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# Why Context Matters: Overconfidence, Narcissism, and the Role of Objective Uncertainty in Entrepreneurship

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## Why Context Matters: Overconfidence, Narcissism, and the Role of Objective Uncertainty in Entrepreneurship

Inspired by our own experiences and observations—and with much gratitude for the deep insights, guidance, and challenges of our review team—we wrote “The Right People in the Wrong Places: The Paradox of Entrepreneurial Entry and Successful Opportunity Realization” (Navis & Ozbek, 2016), with the aim of spurring debate and new questions around the contingent influences of overconfidence and narcissism in entrepreneurship. Central to our article is the core—and perhaps provocative—thesis that entrepreneurs are regularly attracted to (repelled from) the very types of venture contexts where they are least (most) likely to be successful. In this spirit, we found Ahsan’s (2017) engagement with our article precisely the kind of outcome we had hoped for. We are delighted to have the opportunity to respond to his dialogue!

In his dialogue Ahsan describes three main issues with our article that he argues limit its potential. First, he considers our definition of venture context to be too “narrow” and oversimplified. Second, he finds our conceptualization of

overconfidence “not clear.” Third, he believes our conceptualization of narcissism is “ambiguous.” The result of these purported issues, Ahsan claims, is that our model has limited explanatory power, creates empirical challenges in its testing, underspecifies the entrepreneurial process, and impinges on further theoretical development. Given such serious critiques, one might question why our paper was ever even published. Our explanation, in short, is that we believe Ahsan’s critiques are misguided. In the remainder of this response, we address each of these critiques in turn. Our aim is not only to provide greater clarity around the facets of our theory that may be less evident but also—in the process—to provide additional guidance for its continued development and empirical application.

## VENTURE CONTEXT

When defining venture context in our article, we distinguish the settings in which venture opportunities are perceived and pursued based on the level of uncertainty their founders must bear. Ahsan critiques this definition as being narrow, conceptually unclear, oversimplified, and unable to account for environmental fluidity. As we explain below, we believe this critique is off-base. Our definition exhibits considerable breadth, is conceptually clear, and, importantly, supports a wide array of research settings—both stable and ever changing.

To begin, we are puzzled by Ahsan’s choice to label our definition of venture context as “narrow.” In writing the manuscript, we conceptualized venture context in a way that would lend itself well to a variety of related—yet theoretically consistent—empirical specifications. Indeed, scholars can test our theory in relation to various types of ventures (e.g., “main street,” high tech), industries (e.g., fast food, nanotechnology), and/or other classifications. What allows for this generality and, in turn, makes these diverse empirical tests commensurate with one another is a measure that is anchored on the level of uncertainty founders in a given setting must bear—regardless of the nature of that setting. Thus, rather than focusing our conceptualization on particular industry stages, for instance, as Ahsan would have us do—and which may not always exhibit by the same level of uncertainty—we defined venture context according to the core, essential logic of our theory: the level of environmental uncertainty present. Doing so not only results in a definition that is

sufficiently broad and general but also reflects the type of theoretical precision and empirical flexibility that exemplifies high-quality, useful theory.

Ahsan also expresses concerns about the clarity of our treatment of uncertainty, questioning whether we consider it in an objective or perceptual (subjective) sense in our definition. Here, while Ahsan correctly explains that this distinction has critical theoretical importance (e.g., Boyd, Dess, & Rasheed, 1993), we believe he is misguided in asserting that it is not evident in our own work. In particular, to make clear our interest in objective uncertainty in the article, we specify that the uncertainty with which we are concerned is "endemic" to venture contexts and is, thus, something that entrepreneurs must "bear." We are not only clear that our emphasis is not on perception but we also never portray, or begin to allude to, the notion of uncertainty in its perceptual form when elucidating our model. These points notwithstanding, however, we acknowledge that greater clarity around this point may have been warranted in the article. Had we juxtaposed these two forms of uncertainty in more explicit terms, it may have precluded several of Ahsan's other concerns, which, as we describe later, appear to result from evaluating the article through the lens of perceptual uncertainty.

