

5th Leuphana Conference on Entrepreneurship

- Submission Template -

max. 1,500 words

TITLE: Determining the Role of (Organizational) Hubris as a Driver of Innovation in Newly Founded Ventures – Guidance and Propositions for Future Research

Aim of the paper

The objective of this paper is to provide guidance and propositions for further research in relation to (organizational) hubris in entrepreneurial settings and especially with regard to positive effects of hubris such as enhanced innovation capabilities of individuals and whole organizations. Further evidence in this area is of particular relevance for researchers and practitioners (e.g. Start-Up coaches, consultants) who need to evaluate the role of hubris and its effects for entrepreneurial ventures.

Contribution to the literature:

Understanding cognitive processes of founders and their effects on venture performance and existence is a widely discussed research field in entrepreneurship literature that has gained considerable research interest during the last decade (e.g. Forster & Sarasvathy, 2007; Hayward, Mathew L. A. & Hambrick, 1997; Hayward, Forster, Sarasvathy, & Fredrickson, 2010; Hayward, Shepherd, & Griffin, 2006; Hermanns, 2012b). The research interest is triggered by numerous still existing research gaps and the importance for practitioners (e.g. Start-Up coaches, consultants) to stimulate functional and to limit dysfunctional cognitive processes of founders. In this context, it is of particular importance to determine and evaluate cognitive biases (e.g. Forster & Sarasvathy, 2007; Hermanns, 2012b). It is found that internal and especially external determinants, such as high levels of uncertainty and time constraints, influence cognitive processes of founders and increase their susceptibility to cognitive biases (Forster & Sarasvathy, 2007; Hayward et al., 2010; Hayward et al., 2006). A cognitive bias is defined as a set of assumptions that are based on reality conditions but that have a positive bias in favor of an individual or a collective (Cummins & Nistico, 2002). Cognitive biases and their effects on cognitive judgment and decision processes are investigated in various research disciplines such

as psychology (e.g. Anderson & Marshall, 2007; Hoorens, Pandelaere, Oldersma, & Sedikides, 2012; Johnson & Fowler, 2011; Owen & Davidson, 2009), finance (e.g. Aktas, Bodt, & Roll, 2009, 2011; Anderson & Marshall, 2007; Gondhalekar, Raymond Sant, & Ferris*, 2004) as well as organizational (e.g. Chowdhury, 2014; Hermanns, 2012a; Hiller & Hambrick, 2005; Li & Tang, 2010, 2013; Tang, Li, & Yang, 2012) and entrepreneurship studies (e.g. Forster & Sarasvathy, 2007; Hayward, Mathew L. A. & Hambrick, 1997; Hayward et al., 2010; Hayward et al., 2006; Hermanns, 2012b).

Several functional and dysfunctional effects of cognitive biases are examined and especially findings in relation to hubris, as one cognitive bias, provide a substantial evidence base for further research. Whereas previous studies in various disciplines identified merely dysfunctional effects of hubris (e.g. Hietala, Kaplan, & Robinson, 2002; Jakovljević, 2011; Li & Tang, 2010; Lin, Michayluk, Oppenheimer, & Reid, 2008; Petit & Bollaert, 2012), Tang, Li, and Yang (2012) found that hubristic CEOs of large and established organizations achieve greater innovation success and obtain more patents as well as patent citations. The finding that hubris is likely to be a strong and significant predictor of innovation is of particular relevance for researchers and practitioners as it contradicts the overall negatively connoted attitudes and assumptions in relation to hubris. However, the research of Tang, Li, and Yang (2012) is subject to some considerable limitations such as the indirect and quantitative measurement of hubris (difference between expected and actual financial performance of CEOs). It is argued that these approaches to measure hubris lack explanatory power as a result that such socially embedded phenomena cannot be examined comprehensively without interacting with involved individuals and their surroundings (Hermanns, 2012b, 2012a).

Reviewing literature across different research disciplines reveals that the generalizability of findings in relation hubris is overall limited as a result of the following reasons (i.e. Bollaert & Petit, 2010; Homberg & Osterloh, 2010). Firstly, there is no common definition of hubris across different disciplines. However, the investigation of hubris in a business context involves an interdisciplinary approach evaluating internal processes of an individual or collective (psychology) with regard to business decisions (entrepreneurship). This investigation is hindered without a common understanding of hubris. Secondly, each discipline develops own measures of hubris without considering previous research and findings of other disciplines. Thus, criticism related to the inefficacy of various indirect and quantitative measures often remains unheard

and is not considered in similar studies. Thirdly, there is no common theoretical grounding as various concepts and theories are applied in relation hubris (e.g. organizational identity, organizational beliefs, organizational self-perception, behavioral decision theory, upper echelons theory etc.). These challenges limit the generalizability of existing research outcomes and hinder broader conclusions related to positive effects of hubris in distinct business settings (Bollaert & Petit, 2010) such as an increased innovation capability of individuals or even whole organizations.

