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April 02, 2012

Application to the NBER 5th Entrepreneurship Research Boot Camp.

Dear Professor Hellmann:

I am a fourth year PhD candidate in HEC Paris School of Management, under the supervision of Professor Thomas Åstebro. I am much honored to submit my candidacy to the forthcoming NBER 5th Entrepreneurship Research Boot Camp.

My PhD dissertation is about entrepreneurship decision making under conditions of uncertainty and the impact of psychological biases. I merge two streams of research: decision science and cognitive psychology. By broadening the perspective on entrepreneurship research to include evidence from psychology research, I build on structural and formal economic models, maintaining the rigor of economic research, aiming to contribute new insights to entrepreneurship theory.

My application package includes detailed Curriculum Vitae with a list of completed courses during my PhD studies; an essay describing my current and future research interests and the fit with the suggested topics forthcoming NBER 5th Entrepreneurship Research Boot Camp. Professor Thomas Åstebro is willing to support my application and to address a recommendation letter to the organizing committee.

I look forward to your decision.

Thank you for your consideration.

Sincerely,



Anisa Shyti

Sunday, April 1, 2012

Dear Thomas,

It is my pleasure to recommend Anisa Shyti for the 5th Entrepreneurship Research Boot Camp (ERBC). She is working towards completing her Ph.D. thesis in Strategy from HEC Paris defending in June 2013. I have been Anisa's chair for his Ph.D. thesis.

Anisa is a good researcher with promise. Her greatest assets are her dedication to conduct top-level research. She wants to go to North America upon graduation. Anisa has a strong interest in judgment and decision making. Her thesis committee consists of me, Mohammed Abdellaoui and Philipp Koellinger. Mohammed in particular is well known in the field with a string of papers in *AER*, *EJ*, *Management Science*, and *Econometrica*. She comes well prepared in the field of judgment and decision making. Her particular research is related to behavioral economics, although it has more of a decision theory and psychology flavor.

She wants to assess the effects of overconfidence and decision ambiguity on entrepreneurial decision making. This is a topic that interests me because standard expected utility is not able to explain entrepreneurial entry. As you know, entrepreneurship provides comparatively low financial returns (Astebro, 2003; Hamilton, 2000) and high failure rates (Cooper et al., 1988). Despite this, we still observe high entry rates and strong persistence among many entrepreneurs. Personal and psychological characteristics may explain this. A potential explanation may be overconfidence (e.g. Camerer and Lovallo, 1999.) Kilka and Weber (2001) suggest that overconfidence may lead to ambiguity seeking behavior making people favor choices which are ambiguous (the probability distribution is unknown).

Anisa wants to disentangle probability judgments (entrepreneurial entry) under overconfidence and ambiguity. Following established evidence, individuals' decision making under ambiguity will present a more pronounced inverted s-shaped probability weighting function (also called likelihood insensitivity) as compared to situations of plain risk (Wu & Gonzales, 1999). Interestingly, she expects overconfidence to weaken the ambiguity effect, thus resulting in *less* pronounced inverted s-shaped curvature of the probability weighting function. She will generate experimental data to estimate a decision theoretic model based on Prospect Theory. In the experiment, subjects are treated with overconfidence and perform a choice task with either risky or ambiguous prospects. She will be able to elicit decision makers' preferences for risk, as well as their utility and probability weighting functions. This is the first work investigating the effect of overconfidence on individual choice under ambiguity, and she will be assessing whether entrepreneurs differ from lay people in this respect. She has already done one experiment on HEC executive education participants and she is planning to conduct another experiment this spring.

Her interest may not strongly overlap with the faculty of ERBC. Except for Josh Lerner there are few names listed at the 5th ERBC that does anything on behavioral economics, and for Josh it's a marginal effort although I know his interest and enthusiasm for the

subject is large. I have discussed this lack of fit with Anisa and how she should position herself and her background visavi this crowd.

She is graduating with a relatively weak knowledge of the strategy literature and she is not going to be competitive in the market for pure strategy positions. Her best alternative is an entrepreneurship group that allows/appreciates alternative approaches to entrepreneurship, which in this case means experiments. I see relatively small chances for her to place in a traditional entrepreneurship group since she is too strong in the foundational discipline of decision theory. Perplexingly, the stereotypical entrepreneurship group is very skeptical to foundational-based work (either psychology, econ, or other.) With this background in mind I think it would be a good idea for her to attend the 5th ERBC. She would get a much deeper understanding of the economics literature and better appreciate how this strand of literature could contribute to her research.