The final point Ahsan makes about our definition of venture context is to critique it as oversimplified and unable to account for environmental fluidity. As we diagnosed Ahsan's rationale for this argument, what became clear to us was a difference in our desired aim for the article and, more generally, in our approach toward theory development. When describing our definition of venture context as oversimplified, for instance, Ahsan explains that

not all new technologies are the same and vary in terms of complexity and gestation period (e.g., apps, biotechnology, medical devices). This means that in some cases a venture context might be novel for a few months, whereas in other situations a venture context might remain novel for more than a decade (2017: 145–146).

Ahsan implies that these diverse conditions reflect complexities that need to be more explicitly modeled for our theory to be useful. On this point we could not disagree more. While Ahsan correctly recognizes these very real nuances that can occur in practice, we do not believe our article was the appropriate place to elucidate them.

We submit that theoretical models like our own, which are focused on "big idea" concepts rather

than more incremental extensions of existing models (Kilduff, 2006), should not attempt to "boil the ocean" and specify the various and intricate pathways of their application. Not only does such added complexity lead scholars to lose the forest for the trees, in terms of the most essential, interesting, and useful elements of the theory, but it also imposes cognitive rigidities that may indicate that said theory is more narrow and specific than it is in reality. A better approach, we contend, is to be exceptionally clear about the core theoretical mechanisms at play in the model. In our case these mechanisms explain the core linkages among environmental uncertainty, overconfidence, narcissism, and their effects at different levels. Thus, our model provides clear theoretical guidance, but it leaves its application to associated research questions and settings to the discretion of scholars interested in testing and extending its core tenets. Illustrating this point in terms of Ahsan's conjecture, then, to the extent that the gestation of a technology reduces environmental uncertainty, we make it clear in our theory that this matured technology environment should no longer be considered novel from an empirical testing standpoint. In short, we explicitly designed our theory to support these complex empirical realities—and it does so with considerable flexibility and simplicity.

Similar ideas apply to Ahsan's critique that we "largely ignore the influence of the primary factors that create opportunities—namely, technological innovation and environmental changes—on the perception, pursuit, and realization of opportunities" (2017: 146). Here again, we emphasize that our model is agnostic about these antecedent details by design. Our focus instead is simply on the level of uncertainty present in the environments where venture opportunities are being perceived and pursued—regardless of the possible factors that may have led to such uncertainty. The rationale for this approach relates back to our focus on objective uncertainty, where the factors that create opportunities are unlikely to have any systematic bearing on the main relationships in our model. Thus, given their irrelevance to the core mechanisms we theorize, it was appropriate for us to exclude them from our model.

## OVERCONFIDENCE

We next turn to Ahsan's concern with our conceptualization of overconfidence, which he reports

lacks clarity and poses empirical challenges. Ahsan speculates that "what might seem like overconfidence might actually be the self-confidence of the entrepreneur, and this cognitive belief (self-confidence) could vary from one venture to the next" (2017: 146), and that "whether something is self-confidence or overconfidence cannot be determined until the outcome of the action is known" (2017: 146). We respond to these points in three ways. First, we take the opportunity to clarify our focus on overconfidence and not self-confidence (or self-efficacy or optimism) in the article. Second, we explain the importance of this clarification to our theory and, relatedly, Ahsan's concern that founders' overconfidence may vary from one venture to the next. Third, we comment on the nature of the empirical challenge Ahsan describes.

To begin, what separates overconfidence from self-confidence is the cognitive bias that exemplifies the former construct. We make this point explicit in the article, explaining that

because overconfidence implies a cognitive bias that influences decision making (Trevelyan, 2008), it differs from related concepts like self-efficacy and optimism, which refer, respectively, to individuals' confidence in their ability to perform a role or task (Boyd & Vozikis, 1994; Cassar & Friedman, 2009; Chen, Greene, & Crick, 1998) and their expectation of positive outcomes, even when no rational basis for those expectations exists (Hmieleski & Baron, 2008, 2009; Ucbasaran, Westhead, Wright, & Flores, 2010)" (Navis & Ozbek, 2016: 112).

