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Original Citation

Buontempo, Michele and Kusev, Petko (2018) A social cognitive perspective: investment decisions in early-stage ventures. In: Ananyev Science Conference: Psychology of personality, traditions and the present.

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A social cognitive perspective: investment decisions in early-stage ventures

Michele Buontempo, Petko Kusev & Victoria Baranova

The Russian psychologist Bekhterev, was a student of Wilhelm Wundt's and a follower of his approach to the 'subjective study of mental processes'. However, in contrast to Wundt, Bekhterev developed an integrated/interdisciplinary approach to the study of objective physiological phenomena which lead to the development of personality psychology in Russia (see Prokhorov & Popov, 2010). These theoretical approaches contribute to the development of social and cognitive psychology, utilising the integrated research methods and theories that can better explain phenomena in psychology (Eysenck, 1997). Moreover, new areas of research have been using the integrated theories and methods from social and cognitive science. For example, cognitive approaches to entrepreneurship research investigate how agents in dynamic environment make investment decisions under uncertainty (Dane & Pratt, 2007; Wiltbank Read, Dew, & Sarasvathy, 2009; Maxwell, Jeffrey, & Levesque, 2011; Mitchell et al., 2007). Also, the study of entrepreneurial decision-making (low probability of success and high uncertainty) explores the influence of personality and individual differences on risky decisions (Sarasvathy et al., 2011). For instance, researchers have explored decision behaviour of a particular type of investors, known as business angels (Levesque et al., 2011) or angel investors (Huang & Pierce, 2015), who invest in early stage formation of entrepreneurial high risk but high return ventures. In this article we argue for an integrated approach in social cognition research; we also aim to explore the use of qualitative and quantitative methods employed in social science and entrepreneurship studies.

Huang and Pierce (2015) adopted a social cognitive perspective and integrated research methods to study early-stage venture capitalists (angel investors) investment decisions in conditions of unknowable risk and uncertainty (Knight, 1921). In their research, Huang and Pearce (2015) adopted a qualitative method based on grounded theory (Corbin & Strauss, 1990) that captures the factors angel investors rely on when judging their propensity to invest in early-stage venture entrepreneurs. Moreover, the authors also empirically tested whether angel investors' decisions predict entrepreneurs' venture success. Based on observations, unstructured and structured interviews, and documentation with a sample of experienced investor, the results revealed two leading factors: business viability and perceptions of the entrepreneur. Accordingly, to test whether these factors influence respondents' propensity to invest, the authors conducted an experimental research (with independent and repeated measures designs). Crucially, the results revealed that angel investors had a higher propensity to invest in entrepreneurs that are perceived positively (even when they present poor business viability data), than when they were perceived negatively (with good business validity data). The results also confirmed Huang and Pearce's (2015) proposal that angel investors' actual decisions to invest in entrepreneurs' ventures were followed by successful returns of the venture.

We argue that qualitative studies in decision-making can benefit from experimental research findings, in identifying concepts (factors) from complex social and behavioural phenomena. Moreover, possible methodological reunification of experimental approaches can be made to personality research (Cronbach, 1957; Eysenck, 1966).

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