

# Risk Perception or Self Perception: What Causes People to Start a Venture?

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## Abstract

Cognitive biases are well known as reasons for people's decision to start ventures, despite the high risk involved. More specifically researchers have argued that people start ventures because they do not **perceive** the risk involved, and not because they knowingly accept high levels of risk. If people do not perceive risk appropriately they don't need to have a high-risk propensity or a great willingness to take risk knowingly. Risk perception seems therefore to be a crucial factor explaining individual's decision to start a company. The measurement of risk perception is well developed and using it we find whether a person perceives the risk involved in a decision as low, medium or high. Researchers often described the decision situation in a laboratory setting in which other variables can be controlled and more important: The decision situation is the same for all subjects. Applying this approach we reproduced the results found in prior research (Simon, M. et al.1999) using a sample of 258 business students and 92 (real) entrepreneurs: People who perceive a low risk in the decision situation are more likely to start the (case study) venture and vice versa. But does the risk perception also explain the peoples' willingness to start their own real venture. In our sample of 350 we had 92 entrepreneurs who had already started their venture. In addition we had also 12 students who also had started their business and we had additional 67 who had referred the intention to start their own venture in the near future, and we had 170 left not willing to start their own business at all. With our data we were able to test the hypothesis whether low risk perception explains a higher willingness to start a (real) venture and vice versa. Surprisingly we found that the risk perception did not explain, not even correlate with, the "real" willingness to start a venture.

We use "action learning theory" (ALT) to explain the mentioned result and to derive further hypotheses to test with our sample. From the viewpoint of ALT learning is not simply transferring information from outside the learner inside the learner i.e. the student, but learning is a reflection and conceptualization process based on experience which is based on **active** experimentation i.e. on action. If we distinguish two ways of learning, one is based on the ALT and the other is based on the "perception learning theory" (PLT) which stands for the classical learning in the classroom where students learn through the perception of information, we can say with danger of oversimplification: ALT is *action → experience → reflection → conceptualization → change of behavior (self) → change of action*, whereas PLT is *concepts → information (about concepts) → perception → reflection → change of thoughts → change of concepts*. Both processes can be seen as spiral dynamics and both may be overlapped to some degree. The ALT process has more to do with the ability/capability of **doing** something whereas the PLT has more to do with the **knowing** of something. Is it possible to do something right without knowing it? Yes and we usually call it intuition.

How can ALT explain the above mentioned result? Perceiving risk on the basis of a case study is perceiving a concept (risk) that is given by information and we would expect that the perception of one concept risk coincides with an other concept given by the same information called venture. So both risk perception and starting a case study venture are a concept given

by the same information and therefore based on PLT. It has not necessarily to do with behavior or action. With the ALT approach we look at starting a venture as something which has to do with the person in concern with her self and her behavior instead of that it has to do with something outside the person like risk. The ALT would recommend to use concepts like self perception and locus of control to explain real start ups.

So our main hypothesis in this article is: Self perception and locus of control explain the willingness to start a real venture, whereas risk perception explains the willingness to start a case study venture. In addition: Risk perception does not even correlate with the willingness to start a real business, whereas self perception and locus of control do not correlate with the willingness to start a case study business.

We used five constructs to test these hypotheses: Risk perception measured by eight items (Cronbach's alpha: 0,89), self perception measured by three items (Cronbach's alpha: 0,62), locus of control measured by the original Rotter scale, willingness to start a real venture measured by one item and willingness to start a case study venture measured by two items (Cronbach's alpha: 0,77). We used linear regression analysis and PLS (Partial least square estimates) to test our hypotheses. Both methods showed the same results:

Linear Regression	Willingness to Start a Real Venture	Willingness to Start a Case Study Venture
Risk Perception	not significant	significant ( $\alpha \leq 0,001$ )
Self Perception	significant ( $\alpha \leq 0,001$ )	not significant
Locus of Control	significant ( $\alpha \leq 0,001$ )	not significant
R <sup>2</sup>	0,49	0,57

Table 1: Results of Linear Regression

PLS	Willingness to Start a Real Venture	Willingness to Start a Case Study Venture
Risk Perception	not significant	significant
Self Perception	significant	not significant
Locus of Control	significant	not significant
R <sup>2</sup>	0,45	0,62

Table 2: Results of Partial Least Squares (PLS) Analysis

The results strongly support our hypotheses. Self perception and locus of control explain the willingness to start a real venture whereas risk perception explains the willingness to start a case study venture. At least one open question remains: Does risk perception explain the willingness to start a real venture? There is of course a problem in figuring it out because the risk perception of ones own venture can not be measured intersubjective. If we ask the entrepreneur how he perceives the risk of his venture it is not a case study venture for him but if we ask others it is a case study venture for them. If we would use a more action oriented frame as it is described in Johannisson 1998 or Hjorth 2003 we may even change our idea of risk perception. Perhaps we may find out in future research that: science is more knowing than doing; art is more doing than knowing and entrepreneurship may be balancing doing and knowing. This would give entrepreneurship the importance some people would like to give it.