The concept of Entrepreneurial Voluntary Naivety: Intentional Naivety regarding the Future

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Intentional Naivety regarding the Future

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ABSTRACT
In this research in progress, we address the area of the IT Entrepreneurial Process. Following a Glaserian grounded theory approach, we introduce the concept of Voluntary Naivety to disentangle how an IT entrepreneur will intentionally adopt a naive view of the future of his entrepreneurial process, for example, regarding the level of risk involved or the amount of work required for success. We also propose a process model explaining the various stages of Voluntary Naivety. We suggest that the concept of Voluntary Naivety can shed additional light on the puzzle of the relationships between cognitive biases and heuristics, risk-taking propensity and entrepreneurial behavior.

Keywords
Risk-taking, IT Entrepreneurial Process, Voluntary Naivety, Overconfidence

INTRODUCTION
The intention of this research in progress is to contribute to the understanding of the IT entrepreneurial process and more specifically to the risk management of the IT entrepreneur, with the goal of helping researchers and entrepreneurs to foster successful new IT ventures. Indeed, from a practical point of view, fostering IT entrepreneurship is important as it is considered to be a source of technological innovation and economic growth (Birley 1987, Sameer Kumar, 2005). In addition, “Why do some persons but not others choose to become entrepreneurs?” is considered as a key central questions of entrepreneurship research (Baron 2004). Answering this question is essential for developing a theory of entrepreneurial cognition (Mitchell, Busenitz, Lant McDougall, Morse and Smith 2002). A gradual consensus seemed to appear in the entrepreneurial cognition literature, stating that risk perception is biased by overconfidence for entrepreneurs when compared to other groups (Busenitz and Barney 1997; Camerer and Lovallo 1999; Forbes 2005; Keh Foo and Lim 2002; Koellinger Minniti and Schade 2007; Lowe and Ziedonis 2006; Simon Houghton and Aquino 2000; Simon Houghton and Savelli 2003; Townsend Busenitz and Arthurs 2010). In this paper, we complement this approach by introducing the concept of entrepreneurial Voluntary Naivety, which emerged from our study of IT entrepreneurs. Voluntary Naivety is defined as the intentional adoption of a naive view on the future of the entrepreneurial process (e.g. level of risk involved, amount of work required). For instance, if an IT entrepreneur is voluntarily naïve regarding his risk perception, he will deliberately choose to ignore part of the risk involved, while maintaining a high awareness of risks, but he will still start his company. We consider a process model, i.e. a longitudinal perspective to apprehend the concept of Voluntary Naivety over time.

Below, we present our literature review. In the third section, we discuss the methodology. We then discuss the concept of Voluntary Naivety, by defining it and looking at its properties and dimensions. Finally, we present the practical and research implications of the concept of Voluntary Naivety.

LITERATURE REVIEW
Due to limited space, we briefly explain one of the many puzzles of entrepreneurial cognition. While some researchers reported that entrepreneurs have higher levels of self-efficacy with regard to risk taking (Chen Greene and Crick 1998,
Stewart Jr., 2001), others found no difference between entrepreneurs and non-entrepreneurs (Brockhaus 1980). This discrepancy has been addressed with the introduction of cognitive biases and heuristic; in particular the role of overconfidence (Busenitz et al. 1997; Camerer et al. 1999; Forbes 2005; Keh et al. 2002; Koellinger et al. 2007; Lowe et al. 2006; Simon et al. 2000; Simon et al. 2003; Townsend et al. 2010). Additionally, the link between overconfidence and success needs to be investigated, if one wants to efficiently advise future entrepreneurs (Townsend et al. 2010).

We found almost no direct reference to Naivety in relation to entrepreneurial risk-taking. The only exception is Busenitz (1999, p.337) who stated that “it may be the naiveness of the risk involved that enables entrepreneurs to forge ahead with their new ideas. If entrepreneurs would carefully calculate all the risks involved in starting a new venture, most new ventures would never be started”. However, it appears that overconfidence and Voluntary Naivety are two different concepts, hence the interest of the present study.

METHODOLOGY
This study is based on classic (Glaserian) Grounded Theory Methodology (GTM) (Glaser 1978, 1998, 2011; Glaser and Strauss 1967). Hallmarks of classic grounded theory are emergence, high conceptual level and organising around one core concept. Further, grounded theory methodology does not aim at verification, rather at discovery. Instead of starting with a hypothesis then showing that it’s true or false under certain conditions, grounded theory study starts with data and ends up with a new theory. The tools and the iterative process of the GTM have been used (e.g. open coding, selective coding, theoretical coding, theoretical sampling and theoretical saturation). The data consists of retrospective and longitudinal interviews (facet to face, phone) with IT entrepreneurs regarding how they became entrepreneurs. The interviews were mostly conducted by the authors in the geographic areas of Finland, Canada, France and US (San Francisco Bay area, St Louis, MI and Atlanta, GA). The entrepreneurs were working in the IT field. The interviews of the book “Founders at Work” were used as secondary data (Livingston 2008).