Moreover, to ensure this point is not lost, we make reference to this cognitive bias throughout the article. As with other research, the reason construct clarity is so critical in our case is that it matters fundamentally for the theoretical mechanisms we theorize—namely, those pertaining to the effects of overconfidence in the presence of uncertainty. Whereas higher levels of *objective* uncertainty clearly exacerbate the effects of overconfidence (e.g., Hayward, Shepherd, & Griffin, 2006; Malmendier & Tate, 2008), it is not clear that the same outcome is true of higher levels of *perceived* uncertainty. This again is why we direct attention toward objective—rather than perceived—uncertainty in the article.

The above logic also sheds light on why Ahsan's notion of self-confidence does not fit as cleanly in our model. First, it is not clear whether a higher level of objective uncertainty

exacerbates the effects of self-confidence the same way it does for overconfidence. Second, whereas self-confidence (and perceived uncertainty) may vary considerably from venture to venture as a function of founders' experience and familiarity with a respective venture context—as Ahsan alludes to in his discussion of expert entrepreneurs, for instance—overconfidence is less subject to these experiential and contextual idiosyncrasies. Even if it were, however, we note that our model would still support this variability. All that matters for our theory is the level of overconfidence and environmental uncertainty present—for a given research sample—in shaping founders' perceptions and pursuits of entrepreneurial opportunities. Thus, what Ahsan raised in our approach as a flaw, as we now explain, may better be understood as an important measurement consideration to account for when testing our theory.

Building on the above point, and notwithstanding our case for construct clarity, we acknowledge that Ahsan raises a valid point about the challenges of measuring overconfidence and, for that matter, distinguishing it from self-confidence. We are careful to make the former point in the article, explaining that "other scholars have resisted using the term 'overconfidence,' since its diagnosis requires knowledge of the true probabilities associated with alternative decision outcomes, which may be impossible to know in organizational settings (e.g., Chatterjee & Hambrick, 2011)" (Navis & Ozbek, 2016: 110). Nonetheless, our choice to focus on overconfidence was deliberate and driven by our interest in maintaining precision in our theoretical arguments. We note that while measures used to test theory are rarely perfect, meaningful proxies can and often do exist. Indeed, the same is true of overconfidence, where scholars have assessed this bias using such proxies as the duration of CEO options (Malmendier & Tate, 2005; Malmendier, Tate, & Yan, 2011), firm-level investment behaviors (Schrand & Zechman, 2012), and survey assessments of extreme confidence (Simon & Houghton, 2003; Simon & Shrader, 2012). What is critical for us, however, is not to build theory around particular measures but, rather, to ensure that the constructs and mechanisms specified in our theory are as pure and precise as possible. Doing so, we hope, will indeed open several ways for the article to be empirically tested.

Finally, Ahsan offers some intriguing factors that might condition our theorized effects of overconfidence. He notes, for instance,

that the entrepreneurial process in today's world is very different from the early days of dotcoms. A significant number of novel ventures are pursued, evolved, and realized within incubators and accelerators, and many novel opportunities are perceived in labs, especially in areas such as health sciences, artificial intelligence, nanotechnology, and so forth (2017: 146).

We agree with these noteworthy differences in entrepreneurial process, and we thank Ahsan for raising them as paths to further develop and extend our model. At the same time, however, we would caution readers against adopting an overly rationalistic perspective in doing so. With narcissism, for instance, which we turn to next, the same charisma that enables narcissistic founders to sell their vision to others (e.g., Eisenmann, 2013) can suppress the quality of information and actions they elicit from "peers, mentors, customers, and investors" (Ahsan, 2017: 146). For these reasons, and mirroring our own experience and observations with a wide array of venture start-ups, investors, and accelerators, Ahsan's notion that "entrepreneurs who fail to do this will likely be weeded out by investors during the opportunity realization phase and replaced by more suitable individuals" (2017: 146) may be more the exception than the rule. However, rather than speculate further, we consider these and related questions of how entrepreneurial process might influence our theorized relationships to be ripe for empirical investigation!

