Chapter 7

Entrepreneurial Decisions under Uncertainty

The analysis in this chapter focuses on how enterprises make strategic decisions regarding their future development in an environment of uncertainty. The strategic planning of enterprises on issues involving long-term investment activity, R&D, innovation, identification, and exploitation of entrepreneurial opportunities is based on a background comprising various sociological, psychological, and economic starting points. Simultaneously, issues are highlighted in relation to the identification of uncertainty that can alter strategic planning and cause the failure of traditional investment evaluation methods.

Decisions under Uncertainty

The environment in which enterprises operate involves such a degree of uncertainty that it is sometimes difficult or impossible to predict future outcomes and enterprise progress. Uncertainty hinders the making of strategic decisions, as well as the ability to predict economic and social developments. Under these conditions, variations in current or expected levels of risk are challenging to enterprises but also vitally important.

Human creativity lies at the heart of creativity theory and is the focus of related research (Petocz et al. 2009).
Regarding the making of strategic decisions under uncertainty, human creativity is a reference, since it leads either to the successful development of an existing strategy or to the formation of new and innovative strategies that are effective in terms of cost and performance. Creativity comprises two basic types: adoption and innovation. Adoption involves the improvement of existing strategies (“doing things better”), while innovation involves the formulation of new strategies (“doing things differently”). More specifically, enterprises focused on adoption, driven by making strategic decisions under uncertainty, apply conventional methods, tools, and processes to improve existing strategies. Meanwhile, enterprises focused on strategic innovation aim to restructure and reorganize problems to control them and to establish new and more solid foundations based on fresh perspectives (Kirton 1987; Teal 2011). Creatively solving a problem in the context of decision making is a continuous and high-intensity process, whose implementation requires specialized human resources who are able to be subtle, perceptive, and intuitive. Under these conditions, entrepreneurs and executives develop specific skills and experiences through their participation in and resolution of such situations and thus can develop more effective strategies for the future (Teal 2011).

At the heart of strategic decision making under uncertainty, at least from the perspective of psychological research, lies the method used to connect and process the varied available information so as to evaluate and implement it in the most effective way. According to behavioral theory, certain external influences should be seriously considered by entrepreneurs and executives in their attempts at strategic decision making. More specifically, the research is focused on the existence of factors associated with tasks (task factors) and factors associated with the broader context of action (context factors). Task factors are factors that contain specific information for decision making, such as alternative action plans, individual characteristics and added value of any information, time constraints on making decisions, and the reaction to using this specific information (Payne et al. 1993; Botvinick 2001; Koechlin et al. 2003). Context factors include external