

The Stupid Entrepreneur

Dr. John Xavier Volker
Austin Peay State University

Dr. Michael D. Phillips
Austin Peay State University

ABSTRACT

This paper examines the concept of stupidity as applied to the art and practice of entrepreneurship. One may assume that the concepts discussed in this work can be generalized and extrapolated to many organizational situations and not just entrepreneurship. We review the five types of functional stupidity and demonstrate how each may be found in entrepreneurial situations. In addition to discussing functional stupidity we also discuss the three behavioral categories of stupidity and demonstrate their applicability in explaining actions that can occur in entrepreneurial settings. We further develop our concept of entrepreneurial stupidity using a 2 X 2 matrix. The developed matrix explains the relationship between the impact of a stupid act and the degree of entrepreneurial stupidity involved. We hope to provide a systematic means to answer questions such as “what were they thinking” and “how could this have happened”.

Keywords: Entrepreneur, entrepreneurship, stupid, stupidity, culture, organization, organizational culture,

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Introduction

Many is the time that we have asked ourselves “What were they thinking” or “how could this have happened” as we read, watched, or were told about an act that had less than exemplary results, and may have caused harm to the actor or even to innocent passersby. This is the realm of the stupid. We will not dwell long on this introduction to our study of stupidity and the entrepreneur but it is essential that we quickly define what is not stupid.

The opposite of a stupid act should be intelligent behavior; or as discussed by Kaufman (2013) any act can be considered an intelligent act or behavior if that act lessens the distance between an actual state and a desired state. Simply put; if one’s actions move one toward a desired objective then those actions can and should be considered intelligent actions. Given this definition of an intelligent act we define stupid for the purposes of this paper as any act that does not lessen the distance between an actual state and the desired state; this definition holds true even if the consequences of the act are not immediately apparent.

Literature Review

Stupid people are dangerous. According to Carlo M. Cipolla (1987) there are five basic laws of human stupidity. The first law of stupidity stresses the assumption that there are always more stupid people about than thought. Cipolla provides two proofs for his first law of human stupidity: (1) individuals who were judged to be rational and intelligent display unashamedly stupid behavior, and (2) stupid individuals appear in a regular way to interfere with one’s normal activities; these appearances occur during the most inopportune times and in the most inconvenient places. The second law of human stupidity states that specific and individual stupidity is not dependent upon other individual characteristics. Cipolla’s third law of human stupidity provides a definition of a stupid person; one who causes a loss to another person or to a group without obtaining a gain and possibly incurring a loss to themselves. The third law of human stupidity is also known as the golden law. The fourth law of human stupidity states that underestimating and associating with stupid people will always prove to be a costly mistake. Although Mella (2014) suggests that incompetent people are the more dangerous we will stand with Cipolla’s fifth law of human stupidity which returns us to the beginning of this paragraph; stupid people are dangerous.

Cipolla (1987) says in his essay that human beings demonstrate behaviors that place them into one of four categories; these are: (1) helpless, (2) stupid, (3) intelligent, and (4) bandit. Actions associated with these categories revolve around the principles of loss and gain. An intelligent action is one in which both actors receive gains and a stupid action is one in which one or both actors experience loss due to the actions of one of the actors. We are most interested in behaviors that would characterize one as stupid.

Can we design an organization that encourages stupidity? According to Alvesson & Spicer (2016) not only is it possible but also it happens quite frequently. They define functional stupidity as narrow thinking that has become the norm. Alvesson & Spicer demonstrate five types of functional stupidity: (1) leadership-induced, (2) structure-induced, (3) imitation-induced, (4) branding-induced, and (5) culture-induced. One might argue that most organizations operate from a space of enhanced cognitive capacity. However, Alvesson & Spicer (2012) argue the opposite; they say that most organizations

operate under restrictions of cognitive capacity and that this is a daily state. Given that we design our organizations and build our own cultures it is not inevitable that an organization suffer functional stupidity. Solansky (2014) encourages leaders to have open systems that seek wisdom and fear the closed system that develops foolishness.

