THE ROLE OF MAXIMIZING OR SATISFICING DECISION-MAKING STYLES IN INNOVATION AND LAUNCHING NEW VENTURES

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Abstract - This study explores how maximizing or satisficing decision making styles impact employees attitude toward entrepreneurship and propensity to launch a new venture. It also explores how innovation and need for cognition mediate this relationship. The data from 207 working professionals in the U.S. suggests that individuals with a maximizing decision-making style are significantly more oriented toward entrepreneurship and likely to start their own business than those who satisfice. This relationship was mediated by innovation and need for cognition, suggesting that maximizers may utilize an innovation strategy to pursue entrepreneurial endeavors.

Keywords - Maximizing, Satisficing, Innovation, Entrepreneurship, Decision Making

I. INTRODUCTION

To strive in our highly competitive global market, organizations must continuously look for new products and innovate to outmaneuver competitors. Researchers have identified personal characteristics that make individuals more apt to identify and act on new business opportunities. Cognitive styles have been recognized as a core facet of creativity and innovation (Woodman et al. 1993, Scott & Bruce, 1994; Tierney et al. 1999). Cognitive styles influence how individuals scan, react, and interpret information in their environment, creating mental models that inform behavior (Hayes & Allison, 1998). Innovative individuals use a more intuitive rather than systematic problem-solving approach (Scott & Bruce, 1994). They are also more intrinsically motivated (Tierney et al. 1999), and willing to take initiative to promote their ideas (Miron, 2004). "Entrepreneurship, in its narrowest sense, involves capturing ideas, converting them into products and, or services and then building a venture to take the product to market" (Johnson, 2001, p. 138). The research on entrepreneurs has identified general trends in personality traits associated with turning new products or services into business opportunities. For example, entrepreneurs are more inclined to be risk takers and apply an individualistic approach toward the work environment (McGrath & Scheinberg, 1992). Strong interpersonal skills are vital to key entrepreneurial activities, such as making a pitch to investors (Clark, 2008). Entrepreneurs are very passionate about their work and prefer to take action rather than be complacent (Cardon, Wincent, Singh, and Drnovsek, 2009). A recent development in the psychology of decision making may enhance our understanding of the entrepreneurial process. The term satisficing was first introduced by Herbert Simon (1955) to describe a decision-making process that sought out good enough options rather than searching for optimality. The concept of satisficing was proposed as a cognitive limitation, identifying that individuals satisfice because they lack the cognitive capacity to analyze all options (Simon, 1972). Later, this concept was redefined by Schwartz and colleagues (2002) as an individual's preference for information when making decisions (Schwartz et al. 2002). They proposed that maximizers prefer to seek out more alternatives when deciding, while satisficers are more inclined to select options that meet their minimum acceptable criteria. Thus, maximizers exert more resources in the decision-making process to seek the best outcomes rather than settling for ones that are good enough. In this way, Schwarz and his colleagues (2002) developed a scale to measure these fundamental differences in decision making styles. Since their update, maximizing and satisficing has become an important variable in understanding decision making in organizational context. Subsequent research suggests that maximizers reported that they were generally less happy, optimistic, and satisfied with their choices (Schwarz, 2004). They were also more likely to display regret, perfectionism, and depression after making a decision. Schwarz (2004) reasons that maximizers often look at what could have been rather than being satisfied with their current choice.

In a study investigating career choices and outcomes, Iyengar et al. (2006) found that maximizers search for more jobs after graduation and end up earning starting salaries 20% higher than satisficers (Iyengar, Wells, & Schwarz, 2006). The authors attribute the higher salaries to spending additional time and effort to analyze more options during the job search. However, they tend to be more stressed and less satisfied with their jobs once they are in them. Others have found that maximizing is correlated with a more optimistic life view, higher need for cognition, desire for consistency, intrinsic motivation and self-efficacy (Lai, 2010). The next section discusses the relationship between decision making style (maximizer or satisficer) and entrepreneurship.

II. MAXIMIZING/SATISFICING AND ENTREPRENEURIAL ORIENTATION

Researchers have begun to investigate the cognitive processes associated with entrepreneurial decision making. A study investigating differences between entrepreneurs and managers in larger companies suggests that entrepreneurs are more likely to succumb to biases and heuristics in decision making (Busenitz & Barney, 1997), making them more vulnerable to making poor decisions. Dew and colleagues (2008) suggest that expert entrepreneurs use a more "effectual" logic to solve problems by focusing on building the organization as a whole and utilizing the resources at hand. Expert entrepreneurs also identify more potential markets in their competitive environment and emphasize piecing together a network to build support. On the other hand, novice entrepreneurs often follow the book and use a more "predictive" frame (Dew, Read, Sarasvathy, and Wiltbank, 2008). Entrepreneurs who spend more time and effort to scan their environment for better markets and trade partners would likely find the needed resources to grow their business. Maximizers are more intrinsically motivated and have higher self-efficacy (Lai, 2010), suggesting they would believe in their own ability to solve problems and make decisions. This would be in line with the finding that entrepreneurs are more inclined to have an internal locus of control (Ahmed, 1985). Individuals who utilize a maximizing decision-making strategy may be more likely to identify and seek out business opportunities in their environment. Although researchers have identified key personality traits associated with entrepreneurs, there have not been any studies investigating how maximizing and satisficing decision-making styles impact one's orientation toward entrepreneurship and propensity to launch a new venture. This study also attempts to understand how innovation and need for cognition mediate this relationship.

Therefore, the study aims to answer the following research questions:

1. Are maximizers more likely than satisficers to be oriented toward entrepreneurship?
2. Are maximizers more likely than satisficers to start their own business?
3. Are these relationships mediated by innovation and need for cognition?

III. RESULTS

The data from 207 working professionals in the U.S. suggests that individuals with a maximizing decision-making style are significantly more oriented toward entrepreneurship and likely to start their own business than those who satisfice. This relationship was mediated by need for cognition and innovation, suggesting that maximizers may utilize an open-minded thinking strategy to pursue entrepreneurial endeavors. Results and implications for practice are discussed in relation to the current study. This interdisciplinary work adds to our understanding of how entrepreneurs identify and act on business opportunities.

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