Positive effects are also likely to occur on the level of organizations as empirical evidence is provided that hubris cannot only be identified on the individual level of the CEO (Forster & Sarasvathy, 2007; Hayward et al., 2010; Hayward et al., 2006; Koellinger, Minniti, & Schade, 2007) but also within large and established organizations as a whole (organizational hubris) (Hermanns, 2012a). Several authors in entrepreneurship literature discuss on a theoretical basis that organizational hubris is also likely to be present during the process of venture creation and call for further research in relation to organizational hubris and possible positive effects of this cognitive bias (Forbes, 2005; Hermanns, 2012b; Hmieleski & Baron, 2008). However, doing research in relation to organizational hubris and its positive effects is hindered without a proper understanding and transferring of findings in relation to individual hubris (i.e. Bollaert & Petit, 2010; Homberg & Osterloh, 2010).

Methodology:

The objective of this paper is to bridge the gap between existing research with the previously outlined limitations and enhanced knowledge that determines effects of hubris such as a positive impact on innovation capabilities of individuals and whole organizations. For this purpose, several steps of research are conducted.

Firstly, we analyze the current state of research in relation to hubris across all business related disciplines as well as psychology. Therefore, we use different databases (e.g. Jstor, Scopus, PsychNet etc.) and search for articles in leading journals that explicitly mention hubris in their titles, abstracts or key words without further limitations regarding the year of publishing etc. The amount of articles varies across the databases between 82 in Jstor and 502 in Scopus. Filtering the articles by reading the titles and abstracts led to approximately 80 relevant articles with the

first article published in 1986 by Roll (1986). It is found that the rate of publications in relation to hubris increased approximately by 70% during the last decade with the majority of publications in the area of finance (ca. 35) and management literature (ca. 25). These findings provide evidence that research on cognitive biases and on hubris in particular is increasingly gaining of prominence.

Secondly, the identified articles are coded and divided into theoretical and empirical contributions. Moreover, empirical contributions are further divided with regard to the applied methodology into direct and indirect measures of hubris. A similar coding scheme is used to classify identified antecedents, moderators and especially effects of hubris. All findings are summarized in an Excel sheet.

Thirdly, we analyze the identified studies with regard to determined effects of hubris as well applied methodologies and definitions. The aim of this third step of analysis is to facilitate the comparability of existing research outcomes and to determine their generalizability.

Fourthly, we suggest a definition of hubris as well as an elaborated methodological approach to determine generalizable findings related to positive effects of (organizational hubris) on innovation capabilities of newly founded ventures.

Results and implications:

Our findings demonstrate that research outcomes in relation to effects of hubris can hardly be transferred across different research disciplines as differing or even no definitions (e.g. finance literature) of hubris are applied. Although well-established findings from psychology literature show that overconfidence and hubris are two different concepts, the terms are often used interchangeably in identified literature because of the unclear definition of hubris. This confusion leads to the fact that several studies intent to measure effects of hubris but actually measure effects of overconfidence. Moreover, our findings demonstrate that each research discipline develops specific measures to determine hubris. Applied methodologies are compared in order to demonstrate existing weaknesses and to determine the generalizability of the identified research results (effects of hubris).

Based on these findings, propositions for future research are developed to determine whether

hubris can be considered as a driver for innovation (positive effects) or whether harmful (negative) effects for business survival have to be expected. The propositions' objective is to guide future research in terms of generalizable research outcomes across disciplines and they are going to be presented at the 5th Leuphana Conference of Entrepreneurship.

References :