United States courts address the results of stupidity in organizational settings (Rosenberg, 2007). The business judgment rule provides a broad measure of protection to managers and directors that make stupid decisions. According to Rosenberg courts will not investigate or hold managers responsible for decisions that result in harm to the organization under the assumption that the managers were acting in good faith and attempting to execute their fiduciary responsibility to the organizations stakeholders. The business judgment rule enables corporate management to take risks that could result in increased stakeholder wealth but may result in losses and a subsequent decrease in stakeholder wealth. Management knows that stakeholders do not have any recourse for losses that result from the actions of management unless there is a clear breach of loyalty of good faith.

Noam Chomsky (2015) recognizes that stupidity manifests in multiple forms; however, he says that institutional stupidity is the form most concerning to the modern world. Chomsky's description of institutional stupidity parallels that of functional stupidity in a broad sense. He notes that institutional stupidity is a form of stupidity that appears as rational behavior within the context of the organizational frame within which it occurs; however, he also notes that the framework of the organization can run the gamut from grotesque to insanity. Chomsky references George Orwell's unpublished introduction to "Animal Farm" as an example of an early reference to institutional stupidity. Orwell (1972) discusses how institutional norms can stifle the expression of unpopular ideas. We note how Orwell's thinking meshes with that of Alvesson & Spicer (2016) relative to functional stupidity. Warren Buffet (1989) alludes to stupidity in his Chairman's letter. The Organizational Imperative as defined by Buffet is similar to both institutional stupidity and functional stupidity. Buffet notes that rationality cannot withstand the power of the institutional imperative. He provides three guidelines that identify behavior that is characteristic of the institutional imperative; they are:

1. An organization will resist any change to its existing path.
2. Corporate projects/acquisitions will appear to absorb any available funds.
3. Any initiate proposed by leadership, no matter its foolishness, will be supported by through documentation from subordinates.

A review of Alvesson & Spicer (2016) and Cipolla (1987) demonstrates the fit of Buffet's institutional imperative to both the five laws of stupidity and the constructs of functional stupidity. Spicer (2016) offers support for the discussion of individual stupidity as defined by Cipolla (1987) through his discussion of cognitive dissonance. He says that people will change the facts when the facts don't fit our beliefs and that we will also tend to ask advice of our peers who believe the same as we do.

Research conducted by Aczel (xxxx) provides insight into how the general population views stupidity. He finds that people have more than one definition of a stupid act and that the magnitude of a stupid act is measured by the impact of that act. Aczel notes that the subjects of his research conceptualized stupidity as a state rather than

a trait. He found that the subjects agreed on what they called stupid and that they also measured the degree of stupidity by the severity of the consequences. There are three states of stupidity according to Aczel. These states are: (1) confident ignorance; undertaking risky acts for which they don't have the requisite skills, (2) obsessive behavior; the subject exhibits a lack of control, and (3) absentmindedness; the subject displays a lack of practicality. His research demonstrated that of the three states of stupidity absentmindedness was viewed with the most leniency. An easy way to visualize the three states is to think of them as the following: (1) confident ignorance-watch this, (2) obsessive behavior-I do what I want when I want, and (3) absentmindedness-I forgot.

Stupidity is an observable phenomenon and exists as a state of mind rather than a character trait. Given that it is a state of mind we can speculate that intelligent people are very capable of actions that provoke others to label them as stupid acts. The popular phrase "what were they thinking" is evidence of intelligent people acting in a stupid state as observed by other people. Entrepreneurs, as a rule, are not considered unintelligent by society as a whole; however, many entrepreneurs fail and one must consider the possibility that many fail due to one or more stupid acts. The first year of operations is especially difficult for entrepreneurs and this difficulty is reflected in the first-year survival rate of 78.9% reported by the United States Small Business Administration (SBA). However, subsequent years are also perilous for entrepreneurs as the SBA reports a survival probability of 48.4% to the fifth year of operations. Carol Roth (2016) listed three primary and broad reasons that entrepreneurs fail in a report for CNBC's Make It blog. She says that the following are the top reasons that entrepreneurs fail: (1) entrepreneurs fail to give themselves the time and money that will be required to reach a successful state, (2) they don't understand the environment of and demands on the entrepreneur, and (3) there is no identified market for the product/service that the entrepreneur wants to provide. Our study of stupidity has led us to a thought experiment in which we explore the relationship between states of stupidity and possible acts that cause entrepreneurial failure.