DEFINING NAIVETY AND VOLUNTARY NAIVETY
Voluntary Naivety emerged as a core category from our data. The Webster dictionary defines Naivety as “marked by unaffected simplicity” or “not previously subjected to a particular experimental situation”. Based on our data, we suggest the following definition in an entrepreneurial context: Naivety refers to a perception of the entrepreneurial process that has been voluntarily altered or ignored, while the awareness of the entrepreneurial process in general is still present.

In terms of risk level and based on our data, we suggest the following table with the various levels of perceived risk and awareness of risk: on a personal (for the entrepreneur) and general level (for the population of entrepreneurs). A similar table could be created regarding the amount of work required for success.

<table>
<thead>
<tr>
<th>Type 1: Too risky</th>
<th>Type 3 : Too experienced</th>
</tr>
</thead>
<tbody>
<tr>
<td>high perceived personal risk level, low awareness of risks</td>
<td>high perceived personal risk level, high awareness of risks</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type 2: Overconfidence or Involuntary Naivety</th>
<th>Type 4 : Voluntary Naivety</th>
</tr>
</thead>
<tbody>
<tr>
<td>low perceived personal risk level, low awareness of risks</td>
<td>Ignored and/or lowered perceived personal risk level, high awareness of risks</td>
</tr>
</tbody>
</table>

Table 1: Typology for entrepreneurial risk perception

More specifically, Naivety (here related to risk) emerged from sentences such as:

“We were so naive we didn't know we could fail, and therefore we almost had to succeed.”

And with a clear relationship to success:

“I was definitely optimistic. It's funny because my partner often, when he talks about our history, he will say we were a little bit stupid, and what he means by that is that you're part optimistic, you're part naive, and you're just confident that you can make it work. And if you don't have that, I don't believe you can be successful in trying to start a business because there are so many things that you can't possibly know you're going to be confronted with.”

In this last quote, the voluntary aspect started to emerge and was expressed even more clearly here:

“There is a Heisenberg principle: you cannot minimize all uncertainties, financial, social, and opportunistic risks.”
“Voluntarily, I ignored specific aspects, I told myself « No, I don’t want to think about it, I don’t want to consider them now, because I very well know that it will take some time and that it won’t be easy », but I prefer to live the situation, instead of living it through imagination, and somewhere, slowing me down by telling myself “Caution this, caution that, [...] it’s not even worth it to think about it.”

Indeed, in these cases, the entrepreneurs voluntarily integrated Naivety to their entrepreneurial cognitive process. Along that line of thought, we suggest that the entrepreneur is not necessarily blind to entrepreneurial risks as such, just to his own specific risk. This could explain why the experience of failure does not inhibit new projects, as illustrated by this example:

“I looked at it as it can’t fail. I was a partner in a computer store that was not successful, but that was a capitalization issue. But I don’t look at failure as being an option. Yeah, obviously businesses don’t succeed for various and sundry reasons, but I just don’t look at it that way. I look at other businesses that way, but not my own.”

**DIMENSIONS AND PROPERTIES OF VOLUNTARY NAIIVITY**

In order to discuss the dimensions and properties of Voluntary Naivety, we suggest the following process model (Figure 1), where an IT entrepreneur starts his journey following a trigger (e.g. the recognition of an opportunity), which is followed or combined with an increased level of Voluntary Naivety. This will allow the entrepreneur to take action, for example, releasing a new software. By doing so, the level of pressure increases (for example, several major bugs are reported) and the entrepreneur will have to adjust his level of Voluntary Naivety, (e.g. through a letting go process, which will allow him to accept those bugs as temporary and fixable in the next release). By doing so, the pressure decreased, while the Voluntary Naivety increased (e.g., yes, those bugs are fixable, but the entrepreneur may be naive on how much work it will take). Actions can then resume. Finally, through each iteration (e.g. selling the software, fixing the bugs, finding the right associates), the entrepreneur acquires more experience and deepen his or her Voluntary Naivety, before going on a new cycle.

