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Abnormal Decision-Making Behaviors in Entrepreneurial Settings

– Towards an Additional Symptom of Organizational Hubris in Newly Founded Ventures

Eingereicht von:

Janina Sundermeier, M. Sc. (FU Berlin)

Wissenschaftliche Mitarbeiterin, Department Wirtschaftsinformatik, Professur Gersch

Garystraße 21, Raum 311, 14195 Berlin

janina.sundermeier@fu-berlin.de

Prof. Dr. Martin Gersch (FU Berlin)

Professur für Betriebswirtschaftslehre sowie Leiter des Competence Center E-Commerce

Garystraße 21, Raum 307/308, 14195 Berlin

martin.gersch@fu-berlin.de

The performance of newly founded ventures is influenced by a multitude of factors. It is especially guided by the characteristics and behaviors of its founders. Founders exhibit different levels of optimism (Dushnitsky, 2010), self-efficacy (Hmieleski & Baron, 2008) narcissism (Mathieu & St-Jean, 2013), and overconfidence (Bernardo & Welch, 2001; Forbes, 2005). In addition to these factors, the effects of hubris were addressed in recent research (e.g. Forster & Sarasvathy, 2007; Hayward, Shepherd, & Griffin, 2006; Hayward, Forster, Sarasvathy, & Fredrickson, 2009; Hermanns, 2012a; Koellinger, Minniti, & Schade, 2007). Hubris is characterized by excessive pride, exaggerated self-confidence and positive self-evaluations as well as abnormal behavior that differs significantly from the average (Hermanns, 2012a; Judge, Piccolo, & Kosalka, 2009).

The subject of hubris has attracted interest in various research disciplines (i.e. entrepreneurship, organizational studies and psychology). According to the findings in the area of entrepreneurship and organizational studies, two types of hubris can be differentiated. While individual hubris emphasizes the effects shown by individual founders and company executives, hubris describes, on an organizational level, the degree to which all members of an organization collectively overestimate its organizational competences (Hermanns, 2012b). These two types were considered and analyzed in different contexts.

	Individual Hubris	Organizational Hubris
Entrepreneurship	Intermediate Empirical Evidence (e.g. Forster & Sarasvathy, 2007; Hayward et al. 2006, 2009; Koellinger et al, 2006)	<i>Theoretical Discussions - No Empirical Evidence</i>
Organizational Studies	Intermediate Empirical Evidence (e.g. Hayward & Hambrick, 1997; Hiller & Hambrick, 2005; Hilary & Menzly, 2008)	First Empirical Evidence by Hermanns (2012b)

Table 1: State of research on organizational hubris in entrepreneurship and organizational studies (author's illustration).

A growing number of authors discuss the relevance of organizational hubris in entrepreneurial settings on a theoretical basis. They assume that hubris cannot only be identified on the individual level of founders but also within newly founded ventures as a whole (i.e. organizational context) (Forbes, 2005; Hermanns, 2012a; Hmieleski & Baron, 2008). As depicted in table 1, no empirical research was performed in an entrepreneurial context on organizational hubris yet. So far, current research related to organizational hubris proved its existence merely within large and established organizations (i.e. Enron Corporation, CargoLifter AG). For example, Hermanns (2012b) performed an extensive investigation on

CargoLifter ex-post to the failure of the company. He found empirical evidence that organizational hubris was already existent in the initial phase of founding the CargoLifter AG. Especially for newly founded ventures, it is important to analyze the effects of organizational hubris not only ex-post to venture failure but also during venture creation in order to be able to limit its effects.

Research that examined organizational hubris confirmed several symptoms that indicate ex-post the existence of organizational hubris within established organizations (Hermanns, 2012b). As entrepreneurial settings differ in terms of internal and external conditions (c.f. McGrath, 2001; Venkataraman, Van de Ven, Andrew H, Buckeye, & Hudson, 1990), we assume that the entrepreneurial context might offer additional symptoms that facilitate the identification of hubris during the phase of venture creation. In order to deal with distinct burdens and challenges such as the liability of newness, the liability of smallness and considerable uncertainties (c.f. McGrath, 2001), founding teams have to take a multitude of decisions that have a crucial impact on the existence of their ventures (Reuber & Fischer, 1999).

Empirical evidence shows that decision and planning logics differ among entrepreneurial settings (e.g. Sarasvathy, 2001). They can be distinguished between effectuation and causation approaches (Chandler, DeTienne, McKelvie, & Mumford, 2011; Freese, 2014; Sarasvathy, 2001). We assume that distinct conditions within certain industries, such as the dynamics or the length of innovation cycles and the institutional framing, determine which of the two decision-making logics appear favorable. However, newly founded ventures do not necessarily exclusively pursue one of the two decision logics as a result that changing circumstances might require rather untypical decision-making processes on a temporary basis (Freese, 2014). Therefore, decision-logics that are entirely not in line with the respective industry's conditions and that contradict the average of similar venture projects and expected behavior are considered to be abnormal.

The objective of this study is to examine whether abnormal decision-making logics can be used as an additional symptom to identify organizational hubris. Moreover, it is investigated whether this symptom can already be identified during the process of venture creation and not only ex-post to venture failure. In order to examine these assumptions, two empirical approaches are used. First of all, interviews with experts are conducted in order to investigate their experiences with newly founded ventures that follow abnormal decision-making logics

and the resulting consequences for venture performance and existence. As a result that organizational hubris is a reasonable assumption undertaken by third parties, we will ask these experts regarding their experiences. Additionally we ask them to provide access to Start-Up companies where they assume that organizational hubris is existent. Secondly, we will conduct qualitative interviews with those Start-Ups that operate in the IT or health care industry. We select these industries because we expect the decision-making logics in these industries to differ. Unpredictable conditions of rapid change, disruption and short innovation cycles force newly founded technology-based organizations to adjust their business models on a short-term basis in particular (Midler & Silberzahn, 2008; Rai, Borah, & Ramaprasad, 1996). We expect that the effectuation approach is a more favorable decision-making logic in the IT industry overall. Start-Ups operating in the health care industry have to deal with numerous governmental and nongovernmental regulations, rules and institutional details which can be seen as a special framing with more or less systemic rigidities that slow down the diffusion process of new business ideas and innovations (Gersch, Schröder, & Hewing, 2011). Moreover, the generation of revenues is determined by legislations and fees regulation (Gersch, Lindert, & Schröder, 2010). These conditions are likely to favor the causation approach as a result that considerable changes within this particular industry are realized only on a long-term and in comparison more predictable basis. We are going to investigate whether the decision-making logics of our sample differ from our expectations and whether the reasons can be attributed to hubris or other antecedents.

The results are going to be presented at the G-Forum conference in November 2014.

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