Entrepreneurial Stupidity

The state of intelligence described by Cipolla (1987) would be ideal for entrepreneurial acts. Intelligent acts by an entrepreneur would result in gain by both the entrepreneur and the customer. An environment that enables both the entrepreneur and the customer to gain will result in minimal risk and uncertainty and could result in a strong business that contributed to the community as well as the stakeholders. The acts performed by entrepreneurs in furthering their businesses should always be moving them closer to their stated or covert goals; these acts can then be considered intelligent as defined by Kaufman (2013). However, entrepreneurs do not experience success consistently as demonstrated by their failure rates. An examination of actions by entrepreneurs will demonstrate that those acts that can be classified as stupid will fall into the bandit and stupid areas of Cipolla's behavioral matrix. See figure 1 to examine the behavioral matrix as designed by Cipolla.

He envisioned four states of human behavior as was discussed earlier. The behavioral states of most interest to our thought experiment are S and B1. Imagine state B as being divided along a diagonal with B1 to the left and B2 to the right. States H and I are not germane to our experiment at this point. State S consisted of actions by our entrepreneur that result in a loss to the stakeholder and to the entrepreneur; these are the stupid acts that depending upon their severity will cause loss to the stakeholder and the entrepreneur. The area indicated by B1 is the Bandit state that is approaching a stupid act. The Bandit state is one that the entrepreneur would cause a loss for the stakeholder and a gain for themselves. The B1 state implies that the bandit's gain is increasingly small as the action shifts the state to the left. An example of this would be a body shop that consistently cheated the customers; the entrepreneur would be making a gain but would slowly be developing a reputation that caused a lack of return business and would eventually drive off new business. The end result would be a failed entrepreneurial venture due to the stupid actions of the entrepreneur.

Figure 1: Cipolla's Behavioral Matrix

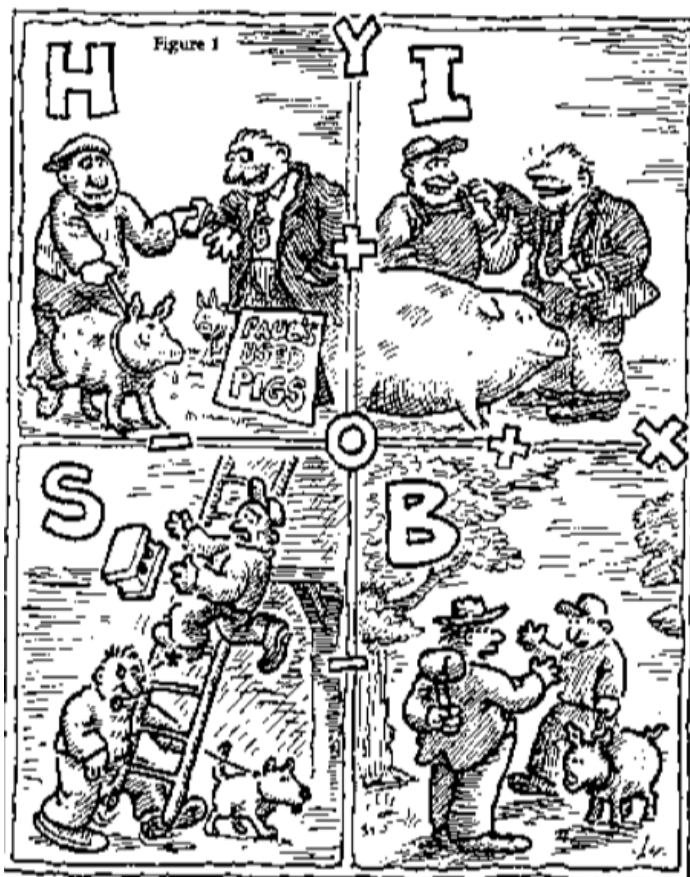


Figure 1 does not answer the question posed by our thought experiment in that it does not incorporate dimensions of stupidity and consequence magnitude into the matrix. We

developed a 2 x 2 matrix that does incorporate the previously mentioned magnitudes and that also demonstrates possible entrepreneurial states.