![Figure 1: Process model of the development of Voluntary Naivety](image)

**What does Voluntary Naivety refer to?**

Broadly speaking, we define Voluntary Naivety in relation to the future of the entrepreneurial process. More specifically, during the early stages of the entrepreneurial process, Voluntary Naivety may be about the IT entrepreneur’s ability to create a successful business and the risk of failure. In addition to the above, Voluntary Naivety can be related to an underestimation of the amount of work involved in creating the venture. The IT entrepreneur may not know or may have forgotten about how to practically estimate what it takes to start a new business. In this example of Involuntary Naivety, Bill mentioned:

*Interviewee:* It was harder than anything I’d ever done, once we started the business.

*Interviewer:* Were you anticipating that it would be so hard?

*Interviewee:* No. I wasn’t. I knew it would be - my partner was much more optimistic than me. He thought it would be easy. I thought it would be hard, and it turned out to be extraordinarily hard. It was 100 times harder than I thought. But that’s how, I think, all initiatives are.
How does Voluntary Naivety originate?

The need for using Voluntary Naivety emerges from the combination of entrepreneurial intentions and handling the uncertainty of the entrepreneurial process, such as high risk awareness. We suggest that Voluntary Naivety can be triggered by external or internal triggers:

<table>
<thead>
<tr>
<th>External triggers</th>
<th>Voluntary Naivety</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunity recognition =&gt; enthusiasm</td>
<td></td>
</tr>
<tr>
<td>Organizational frustration =&gt; “I can do better” type of statement</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Internal triggers</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Living the situation, instead of living it through my imagination”</td>
</tr>
<tr>
<td>“The recognition that not all risks can be evaluated”</td>
</tr>
</tbody>
</table>

Table 1: Examples of external and internal triggers

During the early stages of opportunity recognition, the entrepreneur may be carried away by positive feedback, strong emotions (e.g. (Foo 2011)), passion (e.g. (Cardon Wincent Singh and Drnovsek 2009; Cardon Zietsma Saparito Matherne and Davis 2005)), great enthusiasm, sometimes even an epiphanic moment (Mourmant and Voutsina 2010). Such great enthusiasm can cause the entrepreneur to forget (voluntary or not) about the risk, leading to the development of his or her Naivety (Foo 2011).

When the potential entrepreneur works for a corporation, frustration can be caused by not capturing opportunities, often due to rigid corporation environments. Indeed, the entrepreneur may notice, that choosing not to start new projects is not always based on rational reasons; instead, it could be the result of hierarchic issues or even disorganization. Missing the opportunity to invest in potential markets can be very frustrating for an entrepreneurial mind. This frustration could also be powerful in increasing one’s Naivety while diminishing the need to be cautious (Foo 2011).

A common characteristic to all these incidents is that they have both cognitive and emotional dimensions. On the cognitive dimension, the perception (risk awareness, amount of work required) of the entrepreneur changes. This happens in many ways. For example, he or she becomes aware of the monetary risk of losing a business opportunity or losing job and salary, and becomes aware of the risk of losing a sense of purpose due to not seizing opportunities or not starting interesting new projects.

On the emotional dimension, there could be a very rough categorization to “enthusiasm” and “holy anger” (open codes from the interviewees), with the former consisting of positive emotions directed towards the new opportunity and the latter, negative emotions generated by thoughts of staying in the present situation. Our data corroborate previous research where “the participants’ scores on risk perception for a venture scenario were significantly lower for anger-or happiness-induced participants », (e.g. (Foo 2011)).

Maintaining and using Voluntary Naivety

We found that Voluntary Naivety helps the entrepreneur face the unknown by learning, concentrating on task at hand, letting go or charting a path.

Learning

Voluntary Naivety is very useful when it comes to learning and staying open-minded to the unknown. An illustration of this learning is the astonishing transparency, with which the entrepreneur typically tells about his mistakes, and how much he learned from them.

“With my first startup I made three mistakes. First, I took a wrong partner [...]. Second, I spent too much time working on the business plan and too little on the product [...]. And third, instead of doing myself, I subcontracted the work to India. It was very cheap but quality matched the price. The product could not be used and I was out of money. The company went down.”

Concentrating on task at hand

Closely connected with learning is concentrating on one problem at a time, giving it full priority and resources, and not worrying about the future. In its extreme form it means skipping eating, sleeping and personal needs until a project is completed. This concentration is often combined with pragmatism, where instead of going for a perfect solution, the entrepreneur simply goes for the best possible solution in the present situation, with the idea that it can be fixed later when
necessary. Clearly, when the entrepreneur is totally focusing on the goal, his Voluntary Naivety may tend to increase due to a biased cognition.