The Ph.D. courses which she has paid attention to are related to experimental design, decision theory, and judgment and decision making. She has taken one course in Entrepreneurship Theory offered by me which contained some of the major economics models/papers on entrepreneurship including Kihlstrom and Laffont (1979), Lucas (1978), Rosen (1981), Stiglitz, Joseph and Andrew Weiss, (June 1981) Evans, David S., and Boyan Jovanovic (1989) Holmes, Thomas J., and James A. Schmitz, Jr. (1990), Anton, James J., and Dennis A. Yao (1995) Hamilton, B. (2000), Landier, Augustin, and David Thesmar (2009), Lazear (2005) and Elfenbein, Hamilton and Zenger (2010). She understands that there is a need for her to bone up better on the economics of entrepreneurship.

If you accept her she will provide an addition to your typically composed group of attendants. She brings a fresh perspective on entrepreneurship that is solidly based on strong theory, but she differs tremendously on her views on what is important when it comes to analyzing entrepreneurial entry decisions. She is quick at speaking up about her views and not shy to discuss. She will be an active participant that will influence the discussions.

If you have further questions, please don't hesitate to contact me.

Warm Regards,

Thomas Åstebro
Associate Professor of Strategy and Entrepreneurship
HEC Paris

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EDUCATION

2008 – Present PhD candidate, HEC Paris, France.

Dissertation title: "Behavioral Studies on Entrepreneurial Decision Making under Ambiguity: evidence from the laboratory".

Committee: Thomas Åstebro (HEC Paris), Mohammed Abdellaoui (CNRS & HEC Paris), Philipp Koellinger (Erasmus University Rotterdam).

2000 – 2005 Master's Degree in Business Administration (summa cum laude), Bocconi University, Italy.

CURRENT PROJECTS

Shyti, A., 2012. Entrepreneurial choice under ambiguity and the impact of overconfidence: evidence from the laboratory. Working paper.

WORK EXPERIENCE

2012 – Present Corporate Finance (undergraduate), lecturer – IESEG School of Management, Paris.

2011 Research Methods Seminar (Generalist module and Finance module), lecturer – ESCP Europe, Paris Campus.

2008 – Present TA for MBA and Master's classes of Foundations of Entrepreneurship, Strategic Management of Innovation, Financial Accounting, and Decision Science – HEC Paris.

2005 – 2008 Lecturer and RA in Bocconi University and SDA Bocconi School of Management, Italy. Courses (English and Italian) include Management Accounting (undergraduate) and Performance Measurement Systems (masters).
Program Coordinator of the Master in Accounting and Control, Bocconi University, Italy.

2008 Junior Consultant, SDG Consulting, Milano, Italy.

AREAS OF INTERESTS

Research: Entrepreneurship and Innovation, Entrepreneurial behavior, Behavioral Decision Making, Experimental economics, Decision Making under Uncertainty, Ambiguity Premium, Overconfidence, Psychological biases.

Teaching: Entrepreneurship and Innovation, Entrepreneurship Financing, Judgment and Decision Making, Behavioral Finance, Behavioral Economics.

PAST RESEARCH

Research Projects: CIMA & Bocconi University Research Project "Management accounting in networks: techniques and applications", 2006-2008.

Book chapters: 'Fashionable' Control and Information Sharing Practices of Collaborating Firms in "Controlling Collaboration Between Firms: How to Build and Maintain Successful Relationships with External Partner's", 2009, Elsevier.

The strategic thrust of the interorganizational relationships; Control and governance forms in hybrid relationships; The features of management control in hybrid relationships, 2006-2008.

Case studies: Aeffe Fashion Group, BasicNet, Benetton, Diesel, Geox, Loro Piana, Fratelli Rossetti, Sergio Rossi, Stefaneland Natuzzi, 2006-2008.

CONFERENCES AND SEMINARS

Advanced Seminar in Entrepreneurship & Management, EMLYON, Chamonix, March 2012.

European Strategy, Entrepreneurship & Innovation (SEI) Doctoral Consortium, HEC Paris, October 2011.

Rationality, Heuristics and Motivation in Decision Making: Current trends in Economics and Finance, Scuola Normale Superiore, Pisa, Italy, November 2010.

Workshop on Academic Entrepreneurship, HEC Paris, September 2010.

Decision: Theory, Experiments, and Applications (D-Tea) annual workshop – HEC Paris & AXA Research Fund, April 2009, June 2010, June 2011.

"Learning to teach" – CESDIA & Bocconi University, March-April 2007.

29th Annual Congress of the European Accounting Association, Dublin, Ireland, 2006.

AOS International Conference 'Sustaining Organizational Combinations: the Forms and Features of Management Control in Hybrid Relationships', Bocconi University, September 2005.

MEMBERSHIPS

European Institute of Advanced Studies in Management (since 2007).