The Stupidity Matrix

Figure 2 illustrates our stupidity matrix. The 2 x 2 matrix that we developed illustrates the relationship between states of stupidity and the potential impact of those acts. The X-axis of the stupidity matrix indicates the degree of stupidity as perceived by bystanders or individuals who suffer a loss from the act. The Y-axis of our matrix indicates the perceived magnitude of the stupid act.

Figure 2. The Stupidity Matrix



One finds “confident ignorance” in Quadrant I (QI) and, in the opinion of the authors, is the area of greatest danger to both bystanders and actors. QI can also be considered the resting spot of the infamous “watch this” phrase so beloved of comedians and social media. We envision confident ignorance as behavior exhibited by an individual that causes severe harm to the actor and/or stakeholders. The following are two examples of confident ignorance.

- Opening a business with the assumption that it will be supported because it is local, ethnic, or any reason other than it solves a valid problem that potential customers have in a sustainable manner.
- Disregarding advice or suggestions given to the fledgling business owner by competent professionals such as attorneys and accountants.

QI is dangerous because the results of this stupidity form have profound impact on stakeholders such as suppliers, employees, and community supporters. Within QI we find the intersection of the greatest magnitude of perceived stupidity and impact of the stupid act.

The absent-minded make their home in Quadrant II (QII); this form of stupid behavior is characterized by forgetfulness and in the case of entrepreneurs it is forgetting things that are essential to the success of the business enterprise. The general public perceives absent-mindedness as more benign than confident ignorance. This perception enables absent-minded behavior to be publicly characterized as a low level of stupidity. The authors indicate this lack of public condemnation through placement in QII; however, they also acknowledge that absent-minded behavior can have severe consequences for the fledgling firm. Two examples of absent-minded behavior in entrepreneurs are listed below.

- A small landscaping firm's owner tended to not take notes or record information he was given. A homeowner called the subject firm and requested several landscape services be done to his property on a specific date. The homeowner came home to find that the firm had performed the services on his neighbor's property. The entrepreneur had failed to write the work request down and had sent his employees to the wrong address based on his faulty recollection of the customer's address.
- A shop that was dependent on customer loyalty and trust for its sustainability due to intense online competition due to the commodity nature of its products would regularly disappoint customers. The owner would take special orders and then forget them and not order the requested products. Customers would wait several weeks for products only to find out that the orders had never been placed. The owner always laughingly admitted to not writing the order down and forgetting about it.

Success! Quadrant III (QIII) is the sweet spot in the stupidity matrix; here we find the successful and sustainable business. This is not to say that no room exists in QIII for the occasional misstep but overall the degrees of impact and perceived stupidity is very low in this quadrant. Success in this case is the result of a business that develops, presents, and captures value with a minimum of mistakes attributable to stupid behavior as described in the other three quadrants. Examples of success are not critical descriptive elements in this research and given that the authors are not providing examples of successful business operations.

Obsessive behavior is the last of the four behavior patterns identified in the stupidity matrix. Quadrant IV (QIV) demonstrates the effects of behavior that is demonstrating a lack of control on the part of the entrepreneur. This behavior pattern can run the gamut from personal embezzlement of the firm's resources to sexual abuse of employees resulting in lawsuits. The following two scenarios illustrate QIV behavior.

- Owner of a sandwich shop using each day's proceeds to fund his nighttime social activities. The end result was predictable. The owner was unable to pay bills or meet payroll and the business soon closed.
- Owner of small construction company continuing to maintain a hostile and sexually harassing environment even though warned of potential lawsuits and consequences. Severe penalties resulted from employee's successful lawsuit.

Conclusion

The authors opine that the stupidity matrix accurately represents the broad potential areas of error that entrepreneurs can stumble into; often with disastrous results for the entrepreneur, stakeholders, and the firm in general. The acts of stupidity and their magnitude represented by the stupidity matrix are not related to the intelligence of the actors; it would seem that these acts are best related to attitudinal factors as indicated by the make-up of the matrix. This thought experiment attempts to classify so-called stupid behaviors by the underlying attitudes that could be responsible for the public actions. The matrix should be refined through its application to actual entrepreneurial decision-making. The authors are interested in examining the fit between the entrepreneurial actions deemed stupid and the matrix by evaluation of actual entrepreneurial actions and their short-term results.

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