- Aktas, N., Bodt, E. de, & Roll, R. (2009). Learning, hubris and corporate serial acquisitions. *Journal of Corporate Finance*, 15(5), 543–561.
- Aktas, N., Bodt, E. de, & Roll, R. (2011). Serial acquirer bidding: An empirical test of the learning hypothesis. *Journal of Corporate Finance*, 17(1), 18–32.
- Anderson, H. D., & Marshall, B. R. (2007). Takeover motives in a weak regulatory environment surrounding a market shock: a case study of New Zealand with a comparison of Gondhalekar and Bhagwat's (2003) US findings. *Review of Quantitative Finance and Accounting*, 29(1), 53–67.
- Bollaert, H., & Petit, V. (2010). Beyond the dark side of executive psychology: Current research and new directions. *European Management Journal*, 28(5), 362–376.
- Chowdhury, S. D. (2014). Strategic roads that diverge or converge: GM and Toyota in the battle for the top. *Business Horizons*, 57(1), 127–136.
- Cummins, R. A., & Nistico, H. (2002). Maintaining life satisfaction: The role of positive cognitive bias. *Journal of Happiness Studies*, 3(1), 37–69.
- Forbes, D. P. (2005). Are some entrepreneurs more overconfident than others? *Journal of Business Venturing*, 20(5), 623–640.
- Forster, W. R. & Sarasvathy, S. D. (2007). *When hubris is good: an error based theory of entrepreneurial overconfidence: Working Paper*.
- Gondhalekar, V. B., Raymond Sant, R., & Ferris*, S. P. (2004). The price of corporate acquisition: determinants of cash takeover premia. *Applied Economics Letters*, 11(12), 735–739.
- Hayward, M., Forster, W. R., Sarasvathy, S. D., & Fredrickson, B. L. (2010). Beyond hubris: How highly confident entrepreneurs rebound to venture again. *Journal of Business Venturing*, 25(6), 569–578.
- Hayward, M., Shepherd, D. A., & Griffin, D. (2006). A hubris theory of entrepreneurship. *Management Science*, 52(2), 160–172.
- Hayward, Mathew L. A., & Hambrick, D. C. (1997). Explaining the premiums paid for large acquisitions: evidence of CEO hubris. *Administrative Science Quarterly*, 42(1), 103–127.
- Hermanns, P. (2012a). *Organizational Hubris–Aufstieg und Fall einer Celebrity Firm am Beispiel der CargoLifter AG*. Berlin: Kölner Wissenschaftsverlag.

- Hermanns, P. (2012b). *Entrepreneurship, hubris & organizational Identity*. Presented at the SMS Miami. SMS Miami, Miami.
- Hietala, P., Kaplan, S. N., & Robinson, D. T. (2002). *What is the price of hubris? Using takeover battles to infer overpayments and synergies*.
- Hiller, N. J., & Hambrick, D. C. (2005). Conceptualizing executive hubris: the role of (hyper-) core self-evaluations in strategic decision-making. *Strategic Management Journal*, 26(4), 297–319.
- Hmieleski, K. M., & Baron, R. A. (2008). When does entrepreneurial self-efficacy enhance versus reduce firm performance? *Strategic Entrepreneurship Journal*, 2(1), 57–72.
- Homberg, F., & Osterloh, M. (2010). Fusionen und Übernahmen im Licht der Hybris-Überblick über den Forschungsstand. *Journal für Betriebswirtschaft*, 60(4), 269–294.
- Hoorens, V., Pandelaere, M., Oldersma, F., & Sedikides, C. (2012). The Hubris Hypothesis: You Can Self-Enhance, But You'd Better Not Show It. *Journal of Personality*, 80(5), 1237–1274. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=80236021&site=ehost-live>
- Jakovljević, M. (2011). Hubris syndrome and a new perspective on political psychiatry: need to protect prosocial behavior, public benefit and safety of our civilisation. *Psychiatria Danubina*, 23(2), 136–138.
- Johnson, D. D. P., & Fowler, J. H. (2011). The evolution of overconfidence. *Nature*, 477(7364), 317–320.
- Koellinger, P., Minniti, M., & Schade, C. (2007). “I think I can, I think I can”: Overconfidence and entrepreneurial behavior. *Journal of Economic Psychology*, 28(4), 502–527.
- Li, J., & Tang, Y. (2010). CEO hubris and firm risk taking in China: The moderating role of managerial discretion. *Academy of Management Journal*, 53(1), 45–68.
- Li, J., & Tang, Y. (2013). The Social Influence of Executive Hubris: Cross-cultural Comparison and Indigenous Factors. *Management International Review*, 53(1), 83–107.
- Lin, B.-X., Michayluk, D., Oppenheimer, H. R., & Reid, S. F. (2008). Hubris amongst Japanese bidders. *Pacific-Basin Finance Journal*, 16(1), 121–159.
- Owen, D., & Davidson, J. (2009). Hubris syndrome: An acquired personality disorder? A study of US Presidents and UK Prime Ministers over the last 100 years. *Brain - A Journal of Neurology*, 132(5), 1396–1406.
- Petit, V., & Bollaert, H. (2012). Flying too close to the sun? Hubris among CEOs and how to prevent it. *Journal of Business Ethics*, 108(3), 265–283.
- Roll, R. (1986). The Hubris Hypothesis of Corporate Takeovers. *The Journal of Business*, 59(2), 197–216.
- Tang, Y., Li, J., & Yang, H. (2012). What I See, What I Do: How Executive Hubris Affects Firm Innovation. *Journal of Management*. doi:10.1177/0149206312441211