**Letting go**

When pressure and stress start building up, it is necessary to release this pressure for being able to maintain Voluntary Naivety and the high level of activity. With “letting it go” we refer here to personal ways of maintaining Naivety in a particularly stressful situations. There seem to be many ways for doing this, one of them being “detaching oneself” by seeing that one can only do his best. Another one is disconnecting oneself from work for a while by doing something completely different. Another way would be more spiritual, linked to « trust in life », in other words, once the entrepreneurs has done and is still doing everything to succeed, there will still be a part which is out of his control. The entrepreneur may then have to let go and recognize that it will be impossible to control that part and therefore be (voluntary) naive.

> “After 6 months of very hard work, I had done everything I could think of to make this business successful. I was extremely stressed out, and then at one point, I told myself: ‘well, that’s it, you did everything possible, you can’t predict the future, so let it go and trust life’. From that moment on, the pressure suddenly decreased.”

**Charting success**

However, another way that the entrepreneur can maintain his Voluntary Naivety is by creating simplified scenarios, i.e. having trust in future profitability by presenting one possible path of events without too much thought about its probability. Such scenarios often select the best parts of present, extrapolating them into the future. For example:

> “Initially, I wanted to do crypto libraries, since I was a freshly minted academic. I won’t even need to figure out how to do this commercialization part. I’m just going to build libraries, sell it to somebody who is going to build software, and I can just sit there and make a penny per copy and get marvelously rich very quickly.”

In summary, the various ways that Voluntary Naivety is used, and its varying consequences will help maintaining or even developing such Naivety through a positive loop. In the next section, we will discuss how entrepreneurs deepen their Voluntary Naivety, i.e. recognizing their Naivety and using it when necessary.

**Deepening Voluntary Naivety**

At some point during the evolution of the company, intensive risk-taking is not necessary or appropriate any more. At this point, the entrepreneur typically enters into a maturity-development stage in relation to his or her Naivety. This stage seems to have certain characteristics irrespective of whether the project was successful or not. Typical reasons for entering this stage are running out of money, losing a sense of purpose, taking money from investors or having built up the organization to a level where more planning is required.

At this stage, maturity, based on experience, seems to be created through retrospective story-telling. The entrepreneur goes through what has happened, what they did wrong, what they did right, what they learned, etc. Learning takes place on the external level, like how the specific market works, as well as on the internal level, for example what are one’s personal strengths and weaknesses. In these narratives, entrepreneurs will report various aspects such as having a good team, good technology skills or the first mover advantage. The aspects that did not work may include dealing with wrong people or allocating resources inefficiently.

Becoming aware of aspects that can go wrong develops maturity, and decreases the Involuntary Naivety of the entrepreneur. Yet this does not directly increase the entrepreneur's perception of his personal risk level, because the awareness of risks is combined with ideas of how the risks can consciously be avoided with the future projects.

With maturity, the entrepreneur recognizes the value of Voluntary Naivety. Indeed, there is another side to deepening Voluntary Naivety, and it has to do with aspects of the entrepreneurial process that seem to be beyond the entrepreneur’s control. Here the entrepreneur learns to trust serendipity, trust of being able to enter unpredictable situations and coming out successfully by making effort and keep on trying.

> “We just handled the problems as they came around: we put in a new system, re-architected some of the things. The engineers worked really hard, and we kind of made it work.”

He may tell a story how a chain of unpredictable and seemingly unconnected incidents lead to successful results.

> “That opportunity creates opportunity...reading the Cringely book, which led to a lunch, which led to an introduction, [...]”

This growing awareness prepares the entrepreneur for entering future projects by avoiding the dangers of the entrepreneurial process he has become aware of and voluntarily ignoring the aspects that are perceived as unavoidable or uncontrollable. We
suggest that using Voluntary Naivety helps the entrepreneur cope with pressures, sustain energy level and enable activity under high levels of uncertainty. Finally, even experienced entrepreneurs may forget about their own naivety. For example, Bob, a very experienced and successful entrepreneur told us:

Interviewer: So you’re a serial entrepreneur as you say?

Interviewee: Pretty much. But I’ll tell you, it gets harder as you get older.

Interviewer: Yes.

Interviewee: You forget how much work it is to start up a company.

In that sense, through forgetting the amount of work required to start up a company, Voluntary Naivety becomes Involuntary again.