HONORS & AWARDS

PhD Scholarship – HEC Foundation (2008 – Present).
Graduate Research Scholarship – Bocconi University (2005 – 2008).
ISU Bocconi Scholarship for Undergraduate and Master Studies (2001 – 2005).

OTHER INFORMATION

Languages: Albanian, Italian, English, French (fluent).

Hobbies: Yoga, Writing, Photography, Poetry, Painting.

I am a creative and curious person with exceptional communication skills. My strengths lie in the good capability to prioritize work under pressure and in the excellent flexibility to handle multiple projects. Since time and resources are at a premium, efficiency and orientation toward results are key aspects of my professional conduct.

REFERENCES

Thomas Åstebro, Professor, HEC Paris.

Mohammed Abdellaoui, CNRS & HEC Paris.

Average grade: 15.5/20

Core courses (169 h)

1. **Theories of the Firm** (Prof. Bértrand Quelin)
2. **Fundamental Issues in Organization Theory** (Prof. Romain Laufer)
3. **Introductory Seminar : Sciences, Knowledge, and Business** (Prof. Romain Laufer)
4. **Leading and Designing Reseach** (Prof. Rodolphe Durand)
5. **Research Design in Quantitative Methods** (Prof. Veronika Czellar)
6. **Basic and Fundamental Concepts in Probabilistic Models** (Prof. Laoucine Kerbache)
7. **Making better Decisions** (Prof. Itzhak Gilboa)
8. **Applied Econometrics** (Prof. Guilhem Bascle)
9. **Statistics** (Prof. Jacques Obadia)

Specialization Courses (130 h)

1. **Readings in Strategy** (Prof. Kristina Dahlin)
2. **Entrepreneurship Theory** (Prof. Thomas Åstebro)
3. **Judgment and Decision Making** (Prof. Eric Luis Uhlmann)
4. **Empirical Financial Accounting and Auditing** (Prof. Cédric Lesage)
5. **MCS Strategy and Culture** (Prof. Caroline Lambert)
6. **Organization, Management and Control** (Prof. Claire Dambrin)
7. **Sociology of Accounting** (Prof. Carlos Ramiers)

Advanced Courses (330 h)

1. **Math for Economists** (Prof. Tristan Tomala, École Polytechnique)
2. **Asset Pricing** (Prof. Thierry Foucault)
3. **Corporate Finance** (Prof. Ulrich Hege)
4. **Theoretical Foundations of Prospect Theory** (Prof. Mohammed Abdellaoui)
5. **Theory of Decision under Uncertainty** (Prof. Itzhak Gilboa)
6. **Economics of Information, Incentives and Contracts** (Bertrand Caillaud, École Polytechnique)
7. **Behavioral Economics** (Prof. Francis Bloch, École Polytechnique)
8. **Game Theory** (Prof. Jörgen Weibull, École Polytechnique)
9. **Microeconomics** (Prof. Marie-Laure Allain, École Polytechnique)
10. **Experimental Research Methods** (Prof. Sandor Czellar)
11. **Statistiques Avancées** (Prof. Michel Tenenhaus)
12. **Econometrics** (Prof. Bruno Crépon, École Polytechnique)

PhD Dissertation

In my dissertation I experimentally investigate entrepreneurs' decision making under conditions of ambiguity and the impact of overconfidence. I find that overconfidence enhances ambiguity seeking behavior.
The relevance of ambiguity in entrepreneurial activities was suggested since Knight (1921), as for many economic applications probabilities are unknown. Yet there is little evidence on ambiguity attitudes in entrepreneurial decision making. Ellsberg (1961) demonstrated that individuals exhibit ambiguity *aversion*: they prefer known options to unknown ones. The last decade has produced flourishing contributions of experimental studies, which show that the attitude towards ambiguity is complex: among other factors, it is dependent on the likelihood level and familiarity or knowledge about the event (this is among the explanations of the *home bias*). These are among the most robust findings of decision making research (Kahneman & Tversky, 1979): individuals overweight small probabilities, resulting in risk seeking behavior, and underweight large probabilities, resulting in risk averse behavior. This attitude is exaggerated under conditions of ambiguity.
The second part of my dissertation aims at assessing the impact of overconfidence on entrepreneurs' attitudes towards ambiguity. Stylized facts about entrepreneurial decisions, as excess entry or persistence in situations with less-than-optimal outcomes (Hamilton, 2000) are often attributed to *overconfidence*, or to individuals' tendency to overestimate their chances of success or their skill (Camerer & Lovallo, 1999; Cooper et al., 1988). Overconfidence is of most studied psychological bias in economics and finance (De Bondt & Thaler, 1995) and there are several contributions in entrepreneurship research, but results are inconclusive.
Although ambiguity and overconfidence both influence individual's likelihood perceptions, there are few studies that examine how both these dimensions interact and influence choice behavior. I build on behavioral theories of choice, in particular, on a generalized model of Prospect Theory (Kahneman & Tversky, 1979) with an additional parameter for ambiguity. Experimental results with Executive MBA participants in the Entrepreneurship track confirm that overconfidence increases ambiguity seeking behavior.