### NARCISSISM

Ahsan's final critiques pertain to our conceptualization of narcissism, which he says suffers from "concept redundancy" with overconfidence. He also introduces what we would consider a promising application and potential refinement of our core model, effectively illustrating the model's utility. We consider each of these points in turn.

On the subject of overconfidence and narcissism being conflated, we maintain that the two constructs are conceptually distinct. Indeed, one can be overconfident without exhibiting high levels of narcissism. Similarly, one can exhibit high levels of narcissism without being overconfident. What distinguishes the two—and calls for their separate treatment in the article and elsewhere—are the

cognitive mechanisms of the former and the behavioral mechanisms of the latter. Focusing on only one excludes the unique and complementary influences of the other. Alternatively, focusing on a more hybridized construct like hubris, which can manifest with individuals exhibiting both overconfidence and narcissism, creates empirical challenges, since both of these dimensions are not required at the same level—or even at all—for its diagnosis (Owen & Davidson, 2009). Hence, we focused on these two separate and more established constructs to more clearly theorize the independent and combined effects of each one. This decision also has important empirical implications, as we describe next.

Even though overconfidence and narcissism are conceptually distinct, as we maintain, Ahsan raises the important question of whether the two can be distinguished empirically. We admire his attention to these important measurement considerations. Here, however, we submit that closer attention to the measures used to assess narcissism helps to reveal this concern as less troubling. In the case of unobtrusive measures of narcissism (e.g., Chatterjee & Hambrick, 2007), for instance, the behavioral indicators used in prior research, such as the excessive use of self-absorbing language or compensation discrepancies between leaders and others, exhibit clear distinctions from the cognitive biases of overconfidence. The same distinctions are present among more direct measures of narcissism, where the main factors that make up the Narcissistic Personality Inventory (e.g., sense of authority, exhibitionism, superiority, vanity, exploitativeness, entitlement, and self-sufficiency), for instance, also tap into narcissistic qualities that are very much distinct from the cognitive bias of overconfidence (Raskin & Terry, 1988). Here we should mention that while it is certainly possible that the presence of these two constructs will, on average, be highly correlated in practice—as Ahsan suggests in his note—we are careful to not presuppose this possibility in our model. Moreover, and equally important, in cases where these correlations are not as high, existing measures appear well suited to distinguish the independent and variant effects of them both, as we have described.

Finally, Ahsan concludes his reply by challenging—as "overly simplistic"—our proposal that narcissistic individuals will be driven to pursue novel opportunities. Instead, he argues, entrepreneurs are more likely to enter domains

at the takeoff stage of an industry's lifecycle (Christensen, 1992), since this stage is often typified by the type of media attention and clear and unambiguous feedback that narcissistic founders crave. In advancing these ideas, Ahsan uses the core logic from our theory to develop a more specific set of testable hypotheses. This is exactly the outcome we had hoped for from this article. And yet it also bears mentioning that had we narrowed our theory in this way ourselves, we would have inappropriately limited the scope of its application away from other potential domains characterized by high levels of uncertainty. In the end, we forewent the focus on a specific application, as Ahsan advocates here, in the interest of developing theory with broader generality and simplicity—a classic trade-off that all scholars must make (Weick, 1979).

### CONCLUSION

We wish to close by resurfacing the central twist, or paradox, of our article, which easily gets lost in the details of Ahsan's dialogue and our own response: the expectation that "entrepreneurs high in overconfidence and narcissism are propelled toward more novel venture contexts—where these qualities are most detrimental to venture success—and are repelled from more familiar venture contexts—where these qualities are least harmful and may even facilitate venture success" (Navis & Ozbek, 2016: 109). In other words, we call back to the more fundamental idea that the "right people" often end up in the "wrong places" when it comes to entrepreneurial entry and successful opportunity realization. We hope this response provides the clarification, guidance, and fodder to inspire others—like Ahsan—to advance research around this idea as well!

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