PRACTICAL IMPLICATIONS

For future IT entrepreneurs, as our study shows, Voluntary Naivety might be easier to develop or even to manipulate than risk propensity or estimation of the future world. However, we suggest that this manipulation be used carefully and with a positive outcome. Indeed, for instance, lowering risk perception (through an increase of Voluntary Naivety) in difficult situations both decreases the level of stress and delimit the amount of information used for decision-making, hence, according to Carr and Blettner (Carr and Blettner 2010), improve the overall quality of decisions. The activating effect itself might also be useful (Forbes 2005).

However, our study suggests that this manipulation of perception is not blind, but is based on earlier learning. Our study sheds some light in this process and suggests that Voluntary Naivety is used for those elements of the entrepreneurial process that cannot be controlled in the present situation or with the present knowledge, whereas those potential aspects which the entrepreneur has learned to perceive and control, are avoided. At the same time Voluntary Naivety is "stimulated" in areas where it is useful, e.g. enthusiastic networking and improvising based on new information (Forbes 2005; Stewart Jr. and Roth 2004).

RESEARCH IMPLICATIONS

Our study suggests several limitations and future research.

First, our concept may call for re-visiting existing literature, possibly through a meta-analysis of literature. For example, earlier studies of hindsight bias showed that probability of success recalled after decision to quit is lower than the probability stated in nascent stages. This could be interpreted as Voluntary Naivety and “pretended” cognitive bias during the nascent stages (Cassar and Craig 2009).

The aspect of forgetting and becoming naive again is interesting and could be related to the parenthood metaphor (the company is the baby) introduced by Cardon et al. (2005) where she compares the founding of a company to the birth of a child. Although they are making the comparison with birth: ‘Birth of a baby or a venture is often described as both painful and exciting, usually involving significant effort from the parent/entrepreneur as well as assistance from others’ (p. 32), this comparison could be extended to the idea that the entrepreneur sometimes forget about the suffering (the labour pain memory) and, therefore, is ready again to start a new company. In that sense, the entrepreneur becomes naive again. It is important to say that research on labour pain memory is not clear cut, but could lead to interesting future research, looking at factors such as “coping, self-efficacy and self-esteem” (Niven and Murphy-Black 2000).

Another interesting direction for further study would be addressing the risk between corporation managers and entrepreneurs by using the concept of Voluntary Naivety. For a hired manager the social risk is always more clearly present (Justin 2001). This could mean that Voluntary Naivety is not an option for him. In a hierarchy, Naivety could be seen as being young, perhaps even inadequate, hence possibly lowering a person’s rank. It could be interesting to study whether naive intrapreneurs are situated low in hierarchy or in some protected niches which allows them to use Naivety.

Other factors such as gender, innovation, emotions, passion, opportunity vs. necessity entrepreneurs, etc. would also be good candidates for a study involving Voluntary Naivety.

Second, we suggest that this category has a great explanatory power for creating understanding about entrepreneurial behavior. Yet it is important to note that the level of Voluntary Naivety varies among entrepreneurs; for some it was not relevant as an explanatory variable. In addition, some entrepreneurs disagreed with any naivety in their approach, suggesting that this variable is important but not present for all categories of entrepreneurs. In agreement with previous recommendations (Gartner 2010), we consider that future research on Voluntary Naivety should be undertaken after validating a typology of entrepreneurs, possibly related to their respective perception of risk-propensity and awareness of risk, as presented in table 1.
CONCLUSION

In conclusion, we propose that the theoretical lens of Voluntary Naivety is useful in examining and highlighting the dynamics of the entrepreneurial process (risk-taking, estimation of the work involved). In particular, we present the origin of the Naivety or Voluntary Naivety. We then discuss how to maintain and develop such Voluntary Naivety and turn it into an advantage toward a greater development of the company. In that sense, we follow the recommendations of Brixy et al., (2012) to examine the whole entrepreneurial process and not just part of it. Also, we tentatively suggest that the Voluntary Naivety and the related lowering of personal risk perception are brought about by a combination of cognitive and emotional factors.

In this study, we expanded the notion of risk-perception and the theory of entrepreneurial cognition. We suggest that the concept of Voluntary Naivety could help us understand why IT entrepreneurs think differently, how they manipulate or ignore their own risk perception and how other cognitive biases support their risk-perception. In a way, by recognizing that the future is unpredictable and by voluntary keeping a naive approach, but at the same time, keeping faith in their ability to shape the future, entrepreneurs may eventually be seen (and measured through experiment) as overconfident, whereas, part of this overconfidence may simply be the expression of a very humble Voluntary Naivety.

BIBLIOGRAPHY