Related essays

Entrepreneurial financing and ambiguity premium
A related essay to my dissertation builds on recent developments in economics and finance aimed at modeling and estimating an ambiguity premium, in addition to the risk premium. Given Ellsberg's (1961) ambiguity aversion, an *ambiguity premium* would be the extra reward that an economic agent would require to invest in an ambiguous project. It may be the case that entrepreneurs, while exhibiting different attitudes towards ambiguity, are pioneers of discovery, which may be reflected in their ambiguity premium. Yet, they face difficulties in obtaining financial resources due to investors that require a higher premium due to the uncertainty related to the outcomes of the project. The contribution of this research could be an alternative explanation of private equity being more costly than public equity (Brav, 2009), since in addition to risk aversion this premium might reflect ambiguity aversion.

Advantages of overconfident entrepreneurs in entrepreneurial financing
Another related project to my dissertation aims to contribute to the debate on the antecedents of successful entrepreneurial financing, based on individual characteristics. What are the alternative explanations based on which we can discriminate between entrepreneurs that do attract angel funding, venture capitalist funding, other forms of financing and entrepreneurs that don't? Several economic models (Bernardo & Welch, 2001) demonstrate that overconfidence is not necessarily a negative bias.
Heller (2010) presents a model in which rational investors achieve optimal diversification for their portfolio if they fund overconfident entrepreneurs. He also claims that this is an alternative explanation for the findings of Cooper et al. (1988), or entrepreneurs' tendency to overestimate their own probability of success.
It would be of interest to empirically test this model (in the laboratory and in the field) and further our understanding on how entrepreneurs are perceived by providers of financial resources. This research project may add to the debate on the overconfidence bias and whether it needs correcting. This study may have immediate implications for entrepreneurship research and policy.

Interest to participate in the forthcoming NBER 5th Entrepreneurship Research Boot Camp
I am much delighted to have the opportunity to participate in the forthcoming NBER 5th Entrepreneurship Research Boot Camp, as I strongly believe it will help me to further develop my dissertation project.

I like the saying: “Having a good idea, it’s a good start. Then you may find the right audience”. I am under the impression (and pressure) that I need to improve the entrepreneurial orientation of my dissertation. The Entrepreneurship Research Boot Camp seems to be a unique opportunity for me to achieve this goal, maintaining the economic perspective, and finally aiming to contribute to entrepreneurship theory. In Paris, I often participate to independently organized TEDxEvents about entrepreneurship and that’s how I know that anything that has to do with entrepreneurship is my audience.

Of the advantages of the Entrepreneurship Research Boot Camp, I would mention the multifaceted perspective on entrepreneurship research; the highly inspiring topics for candidates that keep an open perspective on developments on entrepreneurship research; lectures and discussions with top notch entrepreneurship scholars from leading international institutions and highly selected PhD fellows.

As a PhD student, it would be a great honor to participate in the NBER 5th Entrepreneurship Research Boot Camp.

Thank you for considering my application.

Bibliography

Bernardo, A., Welch, I., 2001. On the Evolution of the Overconfidence and Entrepreneurs. Journal of Economics and Management Strategy, 10, 3, 301-330.

Brav, O., 2009. Access to Capital, Capital Structure, and the Funding of the Firm. Journal of Finance, 64, 263-308.

Camerer, C., Lovallo, D., 1999. Overconfidence and Excess Entry: An Experimental Approach. American Economic Review, 89, 306–318.

Cooper, A. C., Woo, C. Y., Dunkelberg, W. C., 1988. Entrepreneurs’ perceived chances for success. Journal of Business Venturing 3(2), 97-108.

DeBondt, W.F., Thaler, R., 1995. Financial decision-making in markets and firms: a behavioral perspective. Handbooks in OR & MS 9, 385–410.

Ellsberg, D., 1961. Risk, Ambiguity, and the Savage Axioms. The Quarterly Journal of Economics, 75, 4, 643-669.

Hamilton, B.H., 2000. Does Entrepreneurship Pay? An Empirical Analysis of the Returns to Self-Employment. Journal of Political Economy, 108, 3, 604-631.

Heller, Y., 2010. Overconfidence and Diversification, Job market paper

Kahneman, D., Tversky, A., 1979. Prospect theory: An analysis of decision under risk. Econometrica, 47:263–291.

Knight, F., 1921. Risk, uncertainty and profit. Houhghton Mifflin, New York.