenitz & Barney, 1997; Mitchell, Busenitz, et al., 2002; Mitchell, Smith, Seawright, & Morse, 2000). Mitchell, Busenitz, et al. (2002) found entrepreneurial experience provided a key attribute in feasibility assessments of businesses, 2) The reason some individuals become entrepreneurs while others do not (Simon, Houghton, & Aquino, 2000). Simon et al., (2000) findings suggest that risk perceptions may differ because certain types of cognitive biases lead individuals to perceive less risk. 3) How entrepreneurs think and make decisions (Busenitz & Barney, 1997; Mitchell, Busenitz, et al., 2002). Mitchell et al., (2000) found that entrepreneurs are more capable in the ability to store, recover and apply information than non-entrepreneurs.

Because some entrepreneurs develop unique cognition structures and process information differently, they have been known to store, recover and use information differently from other individuals (Mitchell et al., 2007; Mitchell et al., 2000). Scholars have also shown that entrepreneurs tend to be promotion focused. They see the potential for success and do not think about failure while maximizing the number of opportunities recognized and opportunities exploited. Non-entrepreneurs tend to have a prevention focus and are more concerned with avoiding failure and not identifying or exploiting as many opportunities (Corbett, 2007). Empirically, there is growing evidence (Mitchell, Smith, et al., 2002) to support the idea that in entrepreneurship, cognition in the form of improved decision making in opportunity recognition and exploitation exists (Busenitz & Lau, 1996; Mitchell et al., 2000). These cognition structures enable entrepreneurs to use information significantly better than non-expert entrepreneurs (Mitchell & Chesteen, 1995). Yet, further research can draw on SCT to further understand how entrepreneurs use their information processing to recognize and exploit opportunities.

Additionally, entrepreneurs have been found to sometimes develop bias or overconfidence which leads to an overreach for opportunities and possible failures (Simon et al., 2000). Entrepreneurs can become prone to overconfidence and familiarity biases in their decision making that can also hinder their ability to identify or innovate opportunities (Simon et al., 2000). SCT is the link between the decision making and the actions of the entrepreneur. For example, multiple failures were shown to negatively impact an entrepreneur's cognition, more specifically their alertness and benefits from prior knowledge. An empirical study on opportunity recognition and exploitation found that entrepreneurs experiencing 20% or more businesses failures, recognized fewer business opportunities (Ucbasaran, Westhead, & Wright, 2009). SCT provides insight into to why this happens. Failures demotivate and can lead to a pre-occupation with failure, and reduce one's cognitive effectiveness and ultimately the lack of additional action.

Summary

Many entrepreneurs work in highly complex environments with frequent change. Entrepreneurs need to be more accepting of higher cognitive demand requirements (Baumeister, Masicampo, & Vohs, 2011). Because of changing cognitive load, entrepreneurs have a strong need to adjust their thinking which results in different behaviors and decisions (Baumeister et al., 2011). Developing a deeper understanding of the interactions between an individual and the environment is becoming a more important element in advancing entrepreneurship literature. We have argued that social cognition theory can be of value to researchers who address this growing area of interest.

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Relevance to Marketing Educators, Researchers and Practitioners: Because of changing cognitive load, entrepreneurs have a strong need to adjust their thinking which results in different behaviors and decisions, this paper positions social cognition theory as a means for researchers to address growing areas of interest in entrepreneurship.

Author Information:

Ryan L. Matthews obtained his D.B.A. from Kennesaw State University in December 2016.

Kelly R. Hall is an assistant professor in management at Stetson University.

Lucy M. Matthews is an assistant professor in marketing at Middle Tennessee State University